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The Universal Postal Union--composed of the United States and 156 other countries--makes the rules for exchanging mail between countries and sets charges for services performed. In 1976 the United States charged other countries $47 million for international mail services and was charged $59 million. U.S. agencies are actively pursuing collection of balances due the United States and U.S. flag carriers. Findings/Conclusions: Monetary gains or losses are incurred in settling international postal accounts because there are differences between the market exchange rates of the countries' currencies and their exchange rates set under the monetary standard used to settle accounts. Continued use of the gold franc as the monetary standard of the Universal Postal Union is unrealistic. Coordination between the Postal Service and the Department of State in collecting delinquent debts owed the United States and U.S. air carriers for international mail services has improved in recent years. Recommendations: The present monetary standard, the gold franc, should be replaced by a more realistic standard for setting charges and settling international mail accounts. More equitable procedures should be established to determine and monitor charges for handling and distributing international mail. (Author/SC)

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REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Improvements In Charges And Settlements Of International Mail Accounts

U.S. Postal Service and Other Federal Departments

The Universal Postal Union--composed of the U.S. and 156 other countries--makes the rules for exchanging mail between countries and sets charges for services performed. In 1976 the U.S. charged other countries $47 million for international mail services and was charged $59 million.

U.S. agencies are actively pursuing collection of balances due the U.S. and U.S.-flag carriers. GAO is recommending that

--the present monetary standard, the gold franc, be replaced by a more realistic standard for setting charges and settling international mail accounts and

--more equitable procedures be established to determine and monitor charges for handling and distributing international mail.

ID-77-38

AUGUST 30, 1977

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-165828

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses efforts to develop (1) a realistic monetary standard for use in settling accounts between countries for international mail services and (2) equitable procedures to determine charges for delivering international mail. A revolving fund reestablished by the Congress in 1975 to assist U.S. air carriers of international mail is also discussed.

These matters were reviewed in conjunction with our followup review of Postal Service and State Department efforts to collect overdue mail debts owed by foreign countries to the United States. We had previously reported to the Congress on these agencies' collection efforts (B-165828, Aug. 11, 1969).

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53); the Accounting and Auditing Act of 1950 (31 U.S.C 67); and the Postal Reorganization Act of 1970 (39 U.S.C. 2008).

We are sending copies of this report to the Director, Office of Management and Budget; the Postmaster General; and the Secretaries of State and the Treasury.

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

IMPROVEMENTS IN CHARGES
AND SETTLEMENTS OF
INTERNATIONAL MAIL ACCOUNTS
U.S. Postal Service and
Other Federal Departments

DIGEST

Coordination between the Postal Service and the Department of State in collecting delinquent debts owed the United States and U.S. air carriers for international mail services has improved in recent years. GAO cited the need for better coordination in a 1969 report to the Congress, and the present report confirms that progress has been made.

In fiscal year 1976 the United States charged other governments $47 million for international terminal, transit, parcel post, and other mail services and was charged $59 million for similar services provided by them. In addition, the United States and other countries pay air and maritime carriers for transporting international mail.

The United States and 156 other countries make up the Universal Postal Union. The Union makes the rules for exchanging letter mail between countries and sets charges for services performed. Postal Service and State Department officials represent the United States at Union Congresses held every 5 years. The Union's acts are usually subject to approval by the Postal Service and the President and sent to the U.S. Congress for information.

GAINS OR LOSSES RESULT FROM USE OF MONETARY STANDARD

Monetary gains or losses are being incurred in settling international postal accounts, because there are differences between the market exchange rates of the countries' currencies and their exchange rates set under the monetary standard used to settle accounts. Continued use of the gold franc, the present monetary standard of the Universal Postal Union, is unrealistic.

The Postal Service, in cooperation with the State and Treasury Departments, should participate in international attempts to establish a more realistic monetary standard, such as the special drawing rights unit issued by the International Monetary Fund, for setting charges and settling international mail accounts.

In commenting on GAO's report, the Postal Service said that in May 1977 a Universal Postal Union working party, of which the United States is a member, recommended that all Union members provisionally use the special drawing right as an intermediate unit between the gold franc and the currency of payment in settling accounts.

The Postal Service said that it will seek agreements with other countries for use of this intermediate unit. The working party will present proposals for more permanent settlement procedures to the 1979 Union Congress. The Department of the Treasury agreed with GAO's recommendation.

Use of the special drawing right as an intermediate unit would largely eliminate gains or losses in settling international postal accounts because currency exchange rates set by this unit are close to or the same as market exchange rates.

CHARGES FOR TERMINAL SERVICES SHOULD BE EQUITABLE

The Universal Postal Union adopted terminal dues beginning in July 1971 to cover handling and distribution of incoming international surface mail by the country of destination. Effective in January 1976, terminal dues were increased and applied to airmail for the first time. The net outflow of U.S. payments for terminal services is now expected to be about $22 million a year.

Terminal dues are assessed on weight of excess mail sent to a country over mail received from that country. The Postal Service believes that measuring mail imbalances by weight alone is inequitable and that other factors, such as number of mail pieces, should also be considered. The Service has not made specific proposals for equitably assessing these charges.

The weight of surface mail for terminal dues and transit charges is determined by statistics obtained once every 3 years over 28 consecutive days. The Postal Service does not have comprehensive, readily available data on surface mail traffic for other periods to evaluate whether the test period results represented normal traffic.

The Postal Service, in cooperation with the State Department, should attempt to achieve equitable procedures for computing terminal dues. This should include developing information on mail weight, number of pieces, and other pertinent factors to support specific approaches that best promote U.S. interests and equity to other countries. The Service should develop information to evaluate the accuracy of test data used to settle major accounts with foreign governments for terminal and transit services.

The Postal Service commented that it has been working for the adoption of equitable terminal dues procedures and that it is accelerating these efforts. The Service said that the State Department's political support will augment these efforts. The Service is developing a new management information system to provide a sound basis for evaluating the accuracy of test data used to settle all accounts with foreign governments for terminal and transit services.

REVOLVING FUND ASSISTS U.S. AIR CARRIERS

The Postal Service Appropriation Act of August 9, 1975, reestablished a revolving fund of $5 million to make advances to U.S. air carriers for unpaid mail services to foreign countries. The fund, which had been discontinued in 1968, was reestablished because air carriers were again having financial problems.

Since the fund was reestablished to June 1977, advances have covered the carriers' accounts receivable. As of June 17, 1977, unadvanced funds amounted to $692,000.

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ABBREVIATIONS

GAO	General Accounting Office
SDR	special drawing right
UPU	Universal Postal Union

CHAPTER 1

INTRODUCTION

We made a followup review of U.S. Postal Service and Department of State efforts to collect delinquent debts owed the United States and U.S. air carriers for international mail services. We had issued an earlier report to the Congress on this subject (B-165828, Aug. 11, 1969).

We also reviewed the following developments in international mail since August 1969:

--Gains or losses have been incurred in settling accounts due to use of an unrealistic monetary standard.

--Charges were established to cover handling and distribution of incoming international mail by the destination country.

--A $5 million revolving fund for the benefit of U.S. international air carriers was reestablished.

INTERNATIONAL MAIL SERVICES

In fiscal year 1976 the United States charged other countries about $46.7 million for providing them with mail services and was charged about $58.9 million for services provided by them.

Accounts are usually settled between major countries at least once a year. In any period, total receivables and total payables are set off and the difference treated as a net receivable or payable.

International mail services are described below.

--Terminal services involve the handling and distribution of international mail by the destination country. Charges for these services, called terminal dues, are paid by the country of origin to the destination country.

--Transit services involve moving foreign-origin mail through and beyond a country to the destination country. Charges are paid by the country of origin to the country performing the service.

--Parcel post services involve handling of parcel post packages by the intermediate or destination country. Charges are paid by the country of origin to the country providing the service.

--Indemnity claims are for payments made to the sender or addressee by one country on behalf of another country for loss or damage to registered regular mail and registered and insured parcel post.

--Reply coupons can be purchased in one country and exchanged for postage stamps in another country. The country redeeming the coupons is reimbursed by the issuing country through a general liquidation account.

In addition, air and maritime carriers are paid for transporting international mail. In fiscal year 1976 the United States paid $55 million for services provided by these carriers. International money order services are also provided by the United States and other countries.

The Postal Service is the usual collection agent for services provided to foreign countries by U.S. air carriers. The Service advances funds to the carriers to cover amounts owed them pending settlement with the foreign countries.

UNIVERSAL POSTAL UNION

The United States, along with 156 other countries, is a member of the Universal Postal Union (UPU), which makes the rules governing the exchange of letter mail between member countries and establishes the rates for services. It also establishes maximum and minimum limits within which each country sets its postage rates for international letter mail. The United States has been a member of UPU since its founding in 1874. UPU has been a specialized agency of the United Nations since 1948.

UPU normally holds a Congress every 5 years to review and revise its regulations; changes must be approved by a majority of the members. Each member has one vote. The countries with the largest mail volumes therefore do not control the type and amount of charges. As discussed in chapter 3, this makes it more difficult for the United States to obtain equitable arrangements.

The United States is represented at the Congress by Postal Service and State Department officials. Multilateral UPU acts (other than money order agreements) are subject to approval by the Postal Service and the President and are submitted to the U.S. Congress for information. Congressional ratification is not required.

The last UPU Congress was held in 1974 in Lausanne, Switzerland, and the next one is scheduled for 1979 in Rio de Janeiro, Brazil.

In addition to the Congress, UPU has an Executive Council, a Consultative Council for Postal Studies, and an International Bureau.

The Executive Council, which presently has 40 members, carries on UPU's work between Congresses. A new Council is appointed at each Congress. The United States was a member of the Councils appointed by the 1964 and 1969 Congresses but, according to UPU regulations, could not be appointed in 1974 by a third successive Congress. Postal Service officials attend the annual meeting of the present Executive Council as official observers. State Department officials attended the May 1977 Council meeting as members of the observer delegation and plan to attend future meetings.

The Consultative Council studies and gives opinions on technical, operational, and economic questions concerning postal service. The United States presently serves on and chairs this Council.

The International Bureau provides liaison, information, and consultation services for postal administrations. The Bureau's office is in Berne, Switzerland.

UPU expenses are shared by member countries through eight contribution classes, ranging from 50 units to 1 unit. Each member chooses its contribution class. The United States, Canada, the People's Republic of China, France, West Germany, Japan, and the United Kingdom are members of the 50-unit class. U.S. territories are in the 15-unit class, which is the fourth highest. The combined share for the United States and its territories is 6 percent of total UPU expenses (65 out of 1,084 units). When membership of the U.S. territories ends in 1978, U.S. payments in the 15-unit class will be discontinued.

UPU annual operating expenses through 1975 were determined in gold francs, UPU's monetary standard. In 1976, pursuant to a decision of the Lausanne Congress, the budget ceiling was stated in Swiss francs because of currency fluctuations. Of a budget of 11,720,000 Swiss francs ($4.8 million), the estimated contribution for the United States and its territories was $288,000.

Through 1974 the U.S. share was paid by the Postal Service; since then it has been financed from the State Department's budget.

SCOPE OF REVIEW

We reviewed records and interviewed officials of the Postal Service and the Departments of State and the Treasury. We also reviewed UPU regulations. Our work was done at the Postal Service and the State and Treasury Departments in Washington, D.C., and at the International Accounts Branch of the Postal Data Center in New York City.

CHAPTER 2

GAINS OR LOSSES RESULT FROM USE

OF MONETARY STANDARD

Monetary gains or losses are being incurred in settling international postal accounts, because of differences between the market exchange rates of the countries' currencies and their exchange rates set under the monetary standard used to settle accounts. We believe that continued use of the gold franc, UPU's present monetary standard, to set charges and settle accounts is unrealistic.

A preferable approach, in our opinion, would be to price services in units such as the special drawing rights (SDRs) issued by the International Monetary Fund. This approach would provide a more equitable and realistic basis for accounting and settling for international postal services.

Because of an international monetary crisis in 1973, major industrial countries changed from a fixed rate monetary system linked to gold to a system of floating exchange rates for their currencies. The gold franc, however, is still used by UPU as the monetary standard in determining charges and settlements for international postal services involving millions of dollars. Differences between the relative values of currencies as determined through their official par value in terms of gold and as determined in the foreign exchange market have caused problems in the gold-based accounting and settlement system used for international postal accounts.

Each UPU member establishes a gold franc equivalent for its currency for use in converting accounts from gold francs to the member's currency. The U.S. dollar is equal to 2.54 gold francs. 1/ The exchange rate for two currencies can be determined by dividing the gold franc equivalent for one currency by the equivalent for the other.

1/Conversely, the gold franc is worth 39.41 cents. The franc weighs 0.0093 ounces of pure gold, and its value is based on the official price of gold--$42.22 an ounce--established in 1973 as a result of the second U.S. devaluation of the dollar. The gold franc was established as the monetary standard for fixing rates and settling debts for postal services by the 1924 UPU Congress.

In settling accounts, the creditor country can specify the currency for payment of the debt. The United States collects postal debts in U.S. dollars, thereby foregoing gains by not requesting payment in foreign currency when that currency's gold franc exchange rate is less than its market exchange rate. As of December 3, 1976, 27 creditor countries were requesting payment from the United States in currencies other than U.S. dollars.

We suggested to postal officials that, until a realistic monetary unit for settling accounts is established, the Postal Service request payments due the United States in the most advantageous currency. Service officials agreed with this suggestion and said that, until a new monetary standard is developed, they would request payment for large settlements in the most advantageous currency. Action has been initiated to remedy this situation. (See p. 13.)

When the United States pays off debts in foreign currency, the Postal Service usually divides the total debt stated in gold francs by the other country's gold franc equivalent to arrive at the amount of foreign currency needed to settle the accounts. The Service generally purchases the foreign currency through the Treasury Department at the current market exchange rate between the dollar and the foreign currency. When settlement is made in U.S. dollars, the total gold francs due are divided by the dollar gold franc equivalent to arrive at the dollars to be paid or collected by the Service.

EXAMPLES OF SETTLEMENTS

The following examples of international postal account settlements illustrate the anomalies in the present method.

Payment to Australia in U.S. dollars

We estimated that for 1976 the United States paid an additional $184,000 to settle postal accounts with Australia in U.S. dollars instead of Australian dollars because of the change in exchange rates between the two currencies. Australia exercised the creditor's option of specifying the currency to its advantage.

On February 27, 1976, the United States paid Australia $858,245 in U.S. dollars to settle a postal debt. The amount was arrived at by converting the debt expressed in gold francs

(2.2 million) 1/ to U.S. dollars at the dollar's gold franc equivalent of 2.54. The Australian dollar was equal to 3.77 gold francs. On the basis of these equivalents, the Australian dollar's exchange rate was $1.48 (3.77 - 2.54). On that day, however, its market exchange rate was $1.27, 21 cents less than the gold franc rate.

Had the debt been paid in Australian dollars, the gold francs would have been converted to Australian dollars at the gold franc equivalent of 3.77. This would have amounted to 577,642 Australian dollars. The Postal Service would have purchased the Australian dollars at the current market exchange rate of $1.27, and the cost in U.S. dollars would have been $733,605. Therefore, the Postal Service would have paid $124,640 less in Australian dollars.

Other settlements in U.S. dollars during 1976 resulted in the Postal Service paying $59,000 more than if payments had been in Australian dollars.

Collection from Great Britain in U.S. dollars

We estimated that in 1976 the United States collected $1.5 million more in settling accounts with Great Britain than it would have if different procedures had been used.

On April 11, 1976, Great Britain paid the United States $4.1 million in postal debts. This amount was arrived at by converting Great Britain's debt of 10.4 million gold francs to U.S. dollars at the rate of 2.54 francs to the dollar. At the time the British pound sterling was equal to 7.34 gold francs. On the basis of gold franc equivalents, the pound's exchange rate was $2.89. The pound's market exchange rate was $1.84, $1.05 less than the gold franc rate.

Had payment been made in British pounds, the 10.4 million gold franc debt would have been converted to pounds at the 7.34 gold franc equivalent. This would have amounted to 1.4 million pounds. At the $1.84 exchange rate the pounds would have had a market value of $2.6 million--$1.5 million less than the actual collection.

1/Gold franc amounts shown in this report have been rounded, but actual amounts were used in making conversions to U.S. dollars and other currencies.

Collection from West Germany in U.S. dollars

We estimated that in 1976 the Postal Service could have collected an additional $199,000 from West Germany had the settlement been in German marks, because that currency's gold franc exchange rate was less than its market rate. The United States did not exercise its option of specifying the currency for settlement to its advantage.

On November 12, 1976, West Germany paid $1,360,000 to settle its postal debt. The amount was determined by converting the debt of 3.5 million gold francs to U.S. dollars at the dollar's 2.54 gold franc equivalent. On the basis of a 0.95 gold franc equivalent for the mark and the 2.54 equivalent for the dollar, the mark's exchange rate was 37.4 cents. Its market exchange rate on the day of payment was 41.4 cents, 4 cents more than its gold franc rate.

Had the debt been collected in German marks, the gold francs would have been converted to marks at their gold franc equivalent of 0.95. This would have amounted to 3.6 million German marks. The Postal Service could have exchanged the marks through the Treasury Department at the $41.4-cent market rate for $1,504,000. Thus, it could have collected an additional $144,000 by settling the debt in German marks.

Another $55,000 could have been collected if other debts had been settled in German marks.

Payment to Switzerland in Swiss francs

During 1976 settling debts with Switzerland in Swiss francs rather than U.S. dollars cost the Postal Service an additional $3,713 because the Swiss franc's market exchange rate was higher than its gold franc rate.

The 28,110 gold franc debt was converted to Swiss francs at that currency's 0.75 gold franc equivalent. This amounted to 37,505 Swiss francs. On April 6, 1976, the francs were purchased at the market exchange rate between the franc and the dollar ($39.4 cents), for a total cost of $14,791.

Before payment, the Postal Service converted the 28,110 gold francs to U.S. dollars at the dollar's 2.54 gold franc equivalent. This amounted to $11,078, which was recorded on the Service's books. The Service considered the $3,713 difference between the amount paid and the amount booked as a loss on foreign exchange transactions and the Service recorded it as such on the books.

Payment to South Africa in rands

In February 1976 the Postal Service saved $83,260 in settling two debts with South Africa because that country requested payment in rands instead of U.S. dollars and the rand's market exchange rate was less than its gold franc rate.

The debts totaling 1.1 million in gold francs were converted to South African rands at the rand's 3.60 gold franc equivalent. This amounted to 313,110 rands, which were purchased at the market exchange rate of $1.15, for a total cost in U.S. dollars of $360,754.

Before payment the Service converted the 1.1 million gold francs to U.S. dollars at the dollar's 2.54 gold franc equivalent. This amounted to $444,375, which was recorded on the Service's books. When the debts were settled, the $83,620 difference between the amount booked and the amount paid was recorded on the books as a gain on foreign exchange transactions.

After February 1976 South Africa requested payment of postal debts in U.S. dollars, which increased the amounts it collected and eliminated further savings to the United States.

Payment to Ghana in pound sterling

We estimate that it cost the United States an additional $20,779 to settle a postal debt with Ghana in pound sterling because the Postal Service decided to use the dollar's gold franc equivalent in the absence of such an equivalent for the pound.

Effective June 15, 1976, Great Britain stopped publishing a gold franc equivalent for the pound sterling. Previously the pound had been equal to 7.34 gold francs. After Great Britain's action, Ghana requested the United States to pay a 130,053 gold franc postal debt in pound sterling. The Postal Service International Accounts Branch did not know the proper amount to pay Ghana because there was no longer an exchange rate between these currencies. The International Accounts Branch asked Service headquarters for assistance.

In April 1977 the Postal Service decided that the debt would be settled by converting the 130,053 gold francs to U.S. dollars at the dollar's 2.54 gold franc equivalent. This amounted to $51,254. On May 16, 1977, Treasury informed the Service that the dollars had been exchanged for pound sterling at the pound's market rate of $1.72. This amounted to 29,807 pounds, which was paid to Ghana.

Had Great Britain continued to publish the 7.34 gold franc equivalent for the pound sterling, the gold francs would have been converted to pounds at that rate. This would have amounted to 17,718 pounds. The Postal Service would have purchased the pounds at the $1.72 market exchange rate and the cost in U.S. dollars would have been $30,475, compared to the actual dollar cost of $51,254.

Thus, Great Britain's decision to discontinue publishing a gold franc equivalent for the pound sterling and the Postal Service's decision to convert the gold franc debt to U.S. dollars cost the United States an additional $20,779 to settle this account.

SPECIAL DRAWING RIGHTS

In 1969 the Articles of Agreement of the International Monetary Fund were amended to authorize the Fund to issue special drawing rights, the first international reserve asset to be created by a decision of the international community. Initially, the SDR unit was equivalent to 1 U.S. dollar and its gold parity was 0.888671 grams of fine gold. After two U.S. dollar devaluations, the SDR was valued at $1.20, while its gold parity remained the same. Exchange rates for other currencies against the SDR were calculated from the market exchange rates for these currencies against the U.S. dollar.

With the suspension of gold convertibility for the U.S. dollar in 1971 and the widespread move away from par values for major currencies in 1973, it became unrealistic to value the SDR in terms of a par value for the dollar. To provide a measure of the SDR's value that would equitably reflect exchange rate changes under flexible arrangements, the International Monetary Fund adopted a new method for determining the SDR's value. Effective July 1, 1974, the Fund made the SDR equivalent to the weighted average value of a "basket" of currencies for 16 member countries that had a share of world exports in excess of 1 percent during 1968-72. 1/

Using the new method the Fund calculates the value of the SDR daily in terms of the U.S. dollar and other major currencies. For example, on May 27, 1977, the SDR was valued at 1.16 U.S. dollars and 2.74 German marks.

To calculate the SDR's value, the amount of each currency in the basket (other than 40 U.S. cents) is converted to its equivalent in U.S. dollars on the basis of market exchange rates between these currencies and the dollar. The daily equivalent of the SDR in U.S. dollars is then applied to market exchange rates for other currencies to yield SDR exchange rates for these currencies. The Fund publishes the exchange rates for a wide range of currencies, not just the 16 in the basket.

The SDR is used as the unit of account in financial transactions between private parties, such as the issuance of bonds. The International Air Transport Association has an April 1, 1978, target date for using the SDR as the basic reference value for establishing worldwide passenger fares, cargo rates, and associated financial transactions. An Association official cautioned, however, that meeting this target date will be difficult because of technical problems.

1/Currency weights were expressed in percentages. The U.S. dollar's weight was set at 33 percent, in view of its importance in international settlements. Lower percentages, roughly in proportion to the countries' shares in international transactions, were set for the 15 other currencies. Each currency's percentage was converted to a specified amount of that currency for inclusion in the basket. The amount for the U.S. dollar is 40 cents--33 percent of the SDR's $1.20 value on June 27, 1974. To arrive at amounts for the other currencies, each currency's percentage was related to its average exchange rate with the dollar for the 3 months ended June 27, 1974, and then applied against the SDR's $1.20 value. The value of the basket, using these amounts, was calculated at the exchange rates prevailing on the day of transition to the new method (June 28, 1974). To maintain continuity between the new method and the old, small adjustments were made in the amount of each currency so that the value of the basket as of June 28, 1974, would be the same as under the old method ($1.20).

The European Conference of Postal and Telecommunications Administrations, a restricted union of UPU, 1/ concluded that it was better to keep the gold franc as the monetary standard until UPU and the International Telecommunications Union adopted a new standard. Since July 1, 1976, however, this restricted union has been using the SDR as an intermediate currency unit for settling accounts. Debts are converted from gold francs to SDRs on the basis of the ratio between the gold franc's weight and the SDR's weight in grams of gold. Debts stated in SDRs are then converted to the currency of payment according to the latest SDR exchange rate for that currency published by the International Monetary Fund.

The 1974 UPU Congress recognized that changes in the international monetary system were causing its members problems in settling accounts. The Congress instructed UPU's Executive Council to monitor this situation and to take any necessary action.

In 1975 the Executive Council asked UPU's International Bureau to make a preliminary study of developments concerning the international monetary system. The Bureau's report, issued in March 1976:

--Discussed the possible need for UPU to establish a new monetary standard to replace the gold franc.

--Concluded that unilaterally fixed gold par values, whether adjusted to economic conditions or not, are being increasingly challenged and do not have the warranty the International Monetary Fund used to give them. The report said a method should be found for expressing relations between the gold franc and the currencies used to settle postal debts or another common denominator should be found to express international charges and accounts.

--Recommended that the Executive Council set up a working party to study, in conjunction with the International Telecommunications Union, the problem of replacing the gold franc as the postal currency unit.

1/UPU members may establish restricted unions and make special agreements concerning international postal matters. These agreements may not be less favorable for the public than those governing all UPU members.

In May 1976 the Council established the working party, of which the United States is a special member.

We discussed UPU monetary problems with Postal Service officials in April 1977. Later, the Service advised UPU that it questioned the desirability of retaining the gold franc and preferred the SDR as the new unit of account. The Service said that replacing the gold franc as the accounting unit for rate fixing before the 1979 Congress did not appear possible. For purposes of settling accounts, however, the Postal Service said that member countries should agree as soon as possible on an intermediary unit such as the SDR.

RECOMMENDATION

We recommend that the Postmaster General, in cooperation with the Secretaries of State and the Treasury, participate in international efforts to establish a more realistic monetary standard, such as the special drawing rights unit, for setting charges and settling international mail accounts.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on our report (see app. I), the Postal Service said that the working party studying UPU monetary problems, at its first meeting in May 1977, drafted a resolution recommending that all UPU members provisionally use the SDR as an intermediate currency between the gold franc and the currency of payment in settling international postal accounts. The Service helped draw up this resolution, which provides for converting debts from gold francs to SDRs based on the ratio between the gold franc's weight and the SDR's weight in grams of gold. This ratio is 1 SDR to 3.061 gold francs. SDRs would be converted to the currency of payment in accordance with the latest SDR exchange rate for that currency published by the International Monetary Fund.

The UPU Executive Council, at its May 1977 meeting, approved the working party's resolution and had it distributed to all member countries. The Postal Service said that it will seek agreements with other countries for use of the SDR as an intermediate unit in settling postal accounts. Therefore, except for some possible exceptions based on negotiations, it will ask for payment only in U.S. dollars. The Service said that the working party will present proposals for more permanent settlement procedures to the 1979 UPU Congress.

In commenting on the report (see app. III), the Treasury Department agreed with the general thrust of our recommendation. Treasury said that it conferred with the Postal Service before the May 1977 working party meeting and that it will continue to work with the Service to establish a more equitable, realistic, and workable accounting and settlement system.

We believe that using the SDR unit as the intermediary between the gold franc and the currency of payment would be an equitable way to settle accounts. Gains or losses would be largely eliminated because currency exchange rates based on SDR values are close to or the same as market exchange rates. The value of settlement amounts would be substantially equal regardless of the payment currency.

CHAPTER 3

CHARGES FOR TERMINAL SERVICE

SHOULD BE EQUITABLE

Terminal dues, initiated in July 1971, are paid by the sending country to the receiving country for handling and distributing international surface mail. In fiscal year 1976 the United States was charged $29 million for terminal services and charged other countries $15.2 million for these services. 1/ Thus, the U.S. net outflow for terminal services was $13.8 million, compared with the U.S. net inflow of $12.2 million for other intergovernmental mail services.

Terminal dues were increased and applied to airmail in January 1976. This is expected to increase the annual U.S. net outflow for terminal services to $22 million. 1/

A concerted effort is needed to achieve equitable procedures for assessing terminal dues charges and for evaluating the accuracy of test data used for computing such charges.

INITIATION OF TERMINAL DUES

Beginning in 1874 UPU had operated under the principle that the country of origin should not pay the country of destination for delivering mail because a letter generated a reply and the number of letters sent and received would tend to balance.

By 1964 some countries called for a change because they received far more international mail than they dispatched, and they argued that they should be compensated for the increased handling costs. Based on a proposal by Colombia, the 1964 UPU Congress instructed the Executive Council to study the costs incurred in handling inward international mail and to report at the 1969 Congress.

The Executive Council failed to make substantive recommendations for resolving the mail imbalance to the 1969 UPU Congress. Colombia said that the Congress itself

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1/These amounts are subject to adjustment based on the results of surface mail weight statistics obtained from October 15 through November 11, 1976, and airmail weights being determined for calendar year 1976.

should make a decision, and proposed that postal administrations receiving larger quantities of surface mail than they send should collect half a gold franc (about 20 cents) per kilogram of excess mail from the dispatching administration.

The Congress adopted Colombia's proposal, and terminal dues for surface mail imbalances became effective July 1, 1971. UPU considered this an interim measure and instructed the Executive Council to continue to study terminal dues and to submit proposals to the 1974 Congress.

At that Congress the Executive Council proposed that terminal dues be increased to 1 gold franc per kilogram. Three member countries also made proposals for increasing terminal dues: (1) Lesotho proposed a phased increase to 4 gold francs by 1977, (2) New Zealand proposed a phased increase to 2 gold francs by 1977, and (3) Canada proposed, as a compromise, a direct increase to 1.50 gold francs.

The U.S. delegation made no proposals concerning terminal dues but told the UPU Congress that measuring mail imbalances by weight alone was inequitable. They argued that the number of pieces of mail was an important factor in determining handling costs. For fiscal year 1973 the Postal Service estimated that for comparable weights the United States received more pieces of mail than it sent. For example, 32 surface mail letters and cards per pound were received for every 20 letters or cards sent to other countries; for airmail 71 letters or cards per pound were received for every 24 letters or cards sent.

The U.S. delegation contended that both the present rate of half a gold franc and the Executive Council's proposed 100-percent increase to 1 gold franc were arbitrary compromises. The delegation said that available information on the cost of handling mail imbalances was inadequate.

The proposals concerning the level of terminal dues were considered by the UPU Congress in the order of their divergence from the present rate. Lesotho's proposal was rejected, 77 votes to 18, with 15 abstentions. New Zealand's proposal was rejected, 55 votes to 53, with 7 abstentions. The United States, Austria, Great Britain, and the Soviet Union were among the countries that voted against both proposals.

Canada's proposed rate of 1.50 gold francs per kilogram was adopted, 83 to 30 votes, with 5 abstentions, and became effective January 1, 1976. The United States also voted against this proposal.

The UPU Congress recognized the U.S. concerns and instructed the Executive Council to propose at the 1979 Congress a terminal dues rate formula considering the weight of mail and all cost factors, especially conveyance and handling, according to the number of items mailed. The Council is to collaborate with UPU's Consultative Council for Postal Studies in this effort.

At the 1974 UPU Congress, Australia proposed that terminal dues be applied to airmail as well as surface mail imbalances because airmail had become a significant percentage of total mails exchanged between countries. The United States opposed this proposal on the grounds that it was indefinite concerning the costs to be covered by the terminal dues. The UPU Congress, however, approved the proposal, and it also became effective January 1, 1976.

DEVELOPMENTS SINCE THE 1974 CONGRESS

In May 1975, as instructed by the 1974 Congress, the Executive Council organized a working party to develop a formula for fixing terminal dues rates. The working party is composed of Canada, Colombia (later replaced by Venezuela at Colombia's request), and Great Britain.

At its first meeting in September 1975, the working party noted that weight had been chosen as the criterion for assessing terminal dues because it was the only measurement of traffic recorded by all UPU member countries. The working party acknowledged that this method had the advantage of simplicity but recognized that other factors, such as the number of pieces of mail, should also be taken into account.

The working party also discussed ways of obtaining reliable, uniform data on costs of handling incoming international mail, such as unloading, conveyance, opening and checking, sorting, routing, presenting to customs, and delivery. These costs would vary from country to country.

The Postal Service said it has met separately with each member of the working party to express its views on the need for equitable terminal dues rates. The Postal Service, however, has not made specific proposals for establishing such rates.

As of June 1977 the working party was obtaining information on the composition (weight and pieces) of international mail from UPU members. The Postal Service was participating in these efforts.

STATISTICAL TESTS

Terminal dues and transit charges for surface mail accounts between the United States and other countries are settled annually on the basis of statistics obtained once every 3 years over a period of 28 consecutive days. 1/ The statistics are obtained during the second year of each 3-year period; the test dates alternate between May 2 to 29 and October 15 to November 11.

The data base used in settling accounts for July 1971 to December 1974 was obtained from May 2 to 29, 1973. The data base to be used for 1975-77 settlements was obtained from October 15 to November 11, 1976.

The statistics, which include data on the weight of mail received and dispatched by country, are projected to an annual base by multiplying them by 13. The gold franc rate per kilogram is applied to the difference between the weight of mail received and dispatched to determine the amount of terminal dues a country will pay or receive. The gold francs are converted to the currency of payment by use of that currency's gold franc equivalent. Similar procedures are used to determine the charges for transit services.

UPU regulations provide that a country may request another country to revise the surface terminal dues and transit charges when it can show that the statistical test results differ substantially from normal mail traffic. If the countries cannot agree on revised statistics, the country that believes itself unfairly treated may submit the matter to arbitration.

The Postal Service, however, apparently lacks comprehensive, readily available data on surface mail traffic for other periods to evaluate whether the statistical test period results represent normal mail traffic. A December 1975 report by the Service's Office of Statistical Programs and Standards noted that the Service needed to develop an information system to validate the statistical test results and to monitor international mail flow at least periodically.

We believe the development of such information would be desirable, since statistics from a 28-day period are

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1/Airmail accounts are settled annually on the basis of actual weights.

used to settle accounts for a 3-year period. The Postal Service, in accordance with UPU regulations, would then be in a position to seek revisions in terminal dues and transit charge settlements when the test data did not represent normal mail traffic.

RECOMMENDATIONS

We recommend that the Postmaster General, in cooperation with the Secretary of State, attempt to achieve equitable procedures for computing terminal dues. This should include developing information on mail weight, number of pieces, and other pertinent factors to support specific approaches that best promote U.S. interests and equity to other countries.

We recommend that the Postmaster General develop information to evaluate the accuracy of test data used to settle major accounts with foreign governments for terminal and transit services.

AGENCY COMMENTS

In commenting on this report, the Postal Service said that since the principle of terminal dues was accepted by UPU in 1969, the Service has worked within UPU's framework for the adoption of equitable procedures for computing terminal dues payments. The Service said that these efforts are being accelerated and that the State Department's political support with other countries at the ministerial level will augment these efforts.

The Postal Service stated a new management information system is being developed that will enable it to monitor and quantify mail flow between the United States and all other countries periodically. The information obtained will provide the Postal Service with a sound basis for evaluating the accuracy of test data used to settle all accounts with foreign governments for terminal and transit services.

CHAPTER 4

COLLECTION EFFORTS AND REVOLVING FUND

Our 1969 report to the Congress concluded that the Postal Service and the State Department needed to further coordinate and increase their efforts to collect amounts owed by other governments, particularly those past due.

Coordination between these agencies has improved, and they are actively pursuing collection of debts from governments with which the United States has normal diplomatic relations. Political considerations impede efforts to collect debts owed by Cuba, the People's Republic of China, 1/ and the former Republic of South Vietnam.

At January 10, 1969, 15 foreign governments in arrears in paying their postal debts owed the United States or U.S. carriers $12.7 million for international mail services. We estimate that about $10.1 million was due for services performed in fiscal year 1966 and before. At March 25, 1977, 2/ nine governments in arrears in paying their postal debts owed $6.7 million. Of this amount $4.9 million was due for services performed in fiscal year 1974 and before. Since 1969 the portion of the total debt owed to air carriers by countries in arrears increased from $2.1 million to $2.7 million. (See app. IV.) Postal Service officials said none of these debts have been written off as uncollectible.

The Service is responsible for collecting most accounts, although the U.S. air carriers sometimes collect amounts due them. The Postal Service tries to collect debts by issuing statements of account to the countries' postal administrations and by initiating followup correspondence with these administrations. When these efforts fail, the matter is referred to the State Department, which usually makes collection efforts through its Embassies in the debtor countries.

Because of rules governing international postal settlements, statements for some services (for example, terminal and transit services) may not be prepared for over a year after the services have been performed. In such cases, the

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1/The People's Republic of China is paying its current debt. The unpaid debt covers the period 1949-74.

2/The end of quarter II, postal fiscal year 1977.

Postal Service usually requests State Department assistance in collecting the debt when the services were provided 3 years before. For air carrier services involving the transport of mail for another country, the debt is referred to State after 1 year.

Both the Postal Service and the State Department have initiated periodic communications with debtor governments to try to collect delinquent debts.

Some examples of collection efforts follow.

--As suggested in our 1969 report that consideration be given to collecting debts in foreign currency, the United States accepted payment of Uruguay's postal debt in local currency. As of March 25, 1977, the United States owed Uruguay money.

--In March 1973 the State Department, through the Swiss Government, informed the Cuban Government of the debt it owed the Postal Service. Although efforts to collect the debt have not succeeded, the State Department said it will continue to seek opportunities to bring this matter to the Cuban Government's attention.

--As of the time of our review, the Dominican Republic, pursuant to an agreement, was making semiannual payments on the portion of its debt covering the period 1967-69. The State Department, in coordination with the Postal Service, has concluded a second agreement with the Dominican Republic providing for semiannual payments beginning on June 30, 1977, on the debt accrued since 1969. Although Haiti was making monthly payments on its 1967-70 debt under a similar agreement, there were difficulties in collecting the more current debt. In June 1977 U.S. Embassy officials in Haiti discussed the Haitian postal debt with officials of that country. At that time the Haitian officials presented a $334,000 claim for delivery of U.S. mail in Haiti and proposed an agreement to liquidate the balance of Haiti's $699,000 postal debt to the United States billed in January 1977. In July 1977 the Postal Service was auditing Haiti's claim.

--In May 1976, Guatemala paid $80,000 of its $280,000 debt.

--In September 1976 Liberia paid $100,000 of its $200,000 debt.

--From April 1975 to March 1976, $88,000 was collected from Haiti; in July 1976, the Postal Service said that $1.1 million had been collected from Costa Rica. These collections were made primarily through the efforts of air carriers. The Service had been requested by a carrier to remove its receivables from billing statements to Costa Rica so that the carrier could attempt to collect directly from that country.

At March 25, 1977, the Postal Service accounts with 189 countries totaled $44.7 million; 61 countries owed the Service and U.S. air carriers (through the Service) $15.8 million, and the Service owed 128 countries $28.9 million.

REVOLVING FUND

The Postal Service Appropriation Act, 1976, approved August 9, 1975, reestablished a revolving fund of $5 million to cover the advance of funds to U.S. air carriers for unpaid mail transportation services to foreign countries. 1/ The fund was reestablished because the air carriers were again having financial problems.

The Postal Service made the first revolving fund advances to air carriers in October 1975. As of June 17, 1977, the outstanding advances totaled $4,308,000, and they covered the carriers' unpaid receivables through March 1977.

Since November 1975 unadvanced funds have been less than $1 million at the end of every 4-week accounting period except for periods ended September 10 and October 8, 1976. The highest ending balance was $1,127,000 on September 10, 1976; the lowest balance was $24,000 on March 25 and April 22, 1977. As of June 17, 1977, unadvanced funds were $692,000.

1/From 1940 to 1965 the Postal Service advanced funds to U.S. air carriers for mail transportation services rendered to foreign countries. Until 1948 existing appropriations were used for this purpose. In 1948, at the request of the Service, the Congress authorized a revolving fund of $5 million to make the advances, and in 1950 the fund was increased to $7 million. In 1965 the fund was discontinued because the financial condition of the air carriers had improved since 1940 and most accounts with other governments were being settled within 1 year.

The Postal Service commingles cash left in the revolving fund with cash of its own and invests these funds in U.S. Treasury securities. The Service uses investment income to meet general operating expenses.

Advances from the fund are made for claims against other countries submitted to the Service by the air carriers. When the Service settles with the foreign countries, the revolving fund is reimbursed.

Settlement is made when the Service collects the debt or when the debt to the carriers is offset by a Service debt to the country concerned. Because the charges for terminal services have made the United States a debtor country in some cases, more settlements will apparently be made by setoff procedures.

If settlement is not made within 36 months 1/ of the advance, Postal Service procedures provide for recovering the advance by deducting it from the carrier's next advance. When an advance is recovered and the United States is indebted to the foreign country, the Service will pay the air carrier the amount of the U.S. debt or 90 percent of the carrier's receivable, whichever is less. It will not make any payment to the air carrier if the carrier's receivable is less than $30,000. When an advance is recovered and the foreign country is indebted to the United States, the airlines would have to carry delinquent accounts owed them. Beginning in October 1978 the first revolving fund advances will be outstanding 36 months if settlement has not been made.

As of June 30, 1976, (1) Pan American World Airways, the major air carrier of foreign air mail, had received about 69 percent of the revolving fund advances, (2) Northwest Airlines, about 15 percent, (3) Trans World Airways, about 11 percent, and (4) Braniff Airlines, about 3 percent. Five other carriers had each received less than 1 percent.

1/Extended from 24 months in June 1977.

THE POSTMASTER GENERAL
Washington, DC 20260

June 22, 1977

Mr. Victor L. Lowe
Director, General Government
Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Lowe:

Thank you for the opportunity to comment on your proposed report to the Congress entitled "International Mail Accounts--Charges and Settlements."

The report's principal findings are:

(1) Monetary gains or losses are being made in settling international postal accounts because there are differences between the market exchange rates and exchange rates set under the monetary standard used to settle accounts. Continued use of the gold franc, the present monetary standard of the Universal Postal Union (UPU), to set charges and settle accounts is unrealistic;

(2) The Postal Service agreed to implement the General Accounting Office's (GAO) suggestion that the Service request payment in the most advantageous currency until a more equitable monetary standard for settling accounts is developed; and

(3) The Postal Service agreed to implement GAO's suggestion that the Postal Service and the State Department make a concerted effort to achieve equitable procedures for computing terminal dues, and that this should include developing information on mail weight, mail pieces, and other pertinent factors to support specific approaches which best reflect U.S. interests and an overall equity to other countries.

The report recommends that the Postal Service:

(1) In cooperation with the Departments of State and Treasury, participate in international efforts to establish a more realistic monetary standard, such as the Special Drawing Rights (SDR) unit, for setting charges and settling international mail accounts, and

(2) Develop information or evaluate the accuracy of test data used to settle major accounts with foreign governments for terminal and transit services.

The following actions have been taken in respect to the report's findings and recommendations:

--Monetary gains or losses are no longer being made in settling international postal accounts in nearly all countries. The Postal Service is now making payments to other countries on the basis of gold franc - dollar equivalents, the dollar values thus being converted into the currency of payment at actual exchange market rates.

The 1977 UPU Executive Council approved a draft resolution to be distributed to all member countries recommending the use of the SDR unit as defined by the International Monetary Fund as an intermediary between the gold franc and the currency of payment in the settlement of accounts. This resolution, in effect, acknowledges that the present UPU Convention Rules for Payment are no longer appropriate. The Postal Service is a member of the UPU Working Party on the Monetary Unit and contributed to drawing up the draft resolution.

The Working Party will next develop proposals for new Rules for Payment, as well as proposals relating to the use of the gold franc as the monetary standard of the UPU.

Although it will not be possible to eliminate the gold franc as the monetary standard of the UPU until the 1979 Congress of the UPU, it is likely that dollar and SDR equivalents of the gold franc will be used by most countries as intermediaries between the gold franc and the currency of payment until the 1979 Congress.

--The Postal Service's agreement to GAO's suggestion about requesting payment in the most favorable currency was made prior to the 1977 UPU Executive Council. During the Council session, representatives from other countries indicated they did not consider the current UPU Rules for Payment valid and would not convert gold francs into a currency other than dollars at official exchange rates. Accordingly, with the possibility of some exceptions based on negotiations, the Postal Service will not be asking for payment in currencies other than dollars. In addition, the Service will negotiate with many countries regarding the replacement of the dollar by the SDR as the intermediary between the gold franc and the currency of payment. To begin the negotiation process we have initiated a study to determine those countries where we can benefit from changes to settlement procedures.

--Since 1969 when the UPU adopted the principle of terminal dues, the Postal Service has worked within the framework of the UPU for the adoption of equitable procedures for computing terminal dues payments. These efforts have been continual and are being accelerated.

We are participating in the UPU Working Party's efforts to obtain information on the composition of mail, and are developing a new Postal Service management information system which will enable us to monitor and quantify mail flow between the U.S. and all other countries on a periodic basis. The information obtained will provide the Service with a sound basis for evaluating the accuracy of test data used to settle all accounts with foreign governments for terminal and transit services and will help us develop procedures that will reflect U.S. interests and assure overall equity to all countries.

The State Department's political support with other countries at the ministerial level will augment Postal Service efforts to achieve equitable procedures for computing terminal dues.

We have also had very useful discussions with your staff about their findings and recommendations, in the course of which we supplied informal comments on the more technical aspects of this fine report.

Sincerely,

Benj. F. Bailar

Benjamin F. Bailar

DEPARTMENT OF STATE

Washington, D.C. 20520

June 2, 1977

Mr. J. K. Fasick
Director
International Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Fasick:

I am replying to your letter of May 11, 1977, which forwarded copies of the draft report: "International Mail Accounts -- Charges and Settlements."

The enclosed comments were prepared by the Deputy Assistant Secretary for Transportation, Telecommunications and Commercial Affairs.

We appreciate having had the opportunity to review and comment on the draft report. If I may be of further assistance, I trust you will let me know.

Sincerely,

Daniel L. Williamson, Jr.
Deputy Assistant Secretary
for Budget and Finance

Enclosure: As stated

GAO DRAFT REPORT: "INTERNATIONAL MAIL ACCOUNTS -- CHARGES AND SETTLEMENTS"

We are pleased that the Report takes favorable note of the measures we and the U.S. Postal Service implemented, subsequent to a 1969 GAO Report, to ensure active coordination in the collection of delinquent debts. We have in fact established a close working relationship that assures debt collection efforts are coordinated and effective.

The Report observes that fewer countries are now delinquent and that the overall debt, particularly in those situations where political difficulties do not impede collection efforts, has been reduced. We expect further liquidation of outstanding debts. In this respect it should be noted that our current negotiations with the Dominican Republic, referred to on page 31 of the Report, have been concluded with that country's agreement to liquidate a debt accrued since 1969 of nearly $600,000 by paying nine semi-annual installments commencing June 30 of this year.

We would also like to draw attention to the fact that our efforts since the 1969 Report have not been limited to those countries with which we maintain normal diplomatic relations, as might be inferred from the Report. For example, despite the absence of normal diplomatic relations, we have, through intermediary governments, drawn the attention of the Cuban Government to the debt owed to the U.S. Postal Service. However, our efforts to collect the debt have so far been unsuccessful. We will continue to seek opportunities to bring this debt to the attention of the Cuban Government, with the hope that the outstanding accounts might be settled in accordance with procedures established by the Universal Postal Union.

Finally, we have reviewed those sections of the Report which consider monetary standards and the Universal Postal Union and have no objection to the observations contained therein.

Joel W. Biller
Deputy Assistant Secretary for
Transportation, Telecommunications
and Commercial Affairs

GAO note: The page reference in this appendix refers to the draft report and does not necessarily agree with the page number in the final report.

DEPARTMENT OF THE TREASURY
WASHINGTON D C 20220

OFFICE OF
ASSISTANT SECRETARY
FOR INTERNATIONAL AFFAIRS

July 13, 1977

Dear Mr. Lowe:

Thank you for the opportunity to comment on your proposed report to the Congress entitled "International Mail Accounts, Charges and Settlements."

On behalf of Secretary Blumenthal, I am forwarding to you the attached comments from the Department of the Treasury. If I can be of further assistance to you in the final preparation of this report, please do not hesitate to contact me or other Treasury officials with whom you have been working.

Sincerely yours,

Weir M. Brown
Inspector General for International Finance

Mr. Victor L. Lowe
Director, General Government Div.
U.S. General Accounting Office
Washington, D. C. 20548

Attachment: a/s

COMMENTS ON GAO DRAFT REPORT "INTERNATIONAL MAIL ACCOUNTS, CHARGES AND SETTLEMENTS"

I. General Comments

Treasury concurs with the general thrust of the recommendation set forth in Chapter 2 of the draft report that the Postmaster General should participate in international efforts to establish a more realistic monetary unit for the UPU.

It is our understanding that this effort is already in progress, with US Postal Service officials having participated in a meeting in May of the working party formed to study this issue. Treasury officials conferred with Postal Service officials prior to this meeting, and will continue to work with them in their efforts to establish a more equitable, realistic and workable accounting and settlement system.

As a result of the working party's meeting in May, as well as recent changes that have taken place in Postal Service policy, some of the comments and suggestions in Chapter 2 are no longer applicable or are out of date. It is understood from conversations between members of our staff that the final version of the report will be updated to reflect these recent developments and policy initiatives.

With regard to Chapter 4, it is noted that Postal Service policy on arrearages differs significantly from that of all other U.S. Government agencies. It is recommended that this policy difference be explained and consideration be given to recommending that this policy be brought in line with that of other USG agencies.

II. Specific Comments:

A. Digest

1) Suggest that the digest be reorganized to conform to the order in which issues are discussed in the body of the report. For example, the first point made in the digest refers to the review of efforts to collect delinquent debts. Yet in the text this topic follows the discussion of the review of problems associated with the monetary standard.

2) Paragraphs two and three of the digest might be more appropriately placed in the text of the study rather than the digest.

3) P.ii - The phrase "gains and losses result from use of monetary standard" is unclear since nowhere is it explained from what the gains or losses are measured or to what they are compared. Instead of referring to "gains or losses", the issue could be more clearly stated in the digest as follows:

-- Heading: "Problems Associated With Use of the Gold Franc as the Monetary Unit"

-- Brief statement explaining current methods of account and settlement, the problems that have arisen in its use during the past few years, and the recommendation.

B. Chapter I

1) Throughout this Chapter, as well as Chapter 2, the references to "gains and losses" should be clarified or replaced with references to the problems or difficulties associated with the use of the gold franc as the monetary unit.

C. Chapter 2

1) See comment above regarding Chapter I.

2) As in digest, suggest explanation of current methods of account and settlement, the difficulties and problems that have arisen in these areas during the last few years of flexible exchange rates, and recommendations for dealing with these problems.

3) P.7, para 2, last sentence. Suggest "This would provide a more equitable, realistic and workable basis for accounting and settlement of international postal accounts."

4) P.7, para 3. Initial sentence is incorrect. Suggest the following comments be made in regard to international monetary developments, to be inserted following an explanation of how the current accounting and settlement system works:

"In 1973 there was widespread adoption of "floating" exchange rates by major industrial countries. Since that time other countries have also adopted more flexible exchange arrangements. The IMF Articles of Agreement are in the process of being amended to replace the obsolete par value arrangements of the current Articles -- based on gold -- with provisions effectively legalizing current exchange rates practices, including floating. The differences that have existed between the relative values of currencies as determined through their official par values in terms of gold and as determined in the foreign exchange market have caused difficulties in the gold-based accounting and settlement system used for international postal accounts."

5) P.8, Footnote #1. The value of the gold franc in any currency is currently determined by the gold equivalencies of that currency and the gold franc.

6) P.16, Special Drawing Rights

Suggest following to replace initial two paragraphs of this section:

"In 1969 the special drawing right (SDR) facility was established by amendment of the IMF Articles of Agreement, authorizing the issuance of special drawing rights (SDR's), the first international reserve asset to be created by a decision of the international community.

The present Articles of Agreement define the SDR as equivalent to 0.888671 gram of fine gold, which corresponded to the par value of the U.S. dollar in effect at the time of the amendment establishing the facility. Up to mid-1974, the value of the SDR was fixed in relation to the par value of the U.S. dollar. With the suspension of gold convertibility of the dollar and the widespread move away from par values, however, it became unrealistic to value the SDR in terms of par values and difficult to determine the rates to be used in IMF transactions.

In order to provide a measure of the value of the SDR that would adequately and equitably reflect exchange rate changes under flexible exchange arrangements, a "currency basket" technique for determining the currency value of the SDR was adopted in July 1974. The SDR is valued in terms of a weighted basket of the market exchange rates of sixteen major currencies."

7) P.17 - Suggest delete Footnote 1.

8) P.18 - First full para. Suggest that this be a part of a description earlier in the chapter of the problems associated with use of the gold franc during the past few years.

9) P.18 (last para) and P.19 - Suggest that summary of June 1977 UPU report replace the summary of the March 1976 report.

III. Chapter 4

1) The collection problems cited in this chapter suggest that existing procedures for collection of debts by the Postal Service differ from those of other agencies. New procedures to accelerate the collection process on Postal Service debts might be desirable, provided that such procedures can be devised so as not to conflict with Postal Service obligations under international postal agreements.

GAO note: The page references in this appendix refer to the draft report and do not necessarily agree with the page numbers in the final report.

POSTAL DEBTS OWED THE UNITED STATES AND U.S. AIR CARRIERS AT MARCH 25, 1977 (note a)

Country	Total debt	Portion due U.S. carriers	Portion due for fiscal year 1974 and before
Political arrearages (note b):			
Cuba	$2,922,611	$ 1,910	$2,905,528
People's Republic of China (note c)	424,887	234	268,426
South Vietnam (note d)	209,841	236,701	50,537
	3,557,339	238,845	3,224,491
Other arrearages:			
Costa Rica	525,102	319,597	245,577
Dominican Republic	865,116	449,390	604,704
Guatemala (note d)	319,496	441,347	6,013
Haiti	826,877	349,629	658,427
Liberia (note d)	161,918	220,995	43,496
Panama (note d)	418,609	684,013	67,417
	3,117,118	2,464,971	1,625,634
Total	$6,674,457	$2,703,816	$4,850,125

a/The Postal Service and the State Department have coordinated their efforts to collect these debts. The table does not include four countries (Mexico, Italy, Lebanese Republic, and Spain) with fiscal year 1974 and prior debts exceeding $30,000 each and totaling $818,000. Of this amount $129,000 is offset by more current U.S. debts owed to Mexico and Spain. The Postal Service believes these debts can be collected without State Department assistance.

b/In 1969 two countries (Cuba and the People's Republic of China) owing a total of $2.9 million were in this category. These debts represented 23 percent of the $12.7 million owed by countries in arrears at that time.

c/Debt for fiscal year 1975 and later years is being paid.

d/Considered in arrears because some of the amount due carriers was over 1 year old. The amount due carriers exceeds total debt because total reflects partially offsetting U.S. debt to other country.

PRINCIPAL OFFICIALS RESPONSIBLE FOR ADMINISTERING ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
U.S. POSTAL SERVICE		
POSTMASTER GENERAL:		
Benjamin F. Bailar	Feb. 1975	Present
E. T. Klassen	Jan. 1972	Feb. 1975
Merrill A. Hayden (acting)	Oct. 1971	Dec. 1971
DEPARTMENT OF STATE		
SECRETARY OF STATE:		
Cyrus R. Vance	Jan. 1977	Present
Henry A. Kissinger	Sept. 1973	Jan. 1977
William P. Rogers	Jan. 1969	Sept. 1973
DEPARTMENT OF THE TREASURY		
SECRETARY OF THE TREASURY:		
W. Michael Blumenthal	Jan. 1977	Present
William E. Simon	May 1974	Jan. 1977
George P. Shultz	June 1972	May 1974
John B. Connally	Feb. 1971	June 1972

(48519)