

GAO

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

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June 1998

U.S. POSTAL SERVICE

Competitive Concerns  
About Global Package  
Link Service



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United States  
General Accounting Office  
Washington, D.C. 20548

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**General Government Division**

B-277945

June 5, 1998

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

Dear Mr. Chairman:

This report responds to your July 22, 1997, request that we review the U.S. Postal Service's (USPS) Global Package Link (GPL) service, an international parcel delivery service that the Postal Service started in 1995. This request was made in response to concerns by private express carriers that GPL parcels were subject to fewer customs clearance requirements and received preferential customs treatment overseas, giving USPS an unfair competitive advantage in providing international parcel delivery service. The primary objective of our review was to determine whether differences existed in the customs treatment for GPL and private express carrier parcels by foreign customs services in Canada, Japan, and the United Kingdom—the three countries where GPL service was primarily being provided in 1997.

As agreed with the Subcommittee, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after its issue date. At that time, we will send copies of this report to the Ranking Minority Member of your Subcommittee, the appropriations committees, other postal oversight committees in Congress, Representative Anne Northup, the Postmaster General, and other interested parties. Copies will also be made available to others upon request.

Major contributors to this report are listed in appendix IX. If you have any questions concerning this report, please call me or Teresa Anderson, Assistant Director, on (202) 512-8387.

Sincerely yours,

Bernard L. Ungar  
Director, Government Business  
Operations Issues

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# Executive Summary

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## Purpose

Increased demand for consumer goods worldwide has intensified competition between private express carriers and postal services in providing international parcel delivery service. The carriers have raised long-standing concerns about trade barriers that they say hinder their ability to provide consumers with cost-effective and timely delivery of parcels. In particular, difficulties in clearing shipments through customs abroad were cited in a recent GAO survey of U.S. all-cargo airlines as one of the most pervasive problems that impairs their competitiveness.<sup>1</sup>

During the summer of 1997, representatives from Federal Express Corporation (FedEx) and United Parcel Service (UPS) raised concerns to Congress about one of the U.S. Postal Service's (USPS) international parcel delivery services, Global Package Link (GPL). They were concerned that USPS has used its governmental status with foreign governments to give GPL parcels preferential customs treatment—including reduced customs fees and faster customs clearance—over private express parcels. In addition, private carriers indicated that the additional expenses they incur to comply with customs requirements that do not apply to USPS give the Postal Service an unfair competitive advantage. USPS officials replied that GPL was designed to meet the needs of its customers by providing direct marketers (mailers of catalog merchandise such as apparel) with an economical and simplified means of shipping goods internationally, particularly with respect to the automation of customs information. USPS officials also stated that they had made no special arrangements with foreign governments that would give GPL parcels preferential customs treatment.

In response to these concerns, the Chairman of the House Subcommittee on the Postal Service, House Committee on Government Reform and Oversight, asked GAO to review several issues related to the competitiveness of the international mail market. To accommodate resource limitations, GAO agreed with the Subcommittee to address these issues in a series of reviews. In this first review, GAO's primary objective was to determine whether differences existed in customs treatment for the portion of the international mail market involving GPL and private express carrier parcels, including the customs requirements, processes, and practices of foreign customs services in Canada, Japan, and the United Kingdom (U.K.)—the three countries where USPS was primarily providing GPL service in 1997. In addition, in this report, GAO discusses some issues related to addressing concerns about GPL's perceived competitive

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<sup>1</sup>See GAO's report, *International Aviation: DOT's Efforts to Promote U.S. Air Cargo Carriers' Interests* (GAO/RCED-97-13, Oct. 18, 1996).

advantages. We did not review customs treatment of other, non-GPL international postal services, which may have differed from customs treatment of GPL parcels. Further, although other government requirements may apply related to both imports and exports, such as those regarding airline security and shipments of restricted and prohibited goods, the focus of this review included only customs requirements. In a separate review, GAO is addressing other issues related to the Postal Service's role and U.S. representation in the international postal organization, the Universal Postal Union (UPU). In a future review, GAO plans to examine issues related to the Postal Service's pricing and allocation of costs for its GPL service.

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## Background

GPL parcel service is one of several international mail services offered by USPS. According to USPS, GPL was designed as a parcel delivery service that would make it easier and more economical for direct marketers to export bulk shipments of merchandise internationally.<sup>2</sup> During 1997, GPL customers were primarily direct marketers, U.S. companies whose businesses mainly involved mailing high-volume shipments of catalog merchandise, such as apparel, to consumers in other countries. First introduced in Japan in 1995, the service is now available for parcel shipments to 10 countries.<sup>3</sup> However, in fiscal year 1997, GPL was operating primarily in only three countries—Canada, Japan, and the United Kingdom—and generated gross revenues of about \$33.5 million.<sup>4</sup> In fiscal year 1997, USPS shipped a total of about 2 million GPL parcels to Canada, Japan, and the United Kingdom; almost all of the parcels were shipped to Japan. GPL parcels represented less than 1 percent of the total number of parcels shipped to Canada by the three major carriers and USPS via GPL service combined, about 60 percent of those shipped to Japan, and about 2 percent of those shipped to the United Kingdom in 1997.<sup>5</sup> In fiscal year 1997, the GPL service as a whole accounted for less than 1 percent of the Postal Service's total outgoing international mail volume.

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<sup>2</sup>See appendix I for a chronology of GPL services.

<sup>3</sup>The 10 countries are Brazil, Canada, Chile, China (GPL service to Hong Kong was established before Hong Kong's reversion to China), France, Germany, Japan, Mexico, Singapore, and the United Kingdom.

<sup>4</sup>During the final months of 1997, USPS also sent some GPL parcels to Mexico and China.

<sup>5</sup>Although GAO obtained data on the number of parcels shipped by USPS and the three major private competitors to Canada, Japan, and the United Kingdom, parcels also may have been shipped via other private express carriers and USPS services to those three countries.

Upon arrival in the destination countries, both postal and private express parcels are subject to clearance by foreign customs officials. Customs services monitor the arrival and departure of shipments of goods through their clearance processes at ports-of-entry. To obtain clearance of goods, shippers must fulfill the customs requirements of the destination country, including proper import documentation and payment of any applicable duties and taxes.

To identify whether customs treatment differed for GPL parcels and similar private express parcels, GAO compared (1) the customs statutory and regulatory requirements; and (2) the operational practices and processes for importing merchandise through GPL or through private express carriers into Canada, Japan, and the United Kingdom. Some of the differences in customs treatment could not be linked to written requirements. Rather, officials from the private express carriers, USPS, and foreign customs and postal agencies described them to GAO as the operational practices and processes that were followed. GAO also asked these officials to verify its descriptions of the processes and the legal basis for foreign customs clearance of imported GPL and private express parcels. The information on private express clearance processes discussed in this report was obtained from three private express carriers, DHL Airways (DHL), FedEx, and UPS, because they were identified as being the largest competitors with USPS for parcel delivery services to the three foreign countries in this review.

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## Results in Brief

The delivery and customs clearance processes for GPL and private express parcels in Canada, Japan, and the United Kingdom were based primarily on the domestic import requirements applicable to mail and parcels imported by private carriers in those countries. All three countries had separate customs clearance processes and requirements for mail and parcels imported by private express carriers. Under U.S. law, the private express carriers were required to submit their parcels to U.S. Customs for inspection prior to export, but USPS was not subject to this requirement for its outbound parcels.

Differences in foreign customs treatment of GPL and private express parcels were greatest in Japan, where private express carriers were subject to requirements regarding the preparation of shipping documentation and payment of duties and taxes on their parcels that did not apply to GPL parcels. In the United Kingdom, USPS was providing certain shipping data to the customs service on GPL parcels that was similar to the information that carriers were required to provide. In

Canada, GPL and private express parcels were subject to the same requirements because GPL parcels were being delivered for USPS by a private express carrier there.

Regarding two major areas of concern to the carriers, GAO found no evidence that GPL parcels received preferential treatment over private express parcels in terms of (1) the speed of customs clearance in any of the three countries or (2) the assessment of duties and taxes in Canada and the United Kingdom. On behalf of individual importers, USPS was paying duties and taxes on GPL parcels shipped to Canada and the United Kingdom. GAO was unable to determine whether duties and taxes were assessed on dutiable GPL parcels shipped to Japan because (1) USPS did not have records on payment of duties and taxes on GPL parcels shipped to Japan, because the recipients of postal parcels in Japan are responsible for paying applicable duties and taxes; and (2) Japan Customs did not provide statistics on the amount of duties and taxes that recipients paid on GPL parcels.

GAO found that the private express carriers followed similar delivery and customs clearance processes for parcels shipped from the United States to the three countries in its review. However, USPS' delivery and customs clearance processes for GPL parcels differed among the three countries. The differences reflected USPS' use of different types of GPL delivery agents, which were subject to different sets of requirements within the countries. In Japan and the United Kingdom, GPL parcels were delivered by those countries' postal services and were treated as mail under customs law. In Canada, GPL parcels were delivered by a private express carrier and were subject to the customs laws that applied to private carriers for importing goods.

The private express industry has commented that differences in customs clearance requirements for postal and privately shipped parcels result in more work and higher costs for the carriers, placing them at a disadvantage in competing with USPS to provide international parcel delivery service. However, USPS officials noted that they also incur costs that the private carriers do not, such as meeting their obligations to provide delivery service to persons in all communities of the United States and to member countries of the Universal Postal Union. In addition, businesses that ship their goods internationally, as well as USPS and the carriers, stressed the importance of having competitive choices that provide alternatives in the cost and speed of international shipping services for consumers.

The carriers have urged Congress to protect fair competition by enacting legislation that would require USPS to compete on the same terms, particularly for customs treatment, as private carriers. This proposal raises several questions, such as (1) whether international parcels delivered by postal services and private carriers should be subject to the same requirements and customs treatment, (2) if so, what requirements would be appropriate to apply to international parcels, and (3) how the requirements should be implemented.

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## GAO's Analysis

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### Differences in Customs Treatment for GPL and Private Express Parcels Shipped to Canada, Japan, and the United Kingdom

GAO identified 11 major categories of customs requirements and practices that potentially differed between the private express carriers and USPS in shipping parcels to Canada, Japan, and the United Kingdom. The 11 categories, only the first of which involved U.S. law, included (1) U.S. Customs inspection of outbound parcels, (2) preparation of import shipping documentation, (3) electronic submission of shipping data, (4) use of licensed customs brokers, (5) calculation of duties and taxes, (6) the timing of payment of duties and taxes, (7) payment for customs clearance outside of regular business hours, (8) posting of bonds or other security to customs services for storage facilities, (9) retention of shipping records, (10) liability for the importation of restricted or prohibited parcel contents, and (11) liability for incorrect or missing customs declarations.

According to customs officials in the United States and the countries in GAO's review, different requirements and processes for postal and commercial imports evolved over time, and the requirements were not intended to be the same. They said that historically, more requirements have been imposed on commercial cargo than on postal parcels because cargo tended to be high-value merchandise shipped from one company to another, but postal parcels tended to be low-value items for personal consumption. In addition, the Customs officials said that with the development of the direct marketing industry through catalog sales and, more recently, through on-line computer orders, these distinctions have been blurred as consumers transact their purchases of merchandise goods directly from businesses and have the goods delivered to their residences. The need for faster clearance has also prompted the private carriers to request special customs requirements that would provide expedited clearance.



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**Executive Summary**

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Table 1 summarizes the requirements and practices in shipping GPL and private express parcels to Canada, Japan, and the United Kingdom in the 11 major categories. The table also indicates areas where USPS and the carriers performed the task but were not required to do so by law or regulation.

Executive Summary

**Table 1: Comparison of Requirements and Practices for Shipping Parcels to GPL Destination Countries**

Requirements/practices	GPL destination countries					
	Canada		Japan		United Kingdom	
	GPL <sup>a</sup>	Private carrier	GPL	Private carrier	GPL	Private carrier
Submit outbound parcels for customs inspection <sup>b</sup>		√		√		√
Prepare import shipping documentation	√	√		√	□	√
Enter shipping data into foreign customs services' computers				□		□
Use licensed customs brokers	□	□		□		
Calculate duties and taxes	√	√		√ <sup>c</sup>	□	<sup>d</sup>
Pay or secure duties and taxes before Customs' release to delivery agent	√	√	<sup>e</sup>	√		√
Pay for customs clearance outside of regular business hours	√	√		√	√ <sup>f</sup>	√
Post bonds or provide other security to customs services for storage facilities	√	√				√
Retain shipping records	√	√		√	□	√
Importer liability for parcel contents	√	√	√	√	√	√
Importer liability for incorrect or missing declarations	√	√		√	√	√

Legend

- √ Required/Applicable
- Practice

<sup>a</sup>GPL parcels were imported into and delivered within Canada for USPS by a private express carrier and were therefore required to meet the same customs requirements as were imports by private carriers.

<sup>b</sup>USPS officials noted that the Postal Inspection Service inspects some outgoing international parcels prior to export using search warrants.

<sup>c</sup>In practice, duties and taxes are in most cases calculated by Japan Customs' computer system on the basis of data entered by the importers/brokers.

<sup>d</sup>In the United Kingdom, duties and taxes are calculated by H.M. Customs' computers on the basis of data provided by the carriers.

<sup>e</sup>In Japan, recipients of postal parcels are not to receive parcels until the duties and taxes are paid.

<sup>f</sup>H.M. Customs officials said that although Parcelforce would be liable for customs clearance outside of regular business hours, customs clearance for GPL parcels is normally done during regular business hours.

Source: GAO analysis of information from postal and customs officials, laws, and regulations in Canada, Japan, the United Kingdom and the United States.

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## Differences in Customs Treatment for GPL and Private Express Parcels Shipped to Japan

Customs treatment of GPL and private express parcels shipped from the United States to Japan was determined largely by Japanese law, which prescribed different sets of requirements for postal and private express parcels. Under Japanese law, postal parcels were exempt from the major requirements that applied to private express parcels. Appendix III provides the basis in Japanese law for the different requirements. Also affecting customs treatment were the carriers' different valuations of certain imported goods, which provided the basis for determining the amount of duties and taxes owed.

Private express carriers or their brokers were subject to significantly more requirements than were USPS and the Japan Postal Bureau in shipping their parcels from the United States to Japan. U.S. law subjected private express parcels to customs inspection prior to export, but outbound postal parcels were not subject to this requirement. Under Japanese law, the carriers or their brokers were required to provide detailed shipping documentation, calculate duties and taxes, pay or secure payment of duties and taxes before Customs' release to the delivery agent, and retain shipping records. In addition, the carriers or their brokers were subject to liabilities for importing restricted or prohibited parcel contents and for incorrect or missing customs declarations. They also paid for customs clearance outside of regular business hours to expedite parcel clearance. Although not required to by law, the carriers entered most of their import shipping data into Japan Customs' computer system. By contrast, USPS or the Japan Postal Bureau were not subject to these requirements or practices with respect to GPL parcels, with the exception of the postal service's potential liability for restricted or prohibited parcel contents.

In shipping parcels from the United States to Japan, USPS and the private express carriers followed different delivery and customs clearance processes. A major process difference involved the delivery agents used by USPS and the carriers in Japan. USPS paid the Japan Postal Bureau to deliver GPL parcels within Japan. In comparison, employees of the three major private express carriers, or their Japanese business partners, delivered their parcels from the United States to recipients within Japan. Further, although private express parcels were typically cleared at airport facilities, customs clearance at the Japan Postal Bureau facility that received the most GPL parcels was located in downtown Tokyo, about 2 hours from the New Tokyo International (Narita) Airport, where the parcels arrived from the United States.

According to Japan Customs officials, GPL and private express parcels received the same customs treatment. From information provided by USPS and Japan Customs, GAO found no evidence that GPL parcels received preferential treatment by Japan Customs over private express parcels with respect to the speed of customs clearance. Data provided by USPS indicated that in 1997, clearance of GPL parcels in Japan took an average of 2.17 days; according to Japan Customs, private express parcels were normally cleared within 2 hours. The carriers reported that customs clearance in Japan generally took between 2 and 5 hours for parcels not held for inspection.

Japan Customs is responsible for assessing duties and taxes on imported postal parcels, including GPL parcels. Private carriers calculated the duties and taxes on imported parcels, which were later verified by Japan Customs. The carriers indicated that because they or their brokers calculated and paid duties and taxes on parcels imported into Japan, their records prove that they pay 100 percent of applicable duties and taxes. The carriers were concerned that they have lost direct marketers as customers because of a perception that duties and taxes were not always assessed on dutiable postal parcels in Japan.

Japan Customs officials, however, said that duties and taxes were being assessed on all dutiable parcels imported from the United States. GAO was unable to determine whether duties and taxes were assessed on dutiable GPL parcels shipped to Japan because (1) USPS did not have records on payment of duties and taxes on GPL parcels shipped to Japan, because the recipients of postal parcels in Japan are responsible for paying applicable duties and taxes; and (2) Japan Customs did not provide statistics on the amount of duties and taxes that recipients paid on GPL parcels.

Japanese law addresses how imported goods should be valued for the purposes of assessing duties and taxes. However, because of different valuations of imported goods by private carriers or their brokers, differences existed in the amounts of duties and taxes paid on some postal and private express parcels. The carriers reported that the Japan Customs Bureau rarely, if ever, adjusted their calculations of duties and taxes on imported parcels.

Japanese law allowed imported goods to be valued at their wholesale, rather than retail, values if the goods are deemed to be for the personal use of the importer or are a gift to a person who is a resident in Japan and are deemed to be for the personal use of the recipient of the gift. In

assessing the customs value of goods, Japan Customs officials said imported parcels from direct marketers that are addressed to an individual, in many cases, qualified as goods deemed to be for the importers' personal use and could be valued at their wholesale, rather than retail, values.

Japan Customs officials said wholesale valuations could be applied for both GPL and private express parcels containing goods from direct marketers for the recipients' personal use, and they applied a standard 60-percent valuation of GPL parcels' retail value to calculate wholesale values. With regard to private express parcels, GAO found that the carriers were valuing their imported goods differently, which could affect the amount of duties and taxes owed on their imported parcels. Of the three major private express carriers GAO contacted for this study, one carrier indicated that it was calculating duties and taxes on only imported mail-order goods on the basis of wholesale values of the goods. Another said that it was using wholesale valuations for both imported mail-order goods and gifts. The third carrier was not using wholesale valuations for any of its imported goods as a basis for calculating duties and taxes.

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### Differences in Customs Treatment for GPL and Private Express Parcels Shipped to the United Kingdom

The customs treatment of GPL and private express parcels being shipped from the United States to the United Kingdom was governed by legal requirements applicable in the United Kingdom, which included U.K. and European Union (EU) laws and regulations. USPS' provision of certain shipping data to the customs service in the United Kingdom on GPL parcels, while not required by law, served to lessen the extent of differences in customs treatment of postal and private express parcels in the United Kingdom.

USPS and the private express carriers followed different processes for delivering parcels from the United States to the United Kingdom, reflecting the use of different delivery agents. Within the United Kingdom, GPL parcels were delivered by Parcelforce, a for-profit subsidiary of Royal Mail, the United Kingdom's postal service. By contrast, the three major private express carriers, or their contracted local delivery companies, delivered their parcels within the United Kingdom.

As in Japan, private express carriers in the United Kingdom were subject to requirements that did not apply to postal services. In the United Kingdom, carriers or their brokers were required to pay or secure duties and taxes before customs clearance, provide security to the customs

service for storage facilities, and retain shipping records. They also paid for customs clearance outside of regular business hours to expedite parcel clearance. By contrast, USPS and Parcelforce were not required to pay or secure duties and taxes before customs clearance, post bonds or other security to the customs service for storage facilities, or retain shipping records; and did not normally have GPL parcels cleared outside of regular business hours. Both the carriers and the postal service in the United Kingdom were subject to liabilities for importing restricted or prohibited goods and for incorrect or missing customs declarations. Although Parcelforce was not required by law to maintain records on GPL parcels, Parcelforce officials said they planned to keep records on GPL shipments for 5 years.

USPS was providing electronic shipping data on GPL parcels to Parcelforce for access by H.M. Customs officials. The content of USPS' shipping data on GPL parcels was similar to the information that the carriers provided to H.M. Customs on their parcels.<sup>6</sup> USPS provided documentation indicating that it paid duties and taxes on GPL parcels shipped to the United Kingdom in 1997. USPS officials said that they offered to follow these procedures in establishing GPL service to the United Kingdom. Appendix IV provides the basis in U.K. and EU law for the requirements.

The only apparent difference in customs treatment of postal and private express parcels in the United Kingdom related to the reported speed of customs clearance. USPS did not have exact data indicating how long customs clearance took in the United Kingdom, but USPS officials said that GPL parcels were normally cleared within the same day that they arrived in the United Kingdom. Customs officials in the United Kingdom indicated carrier parcels are cleared on average in 2 hours.<sup>7</sup>

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## Differences in Customs Treatment for GPL and Private Express Parcels Shipped to Canada

The treatment of GPL and private express parcels being shipped from the United States to Canada was determined by Canadian law. Although Canadian law prescribed different sets of requirements for postal and private express carrier parcels, GPL parcels were delivered for USPS by a private express carrier in Canada and thus were subject to the same requirements that private express carriers must follow, according to

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<sup>6</sup>In providing comments on a draft of this report, Japan Customs indicated that it planned to develop an import information system in cooperation with USPS that is similar to the one used in the United Kingdom.

<sup>7</sup>The carriers said that under new simplified procedures, customs clearance occurred immediately upon arrival for certain imported goods.

Canadian customs officials. These requirements included the preparation of shipping documentation, calculation of duties and taxes,<sup>8</sup> posting of security to the customs service for storage facilities, retention of shipping records, and payment for customs clearance outside of regular business hours. According to Revenue Canada, which serves as Canada's customs service, the importers of parcels in Canada were subject to potential liabilities for the importation of restricted or prohibited parcel contents, and the importers or their brokers were subject to liabilities for missing or incorrect customs declarations. Appendix V provides the basis in Canadian law regarding importing requirements for postal and private express parcels.

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### Issues Related to Making Customs Requirements More Similar

Issues related to fair competition involve weighing how USPS and its private sector competitors can compete, given their different requirements and obligations. The potential implications of whether to apply the same requirements, under what terms, and how to apply the same requirements for both USPS and the carriers may include a number of factors, including those raised by the U.S. and foreign postal and customs services, private express carriers, shippers, and consumers. The private express industry has commented that it wants a "level playing field" with USPS in providing international parcel delivery service by having Congress apply the same customs requirements on USPS and the carriers. The carriers also noted the benefits that simplification of customs formalities for low-value shipments could have for all international commerce. USPS officials noted that the Postal Service incurs costs that the private carriers do not, such as meeting its obligations to provide delivery service to persons in all communities of the United States and to member countries of UPU. Moreover, businesses that ship their goods internationally, as well as USPS and the carriers, stressed the importance of having competitive choices that provide alternatives in the cost and speed of international shipping services for consumers.

In urging that the same international customs clearance requirements should be applied to USPS and the private carriers, the carriers have raised fundamental questions about the fairness of competing with a government entity that is providing a businesslike service. The carriers commented that competing with a government entity that is subject to fewer customs requirements and lower associated costs distorts the competitive marketplace. Depending upon what types of competitive international

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<sup>8</sup>USPS provided documentation indicating that it paid duties and taxes on GPL parcels shipped to Canada in 1997.

postal products would be subject to the same requirements, postal services are concerned that requiring USPS and the private carriers to follow the same requirements could affect the simplified process that was intended for mail sent from household to household internationally. Another consideration is the potential impact on shippers, such as the direct marketing industry, who would like to have a choice of different types, costs, and speeds of delivery services to respond to their customers' demands for their goods.

Determining how to make customs requirements the same would involve several considerations. Changes in U.S. law by themselves would not equalize customs treatment for postal and private express parcels under foreign law. Further, additional analysis would be needed to determine whether making customs requirements the same would conflict with current international agreements, such as those involving UPU service obligations, and whether such changes would impose additional workload burdens on postal and customs services worldwide.

With respect to U.S. law, opportunities may exist to change customs treatment of parcels imported into the United States. Negotiations between USPS and the U.S. Customs Service regarding the treatment of future GPL service incoming to the United States involve discussions of issues such as manifesting requirements and payment of duties and taxes. Moreover, in considering what requirements might be appropriate, additional opportunities may exist to build on national and international proposals to simplify and expedite customs clearance procedures worldwide. Such opportunities include reducing paperwork and increasing the dutiable de minimis—the value threshold at which imported goods are subject to duties and taxes—which could benefit both USPS and the private express carriers.

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## Agency Comments

GAO requested comments on a draft of this report from 10 organizations, including USPS; Treasury and the U.S. Customs Service; the governments of Canada, Japan, and the United Kingdom; as well as the private express carriers included in its review—DHL, FedEx, and UPS; and the trade association Air Courier Conference of America (ACCA). GAO received written comments from three organizations—ACCA, USPS, and Revenue Canada; Treasury and U.S. Customs chose not to provide comments. The private express carriers chose to submit their comments together through ACCA's written comments. GAO's summary of agency comments and response are included at the ends of chapters 2 and 3. The customs



services of Canada, Japan, and the United Kingdom provided technical comments, which are incorporated in appropriate sections throughout the report.

The comments GAO received generally agreed with the facts presented in the report on the differences in the requirements and procedures for customs clearance of GPL and private express carrier parcels in the three countries in its review. However, USPS and ACCA had different interpretations of the report's message and different perspectives on the policy implications of these differences. GAO made changes where appropriate to clarify its message.

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**Abbreviations**

ACCA	Air Courier Conference of America
COMTIS	Customs Overseas Mail Tax Information System
CPAS	Customs Pre-Advisory System
CHIEF	Customs Handling of Import and Export Freight (U.K.)
C.I.F.	Cost, insurance, and freight
DHL	DHL Airways, Inc.
DMA	Direct Marketing Association
DTI	Direct Trader Input
ECU	European Currency Unit
EMS	Express Mail International Service
EU	European Union
FedEx	Federal Express Corporation
GPL	Global Package Link
IBU	International Business Unit
IPCS	International Package Consignment Service
ISAL	International Surface Airlift
LVS	Low-Value Shipment Program (Canada)
NACCS	Nippon Automated Cargo Clearance System (Japan)
UPS	United Parcel Service
UPU	Universal Postal Union
USPS	United States Postal Service
VAT	Value Added Tax

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# Introduction

Increased demand for consumer goods worldwide has intensified competition between private express carriers and postal services for providing international parcel delivery services.<sup>1</sup> Private carriers have expressed long-standing concerns about trade barriers, such as foreign customs' clearance requirements that they say hinder their ability to provide cost-effective and timely delivery of parcels.<sup>2</sup> More recently, the carriers have raised competitive concerns about the U.S. Postal Service's (USPS) Global Package Link (GPL) service, which USPS established in 1995 to provide mailers of catalog merchandise, such as apparel, with an economical and simplified means of shipping goods internationally.

In the summer of 1997, representatives from Federal Express Corporation (FedEx) and United Parcel Service (UPS) raised concerns to Congress about GPL, alleging that USPS has used its governmental status with foreign governments to give GPL parcels preferential treatment. In particular, the carriers indicated GPL parcels received reduced customs fees and faster customs clearance over private express parcels. USPS officials replied that GPL service was designed to provide direct marketers with an economical and simplified means of shipping goods internationally, particularly with respect to the automation of customs information. USPS indicated that it had not made any special arrangements with foreign governments to give GPL parcels preferential customs treatment over private express parcels.

This report responds to a request from the Chairman of the Subcommittee on the Postal Service, House Committee on Government Reform and Oversight, that we review whether differences existed in the customs treatment for GPL and private express carrier parcels sent to Canada, Japan, and the United Kingdom—the three countries where USPS was primarily providing GPL service in 1997.

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## Overview of USPS' GPL Service

GPL was designed as a bulk delivery service that would make it easier and more economical for companies to ship parcels containing merchandise internationally. During 1997, GPL customers were primarily direct marketers—mailers of catalog merchandise. First introduced under the name International Package Consignment Service (IPCS) to Japan in 1995, and renamed Global Package Link in 1997, the service is now available for

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<sup>1</sup>The carriers also deliver freight, but this report focuses on parcel delivery service that is comparable to GPL service.

<sup>2</sup>See GAO's report, *International Aviation: DOT's Efforts to Promote U.S. Air Cargo Carriers' Interests* (GAO/RCED-97-13, Oct. 18, 1996). The three private express carriers that were involved in this GPL review were included in the 1996 report.

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parcel shipments to 10 countries.<sup>3</sup> However, in fiscal year 1997, GPL was operating primarily in only three countries—Canada, Japan, and the United Kingdom.<sup>4</sup>

Responsibility for implementing GPL and other international mail services lies with the USPS' International Business Unit (IBU). According to USPS, IBU was started in 1995 with the vision of becoming within the next few years—and no later than 2005—the “leading global supplier of direct marketing and package delivery services and related business transactions to business customers worldwide.” According to IBU officials, GPL destinations were selected after customers expressed an interest in shipping there or USPS decided that certain shipping opportunities existed. Although GPL currently operates only as an outbound delivery service for U.S. companies, USPS also plans to offer inbound services to foreign companies in GPL countries that want to ship products to the United States.

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## GPL Volume and Revenue

GPL is one of several international mailing services offered by USPS.<sup>5</sup> In fiscal year 1997, USPS shipped about 2 million parcels via GPL service, almost all of which were shipped to Japan. GPL parcels represented less than 1 percent of USPS' total outgoing international mail volume of almost 1 billion pieces in fiscal year 1997. GPL gross revenues for fiscal year 1997 were \$33.5 million, an increase of about 13.5 percent over fiscal year 1996, when GPL generated \$29.5 million in gross revenue.

The number of GPL parcels being sent to different countries may be affected by several key factors, including currency fluctuations and cultural preferences for U.S. goods. Exports of U.S. goods sold by direct marketers<sup>6</sup> to Japan, for example, increased substantially in recent years but have leveled off recently as the U.S. dollar has increased in strength

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<sup>3</sup>The 10 countries are Brazil, Canada, Chile, China (GPL service to Hong Kong was established before Hong Kong's reversion to China), France, Germany, Japan, Mexico, Singapore, and the United Kingdom. A several-month delay normally occurs between the time GPL service is announced to a new destination and when shipments actually begin. The length of the delay depends upon how long it takes to enlist U.S. direct marketing companies as customers and establish the necessary start-up operations.

<sup>4</sup>During the final months of 1997, USPS also sent some GPL parcels to Mexico and China.

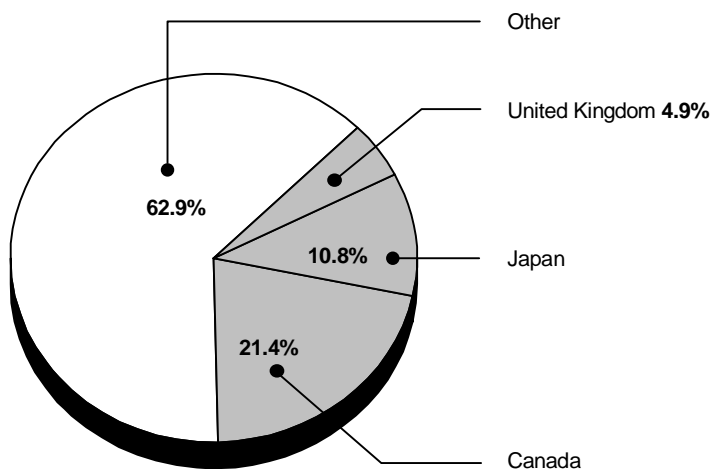
<sup>5</sup>Traditionally, the international mail market has included letter mail, printed matter, and parcel post for households and businesses. Revenues from international mailing services are derived primarily from airmail; surface mail; Express Mail International Service (EMS); International Surface Airlift (ISAL); and foreign postal transactions, such as terminal dues (payments made to and by foreign postal services for handling and delivering international mail) and other related fees. Total international mail generated \$1.61 billion in revenue in fiscal year 1997, compared to \$1.65 billion in 1996, a decrease of 2.4 percent.

<sup>6</sup>Direct marketers defined themselves as businesses that sell goods directly to consumers.

against the Japanese yen, according to the American Chamber of Commerce in Japan. The U.S. Department of Commerce reports that U.S. merchandise represents 80 to 90 percent of the value of total personal imports in Japan. Direct marketers have estimated the value of personal imports in Japan to represent sales of \$1 billion to \$1.5 billion annually. On the basis of catalog requests at direct marketing promotions in Tokyo and Osaka, Japan, Japanese consumers prefer goods such as apparel; sports/outdoor equipment; videos, cassettes, compact discs, and books; and hobby merchandise.

Generally, GPL mailers said that their success in overseas markets depended on their ability to offer unique and high-quality goods at favorable prices, including shipping charges. As shown in figure 1.1, Canada, Japan, and the United Kingdom together account for about one-third of the value of merchandise goods exported from the United States, according to 1996 Commerce Department figures.

**Figure 1.1: U.S. Merchandise Exports to Canada, Japan, and the United Kingdom in 1996**



Note: In 1996, total merchandise exports equaled \$624.8 billion.  
Other: The rest of the world.

Source: Department of Commerce.

## GPL Start-Up Process

A new GPL customer is required, among other things, to sign an agreement with USPS that it will (1) mail at least 10,000 parcels a year to 1 or more



destination countries;<sup>7</sup> (2) agree to link its information systems with those of USPS, enabling the customer and USPS to generate reciprocal data transmissions concerning the parcels; (3) meet certain shipping preparation requirements; and (4) designate USPS as its carrier of choice for each country to which it sends GPL parcels.<sup>8</sup> For new GPL customers, USPS creates an electronic data link between it and the customer and installs proprietary software known as the Customs Pre-Advisory System (CPAS) to capture shipping data.<sup>9</sup> For new GPL countries, USPS creates an electronic data link with its delivery agents—usually the foreign postal services. USPS may determine the harmonized tariff codes for the mailers, depending upon the destination country’s customs clearance requirements.<sup>10</sup> GPL mailers provide data into CPAS about product origin, description, and value for the system to generate mailing labels, and in some countries, calculate applicable duties and taxes.

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## Key Elements of GPL Service to Canada, Japan, and the United Kingdom

USPS offers different levels of GPL service to Canada, Japan, and the United Kingdom, depending upon customers’ needs regarding delivery speed, parcel tracking, and insurance. Customers are also bound to parcel weight and size limitations, depending on destination. Shipping rates vary by country, and customers are eligible for certain volume discounts. As shown in table 1.1, GPL service includes two to three levels for each of the three countries (e.g., premium, standard, and economy), with parcels generally scheduled for delivery within 2 to 10 business days, depending upon destination; time-definite delivery is not guaranteed to any GPL country.

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<sup>7</sup>USPS also allows wholesalers to participate in GPL agreements by combining shipments from companies with fewer than 10,000 parcels.

<sup>8</sup>“Carrier of choice” means that GPL customers agree to use USPS as their carrier unless the parcel recipients specifically chose another carrier.

<sup>9</sup>CPAS is operated by a USPS contractor called DynCorp. GPL customers transmit the following data to DynCorp: addresses of mailers and recipients, number of items being shipped, description and value of individual items, and total value and weight.

<sup>10</sup>Catalog harmonization is the process of assigning international Harmonized Tariff Schedule codes to each product offered in the mailer’s catalog. The codes are used to determine the applicable tariffs (also referred to as duties) and taxes due in the destination country. Harmonized tariff codes are not needed for GPL parcels being sent to Japan; Japan Customs determines the codes.

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**Table 1.1: Key Elements of GPL Service to Canada, Japan, and the United Kingdom**

<b>Service level</b>	<b>Size and weight limitations<sup>a</sup></b>	<b>Delivery options<sup>b</sup></b>	<b>Insurance coverage</b>	<b>Tracking<sup>c</sup></b>
<b>Canada</b>				
<b>GPL Premium:</b> Parcels are transported from GPL processing centers to Canada overnight, where parcels are cleared through customs and released to the delivery agent.	Maximum length: 60 inches Maximum length/girth combined: 108 inches.  Maximum weight: 66 lbs.  Minimum length/width: large enough for necessary customs/delivery label.	Normal delivery is 2 to 3 business days after dispatch from customer's plant to final delivery, depending on location.	Insured up to U.S.\$500 against loss, at no additional cost, but not against delayed delivery.	Through delivery.
<b>GPL Standard:</b> Parcels are transported to Canada overnight (same as GPL premium), where parcels are cleared through customs and released to the delivery agent. Ground transportation is used to deliver parcels to final Canadian destination.	(as above)	Normal delivery 3 to 6 business days after dispatch from customer's plant to final delivery, depending on location; may take as long as 8 days. <sup>b</sup>	Insured for the declared value, up to U.S.\$100, but not against delayed delivery. Optional coverage of U.S.\$100-\$1,000 available for additional cost.	(as above)
<b>Japan</b>				
<b>GPL Premium:</b> Parcels are transported to Japan by air, where they are entered into Japan Post's domestic mail system for delivery.	Maximum length: 60 inches Maximum length/girth combined: 108 inches.  Maximum weight: 44 lbs.  Minimum length/width: large enough for necessary customs/delivery label.	Within 3 to 4 business days after dispatch from customer's plant.	Insured up to U.S.\$500 against loss, at no additional cost, but not against delayed delivery.	Through delivery.
<b>GPL Premium Oversize:</b> (extension of GPL Premium service): Parcels are transported to Japan by air, where they are entered into a private express carrier's delivery system.	GPL Premium packages whose length is more than 60 inches up to a combined length/girth of 108 inches.  GPL Premium packages weighing more than 44 pounds up to a maximum of 70 pounds.	Delivery to be within 3 to 4 business days after dispatch from customer's plant.	Insured up to U.S.\$500 against loss, at no additional cost, but not against delayed delivery.	(as above)

(continued)

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<b>Service level</b>	<b>Size and weight limitations<sup>a</sup></b>	<b>Delivery options<sup>b</sup></b>	<b>Insurance coverage</b>	<b>Tracking<sup>c</sup></b>
<b>GPL Standard:</b> Parcels are transported to Japan by air, where they are entered into Japan Post's domestic mail system for delivery.	Maximum length: 60 inches Maximum length/girth combined: 108 inches  Maximum weight: 66 lbs.  Minimum length/width: large enough for necessary customs/delivery label.	Delivery to be within 7 to 10 business days after dispatch from customer's plant.	No insurance coverage available.	Confirmation of dispatch from GPL processing facility only.
<b>United Kingdom<sup>d</sup></b>				
<b>GPL Premium:</b> Parcels are transported to the U.K. by air, where they are transferred for delivery to Parcelforce for local delivery.	Maximum length: 60 inches Maximum length/girth combined: 108 inches.  Maximum weight: 66 lbs.  Minimum length/width: large enough for necessary customs/delivery label.	3rd business day after dispatch from customer's facility to final delivery.	Insured up to \$500 against loss, at no additional cost, but not against delayed delivery.	Through delivery.
<b>GPL Standard:</b> Parcels are transported to the U.K. by air, where they are transferred for delivery to Parcelforce for local delivery.	(as above)	4th business day after dispatch from customer's facility to final delivery.	(as above)	(as above)
<b>GPL Economy:</b> Parcels are transported to the U.K. by air, where they are transferred to Parcelforce for local delivery.	(as above)	5th or 6th business day after dispatch from customer's facility to final delivery.	Insured at an additional cost, but not against delayed delivery.	Available to hand-over to Parcelforce in the U.K.

Note: Return service is available from all three countries. Depending on the country, the shipper or the recipient is responsible for returning merchandise to the designated returns center. Generally, duties may be refunded if customers did not receive what they ordered.

<sup>a</sup>Maximum sizes vary for certain other countries in the GPL program. All packages must be large enough to accommodate the necessary labels and customs labels on the address side.

<sup>b</sup>Delivery options vary according to the destination country. For Canadian addresses in the Maritimes and extreme northern territories, delivery times could be as long as 8 days. Shippers have the option of having USPS transport parcels to a GPL processing center.

<sup>c</sup>Parcels are scanned, for tracking and tracing purposes, using the unique barcode affixed to each parcel.

<sup>d</sup>Includes Great Britain and Northern Ireland.

Source: Federal Register and USPS.

GPL parcels are processed at and exported from USPS' GPL processing centers located in New York, Chicago, Dallas, Miami, and San Francisco as well as the Air Mail Center in Seattle. GPL parcels sent to Canada are also processed at a USPS facility in Buffalo, NY. According to USPS, it is required by law to use only U.S. commercial airlines for transporting parcels overseas. In 9 of 10 GPL countries, foreign postal services deliver GPL parcels for USPS.

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## Overview of Private Express Carrier Services

Private express carriers have many different types of customers and offer various delivery services both domestically and internationally, depending upon shippers' needs. For the purposes of this review, we focused on private express services involving the shipment of parcels of a size and weight similar to GPL parcels sent to the three countries in our review.<sup>11</sup> Nevertheless, differences may exist between some features of the international delivery services provided by postal and private express carriers, such as time-definite delivery guarantees and door-to-door service, which make an exact comparison impossible. For example, private express services generally provide for guaranteed scheduled delivery within 1 to 4 business days, compared to 2 to 10 business days for delivery of GPL parcels, depending on the destination. Also, private express carriers generally have responsibility for their parcels throughout the international delivery process, but foreign postal services deliver most GPL parcels for USPS in other countries.<sup>12</sup> Differences may also exist in the tracking services available for GPL and private express parcels.

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## Volume, Value, and Weight of GPL and Private Express Parcels Shipped to Canada, Japan, and the United Kingdom in 1997

Private express carrier officials said that no published data exist on their market shares to Canada, Japan, and the United Kingdom. However, at our request, DHL, FedEx, and UPS provided data on the combined number of parcels that they shipped to Canada, Japan, and the United Kingdom in 1997, excluding documents and freight. USPS provided similar data on GPL parcels shipped to those countries in 1997.

DHL, FedEx, and UPS provided data indicating that they sent a total of about 8 million parcels to Canada, Japan, and the United Kingdom in 1997. GPL parcels represented less than 1 percent of the total number of parcels sent to Canada by the three major carriers and USPS via GPL, about 60 percent of

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<sup>11</sup>See table 1.1 for the size and weight limitations for GPL service to Canada, Japan, and the United Kingdom.

<sup>12</sup>GPL parcels are delivered in Canada by Purolator, a private express carrier that is partially owned by Canada Post.

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those sent to Japan, and about 2 percent of those sent to the United Kingdom.<sup>13</sup>

USPS and the three carriers also reported differences in the average weight and value of GPL and private express parcels. USPS reported that the average weight of GPL parcels sent to Japan, for example, was about 3 pounds; the private express carriers reported that the average weight of their parcels to Japan was about 21 pounds. Further, USPS reported that the average value of GPL parcels to Japan was about \$120; the average value of parcels shipped by the private express carriers to Japan was about \$900.

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## Overview of Customs Clearance Process

Governments generally establish export and import control laws for national security and foreign policy purposes, to generate revenue, and to protect domestic industries and their citizens. Customs organizations are typically charged with ensuring that all goods and persons entering and exiting their countries comply with customs laws and regulations, as well as with facilitating the prompt and efficient movement of international goods. To ensure compliance, customs services monitor the arrival and departure of shipments of goods through their clearance processes. The export process normally consists of seeking permission from customs services to export goods. This may involve a process of listing goods on a manifest for presentation to the customs services for export clearance. The import process involves the inspection of goods for admissibility and the assessment and collection of any applicable duties and fees.

Duties, also known as tariffs, are charges that a government imposes on the goods that are brought into the country. Using a Harmonized Tariff Schedule, each country can establish its own rates, which may vary with the type of goods and sometimes with the country of origin. In addition, fees or taxes, such as the Value Added Tax (VAT) in European Union countries, also may be assessed. Table 1.2 shows the duties and taxes applicable to imported parcels in the three countries and the United States.

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<sup>13</sup>Although we obtained data on the number of parcels sent by USPS and the three major private competitors to Canada, Japan, and the United Kingdom, parcels also may have been sent via other private express carriers and USPS services to those three countries.

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**Table 1.2: Duties and Taxes Applicable to Imported Parcels in Canada, Japan, the United Kingdom, and the United States**

	<b>Canada</b>	<b>Japan</b>	<b>United Kingdom</b>	<b>United States</b>
<b>Duty</b>	Duty on goods more than \$20 Canadian in value (about U.S. \$14 <sup>a</sup> ); rates vary by item.	Duty on goods more than ¥10,000 in value (about U.S. \$80 <sup>b</sup> ); rates vary by item.	Duty on goods from non-European Union countries more than 22 European Currency Units (ECU) in value (about £18 or about U.S. \$30 <sup>c</sup> ); rates vary by item.	Duty on goods more than \$200 in value; rates vary by item.
<b>Tax</b>	7 percent federal goods and services tax <sup>d</sup>	5 percent consumption tax	17.5 percent Value Added Tax	

<sup>a</sup>Assuming that \$1 U.S.=\$1.4 Canadian.

<sup>b</sup>Assuming that \$1=¥125. (¥ = yen)

<sup>c</sup>Assuming that \$1=£.6. (£ = British pound)

<sup>d</sup>Revenue Canada collects a harmonized sales tax on "casual goods" addressed to recipients in Nova Scotia, New Brunswick, and Newfoundland. "Casual goods" means any goods other than those imported for sale or for any commercial, industrial, occupational, institutional, or other like use. The harmonized sales tax of 15 percent comprises a federal component of 7 percent and a provincial component of 8 per cent. Revenue Canada has also signed agreements with Quebec and Manitoba to collect their provincial sales taxes on casual goods, which are 7.5 percent and 7 percent, respectively.

Note: Other taxes on specific imported commodities, such as tobacco, may apply.

Source: Canadian, Japanese, U.K., and U.S. law and customs officials.

Historically, customs clearance requirements and procedures have developed along separate tracks for postal and cargo shipments. In the United States, customs requirements for clearance of postal items are affected by a postal law (39 U.S.C. 3623) that protects certain mail of domestic origin from inspection without a search warrant. Customs treatment of international mail parcels originated decades ago, when the need to handle large volumes of international mail prompted customs and postal administrations to work closely together to simplify forms and streamline their procedures for handling mail and parcels.

According to customs officials in the United States and the countries in our review, different requirements and processes for postal and commercial imports evolved over time, and the requirements were not intended to be the same. They said that historically, more requirements have been imposed on commercial cargo than on postal parcels. Customs clearance for international mail parcels was intended to be simple for individuals sending parcels to other individuals overseas. International mail primarily consisted of written letters and low-value packages

containing items for personal consumption. International express cargo, on the other hand, tended to be time-sensitive shipments being sent from a company in one country to a company in another country for the purpose of generating revenue.

Because of the differences in the nature and value of the items entering a country by mail versus commercial cargo, most countries established different customs requirements and procedures for these two different types of shipments. However, with the development of the direct marketing industry through catalog sales and, more recently, through on-line computer orders, the historical distinctions between mail parcels and cargo have been blurred, as consumers increasingly purchase merchandise goods directly from businesses and have the goods delivered to their residences.

The Universal Postal Union (UPU), an agency of the United Nations that governs international postal service, also established customs procedures for international mail.<sup>14</sup> Under a UPU international agreement, the Universal Postal Convention, member countries are provided with a standard declaration form to prepare parcels for international shipment. On the declaration form, mailers provide information about a parcel's contents, weight, and value, as well as the mailer's and recipient's names and addresses.

Private express carriers began importing and exporting shipments into and out of the United States in the late 1960s and early 1970s as a small industry responding to the geographic dispersion of industries and organizations. Initially, the industry provided door-to-door service for documents. Cargo shipments were not part of express consignment shipments during the early years because regulatory barriers prevented rapid effective movement of packages.

During the latter 1970s, private express carriers began the practice of importing courier-accompanied parcels into the United States via commercial airlines. Initially, the U.S. Customs Service did not recognize the private express industry as a separate entity and treated private express shipments as passenger baggage or normal air cargo. In 1987, after repeated requests by the private express carriers to be treated as a separate and special industry, the Customs Service recognized the need to

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<sup>14</sup>Currently, 189 countries are UPU members, including Canada, Japan, Great Britain, Northern Ireland, and the United States. Countries that signed the Universal Postal Convention agreed to universal service obligations that include accepting mail from other countries and delivering international mail to its final destination.

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address the growing private express industry. In May 1989, U.S. Customs published regulations (19 C.F.R. Part 128) recognizing the special needs of the private express industry. These regulations provided definitions and guidelines addressing private express procedures, which included application procedures and requirements that the carriers provide advance manifest information and reimburse U.S. Customs for expedited clearances, and required the express facility to be highly automated.

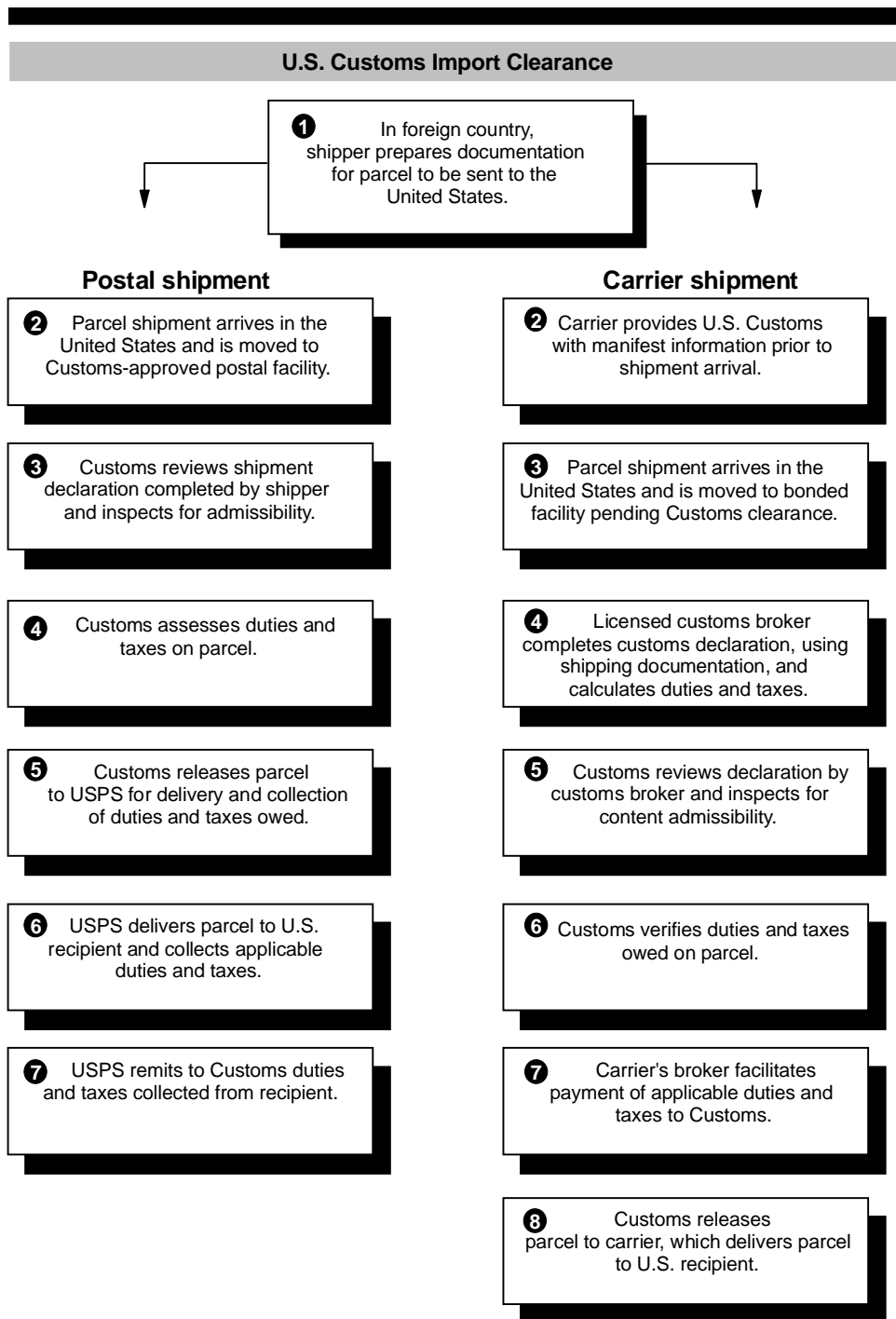
Although we will discuss differences between foreign customs clearance requirements and processes for postal and private express carrier shipments in chapter 2, figure 1.2 is a general overview of the major steps involved in U.S. Customs clearance. This general overview is intended to explain the basic steps in the customs clearance process. The differences between customs clearance requirements for postal and private carriers in the United States was the subject of a report being prepared by the U.S. Customs Service in 1998 for the House and Senate Appropriations Committees.<sup>15</sup>

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<sup>15</sup>U.S. Customs Service, A Review of Customs Treatment: International Mail and Express Consignment Shipments. As of May 15, 1998, U.S. Customs had not yet issued this report.



**Figure 1.2: Overview of U.S. Customs Import Clearance Processes for Postal and Private Express Shipments**



Source: U.S. Customs and USPS regulations.

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## Objectives, Scope, and Methodology

In 1996, we reported to the Chairman of the Subcommittee on the Postal Service, House Committee on Government Reform and Oversight, the major unresolved issues in the international mail market, including concerns about unfair competition by private carriers.<sup>16</sup> During the summer of 1997, representatives from the largest U.S. private express carriers expressed concerns to Congress about GPL, alleging that USPS (1) received preferential customs treatment, (2) used its governmental status to negotiate special arrangements with other governments, and (3) charged shipping rates that did not cover all of its operational and administrative costs for GPL service. In response to these concerns, the Chairman of the House Subcommittee on the Postal Service requested that we review several issues related to the competitiveness of the international mail market. To accommodate resource limitations, we agreed to address these issues in a series of reviews.

In this first review, our primary objective was to determine whether differences existed in the customs requirements for the portion of the international mail market involving GPL and private express carrier parcels. We agreed to review the requirements for and customs treatment of GPL and private express parcels being sent to Canada, Japan, and the United Kingdom—the three primary countries where GPL service was being provided in 1997. In this report, we also discuss some issues related to addressing concerns about GPL’s perceived competitive advantages. We did not review customs treatment of other, non-GPL international postal services, which may have differed from customs treatment of GPL parcels. Further, although other government requirements that are related to both imports and exports may apply, such as those regarding airline security and shipments of restricted and prohibited goods, the focus of this review included only customs requirements. In a separate review, we are examining issues related to the Postal Service’s role and U.S. representation in UPU. In a future review, we plan to look at issues related to the Postal Service’s pricing and allocation of costs for its GPL service.

To identify whether customs treatment differed for GPL parcels and similar private express parcels, we compared (1) the customs statutory and regulatory requirements<sup>17</sup> and (2) the operational practices and processes for importing merchandise through GPL or through private express carriers

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<sup>16</sup>See GAO’s report *U.S. Postal Service: Unresolved Issues in the International Mail Market* (GAO/GGD-96-51, Mar. 11, 1996).

<sup>17</sup>These requirements pertained only to shipments of low-value items not requiring formal customs entry. Formal customs entry is required in the United States on imports valued at more than \$1,250; in Canada, more than \$1,600 Canadian (about \$1,142 U.S.); in Japan, more than ¥100,000 (about \$800 U.S.); and in the United Kingdom, more than £2,000 (about \$3,333 U.S.).

into each of the three foreign countries. We were assisted in our analysis of the legal requirements in Japan by Dr. Sung Yoon Cho, Assistant Chief of the Far Eastern Law Division at the Library of Congress. Some of the differences in customs treatment could not be linked to written requirements. Rather, officials from the private express carriers, USPS, and foreign customs and postal services described them to us as the operational practices and processes that were followed.

To obtain detailed information about GPL service to the three countries in our review, we interviewed USPS officials responsible for implementing and administering GPL. We met with officials at the U.S. Customs Service to better understand differences in U.S. Customs clearance of postal and commercial shipments. We interviewed government officials at the Japan Postal Bureau and the Japan Customs Bureau in Tokyo and Osaka, Japan; Parcelforce and H.M. Customs and Excise officials in London; and Revenue Canada officials in Ottawa to understand the customs clearance processes and requirements in each country. We talked to officials at Purolator and PBB Global Logistics, respectively, which handle delivery and customs clearance of GPL parcels shipped to Canada. We also asked these officials to verify our descriptions of the processes and the legal citations for foreign customs clearance of imported GPL and private express parcels.

The information on private express clearance processes discussed in this report was obtained from three private express carriers (DHL, FedEx, and UPS) because they were identified as being the largest competitors with USPS for parcel delivery services to Canada, Japan, and the United Kingdom. We interviewed officials of the three private express carriers in the United States, as well as their employees involved in customs processing in Japan and the United Kingdom, to better understand their shipping and clearance processes and their concerns related to the competitiveness of these processes. In addition, we talked to representatives of other private international delivery companies, including Airborne and Global Mail Ltd., as well as the Air Courier Conference of America (ACCA), a trade association whose members are domestic and international air courier and air express companies operating in the United States, to determine if any additional concerns by USPS competitors about GPL customs treatment existed.

We also interviewed several U.S. direct marketers, including GPL customers and customers of the private express companies, to learn what factors were important to them in determining how they would export

their shipments. Finally, we interviewed officials at the U.S. Department of Commerce, the U.S. Embassy in Japan, the U.S. Chamber of Commerce in Japan, the Direct Marketing Association, and the Mail Order Association to better understand the direct marketing industry's concerns about the competitiveness of international delivery services.

To better understand customs clearance processing for GPL and commercial carrier shipments, we observed the various stages of the customs clearance processes, including the procedures involved before parcel shipments leave the United States and the procedures involved in foreign customs clearance, for both GPL and private express carrier shipments. Our visits to observe pre-export activities that occur in the United States included a U.S. mailer's facility where catalog orders are processed; a GPL processing facility at John F. Kennedy International Airport in New York; as well as the processing centers of the three major private express carriers located in Memphis, TN; Louisville, KY; and at Kennedy Airport in New York. In addition, our observations of customs clearance processes included the postal and commercial clearance facilities at Kennedy Airport in New York; Heathrow, Stansted, and East Midlands Airports in the United Kingdom; and the New Tokyo International (Narita) and Osaka Kansai International Airports in Japan.

The purpose of these visits was to obtain a basic understanding of the customs clearance process, but the visits were not intended to serve as an independent verification of whether the foreign customs clearance processes were appropriately implemented as described by foreign customs officials. Further, we did not have audit authority that would have provided access to records of foreign customs services and would have allowed us to verify the collection of duties and taxes on imported parcels from the United States. We considered options to address concerns raised by USPS competitors about whether duties and fees were being appropriately assessed on GPL packages. However, such options as sending comparable GPL and private express parcels as a test to measure differences in customs treatment or examining foreign governments' customs records were not deemed feasible for a variety of reasons, including methodological and resource limitations. Further, because GPL service currently involves only the export of parcels from the United States to other countries, we did not assess U.S. import customs clearance processes.

We did not verify data provided by USPS or the carriers. USPS provided data on the number of GPL parcels shipped to Canada, Japan, and the United

Kingdom in 1997; the number of which were dutiable; and their average weight and value. USPS also provided documentation on the payment of duties and taxes in Canada and the United Kingdom for GPL parcels in 1997. The carriers provided 1997 data on their costs of complying with requirements for shipping parcels from the United States to Canada, Japan, and the United Kingdom. In addition, the carriers provided data on the number of parcels that they sent to those three countries, as well as average parcel weight and value in 1997.

We requested comments on a draft of this report from USPS, the Department of the Treasury and U.S. Customs Service; the governments of Canada, Japan, and the United Kingdom; ACCA; DHL; FedEx; and UPS. We received written comments from three organizations—ACCA, USPS, and Revenue Canada; Treasury and U.S. Customs chose not to provide comments. The private express carriers chose to submit their comments together through ACCA's written comments. The written comments are reprinted in appendixes VI through VIII. A summary of the comments and our response are provided at the ends of chapters 2 and 3. The customs services of Canada, Japan, and the United Kingdom provided technical comments, which are incorporated throughout the report where appropriate. We did our work primarily in Washington, D.C., Japan, and the United Kingdom, as well as other locations identified in this chapter, from August 1997 through May 1998, in accordance with generally accepted government auditing standards.

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# Differences in Customs Treatment for GPL and Private Express Carrier Parcels Shipped to Canada, Japan, and the United Kingdom

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Legal differences in foreign customs treatment of postal and private express parcels existed in all three countries. Differences in foreign customs treatment of GPL and private express parcels were greatest in Japan, where private express carriers were subject to requirements regarding the preparation of shipping documentation and payment of duties and taxes for their parcels that did not apply to GPL parcels. In the United Kingdom, USPS was providing certain shipping data to the customs service on GPL parcels that were similar to the information that the carriers were required to provide. However, differences remained in the requirements applicable to importing postal and private express parcels into the United Kingdom. In Canada, GPL and private express parcels were subject to the same requirements because GPL parcels were being delivered for USPS by a private express carrier there.

Regarding two major areas of concern to the carriers, we found no evidence that GPL parcels received preferential treatment over private express parcels in terms of (1) the speed of customs clearance in all three countries and (2) the assessment and collection of applicable duties and taxes in Canada and the United Kingdom. On behalf of individual importers, USPS was paying duties and taxes on GPL parcels shipped to Canada and the United Kingdom. We were unable to determine whether duties and taxes were assessed on dutiable GPL parcels shipped to Japan because (1) USPS did not have records on payment of duties and taxes on GPL parcels shipped to Japan, because the recipients of postal parcels in Japan are responsible for paying applicable duties and taxes; and (2) Japan Customs did not provide statistics on the amount of duties and taxes that recipients paid on GPL parcels.

The delivery and customs clearance processes for GPL and private express parcels in Canada, Japan, and the United Kingdom were based primarily on the domestic import requirements applicable to mail and goods imported by private carriers in those countries. U.S. law subjected private express parcels to customs inspection prior to export, but outbound postal parcels were not subject to this requirement. Private express carriers must file manifests<sup>1</sup> on outbound parcels with U.S. Customs, which the agency uses to select certain parcels for inspection.<sup>2</sup>

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<sup>1</sup>As indicated in 19 C.F.R. 122.75, the manifests for goods transported by aircraft generally must list all cargo and, for each item, show the air waybill number or marks and numbers on the packages and identify the type of goods.

<sup>2</sup>Carriers routinely screen and inspect some of their parcels for contraband before they are presented to U.S. Customs for inspection.

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We found that the private express carriers followed similar delivery processes for shipments from the United States to the three countries in our review. Generally, the laws of the importing countries required the carriers to provide detailed data and supporting documentation on their shipments, such as air waybills, manifests, harmonized tariff codes, and invoices. The carriers were also responsible for paying applicable duties and taxes on their imported parcels. However, USPS' delivery and customs clearance processes for GPL parcels differed among the three countries. The differences reflected USPS' use of different types of GPL delivery agents, which were subject to different sets of requirements within the three countries. In Japan and the United Kingdom, GPL parcels were delivered by those countries' postal services and were treated as mail under their customs laws.<sup>3</sup> In Canada, GPL parcels were delivered by a private express company and were thus subject to Canadian customs laws that applied to private carriers for importing goods. The importing requirements for postal and private express parcels in the three countries are detailed in appendices III through V.

Different foreign legal requirements also affected how USPS handled GPL parcels being shipped from the United States to Canada, Japan, and the United Kingdom. In Japan, for example, USPS was only required to affix GPL parcels with labels containing basic customs declaration information as prescribed by UPU; the labels were generated by USPS' automated data information system, CPAS. Further, USPS was not required to calculate or pay duties and taxes on GPL parcels shipped to Japan because, under Japanese law, duties and taxes on postal parcels were calculated by Japan Customs and paid by the parcel recipients. By contrast, in the United Kingdom, USPS was providing customs information similar to that provided by private express carriers as well as calculating and paying duties and taxes owed on GPL parcels. In providing comments on a draft of this report, Japan Customs said that it was planning to introduce an import information system in cooperation with USPS similar to that used in the United Kingdom. In Canada, where GPL parcels were being delivered by a private express carrier and cleared through customs by a broker, USPS was providing customs information similar to that required from private express carriers, in addition to calculating and paying duties and taxes.<sup>4</sup>

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<sup>3</sup>Oversize GPL parcels were delivered by a private express carrier for USPS in Japan.

<sup>4</sup>In Canada, private express carriers are not required to provide international air waybills on U.S. imports. Further, invoices are not required to be provided on imports with values less than \$1,600 (Canadian) under the low-value shipment program (see p. 98).

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We reviewed the applicability of customs requirements to private express and GPL parcels shipped from the United States to Canada, Japan, and the United Kingdom by interviewing customs officials and reviewing the relevant laws and regulations. In the process, we identified 11 major categories of requirements that potentially differed between the carriers and postal services. The 11 categories, only the first of which involved U.S. law, included (1) U.S. Customs inspection of outbound parcels, (2) preparation of import shipping documentation, (3) electronic submission of shipping data, (4) use of licensed customs brokers, (5) calculation of duties and taxes, (6) the timing of payment of duties and taxes, (7) payment for customs clearance outside of regular business hours, (8) posting of bonds or other security to customs services for storage facilities, (9) retention of shipping records, (10) liability for importation of restricted or prohibited parcel contents, and (11) liability for incorrect or missing customs declarations.

Table 2.1 summarizes our findings regarding the requirements and practices in shipping GPL and private express parcels to Canada, Japan, and the United Kingdom in the 11 major categories.



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**Table 2.1: Comparison of Requirements and Practices for Shipping Parcels to GPL Destination Countries**

Requirements/practices	GPL destination countries					
	Canada		Japan		United Kingdom	
	GPL <sup>a</sup>	Private carrier	GPL	Private carrier	GPL	Private carrier
<b>Outbound inspection of shipments:</b> Outbound parcels are subject to inspection by U.S. Customs before departing the United States. <sup>b</sup>		√		√		√
<b>Import shipping documentation:</b> A manifest or list of goods must be presented to foreign customs services for import clearance.	√	√		√	□	√
<b>Entering shipping data into foreign customs services' computers:</b> Importer/broker must enter shipping data into foreign customs' computer systems for entry.				□		□
<b>Use of licensed customs brokers:</b> Importer must use licensed customs brokers to submit shipping documentation.	□	□		□		
<b>Calculation of duties and taxes:</b> Importer/broker must calculate duties and taxes to be verified by foreign customs services.	√	√		√ <sup>c</sup>	□	<sup>d</sup>
<b>Timing of payment of duties and taxes:</b> Duties and taxes must be paid or secured prior to Customs' release of shipment to delivery agent.	√	√	<sup>e</sup>	√		√
<b>Customs service charges:</b> Importer/broker must pay for customs clearance outside of regular business hours.	√	√		√	√ <sup>f</sup>	√
<b>Posting of bonds or security:</b> Importer/broker must post bonds or provide other security to customs services for storage facilities.	√	√				√
<b>Shipping records retention:</b> Importer/broker must maintain shipping records on parcels for 3 to 7 years.	√	√		√	□	√
<b>Liability for parcel contents:</b> Importer/broker is subject to liabilities for restricted or prohibited contents contained in parcels.	√	√	√	√	√	√
<b>Liability for incorrect or missing declarations:</b> Importer/broker is subject to liabilities for fines for incorrect or missing customs declarations.	√	√		√	√	√

(Table notes on next page)

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Legend:

√ Required/Applicable  
□ Practice

<sup>a</sup>GPL parcels were imported into and delivered within Canada by a private express carrier and were therefore required to meet the same customs requirements as were imports by private carriers.

<sup>b</sup>USPS officials noted that the Postal Inspection Service inspects some outgoing international parcels prior to export using search warrants.

<sup>c</sup>In practice, duties and taxes are in most cases calculated by Japan Customs' computer system, the Nippon Automated Cargo Clearance System (NACCS), on the basis of data entered by the importer/brokers.

<sup>d</sup>In the United Kingdom, most duties and taxes are calculated by H.M. Customs' computer system, the Customs Handling of Import and Export Freight (CHIEF), on the basis of data provided by the carriers.

<sup>e</sup>In Japan, recipients of postal parcels are not to receive parcels until the duties and taxes are paid.

<sup>f</sup>H.M. Customs officials said that although Parcelforce would be liable for customs clearance outside of regular business hours, customs clearance for GPL parcels is normally done during regular business hours.

Source: GAO analysis of information from customs and postal officials, laws, and regulations in Canada, Japan, the United Kingdom, and the United States.

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## Differences in Customs Treatment for GPL and Private Express Parcels Shipped to Japan

Customs treatment of GPL and private express parcels shipped from the United States to Japan was determined largely by Japanese law, which prescribed different sets of requirements for postal and private express parcels. Under Japanese law, postal parcels were exempt from the major requirements that applied to private express parcels. Also affecting customs treatment were the carriers' different valuations of certain imported goods, which provided the basis for determining the amount of duties and taxes owed.

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## Differences in Customs Requirements and Processes for GPL and Private Express Parcels Shipped to Japan

Private express carriers or their brokers were subject to significantly more requirements than were USPS and the Japan Postal Bureau in shipping their parcels from the United States to Japan. U.S. law subjected private express parcels to customs inspection prior to export, but outbound postal parcels were not subject to this requirement. Under Japanese law, the carriers or their brokers were required to provide detailed shipping documentation, calculate duties and taxes, pay or secure payment of duties and taxes before Customs' release to the delivery agent, and retain shipping records. In addition, the carriers or their brokers could be liable for fines and

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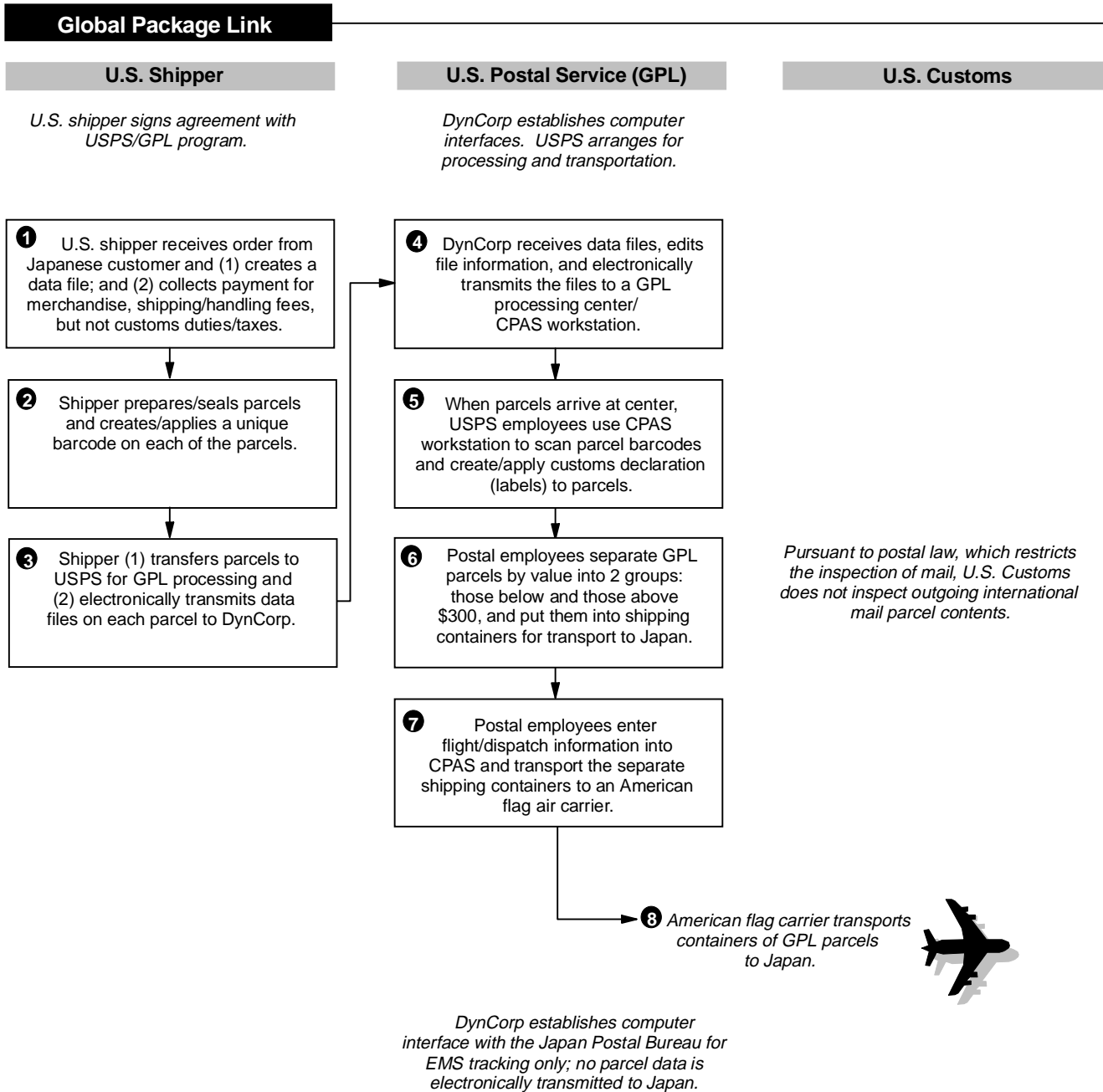
penalties regarding the importation of restricted or prohibited parcel contents and for incorrect or missing customs declarations. They also paid for customs clearance outside of regular business hours to expedite parcel clearance. Although not required to by law, the carriers entered most of their import shipping data into Japan Customs' computer system. By contrast, USPS and the Japan Postal Bureau were not subject to these requirements and practices with regard to GPL parcels, with the exception of the postal services' potential liability for restricted or prohibited parcel contents.

In shipping parcels from the United States to Japan, USPS and the private express carriers followed different delivery and customs clearance processes. A major process difference involved the delivery agents used by USPS and the carriers in Japan. USPS paid the Japan Postal Bureau to deliver GPL parcels within Japan. In comparison, employees of the three major private express carriers, or their Japanese business partners, delivered their parcels from the United States to recipients within Japan. Further, although private express parcels were typically cleared at airport facilities, customs clearance at the Japan Postal Bureau facility that received the most GPL parcels was located in downtown Tokyo, about 2 hours from the New Tokyo International (Narita) Airport, where the parcels arrived from the United States.

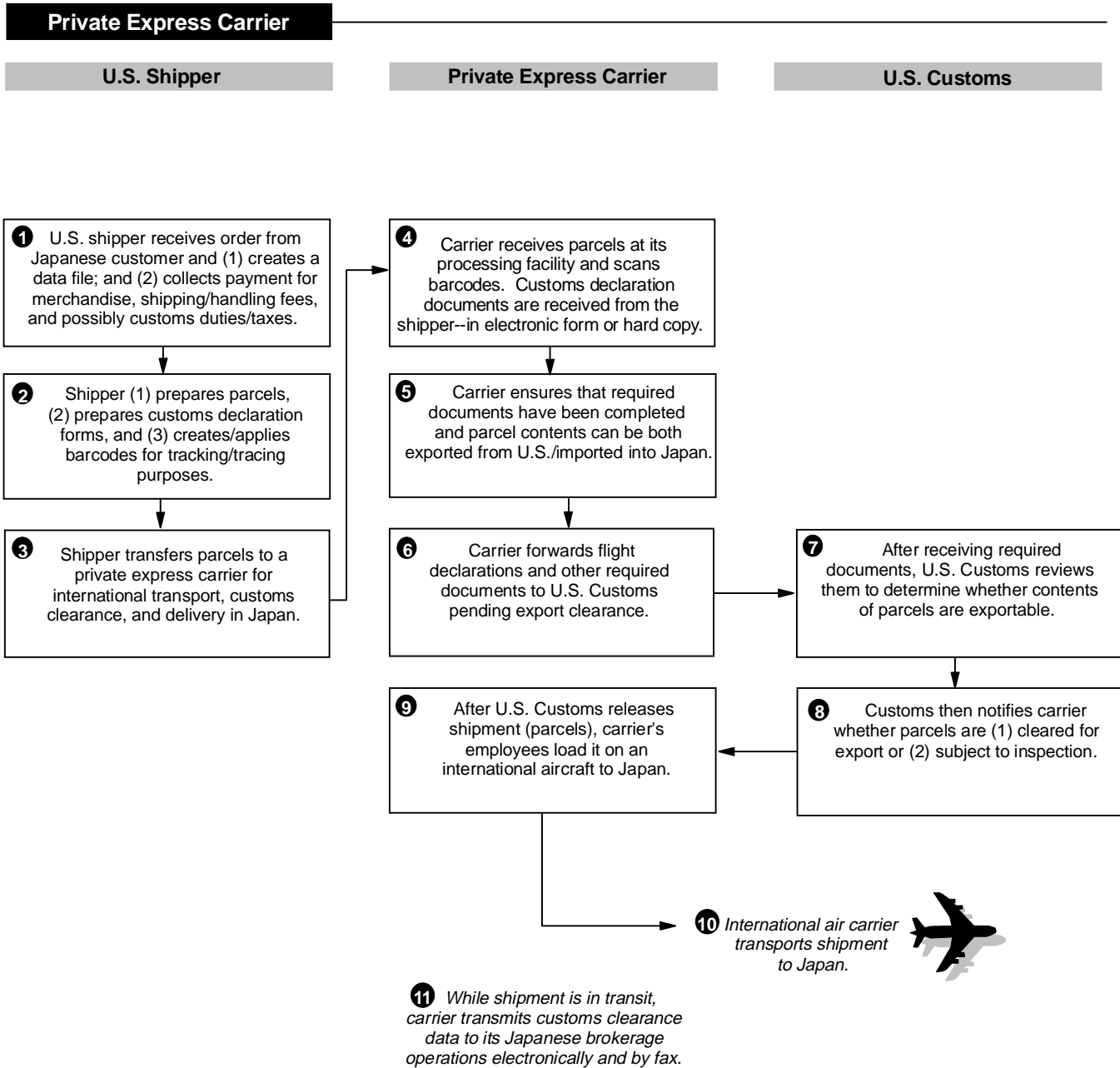
Differences in the delivery and customs clearance processes for GPL and private express parcels reflected different sets of requirements contained in Japanese law applicable to postal and private express parcels. Appendix III summarizes the Japanese laws and regulations that provide the basis for the different requirements. Figures 2.1 through 2.2 show the preparation, delivery, and customs clearance processes for GPL and private express parcels to Japan.

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**Figure 2.1: Preparation of GPL and Private Express Carrier Parcels Prior to Export From the United States to Japan**



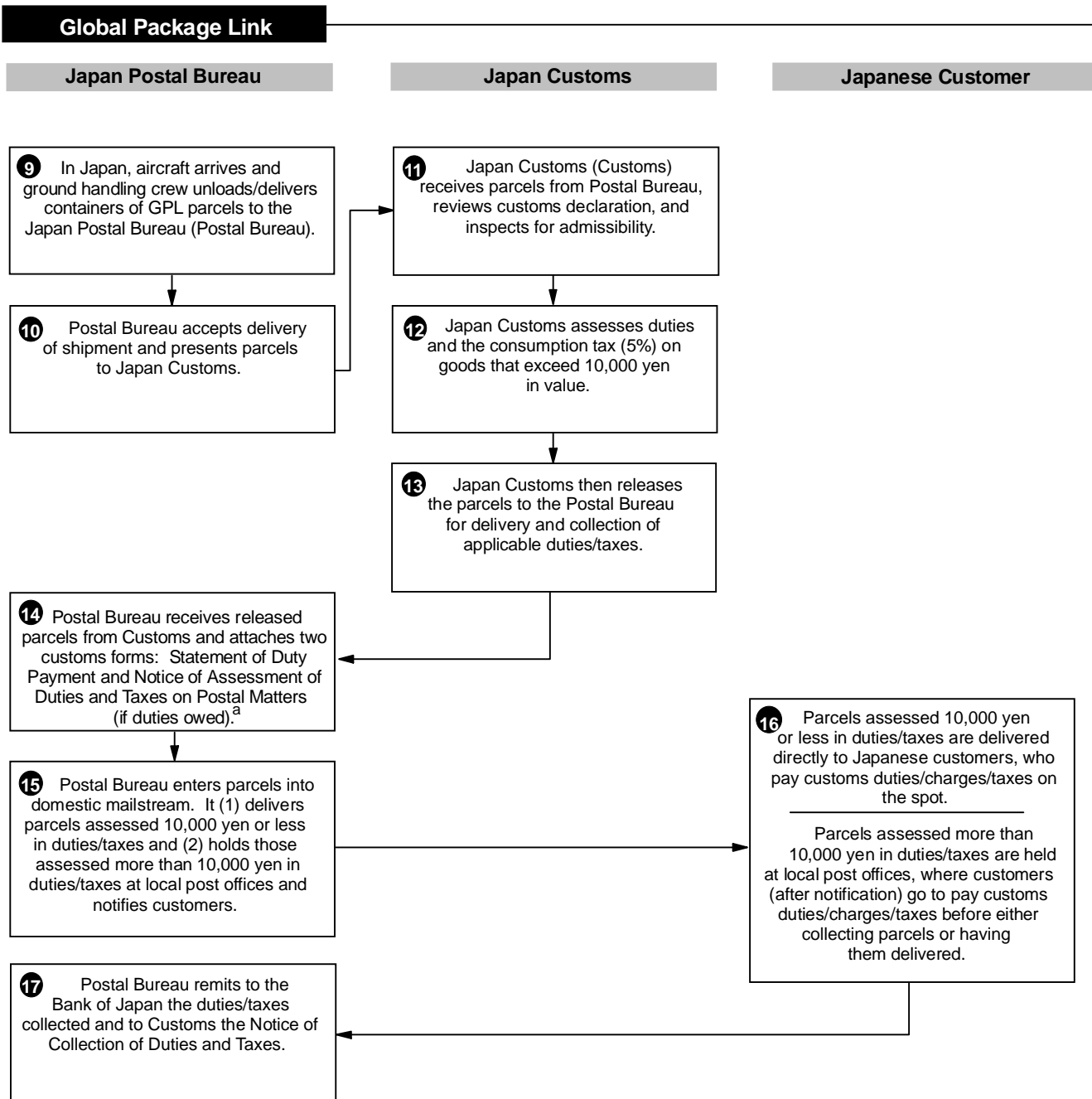
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Source: GAO analysis of information from the U.S. Customs Service, USPS, DHL, FedEx, and UPS.

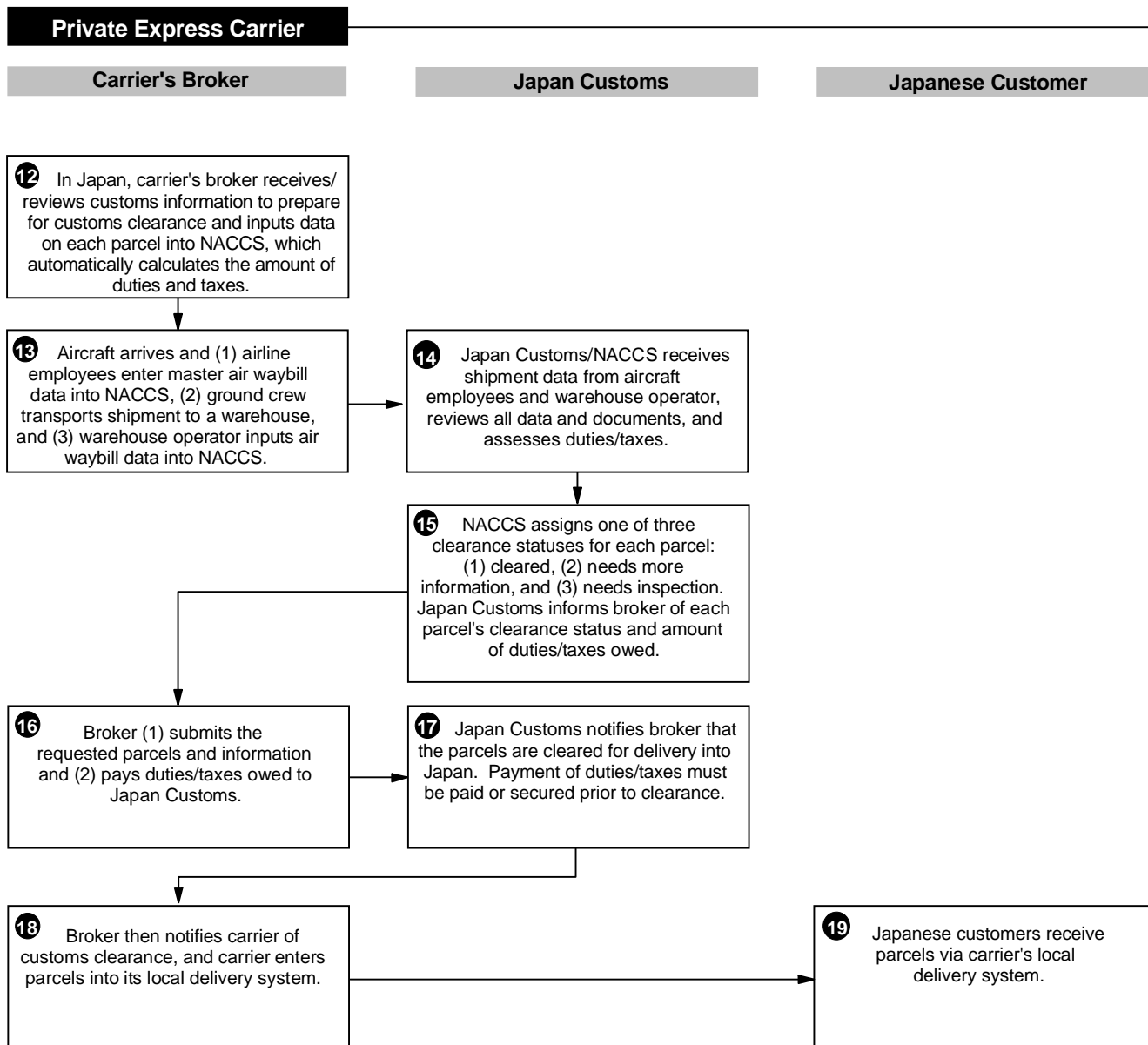
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**Figure 2.2: GPL and Private Express Carrier Parcel Delivery and Customs Clearance in Japan**



<sup>a</sup> The Postal Bureau charges a 200-yen fee for a GPL package on which duties and/or taxes are levied.

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Source: GAO analysis of information from Japan Customs, Japan Postal Bureau, USPS, DHL, FedEx, and UPS.

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A comparison of the delivery processes for postal and private express parcels in Japan illustrates the differences in the roles of brokers, who handled customs clearance for the carriers; and of the Japan Postal Bureau, which presented GPL parcels to the Japan Customs Bureau for customs clearance (see GPL steps 9 through 17 and carrier steps 12 through 19 of fig. 2.2).<sup>5</sup> The carriers were not required by law in Japan to use licensed customs brokers. However, in practice, the carriers believed it was necessary to use brokers to comply with the requirements for preparing the information needed for customs clearance, including air waybills, manifests, harmonized tariff codes, and invoices. Japanese law did not allow the Postal Bureau to act as a licensed broker. Further, Japanese law exempted the Postal Bureau from submitting documentation on its imported mail that the private carriers were required to provide.<sup>6</sup>

Under Japanese law, the carriers, on behalf of individual importers, were required to pay or secure payment of duties and taxes on imported parcels before Customs' release to the delivery agent.<sup>7</sup> In comparison, Japanese law exempted postal parcels from the requirement that importers pay duties and taxes before customs clearance. However, recipients of postal parcels were required to pay duties and taxes upon delivery at their doors or at the post office before receiving their parcels from the Postal Bureau (see step 16 of fig. 2.2 for both GPL and carriers). In addition, recipients of dutiable GPL parcels were charged a 200-yen fee<sup>8</sup> by the Japan Postal Bureau when it collected applicable duties and taxes, but recipients of private express parcels were not subject to this fee. According to Japan Customs officials, the basis for charging recipients of dutiable postal parcels a 200-yen fee is contained in provisions of the Universal Postal Convention and the International Postal Rules.<sup>9</sup>

The carriers' brokers in Japan were not required by law to enter parcel data into the Nippon Automated Cargo Clearance System (NACCS), Japan

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<sup>5</sup>The private express carrier that delivered oversize GPL parcels to Japan used a broker for customs clearance.

<sup>6</sup>Japan Customs did require that postal parcels be affixed with a customs declaration label containing information about contents and value, as prescribed under UPU. However, postal parcels were not required to be shipped with harmonized tariff codes. The Japan Postal Bureau also required USPS to provide it with information concerning the number of GPL parcels contained in a shipment.

<sup>7</sup>Japan Customs deducted duties and other import-related taxes from the carriers' bank accounts established for that purpose when the carriers operate as customs brokers. Customs also periodically bills the carriers for customs inspections outside of regular business hours.

<sup>8</sup>About \$1.60, assuming that \$1=¥125.

<sup>9</sup>Article 32 of the Universal Postal Convention and Article 85 of the International Postal Rules.



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Customs' computerized customs clearance system (step 12 of fig. 2.2 for carriers). However, to speed customs clearance, the three carriers said they entered between 70 percent to 100 percent of their import data into NACCS, which automatically calculated duties and taxes. With respect to GPL parcels, Japanese law did not require submission of postal data into NACCS. Instead, Japan Customs employees entered data on dutiable postal parcels (values and tariff codes) into a separate computer system called the Customs Overseas Mail Tax Information System (COMTIS), which determined the duties and taxes.

Brokers were required to hold the carriers' goods in facilities under the control of or approved by Japan Customs before customs clearance, but they were not required to post bonds in connection with those facilities (step 13 of fig. 2.2 for carriers). GPL parcels were held in postal facilities for customs clearance (step 10 of fig. 2.2 for GPL), and Japan Post was not required to post bonds to secure the parcels.

Japanese law also required private carriers' brokers to pay for customs clearance outside of regular business hours.<sup>10</sup> The carriers indicated that charges for customs clearance outside of regular business hours were often incurred because of limits on the number of shipments that could be cleared within an hour in Japan. Japan Customs officials said that GPL parcels were not cleared outside of regular business hours. Further, Japanese law did not subject the Japan Postal Bureau to payment for customs clearance of mail outside of regular business hours.

In addition, under Japanese law, carriers' brokers were subject to a requirement to maintain customs clearance records on their parcels for 3 years. No similar provision of law applied to records of postal items.

According to Japan Customs, Japanese law imposes fines and penalties against any persons, whether postal services or private carriers, for importing prohibited goods if they are knowledgeable about the illegal parcel contents.

A Japanese law implemented in October 1997 subjected importers in Japan to an additional 10- to 15-percent tax for filing an incorrect customs declaration, or failing to file one, without a proper reason. This law did not apply to the postal services.

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<sup>10</sup>Regulations implementing this law require that outside of regular business hours on weekdays or at other times during weekends and holidays, a fee of ¥7,800 (about \$62 at an exchange rate of ¥125 per dollar) per hour per customs official is charged from 10 p.m. to 5 a.m., and ¥7,400 (about \$59) per hour per customs official from 5 a.m. to 10 p.m.

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**Differences in Operational Practices and Processes for Shipping GPL and Private Express Parcels to Japan**

Japan Customs is responsible for calculating duties and taxes on imported postal parcels, including GPL parcels. On the other hand, private carriers or their brokers must calculate duties and taxes on their imported parcels based on applicable law. These calculations of duties and taxes by the carriers are later verified by Japan Customs. The carriers indicated that because they or their brokers calculated duties and taxes on parcels imported into Japan, their records prove they pay 100 percent of applicable duties and taxes. The carriers were concerned that they have lost direct marketers as customers because of a perception that duties and taxes were not always assessed on dutiable postal parcels in Japan.

Japan Customs officials, however, said that GPL and private express parcels received the same customs treatment. In addition, the officials said that duties and taxes were being assessed on all dutiable parcels from the United States. In providing comments on a draft of this report, Japan Customs emphasized that postal parcels, including GPL parcels, were subject to full inspection. We were unable to determine whether duties and taxes were assessed on dutiable GPL parcels shipped to Japan because (1) USPS did not have records on payment of duties and taxes on GPL parcels shipped to Japan, because the recipients of postal parcels in Japan are responsible for paying applicable duties and taxes; and (2) Japan Customs did not provide statistics on the amount of duties and taxes that recipients paid on GPL parcels.

On the basis of information provided by USPS and Japan Customs and our observations, we found no evidence that GPL parcels received preferential treatment over private express parcels with respect to the speed of customs clearance. However, because of different valuations of imported goods by private carriers or their brokers in Japan, differences existed in the amounts of duties and taxes paid on some postal and private express parcels. Finally, we were unable to determine the significance of USPS' sorting GPL parcels destined for Japan by value—a practice that we observed at USPS' GPL facility at John F. Kennedy International Airport in New York.

**Assessment and Collection of Duties and Taxes**

Japan Customs indicated that it collected 1.1 trillion yen in customs duties and 2.1 trillion yen in internal consumption taxes in 1996,<sup>11</sup> but it did not maintain specific statistics reflecting the amount of duties collected on GPL parcels or the number of dutiable parcels. USPS data indicated that about 44 percent of the GPL parcels shipped to Japan in 1997 would have been

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<sup>11</sup>About \$8.8 billion and \$16.8 billion, respectively, at an exchange rate of ¥125 per dollar.

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dutiable.<sup>12</sup> During our tour of the International Post Office in Tokyo, where many GPL parcels are processed, we observed Japan Customs officials inspecting and assessing duties on some GPL parcels.

Japanese law allowed imported goods to be valued at their wholesale, rather than retail, values if the goods were deemed to be for the personal use of the importer or were a gift to a person who is a resident in Japan and the goods were deemed to be for the personal use of the recipient of the gift.<sup>13</sup> In assessing the customs value of goods, Japan Customs officials said that imported parcels from direct marketers that are addressed to an individual, in many cases, qualified as goods deemed to be for the importers' personal use and could be valued at their wholesale, rather than retail, values. The officials said that the government's objective in assessing duties and taxes on mail-order goods based on their wholesale values was to benefit Japanese consumers.

Japan Customs officials said wholesale valuations could be applied for both GPL and private express parcels containing goods from direct marketers for the recipients' personal use, and they applied a standard 60-percent valuation of GPL parcels' retail value to calculate wholesale values. Japan Customs officials said that their formula for calculating the wholesale value of mail-order goods was not a written policy, regulation, or law. The officials said that this formula for calculating the wholesale values of goods from direct marketers was based on their review of catalogs from mail-order companies that sell similar goods. In addition, the officials said that if the information was not available, the carriers or their brokers could consult with them to calculate the wholesale value using standard profit margins.

Japan Customs officials said that because most, if not all, GPL parcels are shipped by direct marketers, after inspection they considered GPL parcels to be for personal use and assessed duties and taxes on them on the basis of their wholesale values. With regard to private express parcels, we found that the carriers were valuing certain imported goods differently, which could affect the amount of duties and taxes owed on their imported parcels. Of the three major private express carriers we contacted for this study, one carrier indicated that it was calculating duties and taxes on only imported mail-order goods on the basis of wholesale values of the goods.

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<sup>12</sup>USPS assumed that the dutiable de minimis (the value threshold at which imported goods are subject to duties and taxes) for GPL parcels in Japan was \$100 in 1997. The dutiable de minimis in Japan is ¥10,000, the equivalent of about \$80 at an exchange rate of ¥125 per dollar.

<sup>13</sup>Art. 4-6 of Japanese Customs Tariff Law, Law No. 54, April 15, 1910, as last amended by Law No. 5, March 26, 1997.

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Another said that it was using wholesale valuations for both imported mail-order goods and gifts. The third carrier was not using wholesale valuations for any of its imported goods as a basis for calculating duties and taxes.

The carriers' valuation of imported goods was important because their parcel values provided the basis for calculating duties and taxes; however, Japan Customs assessed the value and calculated duties and taxes on postal parcels. The carriers indicated that Japan Customs rarely, if ever, adjusted the carriers' calculations of duties and taxes to reflect the wholesale values of imported goods. In providing comments on a draft of this report, Japan Customs indicated that under the carriers' "self-assessment" system, private express parcels were exempt from full inspection. Further, Japan Customs indicated that under the self-assessment system, the carriers' import declarations were considered to be correct and would be adjusted only at the time of inspection.

**Speed of Customs Clearance**

We found no evidence that GPL parcels received preferential treatment by Japan Customs in terms of the speed of clearance. Indeed, it appeared that private express parcels were cleared significantly faster than were GPL parcels. According to Japan Customs, private express parcels were normally cleared in Japan within 2 hours. They also said that carriers' import requirements made it possible to clear private express parcels at the fastest possible speed. The carriers reported that customs clearance in Japan generally took between 2 and 5 hours for their parcels not held for inspection. Japan Customs officials said that it did not maintain records on customs clearance times for GPL parcels, but they also said that most GPL parcels were released to the Postal Bureau within the same day that they were received.<sup>14</sup> Data provided by USPS indicated that in 1997, clearance of GPL parcels in Japan took an average of 2.17 days.

**USPS Sorting GPL Parcels by Value**

During a tour of USPS' GPL facility at John F. Kennedy International Airport in New York, where GPL parcels are prepared for shipment to Japan, we observed USPS employees sorting GPL parcels into two categories: those with a value of \$300 or less and those with a value of more than \$300. USPS officials said that they were sorting the parcels by value at the request of Japan Post on behalf of Japan Customs, but Japan Customs officials said that they had not requested USPS to do so. In commenting on a draft of this report, Japan Customs indicated that it had requested USPS to sort the parcels by destination, but not by value. If GPL parcels arrived in Japan

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<sup>14</sup>USPS officials said that customs clearance for dutiable GPL parcels took longer than 1 day—sometimes up to 2 weeks—during the Christmas season, but that Japan Customs had agreed to provide extra resources to clear them.

sorted into those less than and those more than \$300 in value, they would not, however, be separated into those that were dutiable and nondutiable. At an exchange rate of about 125 yen per dollar, the dutiable threshold for GPL parcels would be \$133, on the basis of their wholesale valuation.<sup>15</sup> We were unable to determine the significance of this sorting practice.<sup>16</sup>

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## Differences in Customs Treatment for GPL and Private Express Parcels Shipped to the United Kingdom

The customs treatment of GPL and private express parcels being shipped from the United States to the United Kingdom was governed primarily by legal requirements applicable in the United Kingdom, which included U.K. and European Union (EU) laws and regulations. USPS' provision of certain shipping data to the customs service in the United Kingdom on GPL parcels, although not required by law, served to lessen the extent of operational differences in the treatment of postal and private express parcels in the United Kingdom. However, differences remained in the requirements applicable to imported postal and private express parcels.

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## Differences in Requirements and Processes for GPL and Private Express Parcels Shipped to the United Kingdom

As in Japan, private express carriers in the United Kingdom were subject to requirements that did not apply to postal services. In the United Kingdom, carriers or their brokers were required to pay or secure duties and taxes before customs clearance, provide security to the customs service for storage facilities, and retain shipping records. They also paid for customs clearance outside of regular business hours to expedite parcel clearance. By contrast, USPS and its delivery agent for GPL parcels in the United Kingdom were not required to pay or secure duties and taxes before customs clearance, post bonds or other security to the customs service for storage facilities, or retain shipping records, and did not normally have GPL parcels cleared outside of regular business hours. Both the carriers and the postal service in the United Kingdom were subject to liabilities for illegal parcels contents and for incorrect or missing customs declarations.<sup>17</sup>

USPS was providing electronic shipping data on GPL parcels to its delivery agent in the United Kingdom for access by Her Majesty's Customs and Excise (H.M. Customs) officials. The content of USPS' shipping data on GPL

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<sup>15</sup>¥10,000 (dutiable de minimis)/.6 (wholesale valuation)=¥16,666, or about \$133.

<sup>16</sup>The carriers have suggested that in practice, the dutiable de minimis for postal parcels in Japan is ¥30,000, or about \$240, and that they would like to be subject to the same de minimis for their imported parcels.

<sup>17</sup>H.M. Customs said that postal personnel could be held liable for illegal parcel contents in appropriate circumstances. Further, they said that the law governing incorrect and missing customs declarations could also apply to postal personnel.

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parcels was similar to that provided to H.M. Customs by the carriers on their parcels.<sup>18</sup> Further, USPS was paying duties and taxes on GPL parcels shipped to the United Kingdom. USPS officials said that they offered to follow these procedures in establishing GPL service to the United Kingdom.

USPS and the private express carriers followed different processes for delivering parcels from the United States to the United Kingdom, reflecting the use of different delivery agents. Within the United Kingdom, USPS paid Parcelforce, a for-profit subsidiary of Royal Mail, the United Kingdom's postal service, to deliver GPL parcels. By contrast, employees of the three major private express carriers delivered their parcels or contracted with local delivery companies within the United Kingdom.

Differences in the delivery and customs processes for GPL and private express parcels to the United Kingdom reflected different sets of requirements contained in EU and U.K. laws and regulations applicable to postal and private express carriers. Appendix IV summarizes these laws and regulations. Figures 2.3 and 2.4 show the preparation and delivery and customs clearance processes for GPL and private express parcels shipped to the United Kingdom.

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<sup>18</sup>USPS was not providing invoices to H.M. Customs on GPL parcels. USPS officials said that the list provided to H.M. Customs included information about parcel contents and values, which constituted an invoice.

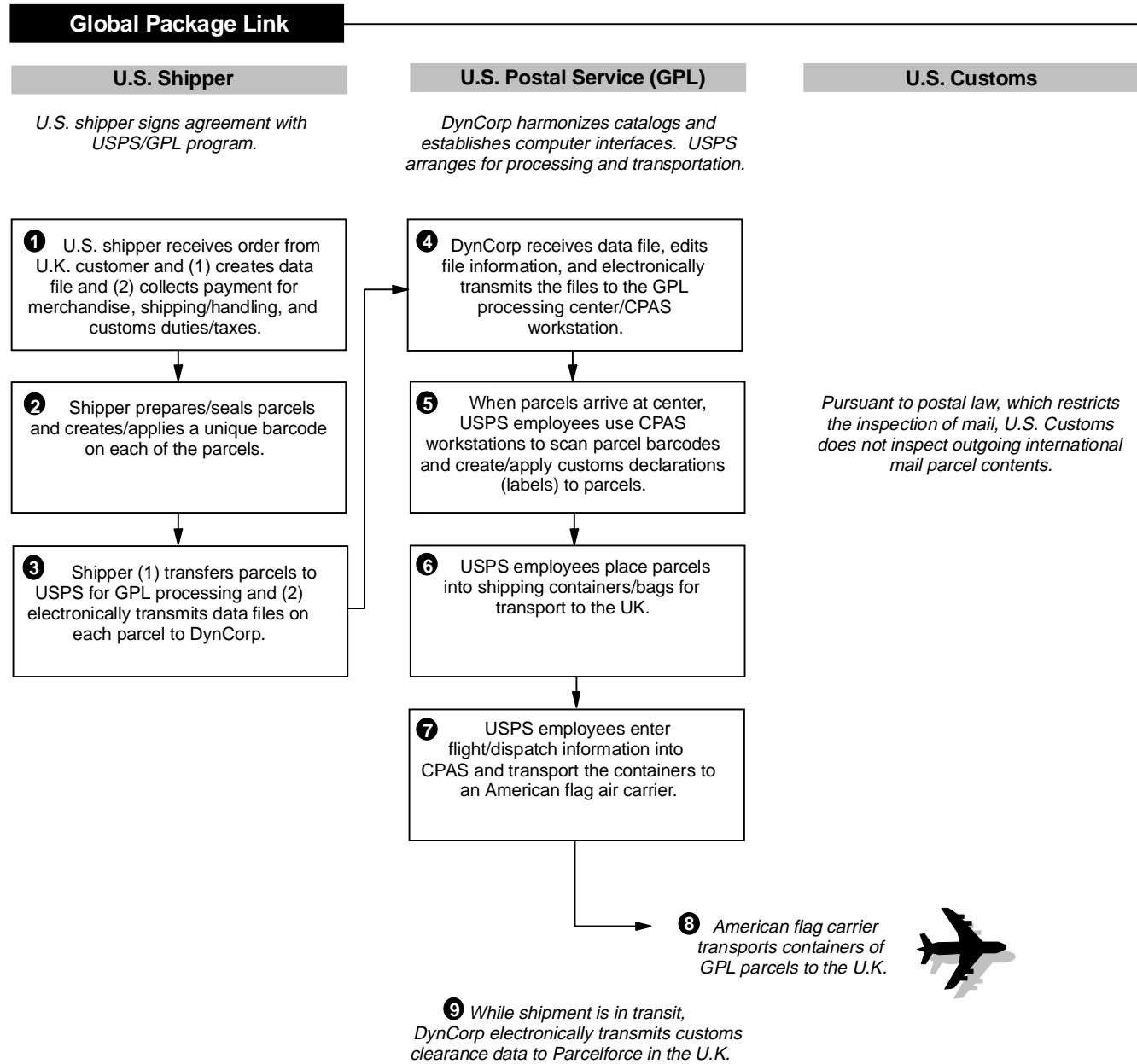
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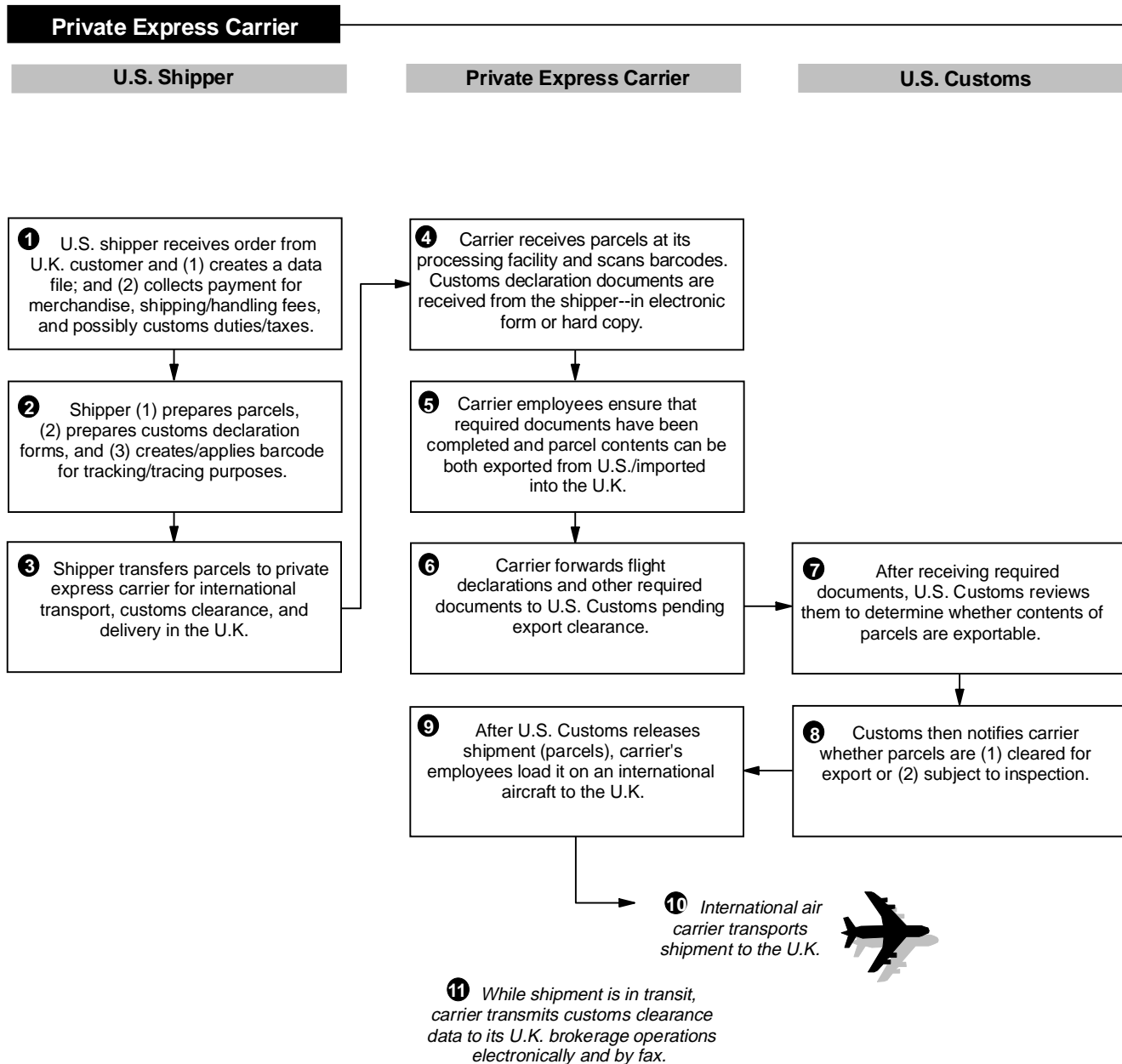
**Chapter 2**  
**Differences in Customs Treatment for GPL**  
**and Private Express Carrier Parcels Shipped**  
**to Canada, Japan, and the United Kingdom**

**Figure 2.3: Preparation of GPL and Private Express Carrier Parcels Prior to Export From the United States to the United Kingdom**





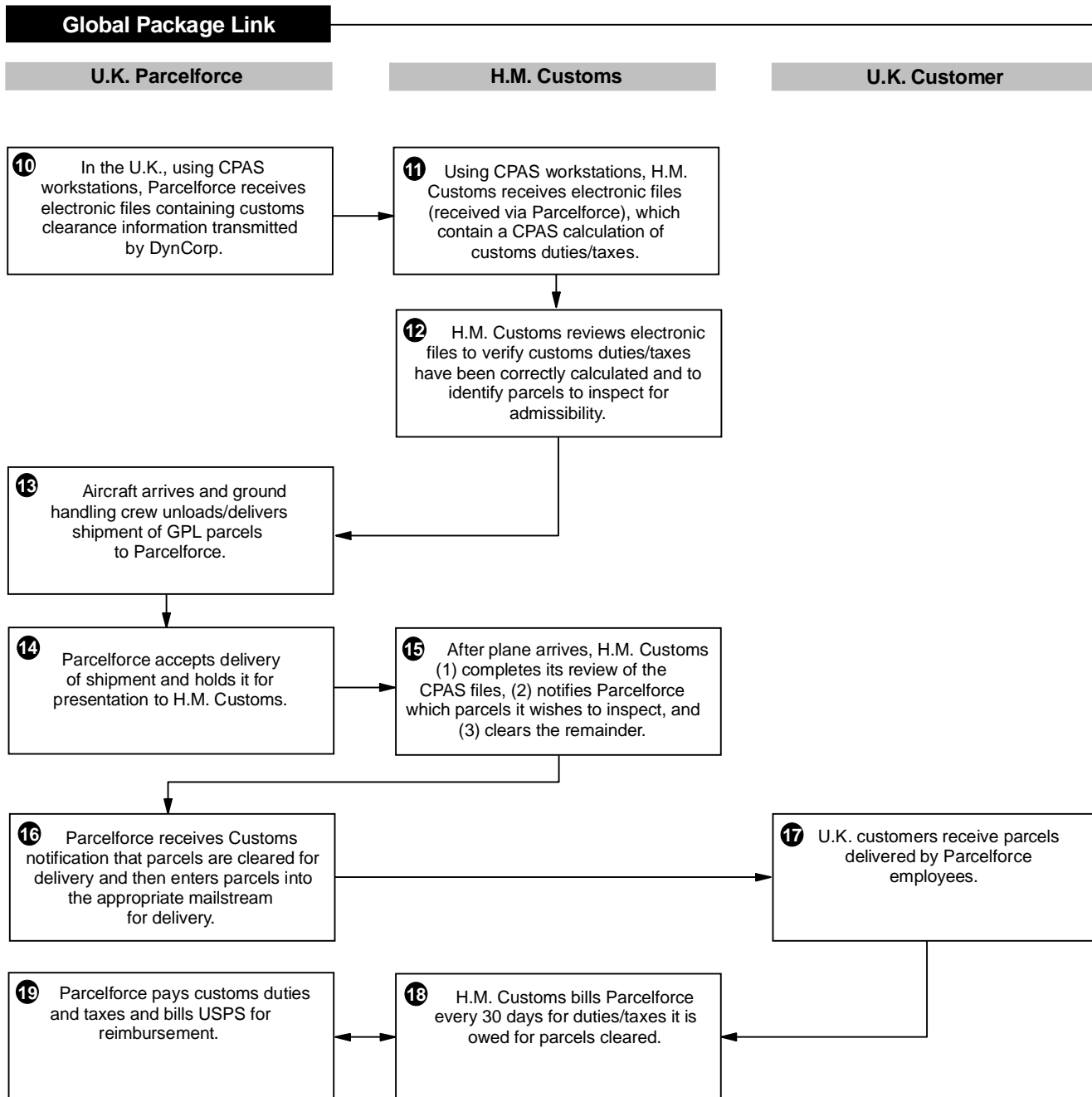
**Chapter 2  
Differences in Customs Treatment for GPL  
and Private Express Carrier Parcels Shipped  
to Canada, Japan, and the United Kingdom**



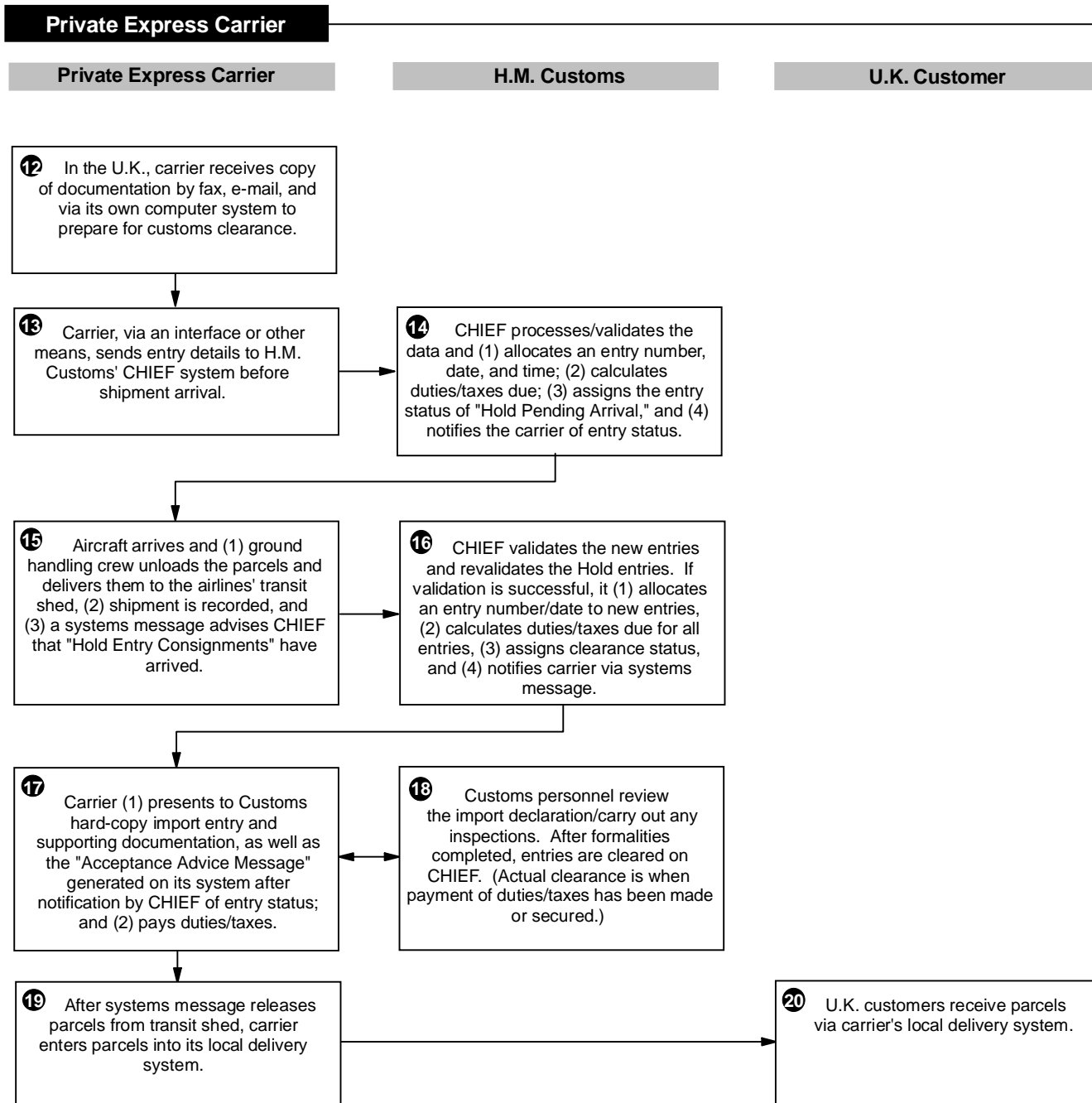
Source: GAO analysis of information from the U.S. Customs Service, USPS, DHL, FedEx, and UPS.

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**Figure 2.4: GPL and Private Express Carrier Parcel Delivery and Customs Clearance in the United Kingdom**



**Chapter 2**  
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Source: GAO analysis of information from USPS, H.M. Customs, Parcelforce, DHL, FedEx, and UPS.

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**Chapter 2**  
**Differences in Customs Treatment for GPL**  
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Although not required by law, USPS was providing data electronically to Parcelforce about GPL parcels being shipped from the United States to the United Kingdom. These data, which were accessible by H.M. Customs from Parcelforce, included the parcel contents, values, harmonized tariff codes, and an initial calculation of duties and taxes owed on GPL parcels.<sup>19</sup> The carriers were required to provide some additional documentation on their parcel shipments, including air waybills and invoices, that USPS and Parcelforce were not required to provide.

To speed customs clearance, the carriers entered most parcel data into the computer systems of H.M. Customs, although they were not required to do so. The private carriers' data were provided initially to a system called Direct Trader Input (DTI)<sup>20</sup> for reformatting and retransmitting to H.M. Customs' computer system, the Customs Handling of Import and Export Freight (CHIEF), which processed entry data. Parcelforce was not required to submit data on imported mail, including GPL parcels, to DTI or CHIEF.

Although not required by law, Parcelforce was paying duties and taxes on GPL parcels, rather than collecting payment from the recipients at the door or post office, as is the practice with other dutiable postal parcels.<sup>21</sup> Parcelforce billed USPS for the duties and taxes, and USPS collected those amounts from GPL customers. H.M. Customs billed Parcelforce monthly for duties and taxes incurred on GPL parcels. The private carriers were required to pay or secure duties and taxes before customs clearance. However, H.M. Customs officials said that in practice, most importers or their brokers have a deferment account, which allows duties to be paid by the 15th day of the following month in which the goods were imported. Further, in April 1997, the United Kingdom initiated a pilot program to simplify customs clearance procedures for some types of private express shipments, as permitted under EU law. Under these procedures, carriers have up to a month after the goods have been imported to pay duties and taxes. DHL, FedEx, and UPS were participating in this pilot program.

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<sup>19</sup>Parcelforce officials referred to USPS' data as a "list," compared to the carriers' "manifest" regarding their shipments.

<sup>20</sup>DTI is an interface between carrier/broker (trade) systems and CHIEF. The DTI system also maintains a central database that contains records of all expected/actual arrivals, which fulfills a legal requirement to report the landing of goods and their location to Customs. When an entry is sent via DTI, it is matched with the inventory record.

<sup>21</sup>Under EU law, all parcels imported from outside the EU that were more than 22 European Currency Units (ECUs) in value, about \$18, or about \$30 (\$1=£.6), were subject to duty and taxes. Parcels that were gifts valued at less than 45 ECUs, or about \$36, were duty-free.

Until the goods are cleared, H.M. Customs may require the carriers to provide security over any facility that has been approved for temporary storage. Parcelforce was not required to provide security for goods before customs clearance on GPL parcels, which were held in postal facilities until customs clearance.

Carriers were also required to maintain shipping documentation for at least 3 years and up to 4 years. Although Parcelforce was not required by law to maintain records on GPL parcels, Parcelforce officials said they planned to keep records on GPL shipments for 5 years.

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### Differences in Operational Practices and Processes for Shipping GPL and Private Express Parcels to the United Kingdom

USPS officials said that as a result of its electronic submission of shipping data to H.M. Customs, which included the values and contents of GPL parcels, as well as applicable duties and taxes, all duties and taxes were being paid on dutiable GPL parcels being shipped to the United Kingdom. USPS officials provided data indicating that over 90 percent of the GPL parcels shipped from the United States to the United Kingdom in 1997 were dutiable.<sup>22</sup> In addition, USPS provided documentation indicating that it paid duties and taxes on GPL parcels shipped to the United Kingdom in 1997.

The only apparent difference in customs treatment of postal and private express parcels in the United Kingdom related to the speed of customs clearance. USPS did not have exact data indicating how long customs clearance took in the United Kingdom, but USPS officials said that GPL parcels were normally cleared within the same day that they arrived in the United Kingdom. An H.M. Customs official said that private express parcels were cleared, on average, in 2 hours. However, the carriers said that under new simplified procedures, customs clearance occurred immediately upon arrival for certain imported goods.

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### Differences in Customs Treatment for GPL and Private Express Parcels Shipped to Canada

The treatment of GPL and private express parcels being shipped from the United States to Canada was determined by Canadian law applicable to imports of goods by private carriers into Canada. Although Canadian law prescribed different sets of requirements for postal and private express carrier parcels, USPS chose to have its GPL parcels delivered by a private express carrier in Canada. According to Revenue Canada, GPL parcels were therefore treated as goods imported by private express carriers.

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<sup>22</sup>USPS assumed that the dutiable de minimis for GPL parcels in the United Kingdom was about \$25 in 1997.

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**Differences in  
Requirements and  
Processes for GPL and  
Private Express Parcels  
Shipped to Canada**

Although GPL parcels shipped from the United States to Canada originated as mail in the United States, they were treated as private express parcels in Canada and were subject to the same requirements. These requirements included the preparation of shipping documentation, calculation of duties and taxes, posting of security for storage facilities, retention of shipping records, payment for customs clearance outside of regular business hours, and potential liability for restricted or prohibited parcel contents and for incorrect or missing customs declarations. Appendix V summarizes the Canadian laws and regulations that provide the basis for the requirements.

Figures 2.5 and 2.6 show the preparation, delivery, and customs clearance processes for GPL and private express parcels to Canada.

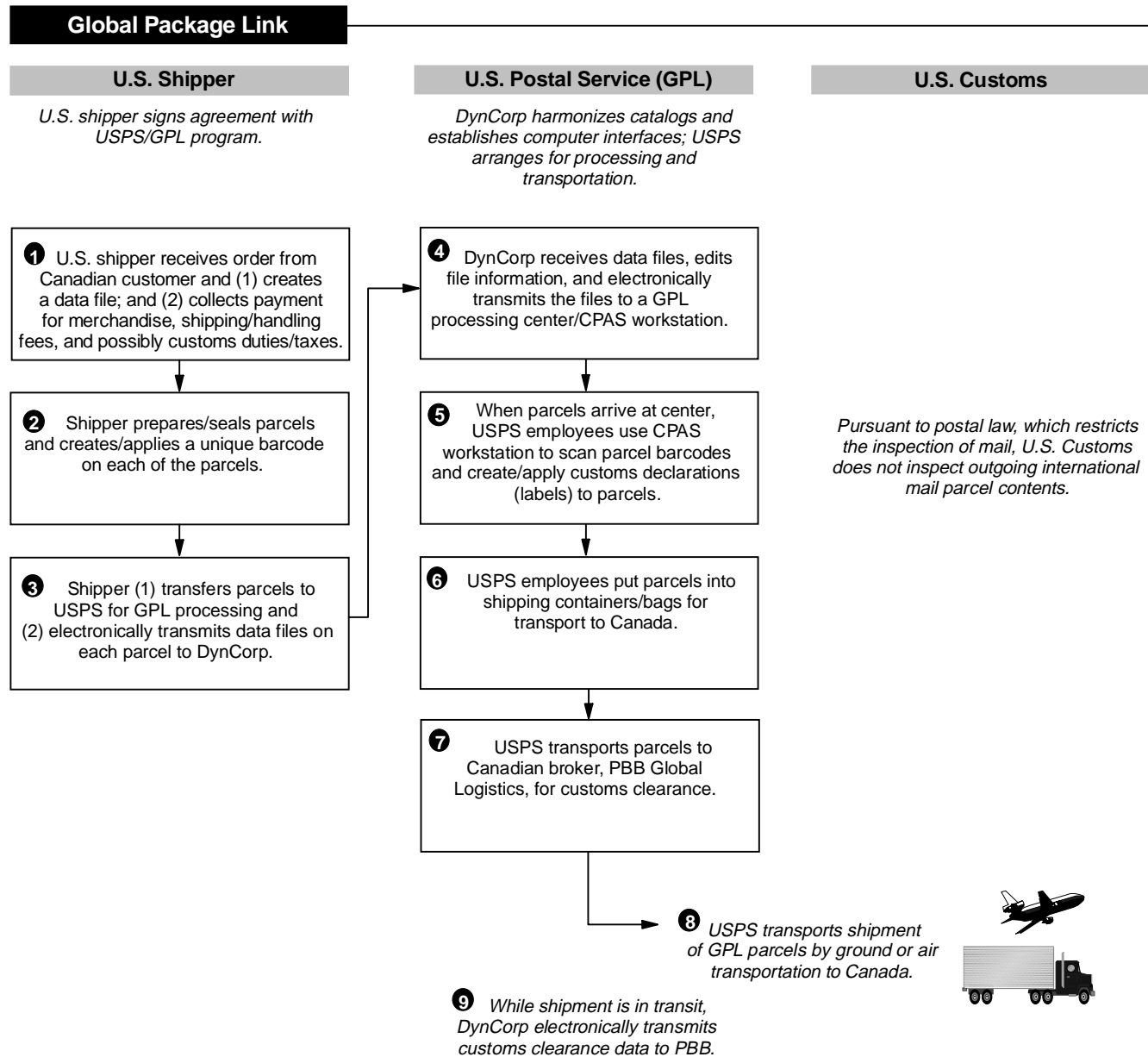
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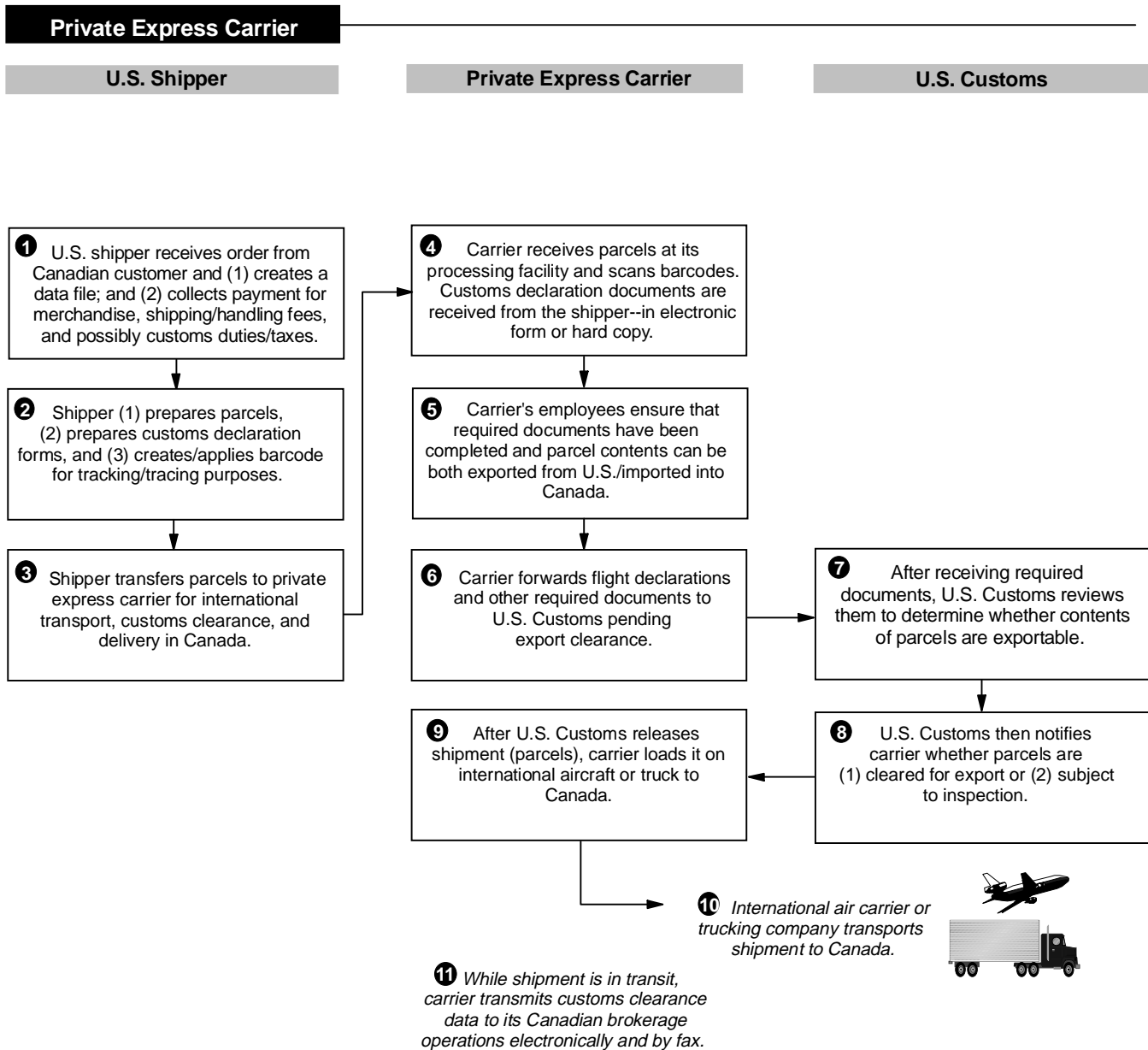
**Chapter 2**  
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**Figure 2.5: Preparation of GPL and Private Express Carrier Parcels Prior to Export From the United States to Canada**





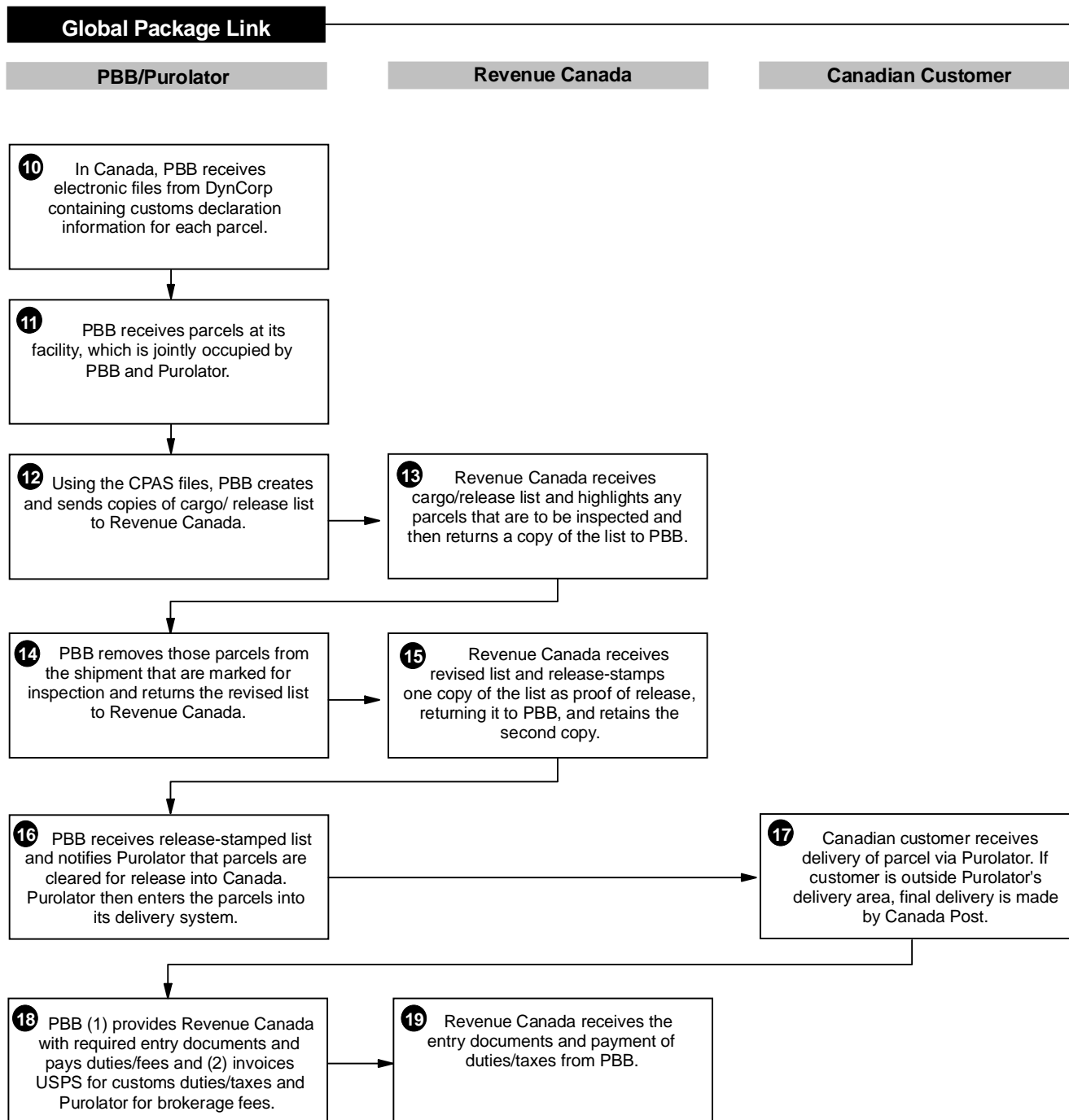
**Chapter 2**  
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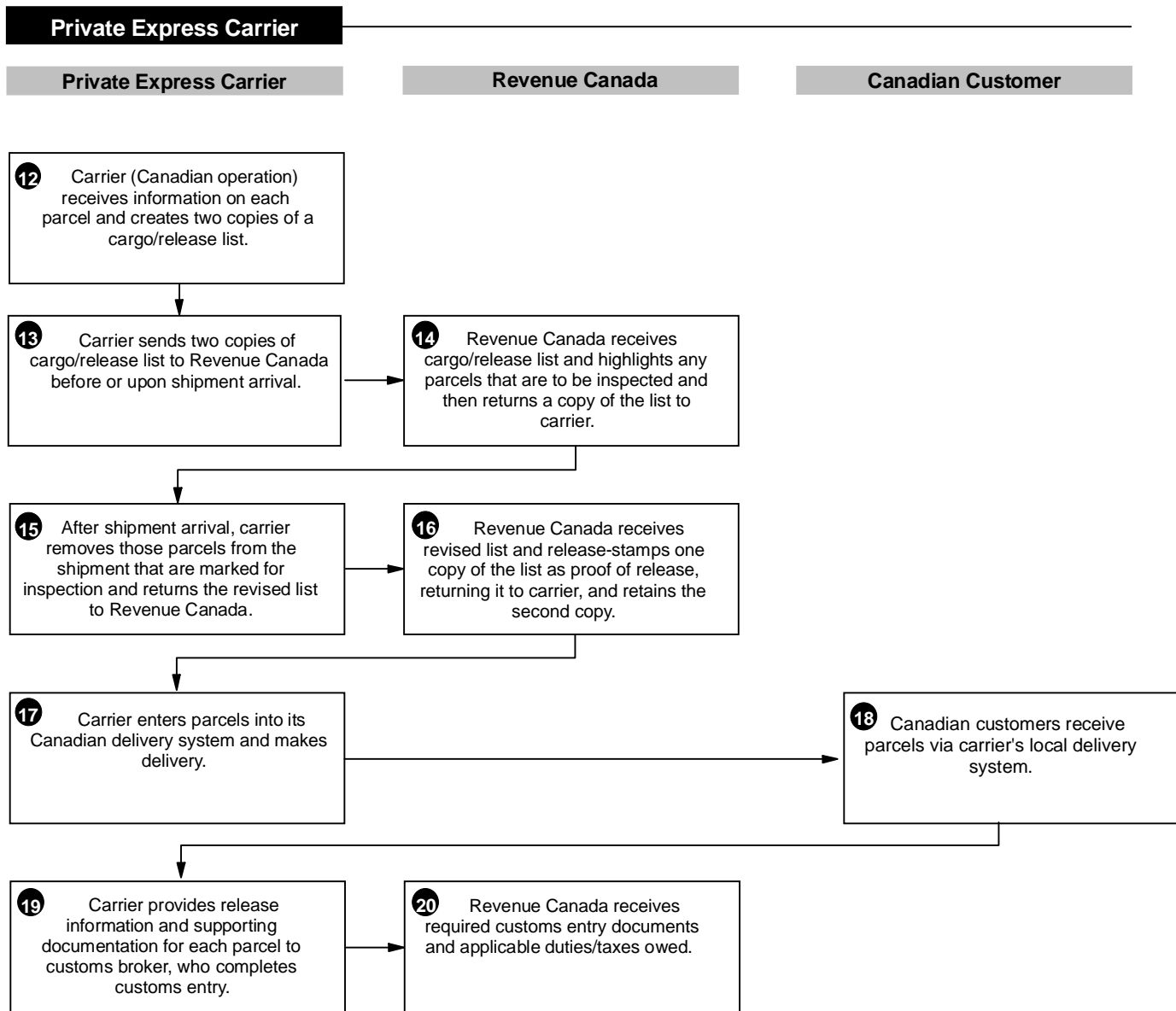
Source: GAO analysis of information from the U.S. Customs Service, USPS, DHL, FedEx, and UPS.

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**Figure 2.6: GPL and Private Express Carrier Parcel Delivery and Customs Clearance in Canada**



**Chapter 2**  
**Differences in Customs Treatment for GPL**  
**and Private Express Carrier Parcels Shipped**  
**to Canada, Japan, and the United Kingdom**



Source: GAO analysis of information from USPS, Revenue Canada, Purolator, DHL, FedEx, and UPS.

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**Chapter 2**  
**Differences in Customs Treatment for GPL**  
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According to Purolator,<sup>23</sup> the private express company that delivered GPL parcels for USPS in Canada, the only difference in the process between GPL and its other parcels was in the level of automated shipping data provided to Revenue Canada. Purolator indicated that USPS provided GPL data electronically through CPAS, but the carrier's other commercial customers provided shipping documentation in both electronic and paper format.<sup>24</sup> In addition, Purolator indicated that CPAS provided harmonized tariff codes on GPL parcels, but some of the carrier's other commercial customers did not provide the codes, requiring the broker to determine them. Revenue Canada normally charges a \$5 per parcel fee for Canada Post to collect duties and taxes on imported postal parcels, but USPS avoids this fee on GPL parcels because they are imported by a private carrier.

Purolator said that GPL parcels were being cleared through Revenue Canada's low-value shipment program, which allowed Purolator's broker to pay duties and taxes and provide harmonized codes after customs clearance on goods valued at less than \$1,600 Canadian as long as security for payment was provided.<sup>25</sup> Under this program, Revenue Canada used a manifest to clear goods immediately, and Purolator's broker could pay duties and taxes later.<sup>26</sup> USPS provided documentation indicating that it paid duties and taxes on GPL parcels shipped to Canada in 1997.

According to Revenue Canada, the recipients of imported parcels in Canada were subject to liabilities for importation of restricted or prohibited contents, and the importers or their brokers were liable for missing or incorrect customs declarations.

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**Operational Practices and**  
**Processes for Shipping**  
**GPL and Private Express**  
**Parcels to Canada**

USPS indicated that because it was submitting detailed shipping documentation to Revenue Canada, including data on duties and taxes owed, all duties and taxes on GPL parcels being shipped to Canada were being paid. According to USPS, over 95 percent of GPL parcels shipped to Canada in 1997 were dutiable.<sup>27</sup> Purolator said that customs clearance for

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<sup>23</sup>Purolator uses Canada Post to complete delivery of some GPL parcels in certain areas of Canada.

<sup>24</sup>Purolator said that its broker in Canada, PBB Global Logistics, receives the CPAS data and creates a courier manifest that is submitted to Revenue Canada containing the shipper and consignees' names and addresses and description of goods, value, country of origin, and harmonized tariff codes.

<sup>25</sup>\$1,600 Canadian is worth about \$1,143 U.S., assuming that \$1 U.S. = \$1.4 Canadian.

<sup>26</sup>Under the low-value shipment program, customs declarations can be submitted up to the 24th day of the month following the month in which the goods were released, and duties and taxes can be paid up to the last business day of the month following the month in which the goods were released.

<sup>27</sup>USPS assumed that the dutiable de minimis for GPL parcels in Canada was about \$14 U.S. in 1997.

GPL and private express parcels is the same, ranging from 1/2 hour to 3 hours. USPS did not have data on how much time customs clearance took for GPL parcels in Canada.

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## Agency Comments

The comments we received from USPS, Revenue Canada, and ACCA indicated general agreement with the facts presented in the report on the differences in the requirements and procedures for customs clearance of GPL and private express parcels in the three countries in our review. Revenue Canada said that the report correctly described the key features of its processing of GPL parcels. Although USPS and ACCA generally agreed with the differences in customs requirements and procedures we described, they had different interpretations of the differences in requirements and procedures. ACCA also believed that the review's limitations should have been more carefully explained.

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## Comments Related to Customs Treatment

In its comments, USPS said the report confirmed that no preferential customs arrangements ("sweetheart deals") benefitting the Postal Service existed and that USPS enjoys no customs clearance advantage over private express parcels. USPS said that rather than identifying sweetheart deals, the report identified different, but not better, customs processes for postal parcels, compared to private parcels. In addition, USPS said that its competitors' allegations that GPL service is fraught with unfair advantages are erroneous. USPS also agreed with the concerns of its customers that they would lose a competitive and attractive shipping option if GPL service were made unavailable.

We did not confirm that sweetheart deals did not exist, as USPS indicated in its comments. Instead, we reported that we found no evidence that GPL parcels received preferential treatment over private express parcels in two specific areas. However, we did observe some unexplained activities such as the sorting of GPL parcels bound to Japan by value at USPS' GPL processing center in New York. Neither Japan Customs nor Japan Postal officials acknowledged requesting this practice.

Although ACCA generally agreed with the stated differences in customs treatment between GPL and privately transported parcels described in the report, it suggested that additional clarification of the commercial implications of the differences in customs treatment would be helpful, such as the benefits from cost savings traceable to differences in customs treatment. As we noted in the report, differences in customs requirements

for GPL and private express parcels existed; and in some cases, there were additional requirements for the private carriers. However, we did not assess the advantages or disadvantages of these differences.

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## Comments Related to the Scope of the Review

ACCA also noted that although the study's focus on only the outbound leg of GPL's shipments was too limited and thus would not illuminate all aspects of the issue related to whether USPS has an unfair competitive advantage in providing international parcel delivery service, it was a good place to start. ACCA raised four areas of concern. First, it noted that the customs treatment of GPL parcels may not be entirely representative of all customs treatment of international postal shipments. Second, ACCA said that the report did not include customs treatment of parcels entering the United States, particularly return merchandise, which ACCA indicated was significant in terms of costs and service. Third, it stated that we did not address the extent to which differences in customs treatment may result from manipulation of international law by USPS. Further, ACCA noted several points in this chapter that it believed deserved additional clarification or research, including (1) the incidence of duty collection, (2) a simplified classification system available to postal shipments in Japan, (3) private carrier fees for customs clearance, and (4) legal requirements for GPL in Canada.

On the first issue, we were asked by the requester to focus specifically on GPL in response to concerns that the private carriers had raised regarding GPL. Thus, we did not review customs procedures related to international postal shipments other than GPL parcels, and we were not in a position to comment on the relationship between GPL shipments and other international postal shipments.

On the second issue, we asked the foreign customs officials and private carriers for information related to merchandise returns, but we did not receive enough information to discuss this issue in a meaningful way. Thus, we did not discuss this issue.

Regarding the third issue, as ACCA indicated, we are currently reviewing issues related to U.S. representation at UPU. However, we do not anticipate the review will address ACCA's assertion that UPU customs procedures are the basis for most of the differences in customs treatment identified in this report or whether USPS uses its position within UPU to manipulate customs law and practices to its advantage.

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**Chapter 2**  
**Differences in Customs Treatment for GPL**  
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We also had some scoping limitations related to some of the areas in this chapter where ACCA desired additional clarification. For example, the private carriers believed that the incidence of duty collection for GPL shipments is “substantially less than 100 percent for shipments entering Japan.” As we explain in the Objectives, Scope, and Methodology section in chapter 1, we did not have audit authority to examine the records of foreign governments to verify the incidence of duty collection. We obtained records from USPS indicating that it paid duties and taxes on GPL parcels shipped to Canada and the United Kingdom, but USPS was not responsible for duty payments in Japan. Further, as explained in chapter 1, we did not conduct a limited test of customs treatment in Japan, as suggested by ACCA, because of resource and methodological limitations. From a methodological perspective, a limited test would not produce reliable results that would be generalizable to the universe of all GPL parcels sent from the United States to Japan.

ACCA also wanted the report to call more attention to the simplified classification system in Japan, which it said was available only for postal shipments. We reported the position of Japan Customs officials that the simplified classification system applies to both postal and private carrier parcels and cited the relevant provision of Japanese law.

ACCA also stated that private carriers pay for customs clearance services outside of regular business hours in part because Customs authorities generally refuse to provide dedicated staff at private carriers’ facilities during normal business hours. We added information to this chapter that the carriers indicated that Japan Customs limits the number of parcels that can be cleared per hour. However, because we were not informed by the carriers during our visit to Japan of their concern about insufficient staffing for customs clearance, we did not discuss this matter with Japan Customs.

Finally, ACCA suggested that table 2.1 show the application of customs procedures to GPL in Canada as “practices” rather than “requirements.” We discussed this issue with Revenue Canada officials, who said that the designation should be “requirements” because, if USPS uses a private carrier as its delivery agent, it must meet the requirements for private carriers. Although ACCA is correct that USPS could choose to use Canada Post to deliver GPL parcels in Canada, we relied on Revenue Canada officials in this regard.

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# Issues Related to Addressing Differences in Requirements for Postal and Private Express Parcels

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The private express industry has commented that differences in customs clearance requirements for postal and privately shipped parcels result in more work and higher costs for the carriers, placing them at a disadvantage in competing with USPS to provide international parcel delivery service. However, USPS officials noted that they also incur costs that the private carriers do not, such as meeting their obligations to provide delivery service to persons in all communities of the United States and to member countries of UPU. In addition, businesses that ship their goods internationally, as well as USPS and the carriers, stressed the importance of having competitive choices that provide alternatives in the cost and speed of international shipping services for consumers.

The carriers have urged Congress to protect fair competition by enacting legislation that would require USPS to compete on the same terms, particularly for customs treatment, as private carriers. This proposal raises several questions related to GPL, such as (1) whether international parcels delivered by postal services and private carriers should be subject to the same requirements and customs treatment; (2) if so, what requirements might be appropriate to apply to international parcels; and (3) how those requirements should be implemented. Although we do not take a position on whether the existing requirements or a change in policy would be desirable, we discuss some potential implications that have been raised and may be relevant to considering how these options could be implemented.

Regarding the issue of whether the same customs requirements should be applied to postal and privately shipped parcels, USPS and private carrier officials have conflicting views about whether that would achieve a more “level playing field.” Additional implications of applying the same requirements include the potential effects on the costs and choices that would be available to businesses and consumers, as well as the potential impact on the workloads of U.S. and foreign postal and customs services. If the same requirements were to be applied, many ongoing national and international efforts aimed at streamlining customs procedures worldwide could benefit both USPS and the private carriers in terms of how they provide international parcel delivery services. Regarding how to implement the same requirements, the U.S. government does not have jurisdiction over foreign customs requirements; so changes involving foreign requirements might need to be negotiated through bilateral or multilateral agreements. Moreover, potential conflicts with current international agreements would have to be considered.



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## Views on Applying the Same Requirements

The carriers have urged Congress to enact legislation aimed at applying the same customs clearance requirements for USPS and the private express industry. This could be achieved in several ways, such as (1) applying the carriers' requirements to competitive international postal products, (2) allowing the carriers to follow the same requirements that apply to competitive international postal products, (3) applying simplified procedures to both postal and private express parcels, or (4) other options. In this report, we do not attempt to provide a comprehensive analysis of potential changes; but we present some of the issues in this regard that were raised by stakeholders in the course of our review.

The carriers are concerned they must incur substantial costs to comply with requirements that do not apply to USPS. At our request, DHL, FedEx, and UPS calculated that they incurred over \$110 million in costs to comply with customs requirements in connection with delivering over 8 million parcels to Canada, Japan, and the United Kingdom in 1997. The carriers indicated that they incurred these costs in the following areas: (1) preparation, transmission, and submission of shipping documentation; (2) use of licensed customs brokers; (3) bonding or other security requirements; (4) customs clearance services outside of regular business hours; (5) records retention; (6) fines and penalties; (7) liability expenses; and (8) expenses related to the payment of duties, taxes, and fees in the three countries. We did not verify the cost data provided by the private express carriers or obtain data on the costs that USPS incurred to provide GPL service. We plan to evaluate the cost issues in a later review.

In response to the carriers' concerns about the costs of complying with customs clearance requirements, USPS officials said that they must incur costs for public service obligations that the private carriers do not, such as meeting their universal service delivery obligations. USPS' universal service obligations include delivering mail to persons in all communities in the United States and mailing to the 189 countries of UPU. USPS also cited the costs of maintaining a universal delivery infrastructure, including a large number of unprofitable post offices, and offering customers uniform prices. An official from the Direct Marketing Association (DMA),<sup>1</sup> which represents direct marketers who ship their goods overseas, said that DMA members want a choice of international carriers. In addition, the DMA official said that GPL serves as an important means of simplifying the shipment of goods internationally. The DMA official also said that the advantages enjoyed by GPL customers—low-cost shipping and various

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<sup>1</sup>DMA represents more than 3,600 companies from the United States and 49 other countries that include direct marketers, such as catalogers, financial services, and publishers.

delivery speeds and automated customs clearance data—also should be available to private carriers’ customers. An official from the Mail Order Association<sup>2</sup> said that GPL was essential to serving overseas markets and that his organization would like to see GPL expanded to additional countries. Moreover, officials from several GPL customers said that simplification of the customs process and lower shipping costs were the primary reasons they used GPL to ship internationally. USPS and the carriers also stressed the importance of competitive choices for shippers.

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## **Potential Implications and Means of Applying the Same Requirements**

Determining whether and/or how to make customs requirements more similar would involve considering the implications of any changes on the postal and customs services, private express carriers, businesses, and consumers. From the perspective of customs services, these implications include the potential impact on their workload and efforts to implement simplified procedures that facilitate timely and cost-effective customs clearance while also allowing them to meet their law enforcement and revenue collection responsibilities. Also, postal services would want to ensure that they would be able to continue providing universal mail service. Implementation of the same requirements would need to address potential limitations due to lack of U.S. jurisdiction over importing requirements of other countries and existing international agreements.

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## **Potential Additional Workload Burden**

Depending upon the requirements and what types of competitive international postal products were to be treated the same as private express parcels, applying the same requirements to international postal and privately shipped parcels could affect the workload of postal and customs services worldwide, as well as individuals and businesses sending mail to the United States. If the same requirements were applied, one option would be to apply the private carriers’ requirements to USPS’ competitive international postal products; another option would be to apply USPS’ requirements to the private carriers.

Currently, private express carriers must provide U.S. Customs with manifests and supporting documentation, such as invoices, on goods imported into the United States. According to USPS, requiring foreign postal services to provide manifests and supporting documentation on parcels being shipped to the United States under the first option could be a very burdensome task. In 1996, USPS received about 714 million pieces of

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<sup>2</sup>The Mail Order Association represents four U.S. companies: L.L. Bean, Lands’ End, JC Penney, and Spiegel.

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**Chapter 3**  
**Issues Related to Addressing Differences in**  
**Requirements for Postal and Private**  
**Express Parcels**

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incoming international mail, including about 4 million parcels, most of which were sent from household to household.<sup>3</sup> USPS officials also said that most countries do not require that they be provided with manifests and supporting documentation on incoming international mail.

Further, under the first option, U.S. Customs would need to determine the potential impact on its resource allocation if all inbound and outbound international postal parcels were subject to inspection, as are all private express carriers' parcels. When we asked U.S. Customs officials what impact this could have on the agency's workload, they said this issue had not yet been fully analyzed. In a recently issued GAO report, we said that U.S. Customs does not have an agencywide process for annually determining its need for inspectional personnel for all of its cargo operations and for allocating these personnel to commercial ports of entry.<sup>4</sup> We recommended that such a process should include conducting annual assessments to determine the appropriate staffing levels for its operational activities related to processing cargo at commercial ports.

Depending on the option selected and the terms of applying the same requirements on competitive international postal products and private express carrier shipments, the implications regarding the procedures for individuals and businesses who send mail to the United States are also a consideration. Currently, senders of postal parcels to the United States affix a simple customs declaration label to the parcels. If the same requirements were imposed on competitive international postal products incoming into the United States as currently apply to privately shipped imports, individuals and businesses in other countries could be required to provide additional data not currently provided on the customs declaration labels. This data could include harmonized tariff codes, as well as supporting documentation, such as invoices, for postal parcels sent to the United States.

In providing comments on a draft of this report, the carriers said they would like to have "postal-like simplicity" applied to the customs treatment of privately transported low-value parcels. We did not receive views on the feasibility of this option during the course of our review. However, many of the same workload implications would need to be considered, such as how U.S. Customs could expeditiously clear private

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<sup>3</sup>Data on the number of pieces of incoming international mail in 1997 are not yet available. In 1997, USPS also handled about 1 billion pieces of outbound international mail, including at least 6 million parcels.

<sup>4</sup>Customs Service: Processing for Estimating and Allocating Inspectional Personnel (GAO/GGD-98-107, April 30, 1998).

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**Chapter 3  
Issues Related to Addressing Differences in  
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Express Parcels**

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express parcels while applying the requirements that apply to postal parcels.

As it plans to expand GPL service, USPS is engaged in discussions with the U.S. Customs Service regarding future incoming service. Issues being discussed include whether USPS would be required to present manifests of incoming GPL parcels and how duties and taxes would be paid. With regard to future incoming GPL service, USPS officials said that they were willing to comply with many of the same requirements that private express carriers must follow, such as preparing manifests and prepaying duties and taxes. However, they indicated that providing invoices would be unnecessary because CPAS data included parcel values. In addition, Postal Service officials did not believe that USPS, as a government entity, could be subject to the same liabilities and associated penalties as are private express carriers.

USPS officials said that they would like to see their procedures for providing shipping data electronically and paying duties and taxes in Canada and the United Kingdom applied to GPL service in other countries, including Japan. U.S. Customs' strategic plan for 1997 through 2002 indicates that the United States is experiencing a period of unprecedented growth in world trade and the value of trade imports is expected to double over the next 5 years. To handle the increased volume of trade, U.S. Customs is planning to expand the electronic transmission of data needed by Customs, as well as permit the electronic payment of duties and taxes, and take other measures.

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**National and International  
Efforts to Develop  
Efficient Customs  
Procedures**

Costs and workload burdens are a concern to all parties. Therefore, efforts to find more efficient and cost-effective customs clearance procedures could benefit all parties. International organizations and national governments are attempting to simplify and standardize customs procedures worldwide. These international efforts are relevant to the debate over whether the same and which requirements should apply to GPL and private express parcels because, as explained in chapter 2, most of the requirements that apply to parcels exported from the United States are imposed by the importing countries. All three countries in our review have initiated or implemented procedures to speed the customs clearance process and reduce the paperwork burdens on the carriers for low-value imports.

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In 1993, Canada implemented its courier/low-value shipment program to streamline the reporting, release, and accounting procedures for certain goods valued at less than \$1,600 Canadian.<sup>5</sup> Under the program, couriers report the goods to Revenue Canada on a cargo/release list, which reduces paperwork burden by eliminating the need to present a separate manifest for each parcel. Revenue Canada said it usually receives the list before the goods arrive. Prior to the arrival of goods, customs inspectors are to review the cargo/release list and select any parcels to be examined. Customs entry and accounting documentation must be presented by the 24th day of the month following the month of release, and the duties and taxes must be paid by the last business day of that month. Revenue Canada said it verifies compliance with customs laws through periodic audits of importers and customs brokers and other checks.

In 1996, Japan Customs began allowing shippers to declare imported shipments valued at no more than 100,000 yen without preparing an invoice as long as the shipper maintains import records.<sup>6</sup> In addition, carriers have the option of calculating duties on imports into Japan that are valued at no more than 100,000 yen using single duty rates that are selected from six categories, eliminating the time needed to determine specific duty rates applicable to each item.<sup>7</sup> Another new program in Japan allows shippers to clear some low-value imports on one air waybill.<sup>8</sup> We asked Japan Customs officials whether they would like USPS to provide certain shipping documentation on GPL parcels, such as harmonized tariff codes, as private carriers do. In providing comments on this report, Japan Customs indicated that it is preparing for the introduction of an import information system with the cooperation of USPS that is similar to that used in the United Kingdom.

In April 1997, the United Kingdom initiated a pilot program to simplify customs clearance procedures for some types of private express shipments.<sup>9</sup> H.M. Customs indicated that the program is aimed at reducing paperwork requirements by allowing electronic submission of customs

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<sup>5</sup>About \$1,143 U.S., assuming that \$1 U.S.=¥1.4 Canadian.

<sup>6</sup>¥100,000=\$800, assuming that \$1=¥125.

<sup>7</sup>A Japan Customs official said that under Art. 3-3 of Japan Customs Tariff Law, the simplified tariff is applicable to both postal and private express parcels imported into Japan.

<sup>8</sup>Low-value imports that qualify for consolidated customs clearance include person-to-person shipments, catalog shipments approved by Japan Customs, and company-to-company shipments that are approved and registered by Japan Customs.

<sup>9</sup>The pilot ended on January 31, 1998, and the program was adopted.

declarations. In addition, under the simplified procedures, carriers may pay duties and taxes the following month. According to the carriers operating in the United Kingdom, the new program has reduced customs clearance times for qualifying imports from about 2 hours to immediate clearance upon arrival.

At the international level, organizations such as the World Customs Organization are examining the issue of simplifying customs procedures worldwide. Similarly, a project was initiated at the 1996 G-7<sup>10</sup> summit in Lyon, France, to standardize and simplify customs procedures scheduled to be completed in 1998. Two key proposals raised at the international forums to streamline customs procedures included (1) reducing paperwork requirements on imported goods and (2) increasing the dutiable de minimis in various countries. In the three countries in our review, imported nondutiable goods were subject to reduced paperwork requirements for customs clearance. In U.S. dollars, the dutiable de minimis was the equivalent of about \$14 in Canada, about \$30 in the United Kingdom, about \$80 in Japan, and \$200 in the United States.<sup>11</sup> According to the U.S. Embassy officials in Japan, increasing the dutiable de minimis on imported goods has been the subject of ongoing negotiations between the United States and Japan. One carrier said that raising the dutiable de minimis in Japan from 10,000 yen to 30,000 yen, for example, would increase its nondutiable imports from 40 to 80 percent. Guidelines issued by the International Chamber of Commerce in 1996 regarding best practices recommended that customs services regularly review dutiable de minimis levels to take into account such factors as inflation.

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### Potential Conflicts With International Postal Agreements

The ability of the United States to apply the same international customs requirements to both USPS and the private carriers may have some limitations, due to the lack of U.S. jurisdiction over importing requirements imposed by foreign governments and potential conflicts with current international agreements on customs clearance. For example, a UPU agreement prescribes specific procedures for member postal services regarding customs declarations on postal parcels.<sup>12</sup> These procedures differ from the customs procedures that the private carriers are required

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<sup>10</sup>The G-7 countries include Canada, Germany, France, Italy, Japan, the United Kingdom, and the United States.

<sup>11</sup>Assuming that \$1 U.S. is the equivalent of about \$1.4 Canadian, ¥125, and £.6.

<sup>12</sup>Universal Postal Union Postal Parcels Agreement, Vol. 3, Art. 106.

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to follow. Further, the UPU agreement provides that “postal administrations shall accept no liability for customs declarations in whatever form these are made or for decisions taken by the Customs on examination of parcels submitted to customs control.”<sup>13</sup> If USPS were subject to the same requirements as the private carriers, this provision of the UPU agreement could conflict with a requirement to subject USPS to liabilities for customs declarations. Efforts to apply similar customs requirements may require bilateral or multilateral agreements.

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## Conclusions

The private express industry has commented that it wants Congress to establish a “level playing field” with USPS in providing international parcel delivery service by applying the same customs requirements on USPS and the carriers. Issues related to fair competition involve weighing how USPS and its private sector competitors can compete, given that different sets of requirements and obligations currently exist. The potential implications of whether to apply the same requirements, under what terms, and how to implement the same requirements for both USPS and the carriers may include a number of factors, including those raised by the U.S. and foreign postal and customs services, private express carriers, shippers, and consumers. USPS officials noted that they incur costs that the private carriers do not, such as meeting their obligations to provide delivery service to persons in all communities of the United States and to UPU member countries. The carriers noted the benefits that simplification of customs formalities for low value shipments could have for all international commerce. Moreover, businesses that ship their goods internationally stressed their need to have competitive choices that provide alternatives in the cost and speed of international shipping services for consumers.

In urging that the same international customs clearance requirements should be applied to USPS and the private carriers, the carriers have raised fundamental questions about the fairness of competing with a government entity that is providing a businesslike service. The carriers believe that competing with a government entity that is subject to fewer customs requirements and lower associated costs distorts the competitive marketplace. However, depending upon what types of competitive international postal products would be subject to the same requirements, postal services are concerned that requiring USPS and the private carriers to follow the same requirements could affect the simplified process that was intended for mail sent from household to household internationally.

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<sup>13</sup>UPU Postal Parcels Agreement, Vol. 3, Art. 41-3.

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**Chapter 3  
Issues Related to Addressing Differences in  
Requirements for Postal and Private  
Express Parcels**

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Another consideration is the potential impact on shippers, such as the direct marketing industry, who want to have a choice of different types, costs, and speeds of delivery services to respond to their customers' demands for their goods.

Determining how to make customs requirements the same would involve several considerations. Changes in U.S. law by themselves would not equalize customs treatment for postal and private express parcels under foreign law. Bilateral or multilateral agreements with other countries may also be necessary. Further, additional analysis would be needed to determine whether making customs requirements the same would conflict with current international agreements, such as those involving UPU service obligations, and if such changes would impose additional workload burdens on postal and customs services worldwide.

With respect to U.S. law, opportunities may exist to change customs treatment of parcels imported into the United States. Negotiations between USPS and the U.S. Customs Service regarding the treatment of future GPL service incoming to the United States involve discussions of such issues as manifesting requirements and payment of duties and taxes. Moreover, in considering what requirements might be appropriate, additional opportunities may exist to build on national and international proposals discussed earlier in this chapter to simplify and expedite customs clearance procedures worldwide. Such opportunities include reducing paperwork and increasing the dutiable de minimis, which could benefit both USPS and the private express carriers.

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## Agency Comments

In its comments, ACCA said that this chapter did not develop a sound and objective basis for evaluating the policy implications of the differences in customs treatment. It appears that ACCA may have misinterpreted our discussion of several issues in this chapter. We did not intend to take a position on the policy issues that are discussed in this chapter or make assumptions about the implications of changes in policy. Rather, our intent was to identify some of the key issues that are being considered by policymakers in Congress and that were raised during our review to provide some perspective on the significance of the issues related to differences in customs treatment. We modified this chapter to address ACCA's specific concerns.

ACCA raised four primary areas of concern about this chapter. First, it said our report implied that the principle of equal application of the customs



laws, as advocated by the carriers, could result in adverse consequences, such as eliminating the simplified clearance process that currently benefits U.S. shippers. In discussing the potential implications of the principle of equal application of customs laws, we were not taking a position on whether existing requirements or a change in policy would be desirable. Thus, we changed our discussion to make this clear where appropriate.

Second, ACCA said that our report assumed that a U.S. policy of equal application of the customs laws could lead foreign customs authorities to subject all postal shipments—or at least all GPL parcels—to the customs procedures now applied to privately carried shipments. In this report, we discussed options that were raised during the course of our review; however, other options could be considered. One of the possibilities raised in draft legislation was to apply the customs requirements for private carriers to all competitive international postal products. ACCA indicated in its comments that foreign governments would discover strong incentives to extend simplified customs procedures to all U.S. direct marketing shipments tendered by all U.S. carriers, provided that the carriers tender the shipments in the same manner now employed by USPS. In providing informal comments on a draft of this report, H.M. Customs said that simplified procedures already could be used by anyone fulfilling its requirements, but that customs inspectors would need shipment data in advance, or at least at the time of importation, for inspection purposes. In addition, the World Customs Organization is currently reviewing this issue.

Third, ACCA was concerned that by presenting USPS' views on its universal service obligations, our report helped to militate against a U.S. policy of nondiscrimination in customs treatment for U.S. carriers. Although we noted both USPS' stated service obligations and the carriers' business choices, we did not take positions on their respective arguments. We sought to provide a fair and balanced presentation of the often conflicting interests and opinions associated with this issue.

Finally, ACCA said that our report exaggerated the legal difficulties associated with implementing a U.S. policy requiring equal application of customs procedures to U.S. based carriers. We disagree. We only pointed out that potential limitations may exist in applying equal customs requirements, including the lack of U.S. jurisdiction over foreign customs laws. This discussion was presented not as obstacles, but as legal considerations for implementing these policies.

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# Chronology of GPL Service

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Since the U.S. Postal Service (USPS) issued a notice in the Federal Register in 1994 that it intended to initiate GPL service (formerly called International Package Consignment Service (IPCS)) to Japan, the Postal Service has made several amendments, changing Global Package Link (GPL) requirements, the type of service, and destination countries offered. Listed below is information from USPS' Federal Register notices regarding GPL, in chronological order from 1994 to the present.

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December 22, 1994

## **Implementation of International Package Consignment Service**

Action: Interim rule with request for comments.

USPS announces the implementation of IPCS, an international mail service designed for mail-order companies sending merchandise parcels to other countries. To use IPCS, customers will be required to mail at least 25,000 parcels a year to each country where it wants to use the service and agree to link its information systems with those of the Postal Service so that USPS can extract certain information about the customer's parcel contents for customs clearance and other purposes. Initially, the service will be available only to Japan. Canada is to be added later as a destination country.

Effective on December 1, 1994. (59 Fed. Reg. 65961 (1994))

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December 1, 1995

## **Implementation of International Package Consignment Service**

Action: Amendment to interim rule.

Amendment to IPCS provides an additional entry option to IPCS mailers whose plants are located more than 500 miles from the USPS processing facility at the John F. Kennedy (JFK) International Airport in New York. These mailers may now process their IPCS parcels using USPS-provided workstations to sort and prepare the parcels. USPS will then verify and accept the parcels at the mailers' plants and transport the parcels by truck to the nearest Postal Service air mail facility (AMF). From the AMF, USPS dispatches the parcels directly to Japan, bypassing the JFK facility.

Effective on September 1, 1995. (60 Fed. Reg. 61660 (1995))

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March 28, 1996

**Implementation of International Package Consignment Service**

Action: Interim rule with request for comments.

Service now available to the United Kingdom and Canada (previously available only to Japan). To use IPCS, customers are required to mail at least 25,000 parcels per year to Canada or at least 10,000 parcels a year to the United Kingdom. Two levels of service are offered to Canada, and three levels of services are offered to the United Kingdom.

Effective on March 28, 1996. (61 Fed. Reg. 13765 (1996))

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July 11, 1996

**Implementation of International Package Consignment Service**

Action: Amendment to interim rule for request for comments.

To use IPCS, customer must mail at least 25,000 parcels per year to Japan, at least 25,000 parcels per year to Canada, or at least 10,000 per year to the United Kingdom. This amendment provides an option for IPCS customers who meet the minimum mailing requirements to enter additional parcels for delivery in any other IPCS country of destination at reduced volume thresholds, specifically 5,000 parcels per year.

Effective on July 11, 1996. (61 Fed. Reg. 36500 (1996))

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July 30, 1996

**Amendment to International Package Consignment Service to Japan, Canada, and the United Kingdom**

Action: Amendment to interim rule with request for comments.

In addition to its JFK facility, USPS is adding additional IPCS processing facilities sites near the Dallas-Fort Worth International Airport and in Chicago, Miami, San Francisco, and Seattle.

Effective on July 1, 1996. (61 Fed. Reg. 39592 (1996))

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October 28, 1996

**Amendment to International Package Consignment Service to Japan, Canada, and the United Kingdom**

Action: Amendment to interim rule with request for comments

USPS announces prices for “harmonizing” mailers’ products being delivered via IPCS with customs classifications. All catalog harmonization performed by USPS for the mailer will be billed to the mailer at a rate of \$1.25 per item (including any future items added to the catalog). The mailer has the option of doing its own harmonization, provided the format used is compatible with that of USPS’ Customs Pre-Advisory System (CPAS) software.

Effective on October 30, 1996. (61 Fed. Reg. 55572 (1996))

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January 6, 1997

**IPCS Name Change to Global Package Link**

Action: Final rule.

USPS changed the name of IPCS to Global Package Link (GPL). After considering comments to its March 28, 1996, request for comments concerning interim regulations implementing IPCS, USPS adopted interim regulations as amended, without substantive modification, for service to Canada and the United Kingdom.

Effective on January 6, 1997. (61 Fed. Reg. 631 (1997))

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January 13, 1997

**Interim Rule for Global Package Link to Canada**

Action: Interim rule with request for comments.

New GPL pricing for Canada will result in reduced rates from those previously established. A new Ground Gateway GPL service is announced for Canada; Buffalo has been added as a GPL processing center for ground service only. Ground service available to any customer within a 500-mile radius of the two gateway centers—Seattle, Washington; and Buffalo, New York—and any other customer that can use a direct, existing Postal Service transportation to one of the two gateways. Also, a merchandise return service is being announced, along with prices, to any customer using GPL to Canada.

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Effective on January 13, 1997, except for the new ground gateway service from Buffalo, which became effective on January 21, 1997. (61 Fed. Reg. 1674 (1997))

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April 9, 1997

**Implementation of Global Package Link Service: Brazil, Chile, and Germany**

Action: Interim rules with request for comments.

Brazil, Chile, and Germany added as destination countries. USPS also announces that instead of the minimum volume requirements for each country to which service is available, an annual minimum volume of 10,000 parcels to all countries is established. An interim rule for establishing a merchandise return service for customers using the service to Japan and the United Kingdom is also announced.

Effective on April 9, 1997. (62 Fed. Reg. 17072 (1997))

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April 21, 1997

**Global Package Link: Harmonization services**

Action: Final Rule.

USPS will offer free catalog harmonization services for the first 2,500 catalog items presented for harmonization during first 12 months following signing of GPL agreement. Any harmonization in excess of 2,500 items for each customer and/or after the first 12 months will be charged a fee of \$1.25 per item. Mailer has the option of doing its own harmonization, provided the format used is compatible with that of the Postal Service's CPAS software.

Effective on April 21, 1997. (62 Fed. Reg. 19223 (1997))

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May 8, 1997

**Amendment to Interim Rule for Global Package Link: Japan**

Action: Amendment to interim rule with request for comments.

The number of levels of service to Japan will be changed from three to two. The discount rate structure offered Japan will be adjusted, and the name for Express Service will be changed to Premium Service. Insurance for the standard service will no longer be available.

Effective on June 8, 1997. (62 Fed. Reg. 25136 (1997))

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May 9, 1997

**Implementation of Global Package Link Service: China**

Action: Interim rules with request for comments.

People's Republic of China added as destination country. One level of service is being offered initially in China and will be available only in the cities of Beijing, Guangzhou, and Shanghai.

Effective on June 9, 1997. (62 Fed. Reg. 25515 (1997))

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August 26, 1997

**Implementation of Global Package Link Service: Mexico and Singapore**

Action: Interim rule with request for comments.

Mexico and Singapore added as destination countries. Initially, two levels of service to Mexico and Singapore are being offered.

Effective on August 26, 1997. (62 Fed. Reg. 45160 (1997))

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September 10, 1997

**Implementation of Global Package Link Service: France**

Action: Interim rules with request for comments.

France added as a destination country. Initially, one standard delivery is available to France; Premium Service is under development and will be available next year.

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Effective on September 10, 1997. (62 Fed. Reg. 47558 (1997))

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September 24, 1997

**Implementation of Global Package Link Service: Hong Kong**

Action: Interim rule with request for comments.

Hong Kong added as destination country. Initially, one level of service to Hong Kong will be offered.

Effective on September 24, 1997. (62 Fed. Reg. 49915 (1997))

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October 29, 1997

**Discount for Mailer-Provided Transportation of Parcels to GPL Facility**

Action: Interim rule with request for comments.

USPS announces a discount for mailer-provided transportation of parcels to a GPL processing facility and is adding a surcharge for USPS-provided transportation for mailers located more than 500 miles from a GPL processing facility. USPS also announced the elimination of the option for mailers to process GPL parcels.

Effective on November 28, 1997. (62 Fed. Reg. 56074 (1997))

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October 31, 1997

**Interim Rule for Global Package Link to Canada**

Action: Interim rule with request for comments.

USPS is offering Ground Courier service to Canada, called GPL Standard, and eliminating Ground Gateway Service. USPS is also offering new pricing for the GPL Standard service based on origin and destination. In most cases, new pricing is a reduction in rates previously established.

Effective on October 31, 1997. (62 Fed. Reg. 58910 (1997))

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February 25, 1998

**Increase of Maximum Size and Weight Limits to Existing Global Package Link to Japan**

Action: Interim rules with request for comments.

Current size allowances for GPL and return services to Japan will be increased to U.S. domestic limits. Customers wishing to send parcels to Japan larger than the current size restrictions—44 pounds and maximum length of 60 inches—may use GPL Premium Oversize service, an extension of GPL Premium Service, with the same attributes as that service. The Oversize service will include parcels longer than 60 inches on a side or weighing more than 44 pounds up to 70 pounds. Length/girth combined to be within 108 inches.

Effective on February 25, 1998. (63 Fed. Reg. 9420 (1998))

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March 18, 1998

**Implementation of New Market Opportunities Program**

Action: Interim rule.

USPS proposes to adopt, as an interim rule, new rates and conditions of mailing for the New Market Opportunities Program. This program is designed to meet the needs of direct mail and mail-order companies seeking to easily and cost effectively enter the international marketplace. It is available for companies who wish to test sending catalogs and merchandise to any or all of the GPL destination countries. Mailers will send catalogs using the International Surface Air Lift or VALUEPOST service and merchandise using GPL. To assist the mailers' test in these markets, USPS includes other services as part of the program, including translation of order form and company information sheet into in-country language; and advice on catalog layout, as well as mailing list companies, call centers, and other resources in the destination countries.

Effective on March 18, 1998. (63 Fed. Reg. 13124 (1998))



# Documentation for International Parcel Shipments: GPL Label, Commercial Invoice, and Air Waybill

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USPS affixes CPAS-generated mailing labels on GPL parcels. The GPL mailing labels vary slightly according to destination country and contain the data elements provided in table II.1. They also serve as customs declaration forms in the importing countries. USPS also may transmit certain information electronically via CPAS to foreign customs services, such as harmonized tariff codes, depending upon the importing country's requirements.

Private express carriers send commercial invoices and air waybills with their parcel shipments. A commercial invoice is generally considered to be an itemized list of goods shipped specifying their price and terms of sale. An air waybill, also known as a bill of lading, is a document used when goods are transported by ship or air that serves as a receipt for the shipper, indicating that the carrier has accepted the goods listed and has obligated itself to transport the shipment to the destination. The elements of commercial invoices and air waybills are listed below.

Samples of a GPL label, commercial invoice, and an air waybill are provided on the following pages.

**Appendix II  
Documentation for International Parcel  
Shipments: GPL Label, Commercial Invoice,  
and Air Waybill**

**Table II.1: Key Elements of GPL Label, Commercial Invoice, and Air Waybill**

Document element	GPL label	Commercial invoice	Carrier air waybill
Date	•	•	•
Name and address of shipper	•	•	•
Name and address of recipient	•	•	•
Country of ultimate destination	•	•	•
Description of each item in shipment	•	•	•
Number of units of each item	•	•	•
Total quantity	•	•	•
Unit value of each item (in currency of purchase)	•	•	•
Total invoice value (in currency of purchase)	•	•	•
Total weight of parcel items	•	•	•
Total number of parcels in shipment		•	•
Total weight of shipment <sup>a</sup>	•	•	•
Harmonized code for each item	b	•	•
Country of manufacture (origin) of parcel items	b	•	•
Terms of sale (e.g., C.I.F)		•	
Shipper's signature	•	•	•

<sup>a</sup>Shipment may contain multiple parcels.

<sup>b</sup>Harmonized codes, country of manufacture, and country of origin are provided electronically to Purolator/PBB in Canada and Parcelforce in the U.K. although they are not included on the GPL label.

Source: GAO analysis of information provided by DHL, FedEx, UPS, and USPS.

**Appendix II  
Documentation for International Parcel  
Shipments: GPL Label, Commercial Invoice,  
and Air Waybill**

**Figure II.1: GPL Label for Japan**

The diagram shows a USPS GPL label for Japan with the following sections and annotations:

- Recipient Address (Top Left):** お届け先おなまえ 備考 EMS. John Smith-San, 183 River-Park-Izumi, 2-23-18 Izumi, Higashi-Ku, Japan.
- Sender Address (Middle Left):** お届け先おなまえ 受領印または署名. John Smith-San, 183 River-Park-Izumi, 2-23-18 Izumi, Higashi-Ku, Japan.
- Customs Declaration (Top Right):** (通関料) and (税額) 円.
- Delivery Date (Middle Right):** 配達・交付 月 日 時 分 円.
- Sort Zone (Right):** SORT ZONE: OSA JAPAN. An arrow points to this area with the label "Country of ultimate destination".
- USPS Logo and Service (Bottom Left):** United States Postal Service.
- From (Shipper):** USPS Customer, 5191 Stevenson Avenue, Alexandria, VA 22304, U.S.A. An arrow points to this field with the label "Name and address of USPS shipper".
- To (Recipient):** John Smith-San, 183 River-Park-Izumi, 2-23-18 Izumi, Higashi-Ku, Japan. An arrow points to this field with the label "Name and address of recipient".
- Sender's Instruction:** If undeliverable Return to:  Sender.
- Weight:** 3 lbs 2 ozs. An arrow points to this field with the label "Total weight".
- Itemized Contents Table:**

No	Qty	Itemized Contents	Unit (US\$)	COO
1	1	Coffee Mug	14.99	US
2	1	T Shirt 100% Cotton	14.99	US
- Signature of Sender:** USPS Customer. An arrow points to this field with the label "USPS shipper's signature".
- Total Value (US\$):** \$29.98. An arrow points to this field with the label "Total value".
- Bottom Section:** GPL logo and barcode EE109946725US.

Source: USPS.

**Appendix II  
Documentation for International Parcel  
Shipments: GPL Label, Commercial Invoice,  
and Air Waybill**

**Figure II.2: Commercial Invoice**

<b>COMMERCIAL INVOICE</b>							
INTERNATIONAL AIR WAYBILL NO. <span style="border: 1px solid black; padding: 2px;">0000-0000-0000</span>							
DATE OF EXPORTATION <b>May 15, 1998</b>				EXPORT REFERENCES (I.e., order no., invoice no.) ORDER NO. <b>0000001</b>			
SHIPPER/EXPORTER (complete name and address) <b>U.S. Shipper Company ABC 6101 Stevenson Ave., Alexandria, VA U.S.A. 22304</b>				CONSIGNEE (complete name and address) <b>John Smith 103 River - Park - Izumi 2-23-18 Izumi Higashi-Ku, Japan</b>			
COUNTRY OF EXPORT <b>U.S.A.</b>				IMPORTER Ñ IF OTHER THAN CONSIGNEE (complete name and address)			
COUNTRY OF MANUFACTURE (see below)							
COUNTRY OF ULTIMATE DESTINATION <b>Japan</b>							
MARKS/NOS.	NO. OF PKGS.	TYPE OF PACKAGING	FULL DESCRIPTION OF GOODS	QTY.	WEIGHT	UNIT VALUE	TOTAL VALUE
1 box as addressed	1		Coffee Mug H.S. No.: 0000.2	1	1 lb. 2oz.	\$14.99 (U.S.\$)	\$14.99 (U.S.\$)
			T Shirt (100% Cotton) Size 10 H.S. No.: 0000.5 Country of Manufacture: U.S.A.	1	1lb.	\$14.99 (U.S.\$)	\$14.99 (U.S.\$)
	TOTAL NO. OF PKGS. <b>1</b>			TOTAL QTY. <b>2</b>	TOTAL WEIGHT <b>3lbs. 2oz.</b>		TOTAL INVOICE VALUE <b>\$29.98 (U.S.\$)</b>
<p>FOR U.S. EXPORT ONLY: THESE COMMODITIES WERE EXPORTED FROM THE UNITED STATES IN ACCORDANCE WITH THE EXPORT ADMINISTRATION REGULATIONS. DIVERSION CONTRARY TO UNITED STATES LAW IS PROHIBITED.</p> <p>WE CERTIFY ALL THE INFORMATION CONTAINED IN THIS INVOICE TO BE TRUE AND CORRECT.</p> <p>SIGNATURE OF SHIPPER/EXPORTER (Type name and title and sign) _____ DATE <b>May 15, 1998</b></p> <p>(U.S. Shipper Signature Goes Here)</p>							
						Check One <input type="checkbox"/> F.O.B. <input type="checkbox"/> C & F <input type="checkbox"/> C.I.F.	

Source: GAO-generated.

**Appendix II  
Documentation for International Parcel  
Shipments: GPL Label, Commercial Invoice,  
and Air Waybill**

**Figure II.3: Air Waybill**

**1 From (please print and press hard)**

Date: **05/15/98** Sender's Account Number: **000-00005** Origin: U.S.A. Destination: Japan

Sender's Name: **U.S. Shipper** Phone: **(703) 000-0000**

Company: **Company ABC**

Address: **6101 Stevenson Avenue**

City: **Alexandria** State/Province: **VA**

Country: **USA** ZIP/Postal Code: **22304**

**2 Your Internal Billing Reference Information** **0000001**

**3 To (please print and press hard)**

Recipient's Name: **John Smith** Phone: **(000) 000-0000**

Company:

Address: **103 River Park - Izumi** Dept./Floor:

Address: **2-23-18 Izumi**

City: **Higashi-Ku** State/Province:

Country: **Japan** ZIP/Postal Code:

Recipient's I.D. number for Customs purposes (e.g. IN/VAT/EIN or as locally required):

For HOLD check here  For Saturday Delivery check here

**4 Shipment Information**

Total Packages: **1** Total Weight: **3 lbs. 2 oz.**  lbs.  kgs.  DIM Weight  lbs.  kgs.

Commodity Description	Harmonized Code	Country of Manufacture	Value for Customs
<b>1 Coffee Mug</b>	<b>0000.2</b>	<b>USA</b>	<b>\$14.99</b>
<b>1 T-Shirt (100% Cotton)</b>	<b>0000.5</b>	<b>USA</b>	<b>\$14.99</b>

Total Declared Value For Carriage: **\$29.98** Specify Currency: **USD** Total Value For Customs: **\$29.98**

For Harmonized Code #s over U.S. \$2,500 or those which require a U.S. Dept. of Commerce Valuation Export License, attach a completed Shipper's Export Declaration form and check here.  If filing by SEC 90.39 FTSR, no SED required, however, fill in CAS or SAS.

Cannot estimate Customs charges. All shipments can be subject to Customs charges.

**5 Broker Selection** Not available to all destinations  International Broker Select

Broker's Name: \_\_\_\_\_

City/State/Province/Country: \_\_\_\_\_

ZIP/Postal Code: \_\_\_\_\_ Phone: \_\_\_\_\_

**6 Service** Not all services available to all destinations  International One-Day  International Priority  International Economy  International Standard

**7 Packaging**  Letter  Pack  Other

**8 Special Handling** Not all options available to all destinations

Does this shipment contain dangerous goods? (One box must be ticked)  No  Yes (See attached Shipper's Declaration)  Yes (Shipper's Declaration not required)

Tick here if goods are not in free circulation and provide C.E. (For EU only)

CA  Cargo Aircraft Only  2b  Dry Ice (Dry Ice, 9 UN 1845) \_\_\_\_\_ x \_\_\_\_\_ kg.

**9 Payment** TRANSPORTATION CHARGES PAID BY: (Enter account no. or Credit Card no. below)

Sender  Recipient  Third Party  Credit Card  Cash/Check

Account No. \_\_\_\_\_ Exp. Date \_\_\_\_\_

Card No. \_\_\_\_\_

DUTIES AND TAXES PAID BY (cannot estimate Customs charges)

Sender  Recipient  Third Party

Account No. \_\_\_\_\_

Total (Excludes Customs charges) \_\_\_\_\_ Specify Currency: \_\_\_\_\_

**10 Required Signature**

By giving us your shipment, you agree to the conditions on the back of this Non-Negotiable Air Waybill. Certain international treaties, including the Warsaw Convention, may apply to this shipment and limit our liability for damage, loss or delay, as described in the Conditions of Contract. WARNING-These commodities, technology or software were exported from the United States in accordance with the Export Administration Regulations. Diversion contrary to U.S. Law prohibited.

Sender's Signature: **U.S. Shipper** Date Executed: **05/20/98**

This is not authorization to deliver this shipment without a recipient signature. Use of this Air Waybill constitutes your agreement to the Conditions of Contract on the back of this Air Waybill. The terms and conditions of service may vary from country to country. Consult our local office for specific information.

Courier Receipt: \_\_\_\_\_ Date: \_\_\_\_\_ (For Letter or Credit shipments only)

Tracking Number: **00000 000 00**

**Private Express Carrier International Air Waybill**

For all U.S. Export Shipments and Shipments between the U.S. and Puerto Rico

Source: GAO-generated.

# Legal Requirements for Importing Parcels Into Japan

We reviewed Japanese customs laws and regulations for importing postal and private express parcels into Japan. Our primary source was Japan Laws and Regulations Concerning Customs Duties and Customs Procedures, Rev. 2, published by the Japan Tariff Association (1990). In addition, at our request, a Japanese law expert from the Library of Congress researched applicable Japanese customs laws and regulations, as well as related legal commentary. Following our review, Japan Customs officials reviewed our compilation of requirements, and we made changes where needed.

**Table III.1: Legal Requirements for Importing Parcels Into Japan**

Customs requirements	Laws and regulations applicable to postal parcels	Laws and regulations applicable to private express carrier parcels
A. Import shipping documentation: A manifest or list of goods must be presented to foreign customs services for import clearance.	Not required  Art. 18, para. 2, of Customs Law exempts postal articles from requirement to present cargo manifest. See also 1 Kanzei Hoki Seikai 280 (commentary on Customs law, Tokyo, Nihon Kanzei Kyokai, 1992). However, Article 3101 of the Rules for Enforcement of the Universal Postal Convention requires the exporter to affix a customs declaration on postal parcels.	Required  Art. 15, para. 2, of Customs Law requires filing of a declaration inward, including cargo manifest, with Customs.  Art. 13 of the Cabinet Order for the Enforcement of Customs Law describes information to be included in the declaration inward, including place of shipment, destination, mark, numbers, descriptions, and quantities of goods. In the case of commercial air cargo, the airline employees can file the cargo manifest with Customs by entering the shipping data into the Nippon Automated Cargo Clearance System for Air-Cargo (NACCS).
B. Entering shipping data into foreign customs services' computers: Importer/broker must enter shipping data into foreign customs' computer systems for entry.	Not required  Art. 76 of Customs Law exempts postal articles from the requirements for filing import declarations and invoices with Customs.	Not required  The Special Act of Customs Procedures through the Electronic Data Processing System authorizes the use of data processing techniques in the submission of declarations and other documents. However, this is not a requirement.

(continued)

**Appendix III  
Legal Requirements for Importing Parcels  
Into Japan**

<b>Customs requirements</b>	<b>Laws and regulations applicable to postal parcels</b>	<b>Laws and regulations applicable to private express carrier parcels</b>
C. Use of licensed customs brokers: Importer must use licensed customs brokers to submit shipping documentation.	Not required  Under Art. 76, para. 3, of Customs Law, postal articles are presented to Customs by Japan Post.	Not required  Use of customs brokers is not required if the importers themselves file the import declarations. However, under the Law Concerning Customs Business, Law. No. 122, Aug. 1, 1967, as last amended by Law No. 91, May 12, 1995, any person intending to submit shipping documentation is required to obtain a permit from Customs.
D. Calculation of duties and taxes: Importer/broker must calculate duties and taxes to be verified by foreign customs services.	Not required  Under Art. 6-2, para. 2, of Customs Law, the customs officer determines the tariff classification and value of goods sent by mail based on information from the customs declaration or invoices attached.	Required  Under Art. 6-2 of Customs Law, the amount of customs duties payable shall be determined by the importer/broker. In practice, duties and taxes are in most cases calculated by NACCS on the basis of import data entered into the system by importers/brokers.
E. Timing of payment of duties and taxes: Duties and taxes must be paid or secured prior to Customs' release of shipment to delivery agent.	Not required  Art. 76 of the Customs Law exempts postal articles from the requirement in Art. 72 that duty be paid prior to release of goods to the post office for delivery or collection.  Art. 77, para. 3, requires payment of customs duty and tax by the person who is to receive postal articles prior to release of goods by the post office.	Required  Art. 72 of the Customs Law requires payment of customs duty by the importer/broker prior to release of goods by Customs. However, under Art. 9-2 of the Customs Law, the time limit for actual payment of duty can be extended up to 3 months after cargo release with the deposit of security.
F. Customs service charges: Importer/broker must pay for customs clearance outside of normal business hours.	Not applicable  Art. 100 of the Customs Law does not apply to postal articles, because the Postal Bureau could not impose additional charges on individual importers for clearance outside of regular business hours. In practice, GPL parcels were not cleared outside of regular business hours.	Required  Art. 100 of the Customs Law requires payment of fees to Customs for customs clearance service outside of regular business hours.
G. Posting of bonds or security: Importer/broker must post a bond or provide other security to the customs service for storage facilities.	Not required	Not required

(continued)

**Appendix III  
Legal Requirements for Importing Parcels  
Into Japan**

<b>Customs requirements</b>	<b>Laws and regulations applicable to postal parcels</b>	<b>Laws and regulations applicable to private express carrier parcels</b>
H. Shipping records retention: Importer/broker must maintain customs clearance records on parcels.	Not required  Shipping records are not required for postal articles.	Required  Importers are not required to maintain shipping records on parcels. However, under Art. 22, para. 1, of the law concerning customs clearance and Art. 8, para. 2, of its enforcement order, brokers must maintain customs clearance records of parcels for 3 years.
I. Liability for parcel contents: Importer/broker is subject to liability for illegal contents contained in parcels.	Applicable if knowledgeable about the illegal parcel contents.  Art. 109 of the Customs Law provides penalties for importing prohibited drugs, firearms, counterfeit money, other antisocial articles, and/or articles infringing upon intellectual property rights. Potential penalties range from fines of up to 5 million yen and imprisonment for up to 5 years.	Applicable if importer/broker is knowledgeable about the illegal parcel contents.  Art. 109 of the Customs Law provides penalties for importing prohibited drugs, firearms, counterfeit money, other antisocial articles, and/or articles infringing upon intellectual property rights. Potential penalties range from fines of up to 5 million yen to imprisonment for up to 5 years.
J. Fines for incorrect or missing declarations: Importer/broker is subject to liability for fines for incorrect or missing customs declarations.	Not applicable  Art. 76 of the Customs Law exempts postal articles from the requirements that importers file import declarations and invoices with Customs. However, Art. 114 of the Customs Law subjects senders of parcels to a fine of not more than ¥50,000 for making false certifications on the customs declaration required by Postal Convention Rules.	Applicable  Arts. 12-2 and 12-3 of the Customs Law, as amended by Law No. 61, March 26, 1997 (effective Oct. 1, 1997), requires payment of additional taxes at rates of 10 percent to 15 percent for incorrect or missing declarations unless a "proper reason" for such is found. Art. 113-2 of the Customs Law provides for penalties of imprisonment of not more than 1 year and not more than ¥100,000, or both, for serious offenses relating to incorrect or missing declarations.



# Legal Requirements for Importing Parcels Into the United Kingdom

We reviewed European Union (EU) and United Kingdom customs laws and regulations applicable to importing postal and private express parcels into the United Kingdom. Our primary source was Butterworth's Customs Duties Handbook, published by Butterworth's (London) 1995. Following our review, Her Majesty's Customs and Excise officials reviewed and commented on a draft of our compilation of requirements, and we made changes where needed.

**Table IV.1: Legal Requirements for Importing Parcels Into the United Kingdom**

<b>Customs requirements</b>	<b>Laws and regulations applicable to postal parcels</b>	<b>Laws and regulations applicable to private express carrier parcels</b>
A. Import shipping documentation: A manifest or list of goods must be presented to foreign customs services for import clearance.	Not required  Art. 237 of Commission Reg. 2454/93 require that imported postal parcels be accompanied by a C1 and/or C2/CP3 declaration, (renumbered as CN22 and CN23), but manifests or lists of postal parcels are not required. See also Reg. 7 of the Postal Packet Regs.	Required  Art. 43 of Council Reg. 92/2913 generally requires presentation of a summary declaration to Customs that contains particulars necessary for the identification of goods. Art. 44 of the Council Reg. allows the customs authorities to permit the use of any commercial or official document (i.e., a manifest) as a summary declaration. Importers also may be required to present other documents to verify the accuracy of particulars in declaration. See Art. 68 of Council Reg.
B. Entering shipping data into foreign customs services' computers: Importer/broker must enter shipping data into foreign customs' computer systems for entry.	Not required	Not required  Art. 61 of Council Reg. 92/2913 and Arts. 4a, 183, & 222-224 of the Commission Reg. 2454/93 authorize the use of data processing techniques in the submission of declarations and other documents. However, this is not a requirement; declarations etc. could also be submitted in writing, according to Art. 61 of Council Reg. 92/2913.
C. Use of licensed customs brokers: Importer must use licensed customs broker to submit shipping documentation.	Not required	Not required  Arts. 5 & 64 of Council Reg. 92/2913 and Art. 178 of Commission Reg. 2454/93 allow appointment of representatives for dealings with customs authorities, require declarants to be "established in the Community," and provide that the declarant must have his residence or business in the customs territory.

(continued)

**Appendix IV  
Legal Requirements for Importing Parcels  
Into the United Kingdom**

<b>Customs requirements</b>	<b>Laws and regulations applicable to postal parcels</b>	<b>Laws and regulations applicable to private express carrier parcels</b>
D. Calculation of duties and taxes: Importer/broker must calculate duties and taxes to be verified by foreign customs services.	Not required  Art. 217 of Council Reg. 92/2913 requires Customs to calculate import duties and authorizes the use of practical procedures for entry in accounts.	Not required  Art. 217 of Council Reg. 92/2913 requires Customs to calculate import duties and authorizes the use of practical procedures for entry in accounts.
E. Timing of payment of duties and taxes: Duties and taxes must be paid or secured prior to Customs' release of shipment to delivery agent.	Not required  Reg. 5 of the Postal Packet Regs. exempts postal parcels from the requirement for importers to pay or make security for payment before goods are released.	Required  Art. 74 of Council Reg. 92/2913 and Sec. 43 & 44 of Customs and Excise Management Act require importers to pay or make security for payment before goods are released.
F. Customs service charges: Importer/broker must pay for customs clearance outside of normal business hours.	Applicable  Art. 239 of Commission Reg. 2454/93 requires the declarant to pay costs associated with the examination of goods in places or at times other than those appointed. Art. 237 of the Commission Reg. 2454/93 allows Customs authorities to require postal administrations to be the declarant.	Applicable  Art. 239 of Commission Reg. 2454/93 requires the declarant to pay costs associated with the examination of goods in places or at times other than those appointed.
G. Posting of bonds or other security: Importer/broker must post a bond or provide other security for storage facilities.	Not required	Required  Arts. 50 and 51 of Council Reg. 92/2913 require goods to be held in temporary storage until cleared and authorize Customs to require security. See also Sec. 157 of the Customs and Excise Management Act.
H. Shipping records retention: Importer/broker must maintain shipping records on parcels.	Not required	Required  Art. 16 of Council Reg. 92/2913 requires that records be kept for at least 3 years. Sec. 75A of the Customs & Excise Management Act and Reg. 9 of the Customs Traders Regs. provide that records may be required to be kept for up to 4 years.
I. Liability for parcel contents: Importers/brokers are subject to liability for illegal contents contained in parcels.	Applicable  Sec. 50 and Sch. 1 of the Customs & Excise Management Act provide penalties for the improper importing of prohibited or restricted goods. Depending on the offense and circumstances, penalties could range from fines (i.e., 3 times the value of the goods) to imprisonment for a term not exceeding 14 years (for certain prohibited drugs).	Applicable  Sec. 50 and Sch. 1 of the Customs & Excise Management Act provide penalties for the improper importing of prohibited or restricted goods. Depending on the offense and circumstances, penalties could range from fines (i.e., 3 times the value of the goods) to imprisonment for a term not exceeding 14 years (for certain prohibited drugs).

(continued)

**Appendix IV  
Legal Requirements for Importing Parcels  
Into the United Kingdom**

<b>Customs requirements</b>	<b>Laws and regulations applicable to postal parcels</b>	<b>Laws and regulations applicable to private express carrier parcels</b>
J. Fines for incorrect or missing declarations: Importers/brokers are liable for fines for incorrect or missing customs declarations.	<p>Could be applicable when importer/broker provides customs declaration</p> <p>Reg. 8 of the Customs Controls Regs. provides penalties for failure to provide customs declarations in the required form.</p> <p>Sec. 167 of the Customs &amp; Excise Management Act provides penalties for providing declarations that are untrue in any material respect. Depending on the offense and circumstances, penalties could range from fines to imprisonment for a term not exceeding 2 years.</p>	<p>Applicable</p> <p>Reg. 8 of the Customs Controls Regs. provides penalties for failure to provide customs declarations in the required form.</p> <p>Sec. 167 of the Customs &amp; Excise Management Act provides penalties for providing declarations that are untrue in any material respect. Depending on the offense and circumstances, penalties could range from fines to imprisonment for a term not exceeding 2 years.</p>

Note: Laws and regulations cited: European Economic Community Council Regulation No. 92/2913, Commission Regulation No. 2454/93, Customs and Excise Management Act (1979), Post Office Act (1953), Postal Packet (Customs & Excise) Regulations (1986), Customs Controls on Importation of Goods Regulations (1991), and Customs Traders (Accounts and Records) Regulations (1995).

# Legal Requirements for Importing Parcels Into Canada

We reviewed Canadian customs laws and regulations for importing postal and private express parcels into Canada. Revenue Canada informed us that it has three basic programs for processing parcels through Canadian Customs: the mail program, the Courier/Low-Value Shipments Program (LVS), and regular cargo program. The mail program is used to process parcels that are presented to Customs by Canada Post. The LVS program is used to process private express parcels if they are valued at less than \$1,600 Canadian. GPL parcels, as well as comparable private express carrier parcels, are processed under LVS because GPL parcels are currently being delivered by a private express carrier. We included legal requirements under the mail program to provide a comparison of the two sets of requirements.

Our primary source was the Customs Act (Departmental Consolidation, November 1997). We also reviewed relevant regulations issued by Revenue Canada. Following our review, Revenue Canada officials reviewed and commented on a draft of our compilation of requirements, and we made changes where needed.

Customs requirements	Laws and regulations applicable to postal parcels	Laws and regulations applicable to private express carrier parcels
A. Import shipping documentation: A manifest or list of goods must be presented to foreign customs services for import clearance.	Not required  Sec. 12 of the Customs Act provides that generally, imported goods are required to be reported to the customs office as prescribed by regulation. Mail items are required only to have a standard declaration form attached. Customs inspectors examine the declaration and, if necessary, open the item to examine any invoice enclosed or physically examine the contents and the parcel. See Memorandum D5-1-1 (April 21, 1997).	Required  Sec. 12 of the Customs Act provides that generally, all imported goods are required to be reported to the customs office as prescribed by regulation.  Memorandum D-17-4-0 (Jan. 20, 1997, concerning the Courier/Low Value Shipment (LVS) Program-Low Value Commercial Goods, provides that presentation of a cargo release list meets the reporting requirements under Section 12. The cargo/release list must include (1) a unique identifier number generated by the courier; (2) the consignee's name and address; (3) the importer's name and address; (4) the name of the shipper, exporter, or vendor; (5) the quantity; (6) the weight of the shipment; (7) the estimated value for duty in Canadian dollars; (8) a description of the goods; and (9) the country of origin. Also, the cargo/release list must contain the carrier code and name, U.S. port of exit, vehicle identification number, office of release, and date.

(continued)

**Appendix V  
Legal Requirements for Importing Parcels  
Into Canada**

<b>Customs requirements</b>	<b>Laws and regulations applicable to postal parcels</b>	<b>Laws and regulations applicable to private express carrier parcels</b>
B. Entering shipping data into foreign customs services' computers: Importer/broker must enter shipping data into foreign customs' computer systems for entry.	Not required  Postal items are presented to Customs by Canada Post, and Customs inspectors enter data. See Memorandum D5-1-1.	Not required  Under sec. 8.1 (3) of the Customs Act, persons may be authorized to file forms electronically but are not required to do so.
C. Use of licensed customs brokers: Importer must use licensed brokers to submit shipping data.	Not required  Postal items are presented to Customs by Canada Post. See Memorandum D5-1-1.	Not required  For commercial goods imported under the Courier/LVS program, importers must either clear the goods themselves or use a customs broker. If customs brokers are used, they must hold a license under Sec. 9 of the Customs Act. See Memorandum D17-4-0.
D. Calculation of duties and taxes: Importer/broker must calculate duties and taxes to be verified by foreign customs services.	Not required  According to Sec. 24 of the Guidelines and General Information Part of D5-1-1, the customs inspector determines the tariff classification and value of goods sent by mail on the basis of information from the customs declaration or invoices attached and enters data into the postal Import Control System.	Required  Memorandum D17-1-10 outlines how to complete the form, which requires importer/broker to calculate duties and taxes.
E. Timing of payment of duties and taxes: Duties and taxes must be paid or secured prior to Customs' release of shipment to delivery agent.	Not required  Under the customs international mail processing system, Canada post collects the duties and taxes on behalf of Customs before releasing the parcels to the importer. Subsection 147.(1) and the Customs Act provide authority for this arrangement.	Required  Sec. 33 of the Customs Act states that goods may be released prior to the payment of duties in such circumstances as may be prescribed and shall be paid thereon within a prescribed time. Memorandum D-17-1-0 allows for release before payment with security.
F. Customs service charges: Importer/broker must pay for customs clearance outside of normal business hours.	Not required	Required  Regulations Respecting Special Customs Services (Jan. 1, 1996) require payment for clearance outside of regular business hours.
G. Posting of bonds or other security: Importer/broker must post a bond or provide other security for storage facilities.	Not required	Required  The Customs Sufferance Warehouse Regulations, pursuant to Sec. 19 of the Customs Act, requires posting of security for such facilities.

(continued)

**Appendix V  
Legal Requirements for Importing Parcels  
Into Canada**

<b>Customs requirements</b>	<b>Laws and regulations applicable to postal parcels</b>	<b>Laws and regulations applicable to private express carrier parcels</b>
H. Shipping records retention: Importer/broker must maintain shipping records on parcels.	Not required	Required  The records retention period for commercial goods imported under the Courier/LVS program is 6 years plus the current year. See Sec. 2 of the Importers Records Regulations (Memorandum D17-1-21) and subsection 17(2) of the Customs Brokers Licensing Regulations.
I. Liability for parcel contents: Importers/brokers are subject to liability for illegal contents contained in parcels.	Applicable  Importers are responsible for complying with Canadian laws with regard to controlled, restricted, or prohibited goods.	Applicable  Importers are responsible for complying with Canadian laws with regard to controlled, restricted, or prohibited goods. Such goods are not eligible for importation under the Courier/LVS program.
J. Fines for incorrect or missing declarations: Importers/brokers are subject to liabilities for fines for incorrect or missing customs declarations.	Not applicable  However, under Sec. 12 of the Customs Act, the sender of a parcel could be subject to liability for failure to provide a customs declaration.	Applicable  As specified in Sec. 3 of the Reporting of Imported Goods Regulations, pursuant to Sec. 12 of the Customs Act, failure to report goods to Customs is subject to a penalty of \$400 per shipment.  Under Sec. 33.1 of the Customs Act, every person who fails to account for imported goods in accordance with law or regulation is liable to a penalty of \$100 for each failure.

# Comments From USPS

MARVIN RUNYON  
POSTMASTER GENERAL, CEO



May 11, 1998

Mr. Bernard L. Ungar  
Director, Government Business  
Operations Issues  
United States General Accounting Office  
Washington, DC 20548-0001

Dear Mr. Ungar:

Thank you for the opportunity to comment on the General Accounting Office's draft report on the Postal Service's Global Package Link (GPL) service. This service, and the expanded business opportunity it represents, is critical to the future of the Postal Service and our customers. We are pleased that the GAO's findings confirmed there are no preferential customs arrangements benefiting the Postal Service. Rather, the GAO identified different, but not better, customs processes for postal parcels as compared to private parcels.

In the Spring of 1997, the Postal Service came under attack from competitors who alleged that GPL service was fraught with unfair advantages. These advantages, according to the allegations, made it impossible for private express carriers to compete with GPL. The major charge facing GPL service was that the Postal Service had negotiated "sweetheart deals" with foreign customs services. These "sweetheart deals" gave GPL service an enormous advantage over competing services, it was said, providing faster and cheaper clearance through customs at destination countries.

As a result of the erroneous information contained in these serious allegations, the House Appropriations Committee adopted legislation which would have frozen the Postal Service's ability to expand GPL service to other foreign countries. The Postal Service seriously objected to such legislation, but it was the Postal Service's customers who reacted most strongly. Bulk parcel shippers such as J.C. Penney, L.L. Bean, and Lands' End expressed major concern that they would lose a competitive and attractive shipping option in the expansion of their international business. I would imagine most disturbing to these companies was the fact that they were going to be disadvantaged in order to benefit the special interests of postal competitors.

The Postal Service's position on GPL service has not changed over the past year. GPL is a bulk parcel service with an innovative automated customs clearance feature which permits ease of use by the customer and the foreign customs service. The Postal Service competes in the international arena with a host of foreign and domestic competitors. This is a healthy competition, one that's good for American businesses and for the economy. The restriction of choice and access for American businesses by limiting the Postal Service's role in international shipping makes no sense, save for our competitors that would benefit.

475 L'ENFANT PLAZA SW  
WASHINGTON, DC 20260-0010  
202-268-2500  
FAX 202-268-4860

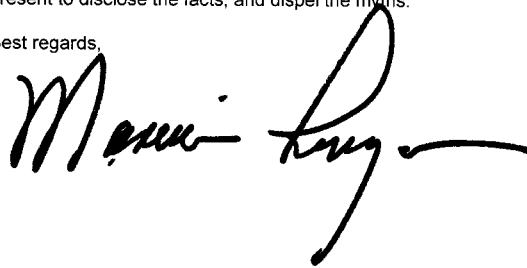
**Appendix VI  
Comments From USPS**

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That said, the Postal Service is heartened that the GAO's findings confirmed that "sweetheart deals" do not exist, as our competitors alleged. Customs clearance speed and fees assessed vary from country to country, but your report confirmed that the Postal Service enjoys no customs clearance advantage over private express carriers.

The Postal Service will continue on its mission to provide universal service to everyone, everywhere, every day at affordable rates. And we will continue to offer innovative services which benefit our customers, while helping to generate necessary revenue to maintain the universal service infrastructure. As we continue to improve what we do and how we do it, there will be special interests determined to undermine our efforts. It is heartening to know the GAO will be present to disclose the facts, and dispel the myths.

Best regards,

A handwritten signature in black ink, appearing to read "Marcia L. King". The signature is written in a cursive style with a long horizontal flourish extending to the right.



# Comments From ACCA

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



May 8, 1998

Mr. Bernard L. Unger  
Director, Government Business Operations Issues  
United States General Accounting Office  
441 G. Street N.W. Room 2A10  
Washington, D.C. 20548

Dear Mr. Unger:

Thank you for your letter of April 9, 1998, inviting the Air Courier Conference of America to comment on the draft GAO report, "U.S. Postal Service: Competitive Concerns about Global Package Link Service."

Bringing postal-like simplicity to the customs treatment of privately transported low value parcels is an overdue reform vital to the future of the U.S. international express industry. In this regard, your report is extremely welcome and worthwhile. It represents the first attempt by a U.S. government agency to ascertain how customs procedures apply differently to postal and private shipments. While a study focused only on the outbound leg of the Postal Service's Global Package Link (GPL) service will not illuminate all aspects of this subject, it is good place to start. GAO's account of actual and legal differences in customs procedures as applied to GPL and private shipments is most informative. We question, however, whether GAO has correctly identified sound and objective bases for evaluating the policy implications of these observed differences. Our specific comments are set out in the enclosed statement.

Again, thank you for giving ACCA and its members the opportunity to work with GAO on this important study.

Yours sincerely,

A handwritten signature in cursive script that reads "James A. Rogers".

James A. Rogers  
Chairman  
ACCA International Committee

*AIR COURIER CONFERENCE OF AMERICA* — *INTERNATIONAL*

7807 Appledore Court • Falls Church, Virginia 22043 • 703/204-9677 • FAX 703/204-9679

**COMMENTS OF THE  
AIR COURIER CONFERENCE OF AMERICA  
ON DRAFT REPORT "U.S. POSTAL SERVICE: COMPETITIVE  
CONCERNS ABOUT GLOBAL PACKAGE LINK SERVICE"  
BY THE GENERAL ACCOUNTING OFFICE  
MAY 11, 1998**

**1 INTRODUCTION**

On April 9, 1998, the General Accounting Office (GAO) made available to Air Courier Conference of America (ACCA) a draft report entitled "U.S. Postal Service: Competitive Concerns About Global Package Link Service" and invited "review and comment." This report was prepared by GAO at the request of Representative John McHugh, Chairman of the Subcommittee on Postal Service of the House Committee on Government Reform and Oversight. The purpose of the report is to review "concerns by private express carriers that GPL [Global Package Link] parcels were subject to fewer customs clearance requirements and received preferential customs treatment overseas, giving USPS and unfair competitive advantage in providing international parcel delivery service."

ACCA is delighted to accept the invitation of GAO to comment on the draft report.

Bringing postal-like simplicity to the customs treatment of privately transported low value parcels is an overdue reform vital to the future of the U.S. international express industry. In this regard, your report is extremely welcome and worthwhile. It represents the first attempt by a U.S. government agency to ascertain how customs procedures apply differently to postal and private shipments. While a study focused only on the outbound leg of the Postal Service's Global Package Link (GPL) shipments will not illuminate all aspects of this subject, it is good place to start. GAO's account of the actual and legal differences in customs procedures as applied to GPL and private shipments, reported in Chapter 2, is most informative. Although we have a few comments in respect to this part of the report, they should not be taken to qualify our appreciation for the value of work done. Chapter 3 deals with policy implications of the differences in customs procedures described in Chapter 2. We regret to say that, for the reasons noted below, we do not believe Chapter 3 correctly identifies sound and objective bases for evaluating future U.S. policy in this area.

**2 ACCA'S INTEREST**

For many years, the private express industry argued that, where the Postal Service competes with private carriers, international postal services into and out of the United States should be subject to the same laws, especially customs laws, as services of private carriers. If the customs laws of the United States protect the health

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and welfare and revenues of the United States when applied to a shipment tendered by a private carrier, then why should they apply differently when the shipment is being sent from a foreign post office to the U.S. Postal Service for delivery in the United States? Similarly, for outbound traffic, why should shipments exported by the Postal Service be treated differently than similar shipments exported by American private carriers?

In arguing for equality in customs treatment, ACCA has never demanded a one-size-fits-all solution. We recognize that different levels of customs procedures may be appropriate depending upon the nature and value of a shipment, the extent of advance or computerized documentation, etc. In addition to the different customs procedures presently available for postal and private shipments, it may be necessary to devise new procedures combining some aspects of each or borrowing from still other procedures, such as those now available for personal baggage. For us, customs equality implies only that all levels of customs procedures should be equally accessible to all types of carriers when tendering similar shipments for customs clearance.

This position has been consistently articulated by the private carriers for more than a decade. The fullest expression of the private carriers' position to date on reform of customs procedures for postal shipments is a document of the International Express Carriers Conference submitted to the World Customs Organization in November 1995. That paper dealt with a proposed revision of the annex on postal shipments of the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention). In its paper, the IECC proposed virtually no changes to the proposed procedures for postal shipments other than applying the procedures to all similar shipments without regard to the public or private ownership of the carrier.

USPS's GPL service has been a particular concern to our industry since its inception. The history of GPL actually begins a year earlier than suggested in the draft report with a service called "International Customized Mail" (ICM). ICM was a bulk contract service begun by USPS in 1992 for the purpose of "trying to attract customers that currently use [USPS's] competitors and would not otherwise use the Postal Service for their international mailings." 58 F.R. 29778, 29780 (1993). With ICM, USPS won the business of a few large direct marketers, in particular business directed to the Japanese market. In May 1994, a federal district court held ICM illegal and enjoined the program (a judgement later reversed on appeal). In response, on December 1, 1994, USPS started a second service, International Package Consignment Service (IPCS), a bulk discount service that retained the key commercial attributes of ICM but technically complied with the legal objections of the district court. IPCS service was initially limited to Japan and, we believe, was crafted to serve the needs of one large direct marketer who otherwise would have

See comment 1.

-3-

used a private carrier.

Although IPCS service has been renamed GPL and expanded to 11 countries, to this day it remains predominantly a service designed to secure for USPS the direct marketing traffic to Japan. As the draft report acknowledges, "virtually all" GPL shipments are destined for Japan. GPL has captured about 60 percent of the U.S.-to-Japan direct marketing business (page 5 of the Executive Summary), a commercial success story derived mainly from differences in customs treatment. Of the three destination markets studied by GAO, it is apparent that Japan is the market where USPS enjoys the most substantial advantages in customs treatment. For shipments bound to the other two destinations studied by GAO, United Kingdom and Canada, GPL's customs advantages are relatively less and GPL's market penetration is minimal. As the draft report notes, "officials from several GPL customers said that simplification of the customs process and lower shipping costs were the primary reasons they used GPL to ship internationally." The inference is inescapable. Using GPL and its predecessors, USPS has for seven years diverted business from private carriers by taking advantage of customs preferences which are available to the Postal Service only because of its position as the government post office.

ACCA's submits that this situation is unreasonable and unfair. We therefore support a policy, proposed by Congressman McHugh, of equal application of the U.S. and foreign customs law to U.S. carriers, in particular to the Postal Service. For the reasons set out below, we hope and expect such a policy to result in a general simplification of customs procedures for all low value items, to the benefit of all participants in international commerce.

### **3 CHAPTER 1: SCOPE AND METHODOLOGY OF STUDY**

Chapter 1 introduces the scope and methodology of the study. Our only comment on this chapter is to suggest the desirability of a somewhat clearer explanation of the limited scope of the study.

#### **3.1 Special characteristics of GPL service**

The draft report is a pioneering study. It is the first effort by a U.S. government agency to ascertain how customs procedures apply differently to postal and private shipments. The draft report does not, however, deal with this subject generally, but focuses a subset of the general problem, customs procedures applicable to GPL. At pages 50 to 55 of Chapter 1, the draft report describes the scope and objectives of the study. However, we believe it might be helpful to the general reader, to explain a little more carefully, in this chapter and the Executive Summary, the limited scope of the study in relation to the larger subject.

Now on p. 3.

Now on pps. 32-35.

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In 1997, GPL accounted for about 2 million outbound shipments. Meanwhile, international express mail accounted for about 6 million shipments, and international parcel post for more than 6 million. The number of inbound international parcels imported by USPS is unknown but presumably on the same order of magnitude. All in all, GPL constitutes only a small minority of all parcels and urgent document packages exported and imported by USPS.

As far as customs procedures are concerned, GPL service is not typical of USPS's international parcel services generally. GPL is designed for direct marketers who ship large quantities of shipments selected from a catalog listing a limited set of goods. Because the nature of the goods is known, customs classification and duty for the goods can be determined in advance. Smooth international transportation of such goods does not require maintenance of the expensive customs classification and valuation capabilities demanded by other types of international shipments. GPL is thus the international parcel service for which compliance with the detailed customs procedures faced by private carriers is easiest. For these reasons, the customs issues presented by GPL are not entirely representative of customs issues presented by international postal shipments. Furthermore, even though GPL is only an outbound service, its commercial viability is affected by differences in customs procedures for parcels entering the United States because of the phenomenon of return merchandise. While only a small fraction of direct marketing shipments are returned, the costs and service aspects are significant and these, in turn, are affected by customs treatment. The draft report, however, confines itself to the customs procedures applied to GPL shipments on the outbound leg.

From these considerations, the limited scope of the draft report is apparent. While ACCA warmly welcomes this study of the customs procedures applicable to GPL, ACCA believes it would be helpful to the reader to explain up front the specialized nature of the topic under investigation. Given the unstudied nature of this whole, an unsuspecting reader may infer that the observations of the draft report may be extrapolated to describe customs procedures for postal and private shipments generally.

Finally, in one area, although the draft report highlights its limited scope at the outset, we believe special emphasis is desirable. At page 4 of the Executive Summary, the draft report notes that GAO will be addressing in a future report "issues related to the Postal Service's role and U.S. representation in the international postal organization, the Universal Postal Union". Yet, in Chapter 1 at pages 45-46, the draft report notes, "The Universal Postal Union (UPU), an agency of the United Nations that governs international postal service, also established customs procedures for international mail." These UPU customs procedures are in fact the basis for most of the differences in customs treatment identified in the draft report. Thus, in this report, GAO does not address the extent to which differences in customs treatment

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Now on p. 29.

See comment 2.

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may result from manipulation of international law by the Postal Service rather than the good fortune of historical accident (as might be implied at page 44 of Chapter 1).

#### **4 CHAPTER 2: DIFFERENCES IN CUSTOMS PROCEDURES**

Chapter 2 of draft report describes differences in the customs treatment of GPL parcels and privately transported parcels to three destination countries: Japan, United Kingdom, and Canada. In our view, this investigative work was well done and extremely informative. On several points, however, we suggest clarification or additional research.

##### **4.1 Commercial implications of differences in customs treatment**

Although the draft report provides sufficient information for the reader to calculate the enormous commercial implications of differences in customs treatment, we believe it would be helpful to the reader to spell these out clearly. On page 101 of Chapter 3, the draft report notes that the major private carriers incurred costs of \$110 million due to customs requirements in connection with delivering 8 million shipments to Japan, Canada, and the United Kingdom. For private carriers, then, the average cost of meeting customs requirements came to about \$13.75 per parcel. Meanwhile, on page 33 of Chapter 1, the draft report notes that in fiscal year 1997 the Postal Service earned revenues of \$33.5 million from 2 million GPL parcels. USPS's average revenue per GPL parcel was thus about \$16.75. Very roughly, it costs private carriers almost as much to comply with customs procedures as the Postal Service charges for its entire end-to-end GPL delivery service. From these calculations, it is apparent that USPS derives a substantial commercial boost from simplified customs treatment. By the same token, it is clear that U.S. shippers would benefit substantially from an extension of simplified customs treatment to private carriers as well as USPS.

It must be recognized, however, that the low average price of \$16.75 per GPL shipment may be due in part to factors other than cost savings traceable to differences customs treatment. As reported in a recent trade newsletter, USPS's marketing plan for fiscal 1998 seems to imply that revenues from GPL and other new international mail initiatives cover only about 57 percent of directly attributable costs. If so, lower customs costs may be only one factor in explaining GPL's commercial success; cross-subsidy may be another. We assume that such issues will be explored in detail in GAO's forthcoming report on pricing and allocation of costs (page 4 of the Executive Summary).

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#### 4.2 Incidence of duty collection

On page 59 of Chapter 2, the draft report identifies eleven "categories of requirements that potentially differed between the carriers and postal services." While this analytical framework is useful, it fails to make clear one of the most important differences in the customs treatment of postal and private shipments: *incidence of duty collection*. Where customs authorities are responsible for assessment, preparation of customs documents, and collection of duty, some parcels inevitably are released without payment of duty. Typically, customs authorities adopt an unwritten policy that duty is waived entirely on postal parcels valued less than a given amount. This amount is likely to be 300 SDR (about \$400) because documentation for postal parcels valued up to 300 SDR is usually limited Universal Postal Union form CN 22, a small green label affixed to the package that states only the nature of the item and its value. Even for parcels valued more than this unwritten cut off level, customs authorities generally do not assess duty 100 percent of the time due to the pressure of other tasks. Thus, while duty rates for postal and private shipments may be identical when assessed, the *incidence of duty collection* may be much lower than 100 percent for postal parcels, lowering the *effective rate of duty* substantially. In contrast, the incidence of duty collection for private shipments is typically 100 percent because customs procedures require the private carrier to assess and collect all duties, and the private carrier, unlike the post office, is legally liable for errors in assessment.

It is well known in the industry that, where the incidence of duty collection is less than 100 percent for postal shipments, shippers divert parcels from private carriers to postal services to circumvent duty. Privately, customers of private carriers readily concede this phenomenon. In 1987, the International Express Carriers Conference retained Peat Marwick to conduct an independent check of duty and tax collection from relatively low value dutiable shipments transported via international express mail between the United States and various European countries. Of shipments entering the United States, duty was collected on only 2 percent of shipments. In 12 European countries, duty was collected on 33 percent of dutiable postal parcels on average.

As we indicated to GAO, private carriers believe that the incidence of duty collection for GPL shipments is substantially less than 100 percent for shipments entering Japan, the destination for "virtually all" GPL shipments. At pages 74-75 of Chapter 2, the draft report states that GAO was "unable to determine whether duties and taxes were assessed on all dutiable parcels." Nonetheless, under collection of duty is an almost inevitable byproduct of customs procedures which place the burden of duty assessment on customs authorities instead of the carrier, and GAO certainly uncovered evidence implying that some dutiable GPL shipments are escaping duty in Japan. As the draft report implies, the division of GPL shipments into categories

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Now on p. 33.

Now on p. 34.

of (i) less than \$300 and (ii) more than \$300 reported at page 79 of Chapter 2 appears inexplicable unless Japanese customs, in manner explained above, allows GPL parcels an informal duty-free zone up to \$300 (legally, duty is due for shipments in excess of \$133 in value). While interviewing Japanese addressees about duty collected was clearly beyond GAO's ability, it would seem that there were other avenues of investigation open to GAO. The draft report notes that GAO interviewed several U.S. direct marketers (page 53 of Chapter 1). It would be surprising if sophisticated direct marketers were unaware of under collection of duty, and we would expect them to reply truthfully to direct questions from GAO. Apparently these questions were not posed. Moreover, while GAO ruled out a comprehensive survey of test shipments for a variety of reasons (page 54 of Chapter 1), a limited test could have been conducted by placing orders with U.S. direct marketers known to be GPL customers for delivery to Japanese addresses. Even a limited test could have been illuminating.

We regret that GAO did not spell out more clearly the issue of differences in the incidence of duty collection or investigate this issue more deeply in the case of GPL shipments to Japan.

**4.3 Simplified tariff classification schedule for GPL shipments to Japan**

**Table 1. Customs Classification for Postal Parcels in Japan**

Article	Duty
Liquor (different kinds)	varies
Coffee, tea, fur	20%
Tanned fur	15%
Articles of plastic, cosmetics, glassware, linen precious stones or metals	5%
Paper, ceramics, base metals, toys	3%
All other items	10%

According to a document from the Customs and Tariff Bureau of the Japanese Ministry of Finance dated October 19, 1995 (English version) and obtained by the private carriers in fall 1997, a duty schedule called "Simplified Customs Duty Rates for Parcels Sent Via International Postal Service" was introduced in Japan on April 1, 1993 as shown in table 1. The document states that "The simplified rates are only applied to parcels sent via the U.S. Postal Service (in the case of the U.S.). [emphasis in original]" The Simplified Customs Duty Rates establishes six categories of tariffs for dutiable shipments as compared with the thousands of categories in the Harmonized Tariff Schedule, a classification scheme developed by the World



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Customs Organization. As the draft report notes, the private carriers, using customs brokers, provide Japanese customs with the "harmonized tariff codes" (page 70 of Chapter 2).

If a simplified classification scheme is available to postal shipments but not to shipments of private carriers, it would represent a major difference in the application of customs laws generally, although it is a less significant issue when considering only direct marketing shipments. For parcel shipments generally, tariff classification is a time consuming and costly operation. As noted above, however, the administrative burden of classifying direct marketing goods is greatly reduced because the goods in a catalog can be classified when the catalog is developed and do not have classified each time they are shipped. Since the Harmonized Tariff Schedule is in use worldwide, it seems likely that all GPL shipments are classified in advance by USPS and that therefore it would be relatively easy for USPS to provide Japanese customs with Harmonized Tariff Schedule codes. Even so, when one considers the operations involved in checking for compliance and correcting occasional mislabeling of shipments, use of the Harmonized Tariff Schedule still represents a significant burden for private carriers that is not borne by the Postal Service.

Rather than calling attention to this major difference in customs treatment and explaining its somewhat lessened significance for GPL-like shipments, the draft report ignores the simplified classification for postal shipments entirely in the factual chapter, Chapter 2. In Chapter 3, the draft report refers to simplified classification obliquely in Chapter 3 as a desirable reform applicable to *private carriers*. The source for this statement is a apparently a verbal conversation with a a Japan Customs official. Chapter 3, Page 108, footnote 7. This verbal statement, however, appears to be inconsistent with both the terms of the Ministry of Finance document and the GAO's direct observations of entry by private carriers in Japan. So far as the private carriers are aware, the simplified classification system is not available to private carriers in Japan.

Given these inconsistencies and the importance of the classification process in the application of customs law, we believe that GAO might have investigated this matter more thoroughly and featured it more prominently in its report.

#### 4.4 Fees for customs clearance

At page 8 of the Executive Summary, the draft report notes that private carriers receive expedited customs clearance because of private carriers' "business decisions to pay the governments of all three countries for clearance outside of regular business hours." While true, this statement fails to make clear that private carriers pay for overtime customs clearance in part because customs authorities generally refuse to

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provide dedicated staff at private carriers' facilities during normal business hours. The post offices, however, typically receive dedicated customs staff without additional cost during normal business hours.

#### **4.5 Legal requirements for GPL in Canada.**

As the draft report notes at page 90 of Chapter 2,

Although Canadian law prescribed different sets of requirements for postal and private express carrier parcels, USPS chose to have its GPL parcels delivered by private express carrier in Canada.

Since the applicability of the Canadian customs procedures used by private carriers to GPL is the result of a voluntary decision by USPS, it seems to us that the table summarizing the "requirements" and "practices" of customs law for GPL shipments – Table 1 of the Executive Summary and Table 2.1 of Chapter 2 – should show that the application of various customs procedures to GPL shipments in Canada as a "practice" (a square) rather than as a "requirement"(a check). Otherwise, a casual reader may receive the incorrect impression that USPS cannot benefit from legal preferences in Canada as it does in the other two GPL destination countries.

### **5 CHAPTER 3: POLICY IMPLICATIONS**

Chapter 3 of the draft report considers the policy implications of the differences in customs procedures described in Chapter 2. Specifically, Chapter 3 considers a potential U.S. policy requiring equal application of U.S. customs laws and prohibiting U.S. carriers of competitive products from accessing foreign customs procedures which discriminate in favor of one class of U.S. carrier. The draft report primarily explores two issues. First, the draft report reviews adverse consequences that might be felt by the Postal Service and U.S. shippers. Second, the report highlights legal impediments to implementing such a policy. We regret to say that we do not believe Chapter 3 is as well conceived or well considered as the remainder of the draft report. The draft report fails to develop a sound and objective basis for evaluating the policy implications of the contemplated policy.

#### **5.1 Consequences of a U.S. policy of equal application of customs laws**

##### **5.1.1 Adverse consequences raised in the draft report**

In considering a potential U.S. policy of equal application of foreign custom laws, the draft report implicitly or explicitly foresees at least three types of problems: (i) reduction or elimination of competitive alternatives in the cost and speed of

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international shipping services available to U.S. direct marketers; (ii) elimination of simplified customs procedures now available to U.S. shippers, (iii) expansion of the workload for U.S. customs or foreign customs. Furthermore, the draft report even seems to imply these consequences are advocated by private carriers. In fact, we do not believe that any of these consequences are likely and, as noted above, our position is not that customs treatment of postal shipments should be "leveled down" to the same treatment afforded private shipments but that all options for customs treatment should be available to all similar shipments. Given the importance of these issues to the future of U.S. international commerce -- and the importance to us of our reputation with our customers-- we consider in detail the passages in the draft report which give us concern.

On page 9 of the Executive Summary, the draft report contrasts the position of the private carriers with the position of the Postal Service and shippers as follows:

The private express industry has asserted that differences in customs clearance requirements for postal and privately shipped parcels result in more work and higher costs for the carriers, placing them at a disadvantage in competing with USPS to provide international parcel delivery service. However, USPS officials noted that they also incur costs that the private carriers do not, such as meeting their obligations to provide delivery service to persons in all communities of the United States and to member countries of the Universal Postal Union. At the same time, businesses that ship their goods internationally, as well as USPS and the carriers, stressed the importance of having competitive choices that provide alternatives in the cost and speed of international shipping services for consumers.

On page 22 of the Executive Summary, the draft report presents a similar contrast between the views of the private carriers and the welfare of shippers.

On one hand, in urging that USPS and the private carriers be subject to the same international customs clearance requirements, the carriers have raised fundamental questions about the fairness of competing with a government entity that is providing a businesslike service. The carriers contend that competing with a government entity that is subject to fewer customs requirements and lower associated costs distorts the competitive marketplace. On the other hand, depending upon what types of international mail would be subject to the same requirements, requiring USPS and the private carriers to follow the same requirements could affect the simplified process that

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was intended for mail sent to other households internationally. Further, applying the same requirements could affect shippers, such as the direct marketing industry, who would like to have a choice of different types, costs, and speed of delivery services to respond to their customers' demands for their goods.

The structure of these two paragraphs is similar. In each case, the first sentence indicates the topic of the paragraph is the principle of equal application of customs laws ("differences in customs clearance requirements for postal and privately shipped parcels" and "USPS and the private carriers be subject to the same international customs clearance requirements"). The paragraph goes on to suggest that, in contrast to the position of private carriers (e.g., "on one hand . . . on the other hand"), one must consider that adverse interests of the Postal Service ("requiring USPS and the private carriers to follow the same requirements could affect the simplified process") and/or shippers ("requiring USPS and the private carriers to follow the same requirements could affect the simplified process"). The resulting implication appears to be that the principle of equal application of the customs laws, as advocated by the private carriers, could adversely affect the simplified clearance process that currently benefits only the Postal Service and shippers who use the Postal Service.

On page 99 of Chapter 3, the draft report repeats the paragraph found on page 9 but omits the words "as well as USPS and the carriers."

On pages 103 and 104 of Chapter 3, the draft report considers the "potential additional workload burden" in the following terms:

Depending upon what types of international mail were to be treated the same, imposing the same requirements on international postal and privately shipped parcels could affect the workload of postal and customs services worldwide, as well as individuals and businesses sending mail to the United States. Currently, private express carriers must provide U.S. Customs with manifests and supporting documentation, such as invoices, on goods imported into the United States.

According to USPS, requiring foreign postal services to provide manifests and supporting documentation on parcels being shipped to the United States could be a very burdensome task. In 1996, USPS received about 714 million pieces of incoming international mail, including about 4 million parcels, most of which was sent If the same requirements were imposed on international mail as currently apply to privately shipped imports, individuals and businesses in other countries could be

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required to provide additional data not currently provided on the customs declaration labels, including harmonized tariff codes, as well as supporting documentation, such as invoices, on from household to household.<sup>3</sup> USPS officials also said that most countries do not require that they be provided with manifests and supporting documentation on incoming international mail.

Further, U.S. Customs would need to determine the potential impact on its resource allocation if all inbound and outbound international postal parcels were subject to inspection, as are all private express carriers, parcels.

On page 105 of Chapter 3, the draft report emphasizes the difficulties the principle of equal application of the customs laws may pose for an individual mailer of international parcels (i.e., not a GPL shipper):

Moreover, imposing the same requirements on international mail as private express carrier shipments could make procedures for individuals and businesses who send mail to the United States more complicated. Currently, senders of postal parcels to the United States affix a simple customs declaration label to the parcels. their postal parcels sent to the United States.

On page 111 of Chapter 3, the draft report repeats the essence of the paragraph found on pages 9 and 99 in almost identical terms.

The private express industry has asserted that it wants Congress to establish a "level playing field" with USPS in providing international parcel delivery service by imposing the same requirements on USPS that the carriers must follow. Issues involving fair competition require weighing how USPS and its private sector competitors can compete, given that different sets of requirements and obligations currently exist. The implications of whether and how to impose the same requirements for both USPS and the carriers require consideration of many complex and potentially conflicting issues, including those raised by the U.S. and foreign postal and customs services, private express carriers, shippers, and consumers. USPS officials noted that they incur costs that the private carriers do not, such as meeting their obligations to provide delivery service to persons in all communities of the United States and to member countries of UPU. At the same time, businesses that ship their goods internationally stressed their need to have competitive choices

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that provide alternatives in the cost and speed of international shipping services for consumers.

On page 112 of Chapter 3, draft report repeats verbatim the paragraph found on page 22.

**5.1.2 Likely foreign reaction of a new U.S. policy**

The adverse consequences that GAO sees flowing from a U.S. policy of equal application of the custom laws to postal and private shipments seem to be grounded in the assumption that such a U.S. policy will necessarily, or probably, lead foreign customs authorities to subject all postal shipments – or at least all GPL parcels – to the customs procedures now applied to privately carried shipments. So far as we are aware, however, GAO has no factual basis for this assumption. Nor does any advocate of this policy anticipate such results. While risks of a new policy should be weighed, they should be weighed carefully and rationally.

The starting point of a reasoned analysis must be an assumption that a foreign country that is willing to allow importation of a substantial quantity of U.S. shipments -- let us consider only direct marketing shipments for current purposes -- in accordance with the simplified procedures now available to USPS. Let us assume as well that the United States adopts the policy under consideration and decides that, after a date certain, the Postal Service, in its competitive products, may not take advantage of foreign customs procedures that are made available to USPS only and not to private carriers. As a result of the U.S. policy, a foreign government will have to treat future U.S. direct marketing imports in one of two ways: either (i) insist that all U.S. direct marketing shipments comply with the detailed customs procedures now applied only to shipments by private carriers or (ii) apply simplified customs procedures to all U.S. direct market shipments tendered by all U.S. carriers, provided the carriers tender the shipments in the same manner now employed by USPS.

Faced with these two options, a foreign government will discover strong incentives to accept the second option, extending simplified procedures to all U.S. carriers. On the one hand, the risks of option one are substantial for the foreign country. If the government chooses to apply complex customs procedures to all direct marketing imports from the U.S., it will likely hurt the trading partner of its own post office because USPS is relatively less able to comply with complex customs procedures than the private carriers. As far as exports are concerned, if a foreign country insists upon the right to confer special customs privileges on a U.S. carrier of its choosing, in defiance of U.S. policy, it will run the risk the U.S. government imposing complex customs requirements its post office's exports to the United States. Indeed, the foreign country could provoke a still broader trade dispute because it will be, in effect, offering simplified customs procedures for imports by non-U.S. carriers

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while denying them to U.S. carriers (e.g., imagine the British Post Office developing a GPL-like business for shipments from New York to Japan to take advantage of simplified customs procedures). Moreover, the foreign country will have to consider that domestic consumers will be directly and immediately injured by the increased cost of direct marketing imports from the United States. Furthermore, the first option may also, as supposed by GAO, increase the workload on customs authorities in the foreign country. On the other hand, if the foreign country chooses the second option, it will suffer no adverse consequences at all compared to the current situation. There is no reason to suppose that allowing all U.S. carriers the same access to simplified customs procedures will, per se, increase the total quantity of direct marketing goods imported from the United States. There is no other obvious way that a policy of equal application of simplified customs procedures could adversely affect the foreign country.

The only historical precedent for insisting upon a non-discrimination customs policy is consistent with the conclusion that the second option represents the most likely outcome. In 1991, when five post offices purchased one half of a private express company, TNT, the European Commission required the joint venture to limit its access to customs procedures to those available to private carriers. This EU policy is not an exact parallel of the proposed policy, because TNT was previously using private-carrier customs procedures. Nonetheless, it may be noted that there are no known instances of efforts to thwart this EU policy by foreign customs authorities.

In short, if a foreign government is willing to permit the importation of a substantial quantity of U.S. direct market shipments in accordance with simplified customs procedures, then there is no reason to believe that the foreign government will insist upon reserving access to the simplified customs procedures to the Postal Service in defiance of a U.S. policy requiring U.S. carriers to respect a principle of non-discriminatory access.

In our view, the longer term consequences of a U.S. policy supporting equal application of the custom laws to all competitive products will likely be not an increase in customs complexities but a great simplification of customs formalities for all low value shipments, and thus a great boon to international commerce. A key, unspoken argument sustaining current customs complexities is that they apply only to "international private carriers" and thus favor the national government's own carrier, the post office. If the United States acts to break up this silent conspiracy by declaring that it will not do its part to favor or accept favoritism for postal shipments, this incentive will be largely vitiated. The way will be cleared for an overdue reconsideration of the customs controls that strike a proper balance between the revenue and national security aspects of customs controls and the need of a modern economy for a simple, frictionless exchange of documents and small parcels of relatively low value.

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**5.1.3 Effect on universal service obligations of the Postal Service**

The draft report repeatedly notes the universal service obligations of the Postal Service as a consideration that militates against a U.S. policy of non-discrimination in customs treatment for U.S. carriers. For example, on page 9 of the Executive Summary, the draft report states

The private express industry has asserted that differences in customs clearance requirements for postal and privately shipped parcels result in more work and higher costs for the carriers, placing them at a disadvantage in competing with USPS to provide international parcel delivery service. However, USPS officials noted that they also incur costs that the private carriers do not, such as meeting their obligations to provide delivery service to persons in all communities of the United States and to member countries of the Universal Postal Union.

Likewise, on page 100 of Chapter 3, the draft report states,

Regarding the issue of whether the same requirements should be imposed on shipping postal and privately shipped parcels, USPS and private carrier officials have conflicting views about whether that would achieve a more "level playing field," considering USPS' universal service delivery obligations.

On pages 100 and 101 of Chapter 3, the draft report notes:

In response to the carriers' assertions about the costs of complying with customs clearance requirements, USPS officials said that they must incur costs for public service obligations that the private carriers do not, such as meeting their universal service delivery obligations. USPS' universal service obligations include delivering to persons in all communities in the United States and mailing to the 189 countries of UPU.

On page 103 of Chapter 3, the draft report implies some credit to these assertions by stating:

Determining whether and/or how to make customs requirements more similar would involve considering the implications of any changes to the postal and customs services, private express carriers, businesses, and consumers . . . . Also, postal services

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would want ensure that they would be able to continue providing universal mail service.

ACCA would certainly agree that the Postal Service is entitled to offer any argument it deems appropriate in opposition to a proposed U.S. policy of non-discrimination in customs treatment for U.S. carriers. And, in reviewing considerations pertinent to a proposed policy, GAO has a responsibility to report all sides to a debate. Nonetheless, ACCA believes the GAO has a further responsibility to assist the reader to understand and assess the arguments put forward. When GAO is presented with an argument that appears inherently improbable when tested against the other fruits of GAO's inquiry, GAO should at least ask for a clarification of the nexus between the argument and the policy in question. For example, if the Postal Service argued that a U.S. policy of non-discrimination in customs treatment for U.S. carriers would lead to an increased risk of global warming, we believe GAO would seek an explanation of the connection between global warming and customs procedures and include this explanation its account of USPS's position. To fail to do so leaves the reader with a contrary impression: that GAO, with its knowledge of the issue, found the argument sufficiently plausible to note without seeking a further explanation.

In fact, the proposed U.S. policy of non-discrimination in customs treatment for U.S. carriers has no more connection to the Postal Service's universal service obligations than to global warming. It may be conceded that the Postal Service incurs some costs in providing the Nation with basic postal services as mandated by Congress. To cover these universal service costs, Congress has granted the Postal Service special legal benefits including a monopoly over the carriage of letters worth many billions of dollars. The Postal Service's universal service obligations and associated costs have nothing to do with USPS's GPL service. Congress does not require the Postal Service to provide GPL service, nor is there any reason to suppose Congress ever intended the Postal Service to use of its special legal privileges to, in effect, cross-subsidize commercial services like GPL. Indeed, there is no apparent logical connection between the Postal Service's universal service obligation and a U.S. policy of non-discrimination in customs treatment for competitive products. Before giving a certain measure of credit to this argument by repeating it at least three times in the course of the draft report, ACCA submits that GAO should have sought a further explanation from the Postal Service.

#### **5.2 Position of the Postal Service**

In its discussion of a possible policy on equal application of the custom laws, the draft report at times seems unclear on the position of the Postal Service. As quoted above, a paragraph on page 9 of the Executive Summary contrasts the positions of private carriers, USPS, and shippers. This paragraph ends with the

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sentence: "At the same time, businesses that ship their goods internationally, as well as USPS and the carriers, stressed the importance of having competitive choices that provide alternatives in the cost and speed of international shipping services for consumers." The phrase *as well as USPS and the carriers* apparently responds to comments by the private carriers on an earlier draft of the Executive Summary. We expressed the concern, reiterated above, that this paragraph implies that the private carriers' position was inconsistent with the shippers' desire for "competitive choices that provide alternatives in the cost and speed of international shipping services for consumers." Rather than clarify the position of the private carriers, the additional phrase ambiguously suggests that private carriers, USPS, and shippers are in agreement on issues relating to competition.

Similarly, on page 102 of Chapter 3, the draft report states:

An official from the Direct Marketing Association (DMA), which represents direct marketers who ship their goods overseas, said that DMA members want a choice of international carriers. In addition, the DMA official said that GPL serves as an important means of simplifying the shipment of goods internationally. The DMA official also said that the advantages enjoyed by GPL customers--low-cost shipping and various delivery speeds and automated customs clearance data--also should be available to private carriers' customers. An official from the Mail Order Association said that GPL was essential to serving overseas markets and that his organization would like to see GPL expanded to additional countries. Moreover, officials from several GPL customers said that simplification of the customs process and lower shipping costs were the primary reasons they used GPL to ship internationally. USPS and the carriers also stressed the importance of competitive choices for shippers. [footnotes omitted]

Again, the final sentence -- "*USPS and the carriers also stressed the importance of competitive choices for shippers*" -- seems to imply that the Postal Service, like the private carriers, favors competition in respects to all types of international delivery services.

In our view, these ambiguous references to the position of the Postal Service may prove confusing to the reader. These passages might suggest to some readers that the Postal Service agrees with private carriers (and most shippers) that U.S. shippers should have a competitive choice among carriers in accessing to all levels of available customs procedures. In fact, of course, the Postal Service strongly opposes such competition.

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**5.3 Legal impediments to a U.S. policy requiring equal application of customs procedures to U.S. based carriers**

The draft report also considers legal obstacles to implementing a U.S. policy of non-discrimination in customs treatment for U.S. carriers. Two types of potential legal obstacles are noted in particular: lack of U.S. jurisdiction over foreign customs authorities and conflicts with international treaties. On page 22 of the Executive Summary, the draft report notes:

Changes in U.S. law by itself [sic] may not equalize customs treatment for postal and private express parcels. Further, making customs requirements the same may conflict with current international agreements, such as those involving the UPU service obligations. . . .

On page 100 of Chapter 3, the draft report notes:

Regarding how to impose the same requirements, the U.S. government does not have jurisdiction over foreign customs requirements, so any changes involving foreign requirements would need to be negotiated through bilateral or multilateral agreements. Moreover, potential conflicts with current international agreements would have to be considered.

Essentially the same statement is repeated on page 103 of Chapter 3.

On page 110 of Chapter 3, citing two acts of the Universal Postal Union, the draft report expands upon this theme as follows:

The ability of the United States to subject USPS to the same international customs requirements as the private carriers has limitations, due to the lack of U.S. jurisdiction over importing requirements imposed by foreign governments and potential conflicts with current international agreements on customs clearance. For example, the UPU agreement prescribes specific procedures for member postal services regarding customs declarations on postal parcels. These procedures differ from the customs procedures that the private carriers follow. Further, under the UPU agreement, "postal administrations shall accept no liability for customs declarations in whatever form these are made or for decisions taken by Customs on examination of parcels submitted to customs control." Laws subjecting USPS to the same customs requirements that private carriers must follow,

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which include liabilities for customs declarations, could conflict with this provision of the UPU agreement. Efforts to apply similar customs requirements may require bilateral or multilateral agreements. [Footnotes omitted]

These passages will, we believe, leave the reader with an exaggerated sense of the legal difficulties implementing a U.S. policy requiring equal application of customs procedures to U.S. based carriers. First, there is no reason to believe that such a policy requires the United States to assert jurisdiction over foreign customs requirements. So far as ACCA is aware, no one has ever suggested the need or possibility of such an assertion of jurisdiction. U.S. law needs only to exercise jurisdiction over U.S. carriers, in particular the U.S. Postal Service. When the European Union imposed a similar policy on the joint venture between five post offices and TNT in 1991, no question was raised about asserting jurisdiction over foreign customs authorities. It is confusing and unhelpful for the draft report to repeatedly portray the limits of U.S. legal jurisdiction as a possible legal obstacle to a U.S. policy requiring equal application of customs procedures to U.S. based carriers.

The other legal obstacle raised by the draft report is likewise insubstantial. The subject of the report is differences in customs treatment for GPL shipments and similar shipments by private carriers. A plain reading of the text of the Universal Postal Convention indicates that GPL is not mentioned in the Convention or any other act of the Universal Postal Union. USPS announcements indicate that GPL is provided pursuant to bilateral agreements between postal administrations. *See, e.g.,* 62 F.R. 45160 (Aug. 26, 1997) ("to implement agreements previously entered into with the postal administrations of Mexico and Singapore, those two countries are now being added as [GPL] destination countries.") Given this fact, there is no obvious reason to conclude that a court would find GPL to be offered under auspices of the Universal Postal Convention or the United States bound by the acts of the UPU in respect to regulation of GPL services. If GAO is relying upon a legal analysis which suggests an interpretation of the Universal Postal Convention contrary to its plain meaning, this analysis should be set out in its report. Moreover, as GAO is aware, the Universal Postal Convention will be revised in a congress of the Universal Postal Union scheduled for August 1999. National proposals for revision are due in a mere ten months (February 1999). It therefore seems remiss of the draft report to suggest that "potential conflicts with current international agreements would have to be considered" without at the same time mentioning that such conflicts, if any, can be addressed in an imminent revision of these international agreements.

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The following are GAO's comments on specific issues included in the letter dated May 8, 1998, from the Air Courier Conference of America (ACCA). These comments include the views of DHL, FedEx, and UPS. Other issues that were discussed in the letter have been included in the report text.

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## GAO Comment

1. In its letter, ACCA said that GPL service actually began a year earlier than indicated in the report with a USPS service called International Customized Mail (ICM). However, USPS' Manager of Mail Order said that ICM was not the beginning of GPL service, since ICM involved the sending of letters, not parcels. Further, this USPS official said that USPS' competitors with regard to ICM were foreign postal services, not private express carriers.

2. ACCA said that we did not address the extent to which differences in customs treatment for GPL parcels may be the result of USPS' "manipulation of international law." We did not address this issue because it was outside the scope of our review.

3. ACCA said that it would be helpful for the report to provide more information about the commercial implications of differences in customs treatment. ACCA noted cost differences in the carriers' average cost of complying with customs requirements and average GPL revenue. Within the scope of this review, we did not attempt to compare carrier costs with USPS revenues. We plan to make GPL cost issues the subject of a future review.

4. ACCA said we should have more thoroughly investigated the incidence of duty collection on GPL parcels shipped to Japan, including questioning direct marketers about whether duties were being collected on their parcels imported into Japan. In fact, we did question some direct marketers about this issue, but we were not informed that duties were not being collected on dutiable GPL parcels being shipped to Japan.

5. ACCA questioned whether we relied on a verbal statement from a Japan Customs official that the simplified tariff discussed in chapter 3 applied to both postal and private express parcels. In fact, we posed this question in an electronic message to a Japan Customs official who currently works in the Japanese Embassy in Washington D.C., and received an electronic written response that it applied to both postal and private express parcels under Art. 3-3 of Japanese Customs Tariff Law. This official's statement was contained in a draft of this report that was provided to Japan Customs, which did not disagree with this information. In addition, we verified with our Japanese law expert at the Library of Congress that the

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law applied to both postal and private express parcels. Further, we provided Japan Customs with a copy of a document furnished by a private express carrier suggesting that the simplified tariff applied only to postal parcels. Japan Customs officials responded that they did not know the source of this document and reiterated that the simplified tariff applied to both postal and private express parcels.

# Comments From Revenue Canada



MAY 04 1998

Mr. Bernard L. Ungar  
Director, Government Business  
Operations Issues  
United States General Accounting Office  
441 G St., N.W.  
Room 2A10  
Washington, D.C. 20548  
United States of America

Dear Mr. Ungar:

I am writing to thank you for inviting Revenue Canada to contribute to your agency's draft report [U.S. Postal Service: Competitive Concerns About Global Package Link Service](#).

The report correctly describes the key features of the processing of Global Package Link (GPL) parcels by Revenue Canada. GPL parcels are transported to Canada by a private express carrier and are processed through Revenue Canada's Courier/Low Value Shipment (LVS) Program. This means that GPL parcels are subject to the same customs clearance requirements, and are processed in the same manner, as all other private express carrier shipments that are imported under the Courier/LVS Program.

Our technical remarks and clarifications on the report, including the missing legislative references for Appendix V, are included in the attachment. Canada Post Corporation also reviewed the report, but will not be providing comments.

Should you have further questions, please contact Jan Gahagan, Manager, Courier and LVS Program, at (613) 954-7099.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Laurie Bratina".

Laurie Bratina  
Director  
Import Process Division  
Customs and Trade Administration Branch

Attachment

The wordmark for Canada, featuring the word "Canada" in a bold, serif font with a stylized maple leaf above the letter 'a'.

# Major Contributors to This Report

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General Government  
Division, Washington,  
D.C.

Teresa L. Anderson, Assistant Director  
Robert G. Homan, Evaluator-in-Charge  
Melvin J. Horne, Senior Evaluator  
Hazel J. Bailey, Communications Analyst  
Martin de Alteriis, Senior Social Science Analyst

---

Office of General  
Counsel, Washington  
D.C.

Jill Poses Sayre, Senior Attorney



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# Glossary

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Air Waybill	A nonnegotiable instrument of air transport that serves as a receipt for the shipper, indicating that the carrier has accepted the goods listed and obligates itself to carry the consignment to the airport of destination according to specified conditions. See also bill of lading.
Bill of Lading	A document that establishes the terms of a contract between a shipper and a transportation company under which freight is to be moved between specified points for a specified charge. Usually prepared by the shipper on forms issued by the carrier, it serves as a document of title, a contract of carriage, and a receipt for goods. See also air waybill.
Bond	An obligation made binding by a money guarantee; also the amount of the money guarantee.
Broker	An individual or firm licensed to enter and clear goods through Customs. Also referred to as a customhouse broker.
Certificate of Origin	A document, required by certain foreign countries for tariff purposes, certifying the country of origin of specified goods.
C.I.F.	Cost, insurance, and freight. A pricing term indicating that the cost of the goods, insurance, and freight are included in the quoted price.
Commercial Invoice	An itemized list of goods shipped specifying their price and terms of sale.
Consignment	Delivery of merchandise from an exporter (the consignor) to an agent (the consignee) under agreement that the agent sell the merchandise for the account of the exporter.
Consumption Tax	A consumption tax is levied on a taxpayer's expenditures for goods and services, rather than on an individual's income.

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**Glossary**

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Customs	The authorities designated to collect duties levied by a country on imports and exports. The term also refers to the procedure involved in such collection.
De Minimis	Threshold value amount at which imported goods are subject to duties and taxes. For example, the de minimis for imported parcels to Japan is ¥10,000 (U.S.\$ 80). <sup>1</sup>
Duty	A tax imposed on imports by the Customs authority of a country. Also called a tariff or a customs tariff, a customs tax collected on foreign products to generate revenues or discourage imports. Normally, a country's tariff schedules specify the amount of duty chargeable to a given class of imports. Duties are generally based on the value of the goods (ad valorem duties) and/or some other factor, such as weight or quantity (specific duties), or a combination of value and other factors (compound duties).
European Currency Unit (ECU)	The ECU is a currency basket comprising a predetermined amount of a number of different currencies. ECUs include most of the EU currencies.
European Union (EU)	Umbrella term referring to a "three-pillar" construction comprising the European Community and two new pillars: Common Foreign and Security Policy (including defense) and Justice and Home Affairs (notably cooperation between police and other authorities). The EU is governed by a five-part institutional system, including the European Commission; the EU Council of Ministers; the European Parliament and the European Court of Justice; and the Court of Auditors, which monitors EU budget spending.
Exchange Rate	The price at which one country's currency can be converted into another's. A wide range of factors influences exchange rates, which generally change slightly each trading day; however, some rates are fixed by agreement.
Excise Tax	Tax on the sale or manufacture of a commodity, usually a luxury item. Example: U.S. federal and state taxes on alcohol and tobacco.

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<sup>1</sup>Using an exchange rate of ¥125 per U.S. dollar.

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**Glossary**

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<b>Export License</b>	A government document that permits the licensee to export designated goods to certain destinations.
<b>Fee</b>	A sum paid or charged for a service; a sum can be a fixed amount.
<b>Harmonized Tariff Schedule</b>	A standardized commodity description and coding system for commercial products developed by the Customs Cooperation Council.
<b>Manifest</b>	An instrument in writing that lists the individual shipments constituting cargo.
<b>Penalty</b>	A sum of money or right forfeited as a consequence of undesirable or illegal conduct.
<b>Tariff</b>	A tax on imports or exports, usually imposed either to raise revenue or to protect domestic firms. A tariff may also be used to correct an imbalance of payments. The money collected under tariffs is called a customs duty or duty.
<b>Universal Postal Union (UPU)</b>	The UPU is an agency of the United Nations that governs international postal service; it also established some customs procedures for international mail. In 1995, 189 countries were UPU members, including Canada, Japan, the United Kingdom, and the United States. Countries that signed the Universal Postal Convention agreed to accept mail from other countries and to deliver the international mail to its final destination.
<b>Value Added Tax (VAT)</b>	A consumption tax levied on the value added to a product at each stage of its manufacturing cycle as well as at the time of purchase by the ultimate consumer. The VAT is a fixture in European countries and a major source of revenue for the EU.

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