

GAO

Report to the Chairman, Subcommittee  
on the Postal Service, Committee on  
Government Reform and Oversight,  
House of Representatives

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March 1996

U.S. POSTAL SERVICE

Unresolved Issues in  
the International Mail  
Market







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General Government Division

B-270328

March 11, 1996

The Honorable John McHugh  
Chairman, Subcommittee on the Postal Service  
Committee on Government Reform and Oversight  
House of Representatives

Dear Mr. Chairman:

This report responds to your request for information on the U.S. Postal Service's participation in the international mail market.<sup>1</sup> You were interested in learning more about international mail as a part of your consideration of the need to revise the Postal Reorganization Act of 1970 (1970 Act). As agreed with the Subcommittee, we are reporting on (1) the Postal Service's authority and responsibility for delivering and receiving international mail; (2) the competition for international mail delivery, including any Postal Service plans and actions to increase its competitiveness; and (3) legal or regulatory issues arising out of the competition for the delivery of international mail services.

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## Background

The Postal Service and its predecessors have delivered mail to and from other countries since the 1840s. International mail to and from the United States is regulated by both U.S. postal laws and international agreements. The 1970 Act authorizes the Postal Service, with consent of the President, to negotiate and conclude postal treaties or conventions and to establish the rates of postage or other charges on mail matter conveyed between the United States and other countries [39 U.S.C. 407(a)]. On the basis of these provisions, the Postal Service participates in the Universal Postal Union (UPU).<sup>2</sup> Unlike domestic rate changes, the Postal Service's rate changes for international postal services are not reviewed by the Postal Rate Commission (PRC) and the delivery of outbound international mail is not covered by the Private Express Statutes (PES).<sup>3</sup> Like its foreign counterparts, the Postal Service collects and retains revenues on outbound international mail, and UPU members compensate one another for in-country delivery of foreign-origin mail. The 1970 Act has been

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<sup>1</sup>The international mail market, also known as the international delivery services market, includes letter mail, express, and parcel delivery services.

<sup>2</sup>The Universal Postal Union is a specialized agency of the United Nations that governs international postal service.

<sup>3</sup>The Private Express Statutes (18 U.S.C. 1693-1699 and 39 U.S.C. 601-606) are a set of federal laws enacted originally in 1792 to restrict private carriage of letter mail. Inbound international letter mail is covered by these statutes.

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interpreted by Postal Service officials as requiring total international mail revenues from both outbound and inbound international services to cover all of the attributable costs associated with international mail.

For fiscal year 1994, the Postal Service reported that it received \$1.6 billion from international mail services. It handled 1.1 billion pieces of outbound international mail and delivered 727 million pieces of inbound international mail.<sup>4</sup> International mail accounted for about 3 percent of the total postal revenues of \$50 billion, about 1 percent of the total postal volume of 177 billion pieces, and contributed 2.5 percent to the total postal overhead costs of \$17 billion in fiscal year 1994.

Until June 1995, the Postal Service's international mail policies were developed by various functional offices at postal headquarters. For example, the Postal Service's operations support office was responsible for setting policies and procedures for the Service's 28 international exchange offices, and its marketing office was responsible for developing international marketing strategies. An international postal relations office was charged with coordinating these interdepartmental efforts within the Postal Service and it continues to coordinate efforts with (1) international organizations and other countries, (2) private delivery services, and (3) other federal agencies. In June 1995, a new International Business Unit was established that, according to Postal Service officials, brought these and other functions together in a larger unit responsible for international mail policies.

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## Results in Brief

Through multilateral and bilateral agreements, the Postal Service, together with other UPU member countries, provides a worldwide delivery network that, according to a UPU document, covers "even the most remote localities" and ensures mail service to people throughout the world. For the rate of \$1, anyone in the United States can send a 1-ounce letter to any overseas location in the world.<sup>5</sup>

Private carriers often provide some mail services that are more dependable, faster, and cheaper than those provided by the Postal Service under UPU auspices. As a result, the Postal Service is concerned that it has

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<sup>4</sup>Overseas military mail and Department of State mail are not considered by the Postal Service to be international mail. Military mail and Department of State mail go at domestic rates and are transported and delivered overseas by military and Department of State personnel.

<sup>5</sup>The cost to send a 1-ounce letter to Canada and Mexico is less than \$1—52 cents and 46 cents, respectively.

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lost and continues to lose market share in a growing \$4.6 billion international mail market not only to private companies but also to some foreign postal administrations that compete in the United States for certain outbound bulk business mail. In 1995, the Postal Service outlined what it views as an “aggressive” strategy to regain market share that includes new service offerings, service improvements, and market-based prices.

Several legal and regulatory issues have surfaced as a result of the growing competition for the international mail market. Postal Service officials believed that, among other things, the statutory requirement to use U.S. flag carriers at rates set by the Department of Transportation limits the Service’s ability to effectively compete in the international mail market.

Some Postal Service competitors have said the Service benefits unfairly from (1) its status as a federal entity and (2) its exclusive access to foreign postal administrations as the sole U.S. representative to the UPU. For example, the Air Courier Conference of America (ACCA),<sup>6</sup> a trade association of companies that compete against the Postal Service for business, charged that the Service engages in unfair pricing practices. ACCA has stated that Congress should authorize and require PRC to oversee international postal rates. ACCA has challenged the Postal Service’s representation at the UPU Congress because ACCA believes that the Service has represented the United States without necessary consent of the President, and in violation of the due process requirements of the Constitution, and that the Service supported and benefited from certain UPU actions that ACCA considers to be anticompetitive.

The Postal Service disagrees with ACCA’s assertions. It considers the competitors’ position on unfair pricing practices and the need for PRC oversight of international rate-making as “unfounded” and “aimed at inhibiting the Postal Service’s ability to improve service and to respond to customer demands in a timely manner.” The Postal Service has also defended its responsibility as the representative of the United States in UPU on the basis of its statutory and treaty responsibilities, which it says are not borne by its competitors.

These issues are policy issues that require the reexamination of many complex provisions of the 1970 Act, which was beyond the scope of this review. Furthermore, the issues surrounding the Postal Service’s

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<sup>6</sup>ACCA includes most domestic and international air couriers and air express companies operating in the United States. In 1995, ACCA had 78 members, including United Parcel Service; Federal Express Corporation; and many regional, local, and specialty companies.

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competitive role in the international mail market are very similar to the issues regarding the Service's competitive role in the domestic mail markets. Because Congress is already considering proposals for reform of the Postal Service, we are making no recommendations regarding the Postal Service's role in the international mail market.

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## Scope and Methodology

To accomplish the three objectives of our review, we (1) analyzed international mail revenue, volume, and cost data; (2) reviewed postal manuals and handbooks on international mail; (3) examined UPU documents and reports and other international agreements; and (4) toured the largest air facility (at John F. Kennedy Airport in New York) and the largest surface facility (the bulk-mail center in Jersey City) that process international mail. We also reviewed relevant provisions of the 1970 Act and various regulations, and court decisions, regarding the Postal Service's participation in international mail delivery.

In addition, we analyzed the Postal Service's international marketing data, product and pricing information, and performance statistics. We also reviewed articles published in trade periodicals about the Postal Service's international competitors and reviewed related documents on international mail prepared by PRC and the Departments of Commerce, Justice, State, and Transportation. Finally, we interviewed Postal Service officials responsible for international mail and representatives of ACCA.

We conducted our work in Washington, D.C., from June 1994 to September 1995 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Postal Service, the Postal Rate Commission, and the International Committee of the Air Courier Conference of America. Their comments are discussed on pages 27 to 31.

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## The Postal Service Participates With Other Countries to Provide Worldwide Mail Service

A UPU international agreement, the Universal Postal Convention, sets the basic principles and guidelines for the exchange of letter post mail<sup>7</sup> and to a lesser extent for express mail. Other UPU agreements and guidelines apply to parcel post and financial services, such as postal money orders. UPU, one of the oldest intergovernmental organizations, was founded in 1874 by postal administrations of 22 nations to create a “single postal territory.” In 1995, 189 countries were UPU members. The “supreme” body of UPU is its “Congress.” Comprised of representatives of all member countries, the UPU Congress meets every 5 years to reevaluate and revise the “Acts” of the union: the Constitution, the General Regulations, the Universal Postal Convention, the Postal Parcels Agreement, the Money Orders Agreement, the Giro Agreement, the Cash-on-Delivery Agreement, the Final Protocols of the Conventions and the Agreements, and the Detailed Regulations of the Convention and the Agreements.

Countries that signed the Universal Postal Constitution agree to accept mail from other countries and to deliver the international mail to its final destination. Member countries also are obligated to move each other’s mail through its territory and to exchange international mail where direct transportation or political relations do not exist. For example, although the U.S. government does not have diplomatic relations with the Cuban government, an American resident can send a letter to a Cuban resident. Letter mail to Cuba transits through Canada and Mexico.

The Universal Postal Convention defines (1) general guidelines on international postal service and (2) regulations on the operations of letter post mail. These include the rates (called “terminal dues”) that countries pay each other compensation for processing and delivering inbound mail, the methods of calculating and collecting terminal dues, the maximum and minimum weights, the size limits of letter post mail, and the conditions of acceptance. (See app. I for further information on terminal dues.) The Postal Service and other UPU members may also enter into (1) bilateral agreements to exchange express mail and (2) multilateral agreements to exchange all categories of international mail under conditions more favorable than could be negotiated at a global level.

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<sup>7</sup>Letter post mail, also known as “postal union mail,” includes the following two classes of mail: (1) LC, an abbreviation of the French words *Lettres et Cartes* (letters and cards), consists of letters, letter packages, postcards, and aerogrammes (single sheets of lightweight paper that fold to form their own envelope) and (2) AO, an abbreviation of the French words *Autres Objets* (other articles), encompasses regular printed matter, books and sheet music, matter for the blind, publishers’ periodicals, and small packets.

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To provide worldwide mail service, the Postal Service uses the domestic mail system as an integral part of the UPU international distribution network. Within the United States, inbound and outbound international mail is processed through the Postal Service's national transportation, sorting, and delivery network. Under Postal Service procedures, outbound international mail is to be collected, separated from domestic mail, and transported to one of the Postal Service's 28 international exchange offices.<sup>8</sup> Outbound international airmail is to be forwarded to the assigned exchange office regardless of overseas destination.<sup>9</sup> Outbound international surface mail, on the other hand, is to be transported to one of the Postal Service's three international gateway offices (the New Jersey International Bulk Mail Center and the Miami and Oakland Processing and Distribution Centers) depending upon the country or overseas region. From the international exchange office, the mail is to be transported to the receiving foreign postal administration for processing and delivery.

Inbound international mail enters the United States through one or more international exchange offices. Each inbound shipment is to be verified and recorded by postal officials and then submitted to U.S. Customs Service officers for inspection. The mail is then "commingled" with domestic mail and transported to mail processing plants where it is sorted and delivered through the network of post offices.

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## The Postal Service Provides an Array of International Postal Services

Through its agreements with other countries, the Postal Service provides an array of international postal services. Until the mid-1970s, the Postal Service provided two basic international postal services: airmail and surface mail. Although these two services remain the principal sources of the Postal Service's international mail revenue, the Service has over the years added several new postal services. Around 1980, it added Express Mail International Service (EMS) and International Surface Airlift (ISAL), which it continues to offer today.<sup>10</sup> In 1986, the Postal Service added International Priority Airmail (IPA). Revenues from these three services

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<sup>8</sup>Of the 28 international exchange offices, 19 are for airmail, 3 are for surface mail, and 6 are for Canadian mail. The Postal Service is in the process of consolidating certain airmail exchange offices, reducing the number from 19 to 10. Exchange offices process both international and domestic mail.

<sup>9</sup>International airmail going to countries with low airmail volume is to be forwarded from the exchange office to one of the Postal Service's four international airmail gateways (New York, San Francisco, Honolulu, and Miami) for final sorting and dispatching overseas. For mail going to Mexico, the gateways are Dallas and Los Angeles.

<sup>10</sup>INTELPOST service was also added around 1980. INTELPOST is an international mail service that permits customers to transmit and receive facsimile copies of original letters, documents, graphics, and other correspondence.



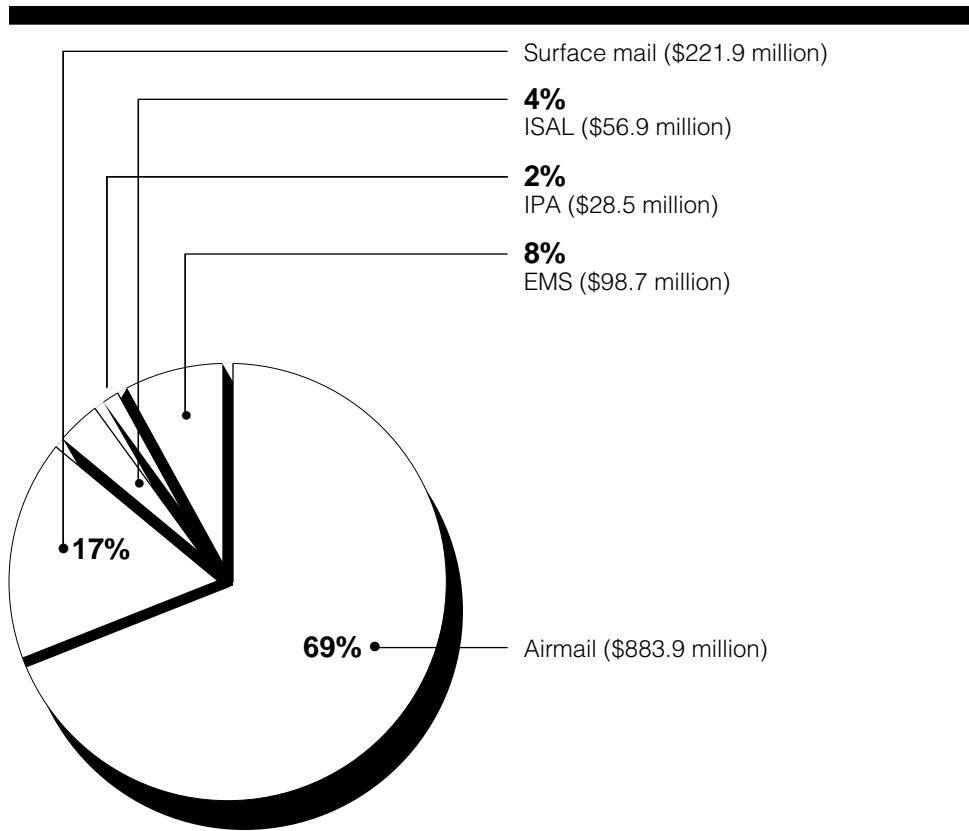
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totaled \$184.1 million in fiscal year 1994 or about 14 percent of the \$1.3 billion in international mail revenues from delivery services.<sup>11</sup> Airmail accounted for 80 percent of the outbound international mail pieces, or \$883.9 million, and 69 percent of the total revenues. International surface mail accounted for about 20 percent of the total international mail pieces, or \$221.9 million, and about 17 percent of the international mail revenues from delivery services. (See fig. 1.)

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<sup>11</sup>The \$1.3 billion amount does not include the \$287.4 million that the Postal Service received in nonpostal foreign transactions (such as terminal dues and transit fees).

**Figure 1: Sources of International Mail Revenues From International Postal Services, Fiscal Year 1994**



Legend

ISAL = International Surface Airlift  
IPA = International Priority Airmail  
EMS = Express Mail International Service

Note: This chart does not include the payments the Postal Service received from other countries as terminal dues and transit fees, which totaled \$287.4 million in fiscal year 1994.

Source: U.S. Postal Service's 1994 International Cost and Revenue Analysis report.

Like domestic mail, the Postal Service also offers various services for international mail, such as insurance coverage, registered mail, and return receipt. (More detailed descriptions of these services are presented in app. II.)

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The Postal Service publishes its international rates by services, weight, destination country, or group of countries. For most services, the rates for Canada and Mexico are established separately from and are lower than those for other countries. For example, the rates for a 1-ounce letter to Canada and Mexico are 52 cents and 46 cents, respectively; the 1-ounce letter mail rate is \$1.00 for all other foreign countries.

The Postal Service has also been involved in various UPU-sponsored efforts to improve worldwide mail service. Examples of these activities include (1) providing Postal Service managers to assist postal administrations of developing countries that have requested technical assistance and (2) participating in studies to examine delivery service problems.

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## The Postal Service, Foreign Postal Administrations, and Private Firms Compete in a Growing International Mail Market

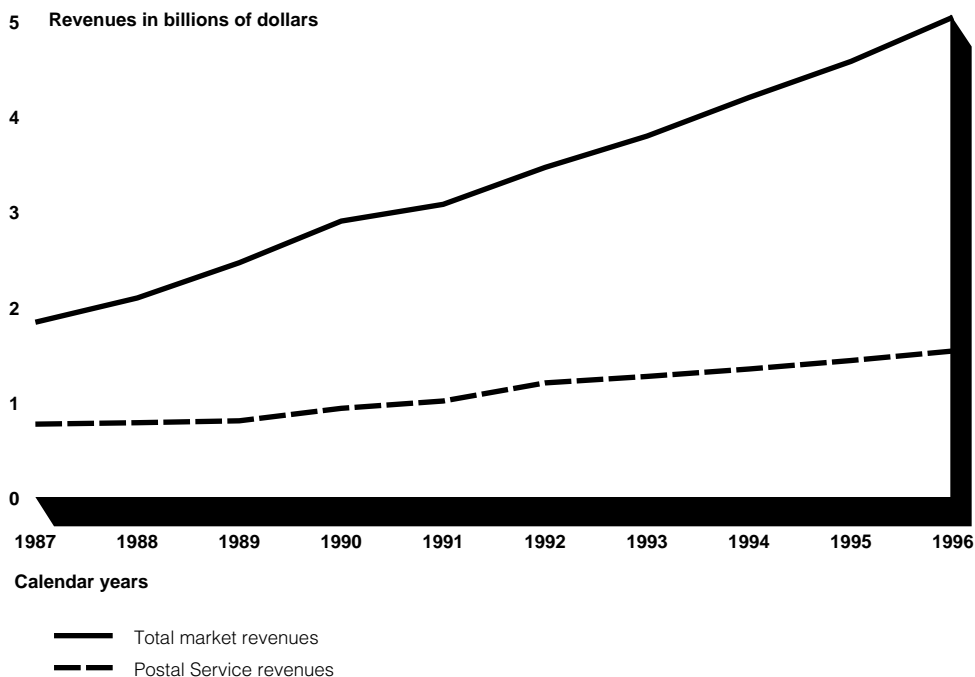
According to Service officials, the Postal Service is losing some business to private carriers and foreign postal administrations. The Postal Service's market research data<sup>12</sup> show that total U.S. outbound international mail revenues for all carriers, including the Service, grew 12 percent annually from 1987 to 1992.<sup>13</sup> In contrast, the Postal Service's revenue annual growth rate during the same period was only 6 percent. In 1987, the Postal Service had 41 percent of the total U.S. international mail revenues; by 1992, it was down to 32 percent. Postal Service officials said that they expect that the Service's share of international mail market revenues will drop as low as 30 percent by the end of this year unless steps are taken to reverse the trend. (See fig. 2.)

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<sup>12</sup>The Postal Service's market research data focused exclusively on market revenues. Data on other market factors, such as volume of letters carried, quality of service, and customer complaints, were not readily available.

<sup>13</sup>The most recent year for which data were available on the Postal Service's share of U.S. outbound international mail market was 1992.

**Figure 2: International Mail Market Revenues, 1987-1996**



Note: 1995 and 1996 market data are estimates.

Source: U.S. Postal Service.

## Outbound International Letter Mail Opened to Competitors in 1986

The Postal Service officially had monopoly protection under PES for all outbound nonexpedited international letter mail until 1986. However, when the Postal Service issued regulations<sup>14</sup> suspending the restrictions for “extremely urgent letters”<sup>15</sup> in 1979, private U.S. carriers used that suspension to expand a practice called “international remailing.” Through remailing, U.S. mailers bypassed the Postal Service, using private carriers to deposit U.S. outbound nonexpedited international letter mail directly into foreign postal systems either (1) for return to the United States and delivery by the Postal Service at rates below domestic postage (known as “ABA remail”); (2) for delivery within the destination country at rates below U.S. international postage (known as “ABB remail”); or (3) for distribution and delivery to other countries, also at rates below U.S.

<sup>14</sup>39 C.F.R. section 320.6.

<sup>15</sup>An extremely urgent letter is a letter whose value would be lost if not delivered by the next day or for which the public would be willing to pay at least \$3 or double the applicable U.S. postage, whichever is greater.

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international postage (known as “ABC” remail). In response, the Postal Service, in 1985, proposed to modify its 1979 regulations to clarify that the suspension did not allow the practice of ABA or ABC international remailing.<sup>16</sup> U.S. mailers’ comments on the proposal were overwhelmingly negative toward the Postal Service’s proposal and positive toward continuing to allow ABB and ABC remail. As a result, the Postal Service withdrew its proposal<sup>17</sup> and issued regulations formally suspending the operation of PES for international mail destined for delivery in other countries in 1986.<sup>18</sup> (See app. I for more information on international remailing.)

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### Private Carriers Dominate International Express Market

In 1994, EMS accounted for 1/2 of 1 percent of the Postal Service’s total international pieces and 8 percent of its total international revenues from international postal services. In terms of market share, in 1992, the latest year for which the Service compiled market share data, the Postal Service handled 4.3 million EMS mail pieces. This volume accounted for \$81.7 million, or 4 percent, of the Postal Service’s estimate of \$2 billion total U.S. international express services revenues for all carriers. Express services of all carriers, including the Postal Service, accounted for about 57 percent of the total \$3.5 billion international mail market in 1992. The leaders in the international express market are the Federal Express Corporation and DHL Airways, Inc., which together accounted for over one-half of the total U.S. outbound international revenues. Other competitors include United Parcel Service (UPS), Emery Worldwide, Airborne Express Company, KLM Royal Dutch Airlines, and TNT Express Worldwide. (See fig. 3.)

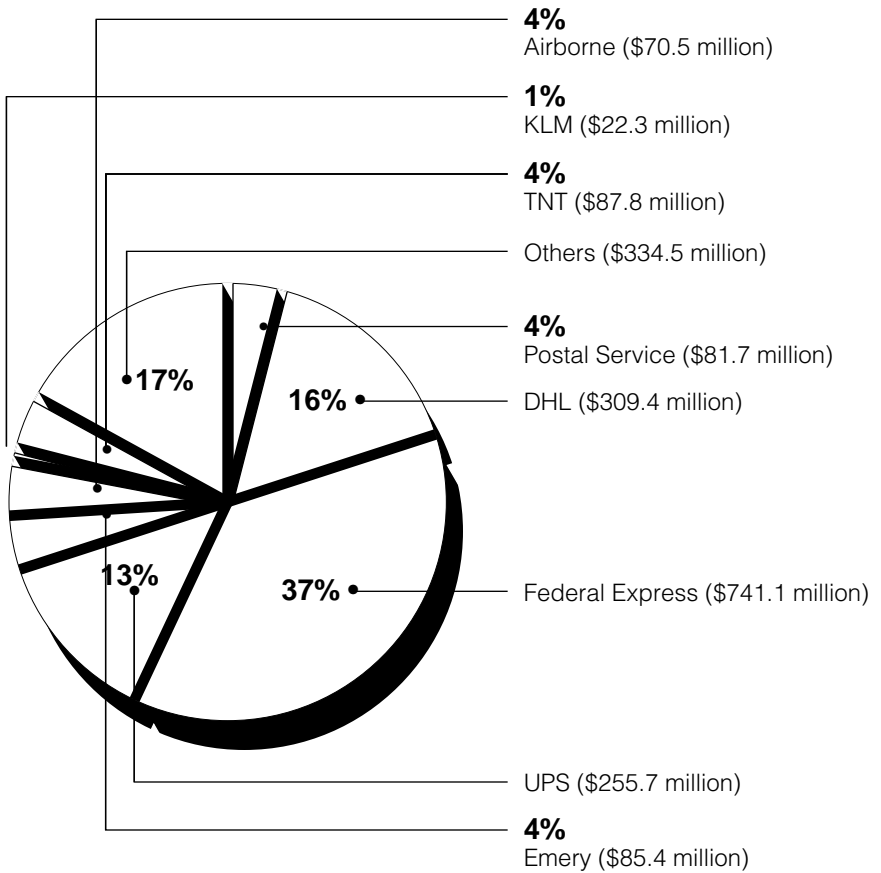
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<sup>16</sup>50 Fed. Reg. 41,462 (1985).

<sup>17</sup>51 Fed. Reg. 9,852 (1986).

<sup>18</sup>39 C.F.R. section 320.8.

**Figure 3: Market Share of Competitors in the International Express Market, Calendar Year 1992**



Legend

- Federal Express = Federal Express Corporation
- DHL = DHL Airways, Inc.
- UPS = United Parcel Service
- Emery = Emery Worldwide
- Airborne = Airborne Express Company
- KLM = KLM Royal Dutch Airlines
- TNT = TNT Express Worldwide

Source: U.S. Postal Service.

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Service factors contributed to the Postal Service's inability to gain a larger market share. According to the Postal Service, it did not provide certain value-added services offered by its competitors, such as automated tracking and tracing. Furthermore, the Postal Service had not matched the competitors' reliability and speed of service, partly because it does not have end-to-end control of its delivery systems. According to the Postal Service, it is required to use scheduled U.S. commercial air flights to transport its mail overseas. A combination of treaty arrangements and national postal monopolies compels the Postal Service to rely, for the most part, on foreign postal administrations for in-country mail delivery.<sup>19</sup> In contrast, some private carriers, with their own aircraft and ground transportation, have better control over schedules. For example, according to Federal Express officials, Federal Express has experienced growth in its international express market because it adjusted its flight schedules for faster express service.

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### The Postal Service Faces Competitive Challenges for Letter Post Services

The Postal Service's core international business is the nonexpedited delivery of letter post mail (letters, small packets, printed matter, and publishers' periodicals).<sup>20</sup> In 1994, this mail accounted for 99 percent of the Postal Service's total international mail piece volume and 77 percent of its total international revenues from postal services.

In 1992, the latest year for which the Postal Service developed market share data, the Service reported it handled over 1.2 billion pieces of letter post mail. This volume accounted for \$930 million, or 75 percent, of the Postal Service's estimate of \$1.3 billion total U.S. international letter post mail service revenues for all carriers. Competitors in this market include remailers, such as KLM and TNT, and foreign postal administrations, such as the British, Dutch, Danish, and Canadian post offices. The British post office, through its subsidiary Royal Mail, and the Dutch post office, through an international mail joint venture called Interpost, are both, according to the Postmaster General, "aggressively" seeking business in

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<sup>19</sup>Because Canada, France, Germany, The Netherlands, and Sweden have withdrawn from the postal/UPU-coordinated international EMS network in favor of a joint venture with TNT Express Worldwide, the Postal Service and many other EMS participating countries use private contractors to deliver EMS in these countries.

<sup>20</sup>In addition to express and letter post services, the Postal Service's other international service is parcel post. Parcel post is an international class of mail, which is generally equivalent to domestic fourth-class zone-rated parcel post. In 1992, the latest year for which the Service developed market share data, the Postal Service handled 7.9 million pieces of parcel post mail. This volume accounted for \$187.2 million, or 73 percent, of the estimated \$256.9 million total U.S. parcel post revenues for all carriers. Parcel post services of all carriers accounted for about 7 percent of the total \$3.5 billion international market revenues in 1992. International parcel post is regulated under UPU's Postal Parcels Agreement.

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the United States. Both postal administrations offer price discounts for nonexpedited letter post services to some high-volume U.S. customers. The Danish post office maintains offices in the United States and collects U.S. customers' international mail for shipment through its international network. Canada Post has also contracted with major U.S. mailers, such as L.L. Bean, Inc., to enter northbound letter post mail directly into Canada.

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### The Postal Service Has Lost Market Share in the Letter Post Market Reportedly Because of Less Competitive Services and Prices

Although the Postal Service still has maintained a large share of the letter post market over the past decade, it has lost some market share reportedly because of unreliable delivery service, lack of value-added service, and substantial rate increases. In 1985, the New Postal Policy Council, an association of major users of the Postal Service, complained about the "erratic and unreliable" nature of the international service provided by the Service, which the Council said was "inferior to that provided by private companies." These mailers were among those who successfully lobbied the Postal Service to suspend PES protection, as previously mentioned, for outbound nonexpedited international letter mail.

Postal Service officials believed that the Service lost market share because it did not provide the value-added services that its competitors offered, such as warehousing, inventory, and customs clearance. The Postal Service required customers to sort and bag their bulk mailings by country of destination and to transport the mailings to an international airport to qualify for the best prices. In contrast, private companies such as TNT were willing to pick up unstamped business mail at the customer's location, do some sorting, and transport the mail to the appropriate place overseas. Using its overseas facilities, TNT would then sort, stamp, and give the mail to the local postal authority for delivery to ultimate destinations.

Postal Service officials also attributed the market share loss to the need to price according to "inequitable" terminal dues systems. Postal Service officials said that its international treaties necessitated substantial international rate increases in the 1980s that hurt its competitive position. For example, the Postal Service increased its international postage rates in 1981 an average of 39 percent for all of its services. Postal Service officials said this increase was necessary largely because the UPU Congress increased the terminal dues by 267 percent during its 1979 meeting.

Furthermore, under the 1970 Act, the Postal Service must set its rates for all classes of services to cover all direct and indirect costs attributable to each class of mail plus that portion of other Service costs reasonably



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assignable to each class.<sup>21</sup> However, it does not unilaterally control other postal administrations' payments to the Postal Service for delivering foreign mail to U.S. destinations. According to the Postal Service, it is not fully reimbursed for delivering inbound international letter mail because these terminal dues<sup>22</sup> are set below the Service's unit cost for inbound delivery. To cover the shortfall between actual inbound mail delivery costs and the related terminal dues reimbursements, the Postal Service charged its outbound customers rates sufficient to cover the processing costs for both inbound and outbound mail.

In response to the greater competition, the Postal Service expanded its ISAL service to more countries and introduced its International Priority Airmail service<sup>23</sup> in 1986. It also began new efforts with foreign postal administrations to improve delivery times. Beginning in 1988, the Postal Service changed its pricing policy to reflect the new market environment. According to the Postal Service, these changes reversed a downward volume trend for the Postal Service's international air letter mail. For example, through 1985, the basic international airmail letter rate had been set at twice the basic domestic letter rate.<sup>24</sup> In 1988, however, when the domestic rate increased to 25 cents, the international airmail letter was set at 45 cents instead of 50 cents. Although the decline in the international outbound volume began to reverse itself, the Postal Service continued to lose overall market share.

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### The Postal Service Said It Plans to Compete More "Aggressively" in the International Mail Market

The Postal Service believes that it needs to be a competitor in the international mail market for two reasons. First, the revenue generated from its international mail services helps to cover institutional costs, thereby helping to restrain the growth in postal rates overall. Second, the Postal Service's presence in the market provides its customers with a broader range of choices when selecting among the providers of international mail services. Toward that end, in 1995, the Postal Service announced plans to compete "aggressively" for international mail delivery. A senior Postal Service official said that the Service expects to be a "leading provider of efficient, high value, reliable and secure, full-service international communication and package delivery services" to "meet the

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<sup>21</sup>International postal service as a whole is considered by the Postal Service to be a class of mail.

<sup>22</sup>Terminal dues refer to the payments made by one foreign postal administration to another for delivering inbound international mail. See appendix I for more information on terminal dues.

<sup>23</sup>See appendix II for detailed information on the Postal Service's international postal services.

<sup>24</sup>In 1985, the domestic letter rate was set at 22 cents and the corresponding international letter rate was 44 cents.

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needs of U.S. citizens and businesses on a worldwide basis.” The Postal Service plans to (1) introduce new services and value-added services, (2) improve the service quality of its letter mail service, and (3) pursue a market-sensitive pricing strategy that includes flexible volume discounts and customized mailing solutions.

## New Services Offered

The Postal Service sees new service offerings as a critical part of its strategy to become a “global leader” in the international mail market. One new service is the WORLDPOST Priority Letter (WPL) service, introduced in March 1995. WPL is an expedited airmail letter service being pilot-tested for deliveries from 7 U.S. cities to Canada and 13 Western European and Pacific Rim countries. WPL is designed to be faster than the Postal Service’s regular airmail and cheaper than its international express mail. A Postal Service official said that WPL is geared to mail-order companies, colleges, travel agencies, and manufacturers “with a need to move correspondence reliably and at low cost.”

Another new service is the International Package Consignment Service (IPCS). IPCS is a bulk-mailing service, with discounts that increase with each larger volume increment, targeted to these large U.S. mail-order companies sending merchandise to other countries. The Postal Service began providing IPCS for delivery to Japan in December 1994. To qualify for this service, a mailer must agree to send at least 25,000 packages over a 12-month period. IPCS base rates are lower than single-piece international rates for both airmail and express services. For example, the Postal Service’s individual parcel post air rate to Japan for a 5-pound package was \$37.44 in July 1995. At that time, however, the base rate was \$20.14 for a 5-pound package to Japan using standard air service under IPCS. According to Postal Service officials, IPCS base rates are lower than single-piece international rates because of fundamental cost differences in acceptance, handling, and transportation of IPCS parcels. As shown in table 1, the base rates may be reduced through up to four additive discounts (for a maximum discount of almost 21 percent) depending on how many cumulative packages the customer mails to Japan through IPCS during a 12-month period.

**Table 1: International Package Consignment Service Discount Schedule**

Cumulative volume of packages	Additional percentage discount	Cumulative percentage discount from base rates
100,001 to 250,000	4.75	4.75
250,001 to 500,000	Additional 5.75	10.23
500,001 to 1,000,000	Additional 6.00	15.61
More than 1,000,000	Additional 6.25	20.89

Note: This service is currently only available for mailings to Japan.

Source: U.S. Postal Service.

Postal Service officials believe that IPCS discounts are consistent with discounts offered for domestic bulk “drop-shipped” parcels. These domestic discounts have been available to mailers for many years and reflect the Postal Service’s lower cost when larger volume mailings are handled as a single shipment and/or the mailer absorbs part of the transportation costs (drop-ships).

The Postal Service also is pilot-testing a value-added service to complement IPCS. The service, called Customs Pre-Advisory Service (CPAS), allows customers in Japan ordering from U.S. mail-order companies to prepay their customs duties when they order U.S. merchandise using their credit cards.

### Steps Taken to Provide Better Letter Mail Service

In January 1994, the Postal Service, in cooperation with postal administrations in 20 other countries, implemented an external system to measure on-time letter mail delivery between the United States and major industrialized countries. The system, administered by Price Waterhouse, measures letter mail delivery times from deposit to delivery. The Postal Service has not publicly released any of the results.<sup>25</sup>

The Postal Service said it is also working with several foreign postal administrations to improve mail service. For example, the Service Upgrading Task Force, created in 1994 and consisting of representatives from the United States, Canada, and eight major European countries, is tasked with identifying problems and implementing solutions to improve delivery times between countries represented on the task force.

<sup>25</sup>In a recently issued report (U.S. Postal Service: New Focus on Improving Service Quality and Customer Satisfaction; GAO/GGD-96-30, Dec. 20, 1995), we recommended that the Postal Service consult with Congress to determine the extent that such data on its delivery performance should be shared with Congress. The Postal Service has agreed to this recommendation.

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## Prices Have Been Customized and Discounted

In 1993, the Postal Service implemented a customized program for international mail service known as International Customized Mail (ICM). ICM is targeted at low cost mailers who can tender large volume mailings. Under ICM, the Postal Service would negotiate individual rates with certain large volume mailers—those capable of offering at least 1 million pounds of international mail or paying at least \$2 million in international postage and of providing all of its ICM mail to the Service at one location. According to Postal Service officials, ICM service is not a volume discount mechanism derived from any existing single piece rates. Rather, ICM is a customized service wherein the price is based on the specific costs of providing a combination of specific services requested by the customer. Postal Service officials added that this pricing approach is commonly used by private sector service providers and is recognized as a valid method of responding to the needs of large volume commercial mailers.

Although a federal district court ruled in 1994 that the newly established ICM service unreasonably discriminated among mail users and could not be implemented, in September 1995, the U.S. Court of Appeals for the Third Circuit reversed the district court's ruling and upheld the authority of the Postal Service to implement ICM service with its proposed volume discounts.<sup>26</sup>

Also, in an effort to increase its EMS business, the Postal Service, in July 1995, began offering "country-specific" rates for Express Mail destined for Canada, Mexico, the United Kingdom, China, and Japan. Rates to these countries, available to all international mailers, are lower than the rates to all other countries. According to Postal Service officials, the Service is passing along the cost savings of serving these high volume destinations to customers through lower rates for these countries.

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<sup>26</sup>UPS Worldwide Forwarding, Inc. v. United States Postal Service, 853 F. Supp. 800 (D. Del. 1994), rev'd No. 94-7423 (3rd Cir. Sept. 15, 1995). The broader implications of the decision of the court of appeals with respect to the authority of the Postal Service to provide volume discounts on other international services have yet to be determined.

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## The Postal Service and Its Competitors Have Long Faced Contentious Legal and Regulatory Issues Regarding International Mail Delivery

The Postal Service's efforts to compete for increased shares of the international mail markets have raised issues for both the Service and its competitors. These issues evolve from the 1970 Act, various regulations, court orders that interpret and implement that act, and related federal laws and regulations. Specifically, the Postal Service is attempting to overcome what it considers to be statutory and regulatory barriers that limit its ability to compete for international mail business. However, competitors contend that the Postal Service has a competitive advantage from its unique role in setting international mail rates with limited independent review and serving as a government agent in conducting negotiations and making agreements with other postal administrations.

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### Postal Service Issues Involve Transportation Constraints

According to Postal Service and Department of Transportation officials, the Postal Service is generally required to use U.S. flag carriers to deliver its international mail overseas and to pay them in accordance with rates set by the Department of Transportation.<sup>27</sup> In contrast, the Postal Service can set the rates it pays air carriers for domestic mail delivery. Postal Service officials said that restrictions over international air routes limit the Service's ability to minimize transportation costs and impair its ability to provide fast international service.

In June 1995, the Department of Transportation drafted a bill that would give the Postal Service authority to negotiate directly with U.S. airlines for the carriage of international mail. The Postal Service, responding to a request by the Office of Management and Budget (OMB) for comments, said that it opposed the draft bill because the legislation did not address the U.S. flag carrier preference. According to Postal Service officials, the transfer of rate-making authority, without elimination of the U.S. flag carrier preference, could complicate the transportation contracting process, foster a distortion of contract prices, and create an "informal cartel" of dominant U.S. carriers. In July 1995, OMB recirculated the draft bill, along with the Postal Service's remarks, for general comments but subsequently shelved the draft legislation to allow for Postal Service and Department of Transportation officials to negotiate a mutually agreeable compromise. As of January 1996, the parties were still involved in discussion regarding the details of the draft bill.

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<sup>27</sup>This requirement benefits the competitive position of U.S. flag carriers and their foreign carrier partners.

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**Competitors Have  
Questioned Postal Service  
Rates and Agreements  
With Other Postal  
Administrations**

While the Postal Service maintains that legal and regulatory constraints hinder its ability to compete effectively in the international mail market, private carriers argue that the Service enjoys an unfair competitive advantage because of its quasi-governmental status.

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**Alleged Underpricing of  
Some International Postal  
Services**

The Postal Service's competitors have alleged for several years that rates on some of the Service's international postal services are so low that they do not cover service costs. The 1970 Act requires the Postal Service to recover its direct and indirect costs for each class of mail service, and competitors argue that the Service's international pricing practices are inconsistent with the act. To ensure that the Postal Service does not engage in illegal pricing practices, ACCA has recommended that Congress consider giving the Postal Rate Commission (PRC) authority to recommend the Service's international postage rates.

The Postal Service, PRC, and the courts have all agreed that section 407(a) of the 1970 Act permits the Service to set international rates without approval from PRC. PRC maintains that "postal rates and services between the United States and foreign nations have a foreign affairs dimension, which requires presidential review; they are thus not purely regulatory questions."

Although PRC does not have jurisdiction over international rates, the Postal Service is required to submit forecasts of international mail revenues and costs as part of its formal request to PRC for domestic rate changes to demonstrate that each class of mail bears its direct and indirect costs attributable to that class of mail. Before 1994, the Postal Service provided detailed information on how it projected these estimates and responded to questions about them in public hearings. However, in requesting rate changes in 1994 (R94-1), the Postal Service ceased this practice and provided only aggregate volume, revenue, and cost figures. Prior to the hearings, Federal Express filed interrogatories seeking information on the costs and revenues associated with international mail. In its response to the request, the Postal Service provided some information but said that the supporting, detailed information requested was irrelevant and outside the scope of the proceeding, was extremely burdensome to produce, and contained certain confidential and commercially sensitive information. The Postal Service further argued that the then-current detailed information provided on domestic mail estimates clearly showed any international costs that were incorrectly attributed to domestic mail.

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In August 1994, PRC ruled that supporting data were needed for the Postal Service's financial forecast of international mail to verify that (1) the forecasts of international mail costs and revenues were accurate and reliable and (2) the attributable costs of international and domestic mail were correctly separated. PRC rejected the Postal Service's argument that international mail estimates could be verified by reviewing domestic mail data because, among other reasons, international mail incurs costs that are not shared by domestic mail. Furthermore, PRC concluded that the Postal Service's allegations of commercial harm did not form a legally adequate basis for applying the trade secret privilege.

Although the Postal Service agreed to provide some of the information, it would do so only if it were allowed to decide what international mail data would be considered to be confidential and thus protected from public disclosure. PRC granted the Postal Service's request to protect the requested data from public disclosure but added a provision permitting Federal Express to challenge the Service's designations of confidential information. The Postal Service objected to this provision and provided no supporting details to its financial forecasts of international mail. Federal Express believes that the Postal Service's refusal to obey the PRC's ruling is illegal.

The Postal Service had earlier declined to provide detailed information on international mail revenues, costs, and volumes. In 1992, the former Chairman, Subcommittee on Federal Services, Post Office and Civil Service,<sup>28</sup> Committee on Governmental Affairs, and the former Ranking Minority Member asked PRC to conduct a comprehensive review of international rates and related costs to determine if the Postal Service covered all appropriate costs under international rates. Members' concerns were prompted in part by a 1992 ACCA-sponsored study in which the Postal Service's rates for some international services were asserted to be "significantly underpriced."

Postal Service officials argued that the 1992 ACCA-sponsored study was based on flawed assumptions, limited and inaccurate data, and a misunderstanding of postal rate-making procedures. The officials added that although some Postal Service international services have lower markups than some domestic services, international services as a whole cover their direct costs and contribute to overhead costs, as required by law. Accordingly, the Postal Service declined to provide the information requested by PRC, again citing its commercial sensitivity. PRC revised its

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<sup>28</sup>The subcommittee name has changed to the Subcommittee on Post Office and Civil Service.

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study guidelines, with the agreement of the former Chairman and the former Ranking Minority Member, to ensure that no data would be made public. The Postal Service still did not provide the data, again stating that the data were commercially sensitive.<sup>29</sup>

For fiscal year 1994, the Postal Service reported that international mail revenue was \$1.6 billion, which covered its direct (or attributable) cost and contributed \$436 million to overhead costs. On the basis of our review of the Postal Service's cost and revenue data, we determined that international mail as a whole covered its attributable costs and contributed to overhead costs every year from 1990 to 1994. However, international surface mail did not recover its attributable costs in 1991 and 1992, and international surface letters and cards as well as surface parcel post did not recover their attributable costs in 1990.<sup>30</sup> We also noted that both international mail's contribution to overhead costs and cost coverage increased every year from 1992 to 1994. According to the Postmaster General, international mail services make a contribution to overhead costs comparable with or higher than other postal services that are provided in competitive environments. International mail total "cost coverage" (the markup over attributable costs) was 141 percent in fiscal year 1994. In comparison, domestic express mail service contributed \$148 million to overhead costs, and it had a cost coverage of 128 percent in fiscal year 1994. Fourth-class (domestic) parcel service did not cover its attributable costs in fiscal year 1994 because the parcel volume was less than anticipated that year. The revenue was \$98 million less than attributable costs.

### Alleged Unfair Agreements Between the Postal Service and Other Countries

The Postal Service began negotiating cost-based terminal dues agreements in the late-1980s with countries with which it exchanges large volumes of mail.<sup>31</sup> According to the Postal Service, the purpose of these agreements is to lower terminal dues losses by making the terminal dues system more consistent with operating and delivery costs. The Postal Service currently participates in two such agreements: (1) a 14-country multilateral agreement with members of the Conference of European Postal and

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<sup>29</sup>Although subcommittee staff and Postal Service officials considered several ways to resolve ACCA's allegation, including the possibility that an independent accounting firm conduct the proposed study, they could not come to an agreement on how the study would proceed.

<sup>30</sup>According to a Postal Service official, the Service is not in violation of the 1970 Act because international surface mail, international surface letters and cards, and international surface parcel post are not considered to be classes of mail. The Postal Service discontinued surface letter and cards service in 1995.

<sup>31</sup>Since 1989, UPU allows postal administrations to enter into separate agreements modifying terminal dues rates set by the UPU Congress.



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Telecommunications Administrations (CEPT) and (2) a bilateral agreement with Canada. According to an ACCA representative, the CEPT agreement's main purpose is to discourage remail. The ACCA representative argued that charging a higher uniform terminal dues rate<sup>32</sup> means nothing if the two countries exchange the same amount of mail because "everything washes out."<sup>33</sup> (See app. I for further information on cost-based terminal dues agreements.)

Two federal agencies and the European Commission<sup>34</sup> supported ACCA's assertion regarding the CEPT agreement. In 1988, the Antitrust Division of the Department of Justice and the International Trade Administration of the Department of Commerce responded to a request by OMB for comments on the proposed CEPT agreement. Both expressed concerns about the agreement. Justice warned that if the CEPT terminal dues are set above costs, they may drive remailers out of the international mail market. According to Justice's documents, "such a development would injure consumers by eliminating the competitive market for international mail and could wipe out the gains we have achieved in the past few years." Similarly, in a letter to OMB, Commerce officials stated that the agreement would strengthen the competitive position of the national postal administrations at the expense of the private sector. The International Express Carriers' Conference (IECC), ACCA's international affiliate, filed a complaint before the European Commission arguing that higher terminal dues through the CEPT agreement were meant to curtail remail. Although the European Commission found that the CEPT agreement was anticompetitive and therefore inconsistent with the Treaty of Rome,<sup>35</sup> it dismissed IECC's complaint because it believed that European postal administrations corrected the situation by negotiating a new terminal dues agreement. IECC had appealed the decision to the European Court of Justice at the time of our review.

Postal Service officials said that the Service does not consider its agreements with other postal administrations to be postal treaties or conventions that require presidential consent under the 1970 Act.

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<sup>32</sup>According to Postal Service officials, the CEPT terminal dues rate is higher than the UPU flat rate for lightweight pieces but is lower than the UPU flat rate per piece for heavier weight pieces.

<sup>33</sup>According to Postal Service officials, "everything washes out" only if two countries exchange the mail with the same average number of pieces per kilogram.

<sup>34</sup>The European Commission is the European Union's executive arm. The European Commission is responsible for promoting the interest of the Union as a whole.

<sup>35</sup>The Treaty of Rome is the agreement that governs the trade of goods between the members of the European Union. Among other things, the treaty prohibits member states from engaging in anticompetitive behavior within the Union.

The Postal Service Allegedly Gained From Its Role in the Universal Postal Union at the Expense of Its Competitors

Accordingly, the Postal Service implemented the CEPT agreement notwithstanding the Commerce and Justice Departments' objections. Both the CEPT and Canadian agreements will expire in 1996. The Postal Service and postal administrations from Canada and 19 European countries were working on a successor to the current agreements at the time of our review.

According to ACCA, the Postal Service has benefited from (1) its official role as a national postal administration and (2) its exclusive access to foreign postal administrations through UPU, by receiving special treatment from customs services under both United States and foreign laws.<sup>36</sup> ACCA has also maintained that the Postal Service has abused its official role at the UPU Congress, at the expense of private carriers. Consequently, ACCA challenged the Postal Service's representation at the UPU Congress saying that the Service has represented the United States without lawful authority of the President.

ACCA has long contested the Postal Service's role as the sole U.S. negotiator of the Universal Postal Convention, arguing that the Service cannot be both regulator and competitor of international courier companies. An ACCA representative said that the Postal Service has agreed, in the name of the United States, to various anticompetitive provisions at UPU Congresses. In response to a Department of State's request for comments on the 1989 UPU Convention, OMB, Justice, and Commerce expressed concerns about the Convention. OMB considered the following two provisions of the 1989 Universal Postal Convention<sup>37</sup> to be anticompetitive:

(1) a provision (better known as Article 25) that permits postal administrations to refuse to handle mail brought into their country by private couriers<sup>38</sup> and

<sup>36</sup>For example, ACCA believes that the reduced postage rates offered by IPCS suggest that the Postal Service may be benefiting from special customs rates or service that Japan Post makes available to the Service but not to private carriers. ACCA also believes that it is inappropriate for the Postal Service to benefit commercially from the anticompetitive practices of foreign post offices, and the United States should therefore object if the foreign government attempts to dictate which American organizations are to benefit from trade restrictions.

<sup>37</sup>According to an International Postal Affairs official, as of October 1995, the Department of State had not received a certified copy of the 1994 UPU Convention and therefore had not requested comments from any federal agency. Neither provision was modified at the 1994 UPU Congress.

<sup>38</sup>The Postal Service disagrees with the assertion that Article 25 is anticompetitive. According to Postal Service officials, Article 25 has both revenue protection and nondiscriminatory treatment features that are not anticompetitive. Since Article 25 allows for the collection of domestic postage rates on "ABA" remail, it both protects the Postal Service from loss of domestic revenue and ensures that all U.S. mailers pay the same rates for the same service. See app. I for more information on "ABA" remail.

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(2) a provision that terminal dues rates need not be directly related to costs that, according to testimony given by a DHL Airways official before the House Subcommittee on Postal Service in June 1995, allows national postal administrations to manipulate international rates.

Although former President Bush signed the 1989 UPU Convention, he did so with reservations. President Bush said that he was concerned about “the Postal Service’s role as sole U.S. negotiator of international postal agreements while at the same time a competitor in the international mail arena” and that “several elements of the UPU Convention could affect competition in the carriage of international mail.”

ACCA has also said that the Postal Service represented the United States at the UPU without legally requisite approval of the President. Because of its belief that this representation is illegal and its concerns regarding the Postal Service’s role in UPU, ACCA requested that the President appoint ACCA as a member of the 1994 UPU Congress delegation.<sup>39</sup> In November 1993, the Department of State denied ACCA’s request on the basis of the Postal Service’s advice that it would be inappropriate to include private operators in an intergovernmental body whose basic purpose is to help postal administrations fulfill statutory universal service obligations on an international level. In August 1994, President Clinton officially appointed the Postal Service to represent the United States at the 1994 UPU Congress. ACCA maintains that the President delegated this authority without any procedural safeguards to ensure that the public interests of the United States were represented. Consequently, ACCA contends that this delegation of authority by the President to the Postal Service violates the due process requirements of the Constitution. The Postal Service led the U.S. delegation at the 1994 UPU Congress.

Postal Service officials maintain that 39 U.S.C. 407(a) authorized the Postal Service to represent the United States at the UPU. Although President Clinton issued a letter confirming that the Postal Service had his consent to negotiate UPU agreements, he did so only to be responsive to ACCA. According to Postal Service officials, President Clinton’s consent had already been given through his representative, the Secretary of State, with whom the Postal Service coordinates its UPU activities.

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<sup>39</sup>In 1991, the Department of State denied ACCA’s request for representation to UPU Executive Council meetings. An official from the Department of State stated that it believed that ACCA’s participation in the U.S. delegation would be inconsistent with the UPU General Regulations and Rules of Procedure of the Executive Council, which only allow “qualified officials of the postal administration and members of permanent missions” to attend Executive Council meetings.

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The Postal Service also defends its responsibility as the U.S. representative in the UPU on the basis of its statutory and treaty obligations. According to Postal Service officials, the status of the Postal Service as a federal entity arises from its congressionally mandated universal service obligations and its accountability to Congress for the fulfillment of those obligations—obligations that competitors do not share. Furthermore, the UPU establishes rules, standards and procedures that apply only to member postal administrations. Service officials believe that, because competitors have no duty to provide the services established by the UPU Acts, they have no special claim to participate directly in UPU decisionmaking processes relating to what are essentially postal obligations and services.

To meet the competitors' concern, Postal Service officials said that the UPU has established a private operators-UPU Contact Committee to provide for dialogue at a global level and to help determine areas of common interest where cooperation can be of benefit for both sides. Postal Service officials also said that, despite their limited access to the UPU, private operators do have direct access to foreign postal administrations. They can deposit mail with another postal administration like any other customer, and they can negotiate more favorable access arrangements based on the traffic they generate.

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## Conclusions

The Postal Service is authorized by the 1970 Act to enter into agreements with other countries regarding international mail rates and delivery. On the basis of this authority, the Postal Service over many years has been a part of a universal mail service network established on an international basis.

Since 1970, however, the Postal Service has assumed an additional role of competitor in a dynamic international mail market. It sees this role as appropriate and necessary to (1) assist in reducing the overall cost of operating the U.S. mail system, since the revenue from international mail helps pay the Service's institutional cost and (2) give American citizens and businesses another choice—namely, the Postal Service—among providers of international message and package delivery services. While there may be valid reasons for the Postal Service to compete aggressively with private firms, the 1970 Act does not specify what role the Service and its competitors should play in the international mail market.

The competition between the Postal Service and private firms has raised policy issues that could not have been anticipated in 1970. Consequently,

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the 1970 Act and its legislative history provide little guidance to resolve issues involving (1) the Service's required use of American flag carriers, (2) the appropriateness of the Service's rates for international mail services, and (3) the Service's participation with the Universal Postal Union and with governments of postal administrations of other countries in matters affecting the Service's commercial interests.

These are policy issues that require reexamination of many complex and interrelated provisions of the 1970 Act, which was beyond the scope of our current review. Moreover, issues surrounding the Postal Service's role in the international mail market are very similar to issues that we have previously reported on regarding the Service's role in domestic mail markets. Because of this similarity, and the fact that Congress is already considering proposals for reform of the Postal Service, we are making no recommendations regarding the Service's role in the international mail market.

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## Agency Comments and Our Evaluation

We obtained written comments on a draft of this report from the heads of the Postal Service and the Air Courier Conference of America (ACCA). The Postal Rate Commission (PRC) did not provide written comments, but we discussed the draft with the Chairman and other Commission officials on November 20, 1995, and they agreed with our description of the international mail market and the associated issues. They suggested several technical and editorial changes to the draft, which we made where appropriate.

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## Postal Service Comments

In its written comments on the draft, the Postal Service said that international mail is an integral part of its statutory mission. The Postal Service believed that the full range of international services it provides helps businesses in the United States respond to developments in global commerce and that its major customers believe that they are better served by having the Postal Service in the market. The Postal Service said that the increasingly commercial dimension of its services requires reconsideration of the 1970 Act and that it has recently heard views from many parties, including leaders of foreign postal administrations, on the changes needed.

The Postal Service said it believes that to meet the needs of the American public and business community, a stronger commercial capability is important domestically but, more crucially, for its international services, for which it suspended the protection afforded by the Private Express

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Statutes. The Postal Service said that it established the International Business Unit not only to develop new international services but also to generate new revenues to support improvements of the international universal service network. The Postal Service said that it expects efforts in the international mail market will lead to better performance and enhanced service in the domestic market as well.

The Service responded to the criticism made by its competitors that the Postal Service and the Universal Postal Union (UPU) are “regulators” of international delivery services by saying that Congress determines the scope of the Private Express Statutes in the United States and that the scope of postal monopolies in other countries is determined by respective national governments. According to the Postal Service, the role of UPU is to connect postal administrations with universal service mandates established by national authorities in a standardized global postal delivery network. The Postal Service believes that it is inappropriate for private operators, who have no obligations under UPU agreements, to participate directly in UPU proceedings. The Postal Service added that despite the limited access to UPU, private operators have unlimited direct access to foreign postal administrations and that they would not be able to offer remail services if they did not have such access. Although we did not reach any conclusions on the need for any change in U.S. participation in UPU, we do not agree with the Postal Service’s assertion that Congress, alone, has determined the scope of the U.S. mail monopoly. Rather, the Postal Service has issued several regulations implementing the statutes which (1) define a “letter” for the purpose of administering and enforcing the statutes, (2) exempt various items from the scope of the statutes, and (3) suspend entirely the statutes for certain letters.

The Postal Service said that ACCA’s position on terminal dues is without foundation. The Postal Service said that it supports country-specific cost-based terminal dues. For example, the Postal Service said that it helped develop and supported the cost-based terminal dues for bulk mail adopted by the 1994 UPU Congress. The Postal Service added that ACCA failed to highlight the connection between terminal dues systems that do not cover the cost of delivery and remail offered at below-cost prices because the Service believes that ACCA members have benefited from postage rates based on below-cost terminal dues. Information we obtained supports the Postal Service’s comment that it has supported cost-based terminal dues. We did not determine whether ACCA members have benefited from postal rates that do not reflect cost-based terminal dues.

The Postal Service also rejected ACCA's allegation that the Service has engaged in unfair pricing practices and that international prices should be subject to PRC review. The Postal Service said that it does not price its services below costs. It added that international mail's contribution to the Service's overhead costs saves money for the domestic rate payers. Our analysis of Postal Service cost and revenue data for fiscal years 1990 to 1994 supports the Service's comment. International services as a whole covered attributable costs and made a contribution to overhead costs during each of those 5 years. The Postal Service believes that it has provided PRC sufficient cost data to verify that international services are not subsidized by domestic services. The Postal Service said that there is no evidence of cross-subsidization of international mail products by first-class rate, which the Service said is the second lowest in the industrialized world, or by international air letter rate, which it said is the lowest in the industrialized world. We did not determine whether PRC had received sufficient data for setting postage rates because this determination was not within the scope of this review. However, PRC believes that it needed more data than the Postal Service provided in the most recent rate case, when new rates became effective in January 1995. The full text of Postal Service's comments are included as appendix III.

## Air Courier Conference of America Comments

ACCA commented in writing that it believes our report was impartial and well considered and represented an important first step in a review of U.S. policy toward the international delivery services sector. However, ACCA took exception to our use of the Postal Service's market surveys to describe the international mail market. ACCA said that a market survey study, which focuses on the Postal Service's share of the overall market revenues, is inappropriate for public policy analysis. ACCA said that the surveys tend to disregard matters such as volume of letters carried, quality of service, customer complaints, and profitability of the service. ACCA also believes that the Postal Service has made inappropriate comparisons of Service and Federal Express market shares and misstated its overall share of the international mail market. We agree that a market study based on revenues only does not provide a complete picture of how well the general public is served by the overall international mail market. However, the distribution of, and changes in, market revenue is one measure of how well the Postal Service is performing, as indicated by the choices among competitors that existing and potential customers make. Furthermore, neither the Postal Service nor ACCA provided data to measure the quality of the overall market and its value to the general public. We described the

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market using what we believe are the best data available and have added qualifiers to the description to clarify the limitations of the data.

ACCA said that our report presents an excellent overview of Postal Service and UPU efforts that ACCA believes hinder private competition in the international mail market. However, ACCA believes that we understated the magnitude of the anticompetitive effort and provided what it considered to be additional points not noted in the draft report on (1) the Postal Service's representation of the United States at UPU without approval of the President or through unconstitutional delegation of presidential authority; (2) the Postal Service's world leadership in efforts to strengthen Article 25 of the Universal Postal Convention by expanding its application to "nonphysical remail"; (3) UPU's promotion of special customs privileges for post offices, preferential rates for large mailers, and group refusal to deal with private carriers; and (4) the Postal Service's commercial advantages gained through anticompetitive practices of foreign governments. A review of presidential authority to delegate and the alleged anticompetitive and other practices of UPU and foreign governments were not within the scope of this review. Rather, this report highlights what is shown, by the evidence we collected, as the key competitiveness issues confronting both the Postal Service and its international competitors. ACCA's comments helped to amplify and emphasize its views on those issues. We did, however, revise appendix I to include ACCA's allegations of the Postal Service's role in expanding the scope of Article 25 to "nonphysical remail."

ACCA also said that we incorrectly reported that the Postal Service has suspended the postal monopoly for international mail, arguing that the Postal Service has no legal authority to suspend the postal monopoly. ACCA also said that the U.S. Customs Service discriminates against shipments tendered by private delivery services. A review of the Postal Service's legal authority to suspend the postal monopoly and the U.S. Customs Service's policy toward private delivery services were not within the scope of this review.

Finally, ACCA disagreed with our conclusion that issues in the international market be resolved within the context of overall postal reforms. ACCA said that when Congress drafted the Postal Reorganization Act of 1970, Congress simply failed to consider international postal policy. ACCA believes the time has come to apply the principles of the 1970 Act to international postal services. In light of both ACCA and Postal Service comments regarding the need to update the 1970 Act, we revised and



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expanded our conclusions regarding any future changes to the act. The full text of ACCA's comments is included as appendix IV.

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We are sending copies of this report to the Senate and House Postal Oversight Appropriation Committees, the Postmaster General, the Postal Service Board of Governors, the Postal Rate Commission, the Air Courier Conference of America, and other interested parties. We will also make copies available to others upon request.

Majors contributors to this report are listed in appendix V. If you have any questions, please call me at (202) 512-8387.

Sincerely yours,

A handwritten signature in black ink, reading "J. William Gadsby". The signature is written in a cursive style with a large, sweeping initial "J" and a long, horizontal flourish extending across the middle of the name.

J. William Gadsby  
Director, Government Business  
Operations Issues

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Abbreviations

ACCA	Air Courier Conference of America
AO	Autres Objets (other articles)
CEPT	Conference of European Postal and Telecommunications Administrations
CPAS	Customs Pre-Advisory Service
DHL	DHL Airways, Inc.
EMS	Express Mail International Service
IBRM	International Business Reply Mail
ICM	International Customized Mail
IECC	International Express Carriers' Conference
IPA	International Priority Airmail
IPCS	International Package Consignment Service
ISAL	International Surface Airlift
KLM	KLM Royal Dutch Airlines
LC	Lettres et Cartes (letters and cards)
OMB	Office of Management and Budget
PES	Private Express Statutes
PRC	Postal Rate Commission
SDR	Special Drawing Rights
TNT	TNT Express Worldwide
UPS	United Parcel Service
UPU	Universal Postal Union
WPL	WORLDPOST Priority Letter

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# Summary of Terminal Dues

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## History of Terminal Dues

From 1875 to 1971, the Universal Postal Union (UPU) authorized postal administrations to retain all of the charges assessed by them for outbound international mail. The postal administrations that received the international mail were not compensated for delivering the inbound letter items to their final destinations because the UPU countries operated under the presumption that a letter elicited a letter in reply and that mail traffic was therefore the same in both directions. In 1969, the UPU Congress acknowledged that the “balanced mail exchanges between countries” concept was invalid and developed terminal dues as the mechanism for compensating postal administrations for the costs of delivering inbound international mail.

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## How Terminal Dues Rates Are Set

Terminal dues charges are established in the Universal Postal Convention. The charges are increased every 5 years by the UPU Congress. The rate is based on Special Drawing Rights (SDR).<sup>1</sup> Postal administrations only compensate one another when an administration sends more mail (based on overall weight) than it receives.

Until the 1989 UPU Congress, a uniform fee had always applied to both letter (LC) and printed matter (AO) mail.<sup>2</sup> This fee represented an averaging of worldwide costs to sort and deliver light and heavier weight letter pieces. The fee was the same for a kilogram of mail consisting of one piece destined to one address or for a kilogram of a number of pieces destined to a number of different addresses.

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## Terminal Dues Rates Do Not Correspond With Actual Delivery Costs

Postal Service officials believed that a terminal dues system based only on weight undercompensates countries—like the United States—that receive many LC pieces. According to Postal Service officials, it is more expensive to sort and deliver a kilogram of light-weight mail than of heavy-weight mail because the former contains more pieces. Conversely, the weight-based terminal dues overcompensates countries that receive heavier items. Since the Postal Service sends many heavy items overseas, it considers the terminal dues rate to be too “high” for outbound mail. Postal Service officials said that they prefer rates that have both a piece and a weight charge.

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<sup>1</sup>SDR is a weighted average of the principal world currencies, worth \$1.57 in April 1995.

<sup>2</sup>There is a separate, lower fee for printed paper sent to one addressee by special bags (M-Bags).

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## Current Terminal Dues Structure

The current terminal dues system is a two-tier system. One rate applies to threshold (developed) countries—those that ship more than 150 metric tons or 330,000 pounds a year. For LC mail, this is 8.115 SDR per kilogram (or \$5.79 per pound). For AO mail, this is 2.058 SDR per kilogram (or \$1.47 per pound). A lower uniform rate (for both LC and AO mail) applies to nonthreshold (developing) countries—those that traditionally have low outbound mail volume—less than or equal to 330,000 pounds a year. This is 2.940 SDR per kilogram (or \$2.10 per pound). In 1994, the Postal Service exchanged mail with 28 threshold countries and 128 nonthreshold countries. The receiving postal administrations can ask for an application of the “correction mechanism” from threshold countries to adjust the rates upward if they can show that the destinating country’s mail stream has more items per kilogram than the worldwide averages. This mechanism allows the Postal Service to collect higher terminal dues from some high-volume countries that send light-weight mail.<sup>3</sup>

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## Problems With Current Terminal Dues Structure

The two-tier system created opportunities for domestic mailers to avoid paying domestic postage through a practice called “ABA remail.” ABA remail occurs when remailers take mail prepared for delivery in the United States (country A) to nonthreshold countries with low terminal dues (country B) and mail it back to the United States (country A) at a fraction of the domestic rate. This practice can result in a large revenue loss for the Postal Service. For example, when a U.S. resident takes a 1/2-ounce item to a nonthreshold country, such as the Dominican Republic, for mailing back to the United States, the Postal Service can receive as little as 6 cents an item in compensation instead of 32 cents postage.

Postal Service officials also believe that the current system encourages foreign mailers to route U.S.-bound mail from countries with which the Postal Service has negotiated cost-based terminal dues arrangements (discussed below) through nonthreshold countries with low terminal dues (known as “ABC remail”). The Postal Service is not fully compensated for the costs of delivering these inbound remailed items. For example, when a foreign mailer in Great Britain (country A) takes a 1/2-ounce item to a nonthreshold country (country B), such as Panama, for mailing to the United States (country C), the Postal Service can receive as little as 7 cents an item instead of the 26 cents per item that it would have received under the cost-based terminal dues system (such as the CEPT agreement discussed below).

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<sup>3</sup>If the Postal Service can show that it receives more than 55 items in a kilogram of LC mail or 7 items in a kilogram of AO mail, it can charge a higher terminal dues rate.

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To reduce the economic incentive of these types of remailing, the Postal Service, in 1994, amended subchapter 790 of the International Mail Manual to broaden the definition of a U.S. resident.<sup>4</sup> This clarification enables the Postal Service to collect domestic postage on mailings “posted in another country not only by firms organized in the United States but also by firms organized under the laws of other countries, which have substantial connection with U.S. businesses.” The amendments also authorized the collection of domestic postage for mailing “on behalf of persons who reside in countries with which the Postal Service has negotiated cost-based terminal dues arrangements, but posted in countries with which the United States has not negotiated cost-based rates.”<sup>5</sup>

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## Changes to Terminal Dues at the 1994 UPU Congress

The 1994 UPU Congress abandoned the two-tier structure and went back to a single rate for LC/AO mail. The basic rate will be 3.427 SDR per kilogram (or \$2.45 per pound). The new rate was to become effective in January 1996. The UPU Congress also amended the correction mechanism. A piece rate will be levied for threshold countries if the average number of pieces per kilogram exceeds 21. Rates for threshold countries then would be adjusted to 0.14 SDR per item plus 1 SDR per kilogram (or 23 cents per item plus 72 cents per pound). For the first time, rates can also be adjusted downward—for threshold countries if their average item per kilogram is less than 14.

The UPU Congress also adopted a bulk-mail option, which allows countries accepting bulk mail to set their own rates. Countries have the option of charging either a weight-based or an item-based rate. Bulk mail is defined as 1,500 items per dispatch or per day or 5,000 items over 2 weeks from the same customer. The basic UPU rate is 0.14 SDR per item plus 1 SDR per kilogram (or 23 cents per item plus 72 cents per pound). Starting in 1996, that rate could be 60 percent of the domestic postage or 27 cents per item plus 89 cents per pound, whichever is lower. Charges could eventually advance to 80 percent of domestic postage or 100 percent above the basic UPU bulk rate, whichever is lower. The UPU Congress also tied

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<sup>4</sup>The Postal Service has interpreted Article 25 of the Universal Postal Convention as authorizing postal administrations to collect domestic postage on mail posted in foreign countries by or on behalf of their residents.

<sup>5</sup>ACCA believes that by amending subchapter 790 of the International Mail Manual and leading efforts to amend the Universal Postal Convention in 1994 to incorporate a broader interpretation of “reside” in Article 25 (now Article 26), the Postal Service is seeking to expand the doctrine of “nonphysical remail.” The doctrine allows postal administrations to use Article 25 of the Universal Postal Convention to intercept not only mail that is physically transported to another country for mailing but also mail that is produced in country B by a mailer said to be a “resident” of country A for delivery in country A.

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compensation for ABC remail to the 80 percent of the domestic postage rate or to the UPU bulk rate of 27 cents per item plus 89 cents per pound, whichever is lower.

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## Other Terminal Dues Agreements

The Postal Service currently participates in two special cost-based terminal dues agreements: (1) a 14-country multilateral agreement with members of the Conference of European Postal and Telecommunications Administrations (CEPT) and (2) a bilateral agreement with Canada. Under the CEPT agreement, postal administrations from the United States and 13 European countries charge each other 23 cents per piece and \$1.06 per pound.<sup>6</sup> Since the Canadian agreement set charges based on the shape of the envelopes, different reimbursement rates apply to letters, flats, packets, and parcels.<sup>7</sup> Both agreements will expire in 1996.

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<sup>6</sup>The CEPT rate is 0.147 SDR per item plus 1.491 SDR per kilogram. If an SDR equals \$1.57 and 1 kilogram equals 2.2 pounds, assuming that there are 32 items weighing 1/2 ounce in a pound of mail, this cost would be \$8.45 per pound. This is a higher reimbursement rate than the current UPU-threshold rate of 8.115 SDR per kilogram (or \$5.79 per pound).

<sup>7</sup>The rates Canada and the United States pay each other are considered to be commercially sensitive and are not made public.

# Postal Service's International Mail Services

In addition to the single-piece products, which make up around 90 percent of the Postal Service's international revenues, the Postal Service has developed 10 business "products" to address the needs of its business customers. They include an electronic service, two expedited mail services, several discounted bulk mail services, and a business reply mail service. Table II.1 describes the single-piece and business products in detail.

**Table II.1: WORLDPOST Services**

Product	Kind of mail	Average delivery time	Special requirement/ limitation	Discount
<b>Single-piece service</b>				
Air LC	—Letters	4 to 7 days	None	None
	—Documents			
	—Small packages			
Air AO	—Printed matter	4 to 7 days	None	None
	—Small packages			
	—Matter for the blind			
Surface AO	—Printed matter	2 to 6 weeks	None	None
	—Small packages			
	—Matter for the blind			
	—Catalogs			
	—Books			
Publishers' periodicals	Second-class publications	2 to 6 weeks	None	None
Air parcel post	Packages	7 to 14 days	None	None
Surface parcel post	Packages	2 to 6 weeks	None	None
<b>Electronic/Facsimile service</b>				
INTELPOST	Super-urgent letters, documents, and graphics	0 to 1 day	None	None
<b>Expedited services</b>				
Express Mail International Service	—General correspondence	1 to 3 days	Varies by country	None
	—Printed matter			
	—Merchandise packages			

(continued)



**Appendix II**  
**Postal Service's International Mail Services**

<b>Product</b>	<b>Kind of mail</b>	<b>Average delivery time</b>	<b>Special requirement/ limitation</b>	<b>Discount</b>
WORLDPOST Priority Letter Service	General correspondence	4 days	Available only to 14 countries during pilot-test	None
<b>Volume/Bulk mailing services</b>				
International Priority Airmail	—General correspondence  —Printed matter	3 to 7 days	—10 pounds minimum per mailing  —No service to Canada	Presort by country
International Surface Airlift	Printed matter	7 to 14 days	50 pounds minimum per mailing	—Deposit at gateway  —750 pounds minimum to a single country)  —M-Bag (15 pounds minimum per bag)
ValuePost/ Canada	Printed matter	7 to 14 days	—50 pounds minimum for letter-size mail  —100 pounds minimum for flats  —100 pounds minimum for letters and flats	None
Bulk Letter Service to Canada	General correspondence	4 days	—500 letters minimum, each weighing 1 ounce or less  —Sort by postal code	None
International Package Consignment Service	Merchandise packages	Depends on service option (express, standard, or economy air)	—25,000 packages minimum a year  —Only available to Japan	Four additive discounts based on volume
<b>Customized service</b>				
International Customized Service	—General correspondence  —Printed matter  —Merchandise packages	Depends on negotiated service/price agreement	—1 million pounds of international mail; or  —\$2 million in international postage a year  —Mail must be provided at one location	Varies with each negotiated service/price agreement

(continued)

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**Appendix II**  
**Postal Service's International Mail Services**

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<b>Product</b>	<b>Kind of mail</b>	<b>Average delivery time</b>	<b>Special requirement/ limitation</b>	<b>Discount</b>
<b>Business reply mail</b>				
International Business Reply Mail	Reply cards/Envelopes distributed for return without prepayment of postage	4 to 7 days	None	None

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Source: U.S. Postal Service.

# Comments From the U.S. Postal Service

MARVIN RUIYON  
POSTMASTER GENERAL, CEO



January 23, 1996

Mr. J. William Gadsby  
Director, Government Business  
Operations Issues  
United States General Accounting Office  
Washington, DC 20548-0001

Dear Mr. Gadsby:

Thank you for the opportunity to review and comment on the draft report entitled, U.S. Postal Service: Unresolved Issues in the International Mail Market.

International mail is a challenging and dynamic part of the Postal Service's statutory mission. The world business environment is changing as businesses move toward a global focus. If the Postal Service is going to effectively carry out its mission to serve the American people, it has to take its international responsibilities just as seriously as do other businesses and other postal administrations. We agree with the importance you attribute to these issues and we welcome the opportunity to provide you with our perspective.

The Postal Service believes that its statutory mission to provide a full range of international services is an increasingly important element in the efforts of businesses in the United States to respond to global developments in trade and commerce. The American public and business community are best served by a commercially viable postal presence across the service spectrum, providing a full range of services for optimal use of the universal service network.

The increasingly commercial dimension to the services provided by the Postal Service requires new thinking about the next steps beyond the Postal Reorganization Act of 1970. Last June, the Postal Service hosted "FuturePost 95," a conference of major customers, postal employee unions, representatives from Congress, and leaders from foreign postal administrations. Participants discussed trends leading to the transformation of postal services around the world. Although there were differences regarding the specific changes required, the participants strongly agreed on the need for a more commercially flexible and viable Postal Service, responsive to the needs of its customers, and equipped with the capabilities and global focus of other progressive postal administrations.

A stronger commercial capability is not only important for domestic postal services, but even more crucial for the international services which are no longer protected by the Private Express Statutes. The Postal Service has come to appreciate that, with many of its major domestic customers adopting a global perspective, and with even small and medium size customers looking

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**Appendix III**  
**Comments From the U.S. Postal Service**

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for opportunities to do business outside the United States, a strong international service capability is an essential part of its domestic service base.

Indeed, the incursions of foreign postal administrations, setting up operations in the United States to compete for outbound international services and eventually to provide a base for services within the United States, have confirmed the need for strong links between domestic and international services, and emphasized the importance of the North American market as a base for global competition.

With this in mind, the Postal Service has established a new international business unit. Its mission is to operate effectively in the largely unregulated market for international delivery services, develop new services in response to the demands of its customers and of the marketplace, and generate new revenues to support the further development and improvement of its universal service network. The Postal Service further expects that providing high quality, commercially viable services in the highly competitive international delivery services market will lead to better performance and enhanced service at the domestic level as well.

In addition to the basic issue raised in your report regarding the Postal Service's role in the international delivery services market, a number of important subordinate issues are raised regarding our actions in this area.

First, we believe that criticism of the Postal Service as "a regulator" of delivery services, as well as a public provider of such services in competition with the private sector, is flawed. It arises from misapplying to the United States the European practice of allocating responsibilities within a governmental ministry for defining and enforcing postal monopolies and regulating the activities of private operators. In the United States it is the Congress, and not the Postal Service or even the Executive Branch, which determines the scope of the Private Express Statutes. It would be a gross exaggeration to claim that the Postal Service "regulates" its competitors in either the domestic or international areas.

Similarly, the criticism of the Postal Service's role in the Universal Postal Union (UPU) arises from misapplying to the UPU regulatory functions which are performed at the national level. The UPU makes no decisions regarding the scope of postal monopolies or the activities of private operators; these decisions are left to national governments. The role of the UPU, rather, is to connect postal administrations with universal service mandates established by national authorities in a standardized global postal delivery network. It is not appropriate for private operators, who have no obligations under the UPU agreements, to participate directly in UPU decision making regarding obligations which apply only to members.

Despite limited access to the UPU, private operators have unlimited direct access to foreign postal administrations. They can deposit mail directly with another postal administration like any other customer. They can negotiate more favorable access arrangements based on the traffic they generate. Indeed, they would not be able to offer remail services if they did not have such access.

**Appendix III**  
**Comments From the U.S. Postal Service**

- 3 -

We further maintain that certain allegations concerning Postal Service positions on terminal dues and remail, attributed in the report to the Air Courier Conference of America (ACCA), are without foundation. The Postal Service, like ACCA, supports global development of country-specific, cost-based terminal dues because they would both benefit U.S. mailers and create a level playing field for competition. The Postal Service helped develop and strongly supported the terminal dues system adopted by the 1994 Seoul Congress of the UPU, a system that authorizes country-specific, cost-based terminal dues for bulk mail. Before the Seoul Congress, ACCA representatives had indicated to us their support for this system.

Another reason the Postal Service supports cost-based terminal dues is that they would diminish and could even eliminate the need for restrictions on remail. However, ACCA's comments, as represented in the report, fail to acknowledge the direct connection between terminal dues systems which do not cover the cost of delivery and remail offered at below-cost prices. It is understandable that ACCA would not highlight this connection because ACCA members who remail have benefited from prices based on below-cost terminal dues.

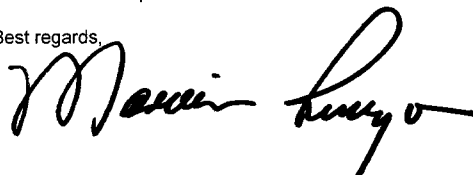
Similarly, we reject the ACCA allegation that we have engaged in unfair pricing in our international services, and that to control this, international prices should be subject to Postal Rate Commission (PRC) review. We do not price below cost. Per piece, international mail currently makes around four times the contribution to fixed network costs as does domestic mail. This international contribution saves money for the domestic First-Class rate payer. We formed the international business unit to add to this contribution, not as ACCA charges, to lose money through below-cost pricing. Furthermore, the Postal Service provides the PRC sufficient cost data to verify that international services are not subsidized by domestic services. There is certainly no evidence of cross-subsidization by our First-Class rate, which is less than half of Germany's and the second lowest in the industrialized world. And there is no cross-subsidization of other international mail products by our international air letter rate, which is the lowest in the industrialized world.

As we have said, American business is turning increasingly to international opportunities. The Postal Service has a statutory mandate to meet both the domestic and international service needs of its customers. In order to meet these needs, the Postal Service should have the commercial flexibility to operate in a market made up of participants from the private sector and from foreign postal administrations. In its ruling in favor of our international customized pricing in September of this year, the U.S. Court of Appeals recognized our need for commercial flexibility in pricing. In making its ruling, the court quoted from the discussions of the 91st Congress, which enacted the Postal Reorganization Act:

The Postal Service is a public service but there is no reason why it cannot be conducted in a businesslike way and every reason why it should be.

The reason the Postal Service should offer American businesses a reasonable and competitive option for international delivery services is not merely that it is our statutory mandate to do so, but more that our major customers consider that they are better served by having the Postal Service provide such an option.

Best regards,



# Comments From the Air Courier Conference of America



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December 15, 1995

Mr. J. William Gadsby  
Director, Government Business  
Operations Issues  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Gadsby:

Thank you for affording the Air Courier Conference of America an opportunity to comment on a draft of GAO's report, *Unresolved Issues In the International Mail Market*.

ACCA believes that this report represents an important first step in a long overdue review of U.S. policy towards the international delivery services sector. The United States is the world leader in the development of both private international delivery services and global direct marketing, yet a major governmental policy affecting this sector, international postal policy, has remained essentially unchanged since the nineteenth century. The GAO report is the first official review of U.S. international postal policy. It is impartial and well considered. We sincerely and appreciatively commend GAO for its efforts.

On December 5, 1995, representatives of ACCA provided detailed comments to GAO staff on various factual points or premises in the draft report. We hope that you will incorporate these points into your final report. In this letter, we will address only a few broad themes presented by the draft report.

The first part of the draft report describes the market for international delivery services. It is based upon a USPS marketing study. Without questioning USPS's right to undertake market surveys, ACCA submits that the picture of the market that emerges from the USPS study is fundamentally inappropriate to public policy analysis. For the public generally, it is not the market share of a single service provider but the size and quality of the overall market that is important. Filtered through the lens of USPS's marketing department, lower prices, improved customer choice, and innovative new services in the international market are all problems. Indeed, one is struck by the fact that the sole yardstick used in this survey is USPS's revenue. There appears to be little or no concern for such matters as the volume of letters carried, the quality of service achieved, the incidence of customer complaints, or even the profitability of the service.

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**Appendix IV**  
**Comments From the Air Courier Conference**  
**of America**

A still more fundamental problem is that the USPS seems to have an inflated view of its normal market. Express services are not generally comparable to basic mail services. While there is overlap at the margins, to combine the two is to mix apples and oranges. For example, the survey reports that in 1992 Federal Express was the leading private participant in the international mail market. In fact, FedEx's average weight per international priority parcel was 30 pounds in 1992 while USPS's international express mail averaged 1.5 pounds per item. To suggest that USPS's market share should be gauged by an envious glance at FedEx's international express freight revenues is nonsense.

The international postal business, like the domestic postal business, is essentially a universal, low unit cost delivery service. Post offices are not particularly well equipped to provide outward sorting and forwarding services for large mailers. In international mail, as in domestic mail, private companies are doing more of this pre-postal function. USPS's marketing department suggests that private companies sorted and forwarded about 25 percent of international mail in 1992. So what? About one third of domestic mail is presorted and transported in bulk to somewhere other than the local post office. What the USPS survey obscures is that USPS still delivers almost all international letter post mail arriving in the U.S. and foreign post offices deliver almost all letter post mail leaving the United States. For USPS's marketing department to imply (as is quoted in the draft report) that its market share is falling to 30 percent of the international mail market is absurd.

In truth, the quality of international postal service is poor even by the standards of domestic mail. There is, therefore, a growing demand for competitive international services, whether provided by private delivery services or by the best foreign post offices. USPS and other major post offices are, however, through legal and political means, blocking efforts to relax restrictions against real competition in the cross-border market. The second part of the GAO report offers an excellent overview of the issues raised by these efforts. We will only touch upon a few additional points not noted in the draft report.

First, ACCA submits that USPS has not only used its role as representative of the United States to its own commercial advantage, but, even more fundamentally, has carried on this representation either without requisite approval of the President or pursuant to an unconstitutional delegation of authority from the President. Between 1970 and 1994, the Postal Service represented the United States at the UPU without the consent of the President as required by 39 USC 407. In August 1994, President Clinton, for the first time, authorized the Postal Service to represent the United States at the UPU Congress in Seoul. President Clinton, however, delegated this authority without procedural safeguards to ensure that the public interests of the United States, rather than the commercial interests of USPS, were represented. ACCA submits this presidential delegation of authority to the Postal Service failed to comply with the due process requirements of the Constitution.

Second, ACCA submits that the postal monopoly on international mail should be repealed. Good quality international mail service today requires an ever-increasing level of end-to-end administrative control. It is inappropriate to balkanize the international mail market by confining it to an exchange system between national monopolists. The draft report incorrectly suggested that the USPS has suspended the postal monopoly for international mail. In fact, USPS has no legal authority to suspend the postal monopoly under any

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**Appendix IV**  
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circumstances, and in any case, USPS firmly defends the position that it and its foreign partners share an absolute worldwide monopoly on the delivery of international mail items.

Third, the draft report correctly noted that Article 25 of the Universal Postal Convention is an anti-competitive market allocation scheme that has been condemned by the European Commission, the Department of Justice, and the Department of Commerce. The draft report however, failed to note that USPS has been a world leader, in domestic regulations and at the 1994 UPU Congress, in efforts to strengthen Article 25 by expanding its application to so-called non-physical remail. This term refers to mail which a multinational company produces in a country other than the country which post offices deem to be the mailer's true residence for the creation of such mail (postal residence may be different for different mail and different post offices may make inconsistent rulings on postal residence). For this alone, USPS's representation of the U.S. at the UPU should be terminated.

Fourth, ACCA submits that the draft report seriously understated the anti-competitive aspects of the UPU. The UPU not only organizes a market allocation scheme (Article 25) and price fix (the terminal dues agreements) but also promotes special customs privileges for post offices, preferential rates for large mailers that disregard appropriate economic limits, and a group refusal to deal with private international delivery services.

Fifth, in the increasingly competitive environment identified by GAO, ACCA firmly believes that the non-postal laws and practices of the United States should apply equally to all international delivery services. There are many examples of unequal treatment. There is no excuse for the U.S. Customs Service treating shipments tendered by private delivery services one way and treating identical shipments tendered by the Postal Service another way. Antitrust laws, which correctly prohibit market distortions by private delivery services, should apply with equal force to postal activities (as they do in Europe). Likewise, security measures should apply identically to all. What is needed, indeed, is a systematic review of such legal discriminations.

Finally, the draft report failed to highlight a growing tendency of USPS to take commercial advantage of anti-competitive practices by foreign governments. USPS makes use of foreign customs laws that give special rights to USPS's traffic, foreign postal tariffs that give special discounts to USPS, and foreign postal monopolies that restrict or tax private international delivery services operating to and from the United States. ACCA submits that restrictions on bilateral international delivery services, if any, should be subject to negotiation between the States government and the government of the foreign country. Access to the restricted international markets should be awarded by the United States government -- as in the aviation and telecommunications sectors -- based on fair and objective criteria applied according to the requirements of due process.

We believe that there is a common denominator to all of the policy issues identified in the draft report and above. In drafting the Postal Reorganization Act of 1970, Congress simply failed to consider international mail and the implications of changes in the organizational structure of the Postal Service for conduct of international postal policy. The time has come to apply the principles and premises of the 1970 act to international postal services. Abuse of



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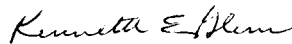
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monopoly power should be checked by Postal Rate Commission review, in the international arena no less than in the domestic arena. A Postal Service which is independent of Presidential control and directed to operate in a business-like manner should have no more authority to represent the President and the general interests of the United States than Federal Express or United Parcel Service. There is no logical reason why such reforms should be postponed until a political consensus develops in respect to the far more difficult task of revising the 1970 act generally. ACCA cannot understand GAO's suggestion to that effect in the conclusions section of the draft report; this suggestion is completely unsupported by any facts or analysis developed in the body of the report. As implied by the foregoing comments, ACCA recognizes fully that the international mail market presents a wide range of unique analytical and policy issues. It is no criticism of GAO's work to suggest that it is not the final word in this area. On the contrary, we applaud GAO's report as an extremely constructive first word. By these remarks, we are trying only to shine the light a little further down the path, to point out additional topics worthy of further consideration.

Again, please accept our thanks for the opportunity to work with the General Accounting Office in the preparation of this important report.

Yours sincerely,



Kenneth E. Glenn  
Chairman, ACCA-IC

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