

July 17, 2001

Honorable George A. Omas, Acting Chairman
Postal Rate Commission
1333 H Street, NW Suite 300
Washington, D.C. 20268-0001

Dear Mr. Chairman:

As you are aware, the terminal dues system used by post offices to compensate each other for the delivery of international mail has come under increasing criticism in recent years. The fundamental problem is that terminal dues do not traditionally take into account different costs of delivery in individual countries. As a result, current terminal dues arrangements result in postage rates that are generally below cost in industrialized countries and above cost in developing countries. This implies the need for anti competitive measures to prevent circumvention of the system. In view of such defects, European post offices, under pressure from the European Commission, are adopting a new terminal dues system, called REIMS, in which delivery charges for inward international mail are more closely aligned with domestic postage rates. At its last general congress, in Beijing in 1999, the Universal Postal Union (UPU) also took some first steps in this general direction.

The Postal Service believes that aligning terminal dues with domestic postage rates would have negative financial consequences for it. A more definitive analysis of this issue would be useful, however, especially since the United States will soon be called upon to develop a position toward possible reforms in the UPU general congress to be held in 2004. During my final tenure as Chairman of the former Postal Service Subcommittee, we recognized that more clarity on this matter would be helpful to the Department of State in discharging its responsibilities for U.S. policy within the UPU.

Therefore, to shed more light on this situation, it would be most helpful if the Commission could prepare a study of the financial consequences to the Postal Service of shifting from the terminal dues arrangements in effect on January 1, 2001, to a system in which terminal dues, for inward and outward international mail, are aligned with domestic postage. By "aligned with domestic postage," I refer to the general principles embodied in REIMS and other similar terminal dues agreements without suggesting the need to take into consideration detailed provisions of those agreements that are unlikely to be applicable to the exchange of mail between

the United States and other countries. In these respects, the Commission should use its best judgement and explain whatever assumptions are reflected in its analysis.

The requested study should include the exchange of mail between the Postal Service and all foreign post offices except Canada Post. According to the understanding of my former Subcommittee, the Postal Service already has a terminal dues arrangement with Canada Post that is related to domestic postage. Results of the requested study should be presented in whatever manner the Commission concludes will assist policymakers in the Congress and Executive Branch to understanding the financial and policy implications of moving to a REIMS-like terminal dues regime. In particular, I would ask the Commission to identify the consequences of such a shift in the terminal dues applicable to the exchange of mail between the United States and industrialized countries, on the one hand, and developing countries, on the other. Within the group of developing countries, the Commission should further highlight the implications for those countries, which, for reasons of special reliance on international mail revenues and/or low income, might be especially sensitive to changes in terminal dues arrangements.

In undertaking this study, the Commission should obtain from the Postal Service and take full account of all studies and analyses (whether finalized or not) of terminal dues, international mail rates, and related subjects which have been prepared by the Postal Service since the close of the general UPU congress held in Seoul in 1994 and which, in the judgement of the Commission, are pertinent to the requested study. In particular, the Commission should consider analyses prepared by the Postal Service for its work on such issues within the framework of the UPU and the International Post Corporation (the forum in which REIMS was developed). These studies should be appended to the Commission's report unless the Commission finds them to be not substantially pertinent to the requested study.

In view of the likelihood of the Postal Service's filing of general rate request in the fall and ongoing UPU discussions pertaining to terminal dues and related issues, the Commission should aim to submit its report no later than the end of September, if at all possible. If necessary, the Commission should adopt such simplifying assumptions as may be needed to allow completion of the requested study within this time frame.

As you are aware, in the past, the Postal Service has adopted a broad claim of commercial sensitivity of international mail data. Therefore, it would be helpful if the Commission can divide its report into three parts. First, in a basic report, the Commission should summarize its findings and include whatever data that it concludes may be necessary for the Congress and the public to make an informed judgement about the public policy matters involved. Second, the Commission should append to its report analyses and studies (including historical studies prepared by the Postal Service) which, in the judgement of the Commission, are similar to analyses and studies which receive public consideration in a general domestic rate

case. Third, the Commission should prepare a second appendix that includes analyses and studies (including historical studies prepared by the Postal Service) which, in the judgement of the Commission, are similar to analyses and studies which do not receive public consideration in a general domestic rate case.

Thank you in advance for your assistance in helping to understand and evaluate this important and longstanding issue of international postal policy. By copy of this letter, it is my expectation that the Postmaster General will give the Commission all possible assistance in this study.

With best wishes, I am

Sincerely yours,

John M. McHugh
Member of Congress

cc: Honorable Dan Burton, Chairman
Committee on Government Reform
U.S. House of Representatives

John E. Potter, Postmaster General and Chief Executive Officer
U.S. Postal Service

E. Michael Southwick, Deputy Assistant Secretary
Bureau of International Organization Affairs
U.S. Department of State