

ORIGINAL

ORDER NO. 1228

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-00001

Before Commissioners: Edward J. Gleiman, Chairman;
W. H. "Trey" LeBlanc III, Vice Chairman;
Commissioners Dana B. Covington, Sr., Ruth Y. Goldway,
and George A. Omas

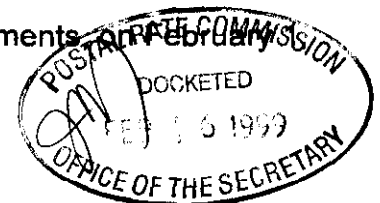
International Mail Report

Docket No. IM99-1

NOTICE OF INTERNATIONAL MAIL DATA REQUIREMENTS
(Issued February 16, 1999)

Section 3663 of the Title 39 requires the Commission to submit an annual report by July 1 of each year on the costs, volumes, and revenues of international mail. Part (b) of that section requires the Postal Service to provide the Commission with data by March 15 of each year to enable the Commission to prepare that report. The data are to be "in sufficient detail to enable the Commission to analyze the costs, revenues, and volumes for each international product or service under the methods deemed appropriate by the Commission for the analysis of rates for domestic mail."

On December 16, 1998, UPS asked the Commission to institute a rulemaking to determine what cost, volume, and revenue data for international mail the Postal Service should be asked to provide to enable the Commission to prepare the report required by § 3663. On January 15, 1999, the Commission issued Order No. 1226. It declined to institute a rulemaking, but invited informal public comment. Comments were submitted by the Advertising Mail Marketing Association (AMMA), the Officer of the Consumer Advocate (OCA), United Parcel Service (UPS), and the Postal Service on January 29, 1999. Reply Comments were submitted by the Postal Service on February 5, 1999. Federal Express (FedEx) submitted late comments and reply comments on February 5, 1999.



and February 8, respectively. Its submissions appear to offer sufficient grounds for late acceptance. The comments received addressed issues in the following areas.

A. Definition of Products and Services

The comments address the issue of what international mail services should be defined as distinct "products or services" whose costs, volumes, and revenues" the PRC is required to analyze under § 3663(b). In commenting on this issue, Order 1226 asked the public to focus on the list of suggested candidate international services that the Commission provided in the Attachment to that Order. As a result of the comments received, the Commission has made minor modifications to its original list. The modified list is found in the Attachment to this Notice. Whether it is appropriate or feasible to analyze cost coverages separately for those international services for purposes of sec. 3663 is a determination that will depend, in part, on what the data and documentation that the Commission receives from the Postal Service shows. For that reason the list of international services in the Attachment to this Notice remains a tentative one.

United Parcel Service and Federal Express.

UPS and FedEx appear to take the position that the Commission should report cost coverage data for international mail products separately not only for broad categories, but for all subcategories whose rates depend on presort level, terminal dues regime, or geographic destination (at least to the regional level). In particular, FedEx recommends that cost, volume, and revenue data be reported separately for Canada, Mexico, and the rest of the world, arguing that such mail has distinct cost characteristics and relatively large volumes. FedEx Comments at 3,6. See UPS Comments at 3. In Appendix A to its Comments, FedEx provides a list of more than 70 international services for which it recommends that data be separately reported. It consists essentially of all of the identifiable rate groups in the International Mail Manual, plus more than a dozen categories of inbound and transit service.

UPS and FedEx also recommend that when analyzing cost coverages, that the Commission consolidate outbound with inbound cost, volume, and revenue data for like services. Failing to do so, they argue, would yield a distorted estimate of the net revenue effect of the various international letter-mail services. FedEx Comments at 7, UPS Comments at 5.

AMMA

AMMA argues that international rates are not neatly aligned with economic costs and demand, and, therefore, there is little point in analyzing the cost coverages of individual international services. AMMA contends that international rate groups are often misaligned with economic costs and demand characteristics because terminal dues and other charges set by international agreement have arbitrary elements.

For example, it argues, the "AO" grouping includes mail with widely varying cost characteristics. AMMA Comments at 2. It also argues that international mail costs generally are distance sensitive, but that international mail rates are not "because of the UPU structure." AMMA also argues that the revenue surplus or deficit that might be found to result from providing service to inbound international mail cannot be rationally apportioned "to rate groupings of outbound international mail. Because of these problems, according to AMMA, it is not meaningful to analyze the cost coverages of specific international mail services. AMMA concludes that Congress must have intended the Commission only to determine whether domestic mail is subsidizing any portion of "the total accrued cost of international mail." AMMA asserts that the Commission needs no additional data to make this determination. AMMA Comments at 3-5.

Postal Service

The Postal Service says that it "basically agrees" with AMMA, but says that it does not oppose many of the recommendations that it provide more detailed data. Postal Service Comments at 4. The Postal Service suggests that several services that are on the Commission's tentative list should not be separately reported because they

are only minor variants of broader services, or have too little volume to allow cost data to be reliably separated. These services are Air M-bags, Valuepost/Canada and Bulk letter service to Canada. It recommends that these services be analyzed as part of Air AO, surface AO, and air LC, respectively (even though it argues that Valuepost/Canada is essentially a separate country grouping of ISAL, and that Bulk letter service to Canada is essentially a separate country grouping of IPA). Postal Service Comments at 2-3. Another reason that it offers for not separately reporting data for some of the services on the Commission's original list is that the data is country-specific, and therefore commercially sensitive.

Other low-volume services are post cards, postal cards, and aerograms. The Postal Service notes that data on these services are currently collected as one category and suggests that they should be analyzed as one category, due to their similar cost and market characteristics. It implies that given more time than is currently available, data on these services could be separated. Postal Service Comments at 4. Surface M-bags is a low-volume category for which the Postal Service currently reports separate data. The Postal Service suggests that in the future it should be reported as part of surface AO. *Id.* at 4.

The Postal Service asserts that it collects volume and revenue, but not cost data for transit mail, because transit mail is included in the Postal Service's own dispatches of international mail. It states that it currently tracks, but does not report data separately for international special services. It says that volume and revenue, but not cost data for international special services "possibly" could be reported by March 15. Postal Service Comments at 5. The Postal Service says that Global Parcel Service is an inbound, rather than an outbound mail category, contrary to what the Commission had assumed. *Id.*

As noted, the parcel companies appear to argue that cost coverages should be analyzed for the rate categories within subclasses such as those within International Priority Mail (IPA) and those within Global Priority Mail. The Postal Service responds

that the statistical sample representing IPA is too small to be further separated into its constituent rate categories and still yield reliable results. It also notes that it does not collect costs separately for the rate categories within IPA. It says separating data by the constituent categories of Global Priority Mail would encounter the same obstacles. The Postal Service adds that it will be hard pressed to produce the standard data compilations in the International CRA by March 15, and that greater levels of disaggregation such as the parcel companies propose could not be prepared by that deadline. *Id.* at 7-8.

Commission conclusions.

The comments argue convincingly that whether it is appropriate to analyze cost coverages separately for a particular product depends upon whether that product has distinct market and cost characteristics, whether separate cost, volume, and revenue data can be prepared and analyzed in the time remaining, and whether, apart from time constraints, the volumes of that product are too low to yield meaningful cost coverage estimates. Another important factor in determining whether it is appropriate to separately analyze and report the cost coverages for particular international services is the approach that the Postal Service itself follows in designing its rates for these services. The Commission's modified list of products whose cost coverages should be separately analyzed and reported that is attached to this Notice reflects the Commission's response to comments that some international product groups are too broad to be homogeneous, or too narrow to warrant separate analysis, or their volumes are too thin to provide reliable data. The modified list remains tentative because some of these determinations will depend on the data and documentation that is the Postal Service provides.

The product list in the Attachment reflects the Commission's tentative conclusion that in § 3663, Congress intended the Commission to analyze and report cost coverages for international services that are reasonably analogous to domestic subclasses — analogous in the sense that a particular international service has a rate

that reflects reasonably homogenous cost and market characteristics, and, if it has constituent rate categories, their rates differ from the basic subclass rate according to a discreet cost characteristic such as presort level, geographic destination, or terminal dues regime.¹

As a general matter, the Postal Service should provide the Commission with enough documentation to allow the cost coverage for each subclass to be calculated and reported, and enough documentation to demonstrate how it designs the rate for each constituent rate category (for example, the degree to which the rates for a category is based on added or avoided cost). The documentation should be sufficient to allow the Commission to determine whether the difference between the category rate and the base rate for the subclass to which it belongs reflects its added or avoided cost.

The Commission recognizes that the subclass/rate category model followed in the domestic mail arena may not be fully applicable to some international services. It is conceivable that geography can define a subclass of international service, in the sense that identifying the destinating country is the starting point, or the most basic consideration, in determining its rate. In such a case, its cost coverage should be separately analyzed and reported. Whether the cost, volume, and revenue data underlying the cost coverage determination for such a subclass is publicly reported will depend on a determination of the degree of commercial sensitivity of that data. The presence of Valuepost/Canada, Bulk letter service to Canada, and Canada Admail on the attached list of international products, therefore, reflects the Commission's tentative conclusion that if meaningful cost coverages for these low-volume services can be calculated, that they should be reported, even if the cost, volume, and revenue data underlying those calculations is not reported.

¹ This view is supported by the legislative history cited by the OCA which focuses on the issue of whether the cost coverages of specific international products or groups of products are adequate, and by the language of sec. 3663(b), which charges the Commission "to analyze costs, revenues, and volumes of each international mail product or service, under the methods determined appropriate by the Commission for the analysis of rates for domestic mail."

Similarly, if, for purposes of designing rates, the Postal Service treats certain geography-specific international services as subclasses with separate cost coverages (that is, sets rates by marking up that service's total attributable costs, instead of designing the rate as a surcharge or discount from the base rate of a larger subclass), the Postal Service's documentation should reflect this. This will allow the Commission to separately analyze and report that service's cost coverage. Whether data underlying the cost coverage for such a geographically-specific service is publicly reported will depend upon whether the Postal Service can demonstrate to the Commission that such data is commercially sensitive. In its initial report covering FY 1998, the Commission will use this as one of its criteria for resolving the dispute between the Postal Service and the parcel companies as to whether cost coverages for the portions of certain international services going to Canada, Mexico, and the rest of the world should be separately analyzed and reported.

The parcel companies' argue that the costs, volumes, and revenues of outbound international services should be consolidated with their inbound analogues. The Commission recognizes that net revenues generated by inbound categories of international mail might be relevant to an analysis of the comparative underlying economic value of flows of analogous products between country pairs. Nevertheless, the actual costs to the Postal Service of having its outbound international mail delivered in the destinating country are determined by the terminal dues actually charged for various outbound services, rather than the relative economic value of delivery provided by the destinating country. The Commission's initial attempt to analyze cost coverages for specific subclasses of outbound international service must start with an analysis based on actual delivery charges, that is, the terminal dues that the Postal Service actually pays the destinating country for internal delivery of that subclass.

In adopting § 3663, Congress charged the Commission with making a "comprehensive" report on the costs, volumes, and revenues of international mail. A

comprehensive report would, presumably, cover subclasses of inbound as well as outbound international mail.

FedEx and UPS argue that data for outbound and inbound subclasses should be consolidated before their cost coverages are analyzed. FedEx cautions that viewing the data for subclasses of inbound mail separately might not provide a balanced picture. It correctly observes that total revenues received for delivering a subclass of inbound mail may not be proportional to the economic cost of delivering that mail, due, for example, to too little or too much inbound volume, or terminal dues levels that are not aligned with actual unit delivery costs. Consolidating the cost, volume, and revenue data of outbound subclasses with that for analogous inbound services in order to analyze their cost coverages, however, would imply that a particular subclass of outbound international mail is the cause of the costs, volumes, or revenues that result from delivering analogous subclasses of inbound mail. It seems somewhat arbitrary to imply that domestic mailers that use a particular outbound service in some way cause the level of inbound volumes of an analogous service, or in some way cause the level of UPU terminal dues that are charged for delivering those volumes. For this reason, the Commission tentatively concludes that cost coverages for outbound and for analogous inbound services should be analyzed and reported separately

B. Documentation Required

The comments address the issue of what data and documentation should be required to support the Commission's analysis of cost coverages for international mail services. After reviewing the comments, the Commission concludes that the following data and documentation are needed.

1. The FY 1998 International Cost and Revenue (ICRA) applying general attribution principles approved by the Commission in its attribution of the costs of domestic mail services.

2. Documentation and workpapers supporting the ICRA, including

a. Terminal dues data in detail, as described in the Postal Service's Reply Comments at 12.

b. Air conveyance dues data in detail.

c. Transit charges in detail.

d. Data systems reports applicable to international mail (e.g., LIOCATT)

e. Description of cost allocation procedures, as indicated in the Postal Service's Reply Comments at 8-9.

f. Identification of costs that are exclusive to international mail (e.g., the cost of contractors who deliver international mail, custom clearance systems costs)

g. The cost of joint ventures with other postal administrations

h. Revenue data in detail, including billing determinants.

3. The handbook or other document that describes the statistical sampling design for obtaining revenue and volume estimates, and the handbook that instructs the data collectors on how to gather the sample data. These handbooks should cover, at a minimum, the Military International Dispatch and Accounting System (MIDAS), the System for International Revenue and Volume - Outbound (SIRV/O), and the System

for International Revenue and Volume - Inbound(SIRV/I).² If there are other relevant systems or databases that provide revenue and volume information on international mail, the Postal Service should describe and document them, as well.

4. Historical cost, volume, and revenue data for the international services on the list in the Attachment to this Notice for the four years preceding FY 1998, to the extent possible.

5. The Inspector General Report.

The materials listed above should be provided by March 15, 1999, as 39 USC § 3663(b) specifies. If any material cannot be provided by that date, the Postal Service shall provide an explanation and an estimate of the earliest time that it can be provided.

By order of the Commission.

(S E A L)



Cyril J. Pittack
Acting Secretary

² It is the Commission's understanding that MIDAS provides the total outbound tonnage for international mail, and forms the basis for selecting sacks or other containers of outbound mail for SIRV/O. The documentation should describe how data flows from MIDAS to SIRV/O to an annual volume estimate for a given service. Similar documentation is required for SIRV/I.

**INTERNATIONAL SERVICES FOR WHICH SEPARATE COST COVERAGE
ANALYSIS UNDER § 3663 APPEARS TO BE APPROPRIATE**

Outbound (including Transit)

- 1) Letters and Letter Packages
- 2) Postcards, Postal Cards, & Aeogrammes
- 3) Air AO
- 4) Surface AO
- 5) Air Parcel Post
- 6) Surface Parcel Post
- 7) Express Mail International Service
- 8) International Priority Airmail Service
- 9) International Surface Airlift
- 10) Global Priority Mail
- 11) Global Package Link
- 12) International Customized Mail
- 13) Direct Entry
- 14) Valuepost/Canada
- 15) Bulk Letter Service to Canada
- 16) Canada Admail
- 17) International Special Services (Data not available by 3/15/99)

Inbound

- 1) LC/AO
- 2) Express Mail International Service
- 3) Parcel Post
- 4) Global Parcel Services