

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

PUBLIC INQUIRY ON THE
CLASSIFICATION OF THE
INBOUND LETTER POST PRODUCT

Docket No. PI2018-1

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-11 OF COMMISSION INFORMATION REQUEST NO. 1**
(August 1, 2018)

The United States Postal Service hereby provides its responses to the above-listed questions of Commission Information Request No. 1, issued July 12, 2018. By Order No. 4727, the Commission extended the deadline to file these responses to August 1, 2018. The questions are stated verbatim and followed by the responses. The Postal Service has also filed an Application for Nonpublic Treatment for the materials being filed under seal in USPS-PI2018-1/NP1, and redacted versions of those materials accompany this public filing in Public Attachment 3.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Anthony Alverno
Chief Counsel, Global Business & Service
Development

James M. Mecone
Christopher C. Meyerson
Jeffrey A. Rackow

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1101
(202) 268-6687, Fax -5418
August 1, 2018

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1. This question requests data concerning the Inbound Letter Post product.¹
 - a. For the Inbound Letter Post product, please provide Fiscal Year (FY) 2017 volume, revenue, and weight data for: (1) letters and cards (format P); (2) large letters or “flats” (format G); (3) bulky letters and small packets² (format E); and (4) comingled Inbound Letter Post mailpieces.
 - b. For FY 2017, please provide the percentage of format E Inbound Letter Post mailpieces that was bulky letters (documents only) and the percentage that was small packets (goods).
 - c. For FY 2017, please provide the percentage of co-mingled Inbound Letter Post mailpieces that was: (1) format P, (2) format G, and (3) format E. Within the percent of co-mingled Inbound Letter Post mailpieces that were format E, please provide the percentage that was bulky letters and the percentage that was small packets.

RESPONSE:

- 1.a. The cited Regulations in footnote 2 to CIR No. 1, question 1, for the physical specifications for format E bulky letters and small packets should be to Universal Postal Convention Article 17 and Universal Postal Convention Regulations 17-103 and 17-104. The requested data are provided under seal in the Excel file, “NONPUBLIC CIR1 Q1a1c” included in nonpublic folder USPS-PI2018-1/NP1.
- 1.b. Format E small packets contain goods, but such small packets may also contain a combination of documents as well as goods. The Postal Service does not have the ability feasibly to distinguish between, and track the percentage of, format E bulky letters compared to format E small packets. See also Response to question 11.

¹ As defined by section 1130 of the Mail Classification Schedule.

² Bulky letters are Universal Postal Union (UPU) format E letter post items containing only documents and weighing up to 4.4 pounds. Small packets are UPU format E letter post items containing goods and weighing up to 4.4 pounds. The physical specifications for format E bulky letters and small packets are defined in Article 17 of the Universal Postal Convention and Articles RL17-003 and RL17-004 of its Regulations.

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1.c. In response to the first sentence of question 1c, the requested data are provided under seal in the Excel file, "NONPUBLIC CIR1 Q1a1c" included in nonpublic folder USPS-PI2018-1/NP1. As stated above, the Postal Service does not track the percentage of format E bulky letters compared to format E small packets.

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2. Please refer to the Postal Service's Motion for Reconsideration.³ The Postal Service states that the Inbound Letter Post product "is subject to competition from [c]ompetitive Postal Service products, and the products of competitors that compete with competitive Postal Service products, both of which serve as substitutes for Inbound Letter Post." Motion for Reconsideration at 7-8.
- a. Please list the competitive Postal Service products that the Postal Service is referring to that may serve as substitutes for the Inbound Letter Post product. For each product, please provide a product description, including any minimum or maximum size or weight restrictions and any additional service features, such as tracking or delivery confirmation. Please identify if the corresponding products compete on price or service or both.
 - b. Please list the products of competitors that the Postal Service is referring to that may serve as substitutes for the Inbound Letter Post product. For each product, please provide a product description, including any minimum or maximum size or weight restrictions and any additional service features, such as tracking or delivery confirmation. Please identify if the corresponding products compete on price or service or both.

RESPONSE:

- 2.
- a. The first part of this response outlines some of the complexities involved in responding to this question, as a result of the way the Mail Classification Schedule (MCS) is currently structured in relation to inbound letter post. The second part of this response discusses products that may serve as substitutes for the MCS section 1130 Inbound Letter Post product. The third part of this response discusses the extent to which such products compete on price or service or both with the MCS section 1130 Inbound Letter Post product.

³ Docket No. ACR2017, United States Postal Service Motion for Reconsideration of Order No. 4451, April 6, 2018, at 7-8 (Motion for Reconsideration).

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I. Complexities Arising as a Result of the Way the MCS is Currently Structured in Relation to Inbound Letter Post

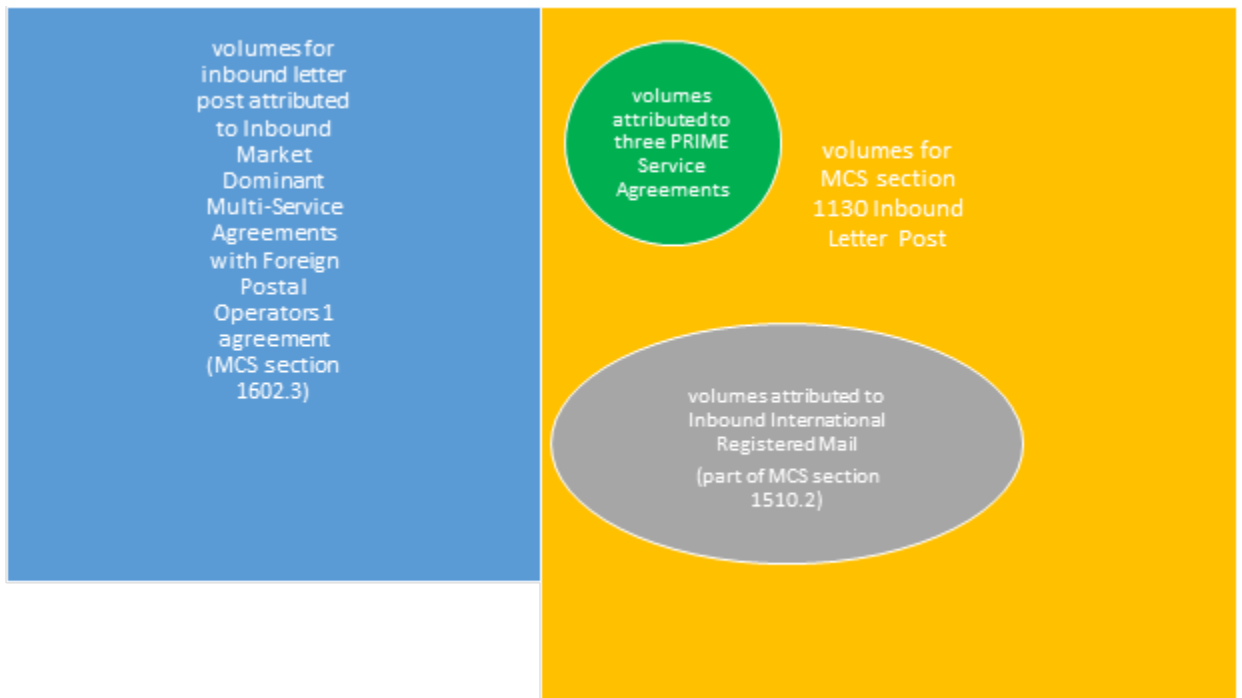
Especially given the way the MCS is currently structured in relation to inbound letter post, it is necessary to take into account much more than MCS section 1130 in order to define the inbound letter post product, let alone analyze it, discuss competing or corresponding products, and evaluate whether such products compete with inbound letter post on price or service or both. For example, if one focuses solely on volume for the MCS section 1130 Inbound Letter Post product, one would then exclude from the analysis all inbound letter post volumes attributed to Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 agreement (MCS section 1602.3). Also, if one focuses solely on revenue for the MCS section 1130 Inbound Letter Post product, one would then exclude from the analysis revenue attributed to related additional service features included in:

- Inbound International Registered Mail (part of MCS section 1510.2),
- the PRIME Express Service Agreement (MCS section 1602.4),
- the PRIME Tracked Service Agreement (MCS section 1602.6), and
- the PRIME Registered Service Agreement (MCS section 1602.5).⁴

⁴ Related revenue from the UPU Registered supplementary remuneration program, which the Postal Service participates in, is included within the part of MCS section 1510.2 that concerns Inbound International Registered Mail. As background, see UPU Designated operators exchanging data events for the purpose of measuring and improving quality performance, with or without payment of supplementary remuneration, Q3 2018 Participation List Valid until 30.09.2018 Updated, 02.07.2018, available at <http://www.upu.int/fileadmin/documentsFiles/activities/letterPostDevelopment/listCountriesSupRemEn.pdf>

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One way to conceptualize this, just in terms of volume, is through an illustration, such as the following, in which the yellow area concerns MCS section 1130 Inbound Letter Post, the blue area concerns Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 agreement (MCS section 1602.3), the grey area concerns Inbound International Registered Mail, and the green area concerns the three PRIME agreements. (However, the illustration is not accurately drawn to scale and is not designed to represent a particular time period.)



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II. Substitutes for the Inbound Letter Post Product

The Postal Service offers competitive products that may serve as substitutes for the MCS section 1130 Inbound Letter Post product, not only through a foreign postal operator, but also by way of direct entry, as discussed below.

A. Products offered by a Foreign Postal Operator

A foreign mailer who wishes to send goods or documents to the United States using a foreign postal operator could select among options offered by that foreign postal operator which include final delivery by the Postal Service to the destination address by way of the following three mailstreams: letter post, parcel post, or EMS, as outlined below.

a. Letter Post

If a foreign mailer opts for letter post, then the foreign mailer would purchase postage from the applicable foreign postal operator for service that would include final delivery by the Postal Service to the destination address by way of

- Inbound Letter Post, which is the subject of section 1130 in the Mail Classification Schedule (MCS), or
- The letter post provisions in an Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 agreement, which are the subject of MCS section 1602.3, if such an agreement is applicable.

In addition, if the foreign mailer opts for letter post, the foreign mailer might decide to purchase registered service from the foreign postal operator that would include final delivery by the Postal Service to the destination address by way of Inbound International Registered Mail, for which supplementary revenue (but not

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the revenue for the host piece) is part of the International Registered Mail product that is the subject of MCS section 1510.2, which could include some form of tracking. Also, tracking for the letter post item might be provided if the foreign postal operator is a party to the PRIME Express Service Agreement (MCS section 1602.4) or the PRIME Tracked Service Agreement (MCS section 1602.6), or if provisions related to tracking for certain letter post items are included in an Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 agreement with the foreign postal operator. However, in the absence of applicable letter post provisions in an Inbound Market Dominant Multi-Service Agreement with a Foreign Postal Operator under MCS section 1602.3, revenue for a host piece with tracking as a result of one of the PRIME agreements would be attributed to MCS section 1130 Inbound Letter Post, and revenue for the related tracking would be attributed to the applicable PRIME agreement (MCS sections 1602.4 through 1602.6).

b. Parcel Post

If the foreign mailer opts for parcel post, then the foreign mailer would purchase postage from the applicable foreign postal operator for service that would include final delivery by the Postal Service to the destination address using

- Inbound Parcel Post (at UPU rates) (MCS section 2310),⁵
- Inbound Air Parcel Post (at non-UPU rates) (MCS section 2515.8), if the one agreement in that product is applicable, or

⁵ Inbound Parcel Post (at UPU Rates) may be by air or surface, with different applicable rates.

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- The parcel post provisions in any applicable Inbound Competitive Multi-Service Agreements with Foreign Postal Operators contract (MCS section 2515.10).

Product descriptions, as well as size and weight limitations, and additional service features, are included in the MCS sections for the above three products in MCS sections 2310, 2515.8, and 2515.10.

3. EMS

If the foreign mailer opts for EMS, then the foreign mailer would purchase postage from the applicable foreign postal operator for service that would include final delivery by the Postal Service to the destination address using

- Inbound EMS (MCS section 2515.6), or
- The EMS provisions in any applicable Inbound Competitive Multi-Service Agreements with Foreign Postal Operators contract (MCS section 2515.10).

Product descriptions, as well as size and weight limitations, and additional service features, are included in the MCS sections for Inbound EMS, as well in the MCS section for Inbound Competitive Multi-Service Agreements with Foreign Postal Operators.

B. Products offered by way of Direct Entry

A foreign mailer seeking to send bulk goods or documents to the United States could also select a company that tenders international inbound shipments and parcels to the Postal Service after the U.S. Customs and Border Protection

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has cleared the items. Because UPU Letter Post mailpieces consist of letters, postcards, printed papers, and small packets weighing up to 2 kilograms that can be divided into three shapes (letters and cards, large letters/flats, bulky letters and small packets),⁶ the company could tender such items to the Postal Service not only as domestic market-dominant First-Class Mail or Package Services, but also as domestic competitive packages and flats product such as Priority Mail Express, Priority Mail, First-Class Package Service, and Parcel Select (Destination Entered, Ground, or Lightweight).⁷

A product description, as well as size and weight limitations, and additional service features, for these domestic competitive products are included in the following MCS sections:

- MCS section 2105, Priority Mail Express
- MCS section 2110, Priority Mail
- MCS section 2125, First-Class Package Service
- MCS section 2115, Parcel Select.

III. Whether the Corresponding Products Compete on Price or Service or Both

How “inbound letter post” is defined affects analyses of the extent to which the substitutes for the Inbound Letter Post product discussed above compete on price or service or both.

⁶ UPU Convention, Article 17.

⁷ See, for example, the Postal Service’s Global Direct Entry Wholesaler Program, which is based on published prices, and described in International Mail Manual section 621, available at https://pe.usps.com/text/imm/immc6_006.htm.

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As for price, if one assumes that inbound letter post is only what currently is included in MCS section 1130 Inbound Letter Post, then if foreign postal operators price as the Postal Service does, it is possible in many instances that the published retail price for a foreign postal operator's letter post product would be less than the published retail price at the same weight step to the same destination for that foreign postal operator's air parcel post or EMS product. However, at present, there are some weight steps close to the Postal Service outbound letter post 4 pound maximum for which the competitive PMI product (an air parcel post service) is less expensive than the corresponding FCPIS rate. For example, at the moment, retail prices for PMI Flat Rate envelopes and PMI Small Flat Rate Priced Boxes, which have a maximum weight of 4 pounds, are priced lower than retail prices for a 49-to-64 ounce FCPIS package, to all destinations. In addition, price differences might be affected by whether corresponding products of the foreign postal operator destined for the United States are subject to an Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 agreement (MCS section 1602.3), or an Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 agreement (MCS section 2515.10), as well as whether such products include services based on:

- Inbound International Registered Mail (part of MCS section 1510.2),
- the PRIME Express Service Agreement (MCS section 1602.4),
- the PRIME Tracked Service Agreement (MCS section 1602.6), or
- the PRIME Registered Service Agreement (MCS section 1602.5).

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As for service, a foreign mailer's selection among various products offered by a foreign postal operator could be affected by the additional service features included or offered with those products. For example, no indemnity is offered on inbound letter post to the United States (except with respect to registered mail); on the other hand, indemnity, as well as optional insurance, is offered for inbound parcel post (with coverage based on weight) and could be offered for inbound EMS, depending on the foreign postal operator. Similarly, signature requirements and related options would vary among the foreign postal operator's products, which might affect the foreign mailer's selection. In addition, the foreign mailer might make a selection based on the availability of tracking, which could be affected by whether the foreign postal operator is a party to an Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 agreement (MCS section 1602.3), an Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 agreement (MCS section 2515.10), the PRIME Express Service Agreement, the PRIME Tracked Service Agreement, or the PRIME Registered Service Agreement.

As for products offered by way of direct entry, companies that offer products that include final delivery by the Postal Service using various domestic Postal Service products compete on both price and service with foreign postal operators' products that include final delivery by Inbound Letter Post (MCS section 1130). The competition between direct-entry-based delivery chains and the Inbound Letter Post stream is affected by (1) the end-to-end prices that companies offering direct-entry-based delivery chains offer to their customers,

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(2) those companies' service levels for transportation within the origin country and between the origin country and the United States, (3) which domestic Postal Service product is selected for final delivery, and (4) available additional service features.

IV. Summary

In analyzing substitutes, focusing exclusively on Inbound Letter Post (MCS section 1130) is not likely to be very useful, if adequate consideration is not given to the complexities related to inbound letter post discussed in this response. MCS section 1130 Inbound Letter Post includes the reporting of base terminal dues coupled with air conveyance dues. However, a significant amount of inbound letter post volume is separately reported in MCS section 1602.3 Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1. Furthermore, additional revenue related to inbound letter post is separately reported in:

- Inbound International Registered Mail (part of MCS section 1510.2),
- the PRIME Exprès Service Agreement (MCS section 1602.4),
- the PRIME Tracked Service Agreement (MCS section 1602.6), and
- the PRIME Registered Service Agreement (MCS section 1602.5),

some of which are characterized by high contribution and cost coverage.

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The current structure of the MCS could lead to mistaken understandings of Inbound Letter Post, particularly because the Commission evaluates compliance at the product level.⁸

b. Parcels or other packages that competitors ship from abroad to the United States can compete with Inbound Letter Post product. These include the package shipping products of integrators, such as FedEx, UPS, and DHL, and freight forwarders and consolidators, such as SkyBox, BraBox, and Amazon. In addition to such package products, some competitors' products may also serve as substitutes for inbound bulk letters and flats. The Postal Service does not have a comprehensive list of competitors' products competing with Inbound Letter Post, though some of the competitors appear in the attachments being filed under seal with these Responses. See the four non-public attachments that are being filed under seal in this docket as "NONPUBLIC ANNEX;" see, e.g., Att. 3 of "NONPUBLIC ANNEX" at pages 16-17. Many of the competing products, such as FedEx Ground and UPS Ground, do offer tracking and delivery confirmation features. Product descriptions and features of third parties may be available through the competitors' websites. Upon information and belief, competitors seek to compete on both service and price.

⁸ FY2017 ACD, at 68.

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3. This question requests data concerning the market(s) in which the Inbound Letter Post product resides.

- a. Please state whether the Inbound Letter Post formats (formats P, G, and E) reside in a single market or if the Inbound Letter Post formats reside in multiple markets. If all formats of the Inbound Letter Post product reside in the same market, please answer question b. If the Inbound Letter Post formats reside in multiple markets, please answer question c.
- b. Please provide the following information relating to the market in which the Inbound Letter Post product resides:
 - i. Please identify the market in which the Inbound Letter Post product resides.
 - ii. Please provide a volume and revenue estimate for the entire market in which the Inbound Letter Post product resides.
 - iii. Please provide the Postal Service's market share (for Inbound Letter Post and for competitive products separately) by volume and revenue for the market in which the Inbound Letter Post product resides.
 - iv. Please provide the approximate market share by volume and revenue of each competitor for the market in which the Inbound Letter Post product resides.
- c. Please provide the following information relating to the markets in which the Inbound Letter Post product resides:
 - i. Please identify those distinct markets in which the Inbound Letter Post product resides.
 - ii. Please provide a volume and revenue estimate for each distinct market identified above.
 - iii. Please provide the Postal Service's market share by volume (for Inbound Letter Post formats and competitive products separately) and revenue for each distinct market identified above.
 - iv. Please provide the approximate market share by volume and revenue of each competitor for each distinct market identified above.
 - v. Please provide the cost characteristics for those markets.
 - vi. Please provide the percentage of commercial versus non-commercial customers for those distinct markets.

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RESPONSE:

3.a-c. The Postal Service has not conducted the market definition analysis necessary to determine if the various formats of Inbound Letter Post reside in the same or different markets, and, as noted below, does not possess the information necessary to perform such an analysis. In general, the postal and commercial shipping products available to a particular mailer or mailer segment are determined by the contents of the mailing, with shippers of goods having a different set of options than shippers of documents. While it may be reasonable to distinguish between the shipment of goods (and documents relating to those goods) from the shipment of only documents, the current UPU formats do not align neatly with that distinction.

Under current regulations of the Universal Postal Union (“UPU”), shippers of documents have the option of utilizing all Inbound Letter Post formats (P, G, and E), as well as other products of the Postal Service and commercial shippers (at least for certain legs). Each Inbound Letter Post format is defined by size, weight, content, and speed of delivery, and many of the characteristics of each format overlap with the characteristics of the other formats. Formats P and G may contain only documents, and format E may contain only documents, only goods, or a mixture of the two.⁹ A mailer has the ability to shift between Inbound Letter Post formats by modifying the shipment to satisfy the requirements of each format through changes in the dimensions of the documents or the font size (to reduce the number of pages and weight), the separation

⁹ See Universal Postal Convention Regulation 17-102.2.

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of a document into multiple shipments, or other methods. In addition, a mailer has the option to use other Postal Service products or (at least for certain legs) commercial products. Based on current UPU regulations, shippers of goods have the option of utilizing Inbound Letter Post format E or other products offered by the Postal Service and commercial shippers. Inbound Letter Post formats P and G are unavailable to shippers of goods only because of UPU regulations that limit the contents of Inbound Letter Post formats P and G to documents only. Requirements regarding size, weight, and other characteristics of Inbound Letter Post formats P and G would not prevent the shipment of goods through these formats.

In addition to challenges resulting from the substantial resources, time, and information required for a market definition analysis, analysis of the markets for the Inbound Letter Post product is further complicated by the manner in which the product is defined. Under the Mail Classification Schedule (MCS) 1130, Inbound Letter Post is defined as “inbound International pieces (originating outside of the United States and destined for delivery inside of the United States) that are subject to the provisions of the Universal Postal Convention of the Universal Postal Union and encompasses letters, packages, postcards, printed matter, and small packets, up to 2 kilograms.” This encompasses both untracked and tracked letter post. Letter post may be registered. As explained in the Response to question 2, volume and/or related revenue for host piece mail that meets the definition of MCS section 1130 Inbound Letter Post may instead be attributed to the MCS sections concerning market-dominant bilateral or multilateral contracts (see MCS section 1600), which may establish rates for certain subsets of inbound letter post and related services, such as tracked packets (in the

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case of a bilateral) or just tracking (in the case of the PRIME agreements). The MCS definition and classifications fail to lend themselves to useful analyses of the revenue for substitutes within these markets, because in some cases they separate out services into discrete categories.¹⁰ The total revenues that the Postal Service may obtain within the market, considered as a whole, would include not only the base terminal dues that are provided pursuant to the Universal Postal Convention, but also any supplemental revenues for features such as tracking and registered mail, and they would also take into account revenues for inbound letter post that the Postal Service obtains under bilateral and multilateral contracts (such as the PRIME contracts).

Different overlapping combinations of the characteristics of Inbound Letter Post formats P, G, and E complicate any attempt to identify discrete, mutually exclusive product markets.¹¹ As noted above, although format-P and -G items may contain only documents, format-E items may contain only documents, only goods, or a mixture of the two.¹² In considering what portion of the Inbound Letter Post product theoretically may be considered for transfer to the competitive classification, one discrete market may be

¹⁰ For example, revenue for a host piece of an item to which a PRIME agreement applies is attributed to MCS section 1130 Inbound Letter Post, while related tracking revenue is attributed to the MCS section for the applicable PRIME agreement (MCS sections 1602.4 through 1602.6). In contrast, for a letter-post item with tracking as a result of an Inbound Market Dominant Multi-Service Agreement with a Foreign Postal Operator under MCS section 1602.3, revenue for both the host piece and related tracking are attributed to the applicable agreement within MCS section 1602.3.

¹¹ Moreover, these characteristics are not necessarily the only means by which to define markets. Geography may also play a role, as letter post originating in different countries may differ or share characteristics from that originating in other countries. Further, single-piece letters and flats are not the same as bulk letters and flats, for which different competitive alternatives may be available.

¹² See Universal Postal Convention Art. 17; Universal Postal Convention Regulation 17-102.2.

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described as inbound small packets containing only goods. However, that represents only a subset of format E, so format E could not be used to identify and measure it.

Letter-post items containing only documents may be priority (i.e., quickest route) and non-priority items, and the carriage of inbound letters and flats containing items classified as “letters,” as defined in 39 C.F.R. §310.1 but not otherwise subject to the exceptions or suspensions of the Private Express Statutes, is subject to the Private Express Statutes. Small packets containing goods may also be priority and non-priority,¹³ but these items are distinguished from EMS items, which are intended to be the quickest means of postal delivery and may also contain documents and/or goods.¹⁴ Certain size and weight limits apply to letter post, which in some cases may be optionally expanded. For example, in general, an item with a weight of 2 kilograms or less is eligible for mailing as a small packet.¹⁵ However, an item weighing up to 5 kilograms may be mailed as a small packet if the origin and destination postal operators both accept small packets from their mailing customers.¹⁶ “Bulky letters” are also format E, and they may also weigh up to 2 kilograms (or, as stated above, up to 5 kilograms by mutual acceptance). The maximum size for format P is 5 x 165 x 245 mm (about 0.2 x 6.5 x 9.6 inches), with maximum weight of 100 g (about 0.2 pound). The maximum size for format G is 20 x 305 x 381 mm (about 0.8 x 12 x 15 inches), with maximum weight of 500 grams (about 1.1 pounds). The maximum size for format E is a

¹³ See Universal Postal Convention Art. 17; see also Universal Postal Convention Regulations 17-101.1, 17-101.2.

¹⁴ See Universal Postal Convention Art. 36.1.1.

¹⁵ See Universal Postal Convention Art. 17.3.1.

¹⁶ See Universal Postal Convention Regulations 17-103.1.1, 17-103.2.1.

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combined length, width, and depth of 900 mm (about 35.4 inches) with no one dimension exceeding 600 mm (about 23.6 inches), and with weight up to 2 kilograms (about 4.4 pounds) or alternatively, as outlined above, up to 5 kilograms (about 11 pounds).¹⁷ A letter-post item that exceeds any maximum limit is classified in the next largest format.¹⁸

The minimum size for all three formats is the same, 90 x 140 mm (about 3.5 x 5.5 inches).¹⁹ That means that an item small enough to be P or G format should nonetheless end up being classified as format E if it contains goods, though that would not necessarily mean that it does not also contain documents.²⁰ In other words, an item that is small enough to be format P or G may still be classified as format E, yet an item that is classified as format E (e.g., due to its larger size or weight, or because it contains goods) may still contain documents.

A holistic analysis of the market(s) within which inbound letter post competes would encompass the revenues of all sources, including under bilateral and multilateral contracts and for supplemental features like tracking and registered mail. If the Commission considers all of the revenue sources associated with inbound letter post, the Commission's perspectives on inbound letter post might be substantially different.²¹

¹⁷ See Universal Postal Convention Art. 17; Universal Postal Convention Regulations 17-103 to -105.

¹⁸ See Universal Postal Convention Regulation 17-105.3.

¹⁹ See Universal Postal Convention Regulations 17-104 to -105.

²⁰ Indeed, in theory, even such a small item containing only documents could also be classified as format E, though that would be economically irrational, given that higher terminal dues rates may then apply.

²¹ For example, if all other sources of revenue associated with inbound letter post are excluded from the analysis, finding that MCS section 1130 Inbound Letter Post product has low contribution becomes much less meaningful. See, *for example*, PRC FY2017 ACD, at 65-69.

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Thus, the Postal Service welcomes the Commission's efforts in this docket "[t]o better understand the Inbound Letter Post product and the market in which it resides."²²

The volume and revenue for the inbound formats P, G, and E are provided under seal in the Excel file, "NONPUBLIC CIR1 Q1a1c." However, given the complications described above in defining the market(s) that include(s) separate formats P, G, and E, the Postal Service does not know the total volumes and revenues of such markets, the market shares of the Postal Service or its competitors in such markets, the cost characteristics of such markets, or the percentage of commercial versus non-commercial customers for such markets.

²² Commission Information Request No. 1, Docket No. PI2018-1, July 12, 2018, at 1. The Postal Service notes that in the FY 2017 ACD, the Commission acknowledged that "The Postal Service argues that analysis of the Inbound Letter Post product should include a review of supplemental UPU remuneration and NSA volume and revenue associated with the Inbound Letter Post product. Postal Service Reply Comments on Inbound Letter Post at 2-4.... To the extent the Postal Service believes products should be classified differently, the Commission notes that an ACD proceeding is not the appropriate venue for such requests." (FY2017 ACD, at 68)

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4. Please refer to the Motion for Reconsideration. The Postal Service states that it “committed substantial time and resources to the study of the potential transfer of Inbound Letter Post [small] packets to the competitive list by undertaking internal study of the matter.” Motion for Reconsideration at 6.
- a. Please provide all analysis that resulted from the Postal Service’s study of the potential transfer of Inbound Letter Post small packets to the competitive product list including the results of any market research conducted.
 - b. The Postal Service states that the “UPU [2016] Congress considered proposals that might have more easily facilitated a transfer of inbound packets containing only goods from the market-dominant list to the competitive list (leaving letters, postcards, and flats in the market-dominant classification).” *Id.* at 6-7. Please provide the referenced UPU 2016 Congress proposals and explain how they would have facilitated the transfer of Inbound Letter Post small packets containing goods to the competitive product list.
 - c. The Postal Service alleges that its study of the potential transfer of Inbound Letter Post small packets to the competitive product list was “stymied by changes to proposals ultimately adopted by the [2016 UPU Congress] and subsequent meetings of the Postal Operations Council [(POC)].” *Id.* at 6. Please provide the amended proposal(s) ultimately adopted by the UPU 2016 Congress and/or POC and explain why these proposals stymied the transfer of Inbound Letter Post small packets to the competitive product list.

RESPONSE:

4. a. See “NONPUBLIC CIR1 Q4a” included in nonpublic folder USPS-PI2018-1/NP1.
- b. The principal referenced Universal Postal Union (UPU) proposal from the 2016 UPU Istanbul Congress was 20.16.2.Rev 1, a copy of which accompanies these Responses in Public Attachment 1. The proposal, if adopted without change, might have helped facilitate the transfer of Inbound Letter Post small packets containing goods to the competitive product list because it would have created a discrete category of letter-post, called small packets, that contains only goods.

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c. During the UPU Congress Committee 3 meeting that considered proposal 20.16.2.Rev 1 (on September 29, 2016), various countries raised concerns, which resulted in an amendment to delete that word “only.” A copy of the relevant resulting portions of the Universal Postal Convention as adopted by the 2016 UPU Istanbul Congress accompanies these Responses in Public Attachment 2; it shows in bold the provisions adopted in Universal Postal Convention Articles 1.1.4, 1.1.5, 17.2, 17.3, and 17.5. As amended, this proposal stymied the transfer of Inbound Letter Post small packets to the competitive product list because it did not create a separate format category of UPU small packets that contain “only” goods. In other words, the proposal would have limited small packets to letter-post items “containing only goods,” but the approved final language instead identified small packets as letter-post items “containing goods,” which meant that small packets could still contain documents along with goods. In addition, the proposal as initially published would also have eliminated the other format-E category of “bulky letters,” but the superseding language that the UPU subsequently published instead retained that category,²³ which meant that some items in format E (called bulky letters) would continue to contain only documents. As a result, UPU Convention Article 17 includes both bulky letters and small packets within format E. Accordingly, the fact that format E still includes letter-post items that are only documents (bulky letters), only goods (some small packets), and a mix of goods and

²³ Copies of both published versions of proposal 20.16.2.Rev 1 accompany these Responses, together with copies of proposals 20.1.2.Rev 2 and 20.16.3.Rev 1, in Public Attachment 1. Compare section 4 of both published versions of proposal 20.16.2.Rev 1 (deleting “bulky letters” in the initially published version, but retaining it in the latter). Although generally UPU proposals may be considered as sensitive nonpublic information of a third party, the Commission previously publicly posted copies of proposals 20.1.2.Rev 1, 20.16.2.Rev 1 (as initially published), and 20.16.3.Rev 1. See Notice of Posting of Proposals, Docket No. IM2016-1, July 20, 2016.

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documents (other small packets) frustrated the ability to distinguish the inbound letter-post packets containing only goods, which otherwise might have been a viable category for transfer to the competitive classification.

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5. In Docket No. ACR2017, the Postal Service filed four non-public attachments with its Motion for Reconsideration.²⁴ The Postal Service alleged that these attachments support its claims that the Inbound Letter Post product is subject to competition.
- a. Please file the four non-public attachments in this docket. If the attachment is a portion of a larger presentation, report, or other such document, please provide the remainder of the document.
 - b. For each non-public attachment, the Postal Service shall provide the following information:
 - i. Who prepared the attachment – *i.e.*, the Postal Service or a third-party. If the attachment was prepared by a third-party, please provide the name of the third-party.
 - ii. Date the document was finalized or provided to the Postal Service. If the document was presented, please provide the presentation date.
 - iii. If the attachment was provided to an audience, please identify the audience.
 - iv. For each page of the attachment, if there is a reference to products that compete with the Inbound Letter Post product, please identify the competing products.

RESPONSE:

5. a. As requested, the four non-public attachments are being filed under seal in this docket as “NONPUBLIC ANNEX” included in nonpublic folder USPS-PI2018-1/NP1. All pages of those nonpublic Attachments 1-4, except for the second page of Attachment 1, were originally portions of larger documents that are also being filed under seal in this docket as requested as “NONPUBLIC CIR1 Q5aAtt1,” “NONPUBLIC

²⁴ Docket No. ACR2017, United States Postal Service Notice of Filing Nonpublic Annex to the Motion for Reconsideration of Order No. 4451 and Application for Nonpublic Treatment, April 6, 2018 (Docket No. ACR2017, Notice).

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CIR1 Q5aAtt2,” “NONPUBLIC CIR1 Q5aAtt3,” and “NONPUBLIC CIR1 Q5aAtt4,” respectively, included in nonpublic folder USPS-PI2018-1/NP1.

b. i. The pages of Attachment 1 were prepared by the Postal Service, in part using data from third-party consultants. The longer documents from which the pages of Attachments 2-4 came were prepared by third parties for the Postal Service. See “NONPUBLIC CIR1 Q5bi” included in nonpublic folder USPS-PI2018-1/NP1.

ii. The first page of Attachment 1 was created in or about May 2017 (exact date not known) and finalized by June 1, 2017; it was part of a draft for an anticipated presentation that did not occur on that date. The second page of Attachment 1 was finalized on or shortly before April 6, 2018. Attachment 2 was provided to the Postal Service on December 29, 2017. Attachment 3 was finalized on or about August 11, 2015; it was partially based on an earlier version of the document that was presented to the Postal Service on June 26, 2015. Attachment 4 was provided to the Postal Service on October 4, 2017.

iii. The first page of Attachment 1 was used to brief senior Postal Service management internally. An earlier version of portions of Attachment 3 was presented to an internal Postal Service audience comprised of a cross-functional Postal Service Headquarters group developing Postal Service strategy for the ecommerce market.

iv. The attachments do not specify individual products that compete with the Inbound Letter Post product, though it is likely that products of many of the competitors mentioned in the attachments compete with the Inbound Letter Post product.

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6. Please refer to Docket No. ACR2017, Notice, Attachment 1. The Postal Service provides information on the “US Cross-Border Package Market.”
- a. Please define “the US Cross-Border Package Market.”
 - b. Please identify the Postal Service and private competitor products that are included in “the US Cross-Border Package Market” and provide a comparison of their product features.

RESPONSE:

6. a. As used in the referenced document, “the US Cross-Border Package Market” refers to items that are purchased and then shipped into or out of the United States, either through postal or commercial channels, but generally excluding items weighing over 70 pounds, which are typically shipped as freight.

b. As used in the referenced document, “the US Cross-Border Package Market” includes all aggregate products in the market defined above, and individual composite products or their distinctive features were not identified.

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7. Please refer to Docket No. ACR2017, Notice, Attachment 1. The Postal Service references “small packages.”
- a. Please define “small packages.”
 - b. Please identify the Postal Service and private competitor products that are included in the definition of “small packages” and provide a comparison of their product features.

RESPONSE:

7. a. As used in the referenced document, “small packages” refers to items comparable in contents and physical attributes to small packets, but which may be dispatched to the United States either through postal or commercial channels.

b. As used in the referenced document, “small packages” include all aggregate products in the market defined above, and individual composite products or their distinctive features were not identified.

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8. Please refer to Docket No. ACR2017, Notice, Attachment 1. The Postal Service estimates the average price for “cross-border e-Commerce transactions.”
- a. Please define “cross-border e-Commerce transactions” and specify the product features.
 - b. Please provide the data source of this estimated average price for cross-border e-Commerce transactions and explain how it was calculated.
 - c. Please provide separate estimated average prices for “cross-border e-Commerce transactions” for products offered by the Postal Service and private competitors. For each estimate, please include the data source, any market research, the method of calculation, and products included.

RESPONSE:

8. a. As used in the referenced document, “cross-border e-Commerce transactions” refer to goods purchased online that are shipped into or out of the United States, either through postal or commercial channels. The reference was to aggregate transactions, and individual product features of those transactions were not identified.
- b. See “NONPUBLIC CIR1 Q8b” included in nonpublic folder USPS-PI2018-1/NP1.
- c. Separate estimated average prices for “cross-border e-Commerce transactions” for products offered by the Postal Service and private competitors were not calculated.

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9. Please refer to Docket No. ACR2017, Notice, Attachment 2 at 1 for the weight distribution of “packets” and “parcels.”
- a. Please provide the definition of “packets.”
 - b. Please identify the products that are included within this definition of “packets” and provide a comparison of their product features.
 - c. Please confirm that these weight distributions reflect data relating to only Postal Service products. If not confirmed, please provide the weight distributions for packets delivered by the Postal Service.
 - d. If these weight distributions include data for more than one Postal Service product, please provide the weight distributions for each Postal Service product separately.

RESPONSE:

9. a. As understood by the Postal Service, “packets” in this document refers to items that weigh up to 4 pounds, contain goods that were purchased online, and are shipped internationally.

b. As used in this document, it is not known what products were included. This reflects a survey of U.S. consumers concerning cross-border online purchases. Those are shipping products that contained goods and were shipped from abroad to the United States purchasers. The survey did not indicate what products were included or their relative product features.

c. Not confirmed. The weight distributions for packets delivered by the Postal Service are not known.

d. See response “c” above.

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- 10.** Please confirm that the Postal Service plans to offer tracking for Inbound Letter Post mailpieces. If confirmed, please indicate when the Postal Service intends to begin offering tracking and please identify the types of Inbound Letter Post mailpieces for which the Postal Service will offer tracking. If not confirmed, please explain.

RESPONSE:

10. The Postal Service does offer tracking for inbound small packets through bilateral and multilateral contracts with foreign postal operators, including the PRIME multilateral contracts. Registered mail items can also have tracking. The Postal Service does not confirm that it currently has plans to offer tracking for all items that are the Inbound Letter Post product, including through the Universal Postal Union (UPU) supplementary remuneration program. Currently, tracked delivery service for letter-post items is an optional supplementary service under Universal Postal Convention Article 18.2.3. There is a proposal to amend this article at the UPU Extraordinary Congress to be held in September 2018 in Addis Ababa; if this proposal is adopted by that Congress, then tracked delivery service for letter-post items would subsequently become a mandatory supplementary service, absent an approved reservation to such Convention provision.

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11. Please confirm that the Postal Service has the capability to track the volume, revenue, and weight of Inbound Letter Post small packets containing goods. If not confirmed, please discuss whether the Postal Service will have this capability in the near future. If so, please provide an approximate timeline. If not, please discuss whether the Postal Service is taking any action or planning to take any action towards achieving this capability.

RESPONSE:

11. Not confirmed. The Postal Service does not expect to have the ability feasibly to track the volume, revenue, and weight of all Inbound Letter Post small packets containing goods in the near future. Not all small packets contain only goods, and format E items may be bulky letters that contain only documents. In addition, small packets containing goods may be dispatched to the United States in receptacles that also include other items. Absent an ability to identify and measure separately the inbound small packets containing goods, the Postal Service has no present plans leading to the ability to track such data.

Under Universal Postal Convention Regulation 17-107.6.4, small packets containing goods should bear UPU Technical Standard S10 barcodes. If all such items had those barcodes, then the Postal Service would have some ability to track the volume of Inbound Letter Post small packets containing goods.²⁵ However, upon information and belief, some foreign postal operators have not yet fully implemented that requirement. As more mail streams are required to be accompanied by customs advance electronic data, that should accelerate the implementation of the barcode

²⁵ At the same time, though, the fact that some items containing only documents may also bear barcodes could frustrate the ability to distinguish them from, and exclusively measure, packets containing goods.

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requirement and, in turn, the ability of the Postal Service to track the volume of Inbound Letter Post small packets containing goods.

Again, however, it must be emphasized that the ability to track Inbound Letter Post small packets containing goods does not include the ability to distinguish items that contain only goods (or only goods and non-monopoly documents) from items that contain a combination of goods and contents subject to the Private Express Statutes, such as might facilitate a product transfer under 39 U.S.C. § 3642. As discussed above, the Postal Service and United States Government have supported UPU proposals that may have helped track the volume, revenue, and weight of small packets containing only goods, and may have helped separate certain letter post items into discrete categories that could have been transferred to the competitive classification compatible with the Private Express Statutes.