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

Section 407 Inquiry	Docket No. PI2012-1

COMMENT ON PRINCIPLES AND PROCEDURES FOR PREPARING A SECTION 407(C) EVALUATION OF PROPOSALS AFFECTING RATES AND CLASSIFICATIONS FOR MARKET DOMINANT INTERNATIONAL MAIL PRODUCTS BY PROVISIONS OF THE UNIVERSAL POSTAL CONVENTION TO BE NEGOTIATED IN THE 2012 DOHA CONGRESS OF THE UNIVERSAL POSTAL UNION

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(AUGUST 27, 2012)

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On August 6, 2012, the Postal Regulatory Commission published Order No. 1420 in the Federal Register, inviting public comment on "the principles that should guide development of its views on the consistency of proposals for 'rates and classification of products subject to subchapter I of chapter 36' with the standards and criteria of 39 U.S.C. § 3622." 77 Fed. Reg. 46772, 46773 (Aug. 6, 2012) (Order at p. 3). As the Commission's notice explains,

> The Commission anticipates receiving a request from the Secretary of State, pursuant to 39 U.S.C. 407(c)(1), for its views on whether proposals affecting market dominant rates and classifications for international postal products and services exchanged among postal administrations, to be negotiated this fall at the 25th Congress, of the Universal Postal Union (UPU). [Order at p. 1]

Comments are requested by August 27, 2012. Order No. 1442 (Aug. 20, 2012). The 25th Congress of the UPU will convene in Doha, Qatar, on September 24, 2012, and is commonly referred to as the "Doha Congress." It is scheduled to adjourn on October 15, 2012.

In brief, this proceeding concerns proposals to establish rates for the delivery of inbound international postal items by intergovernmental agreement rather than by ordinary contractual arrangements between public postal operators. Two categories of rates are involved, what the UPU calls "terminal dues" and "inward land rates."

- *Terminal dues* are the fees that public postal operators charge each other for delivery of inbound international "letter post" items. The letter post consists of three types of items: (1) letters and postcards, (2) printed papers (such as advertisements or publications), and (3) small packets.

Small packets are packages weighing up to 2 kg (4.4 pounds). The terminal dues for small packets are especially significant in this proceeding because small packets include e-commerce packages, and e-commerce is increasingly significant for the future of both the public postal operators and the private global delivery services like FedEx and UPS in the global marketplace.[1]

- *Inward land rates* are the fees that public postal operators charge each other for delivery of inbound international "parcel post" items. Parcel post is a service for the collection, transport, and delivery of parcels weighing up to 20 kg.

In addition to establishing these rates, the Doha Congress will consider proposals for additional provisions concerning who qualifies for such rates and a floor for the rates that may be charged mailers of outbound international mail. The bulk of this comment centers on terminal dues because terminal dues constitute the most economically significant and most complicated of the measures proposed. However, legal issues raised by the other rate-related measures are addressed as well and are no less significant.

This comment is divided into six sections. In section 1, I begin with a discussion of the background of these proposals, including brief descriptions of the UPU and its

[1]Alternatively, the letter post may be defined to include priority and non-priority items weighing up to 2 kg for those public postal operators that do not classify mail by content. This comment applies equally to both definitions of the letter post. In addition, the letter post includes include two relatively small services, "M-bags" and literature for the blind, which are not considered in this comment. An M-bag is a sack containing newspapers, periodicals, books and similar printed documentation destined for the same addressee at a single address. *See* 2008 Universal Postal Convention, Art. 12(2)(4).

Postal Operations Council, the market for international postal and delivery services, and the historical development of terminal dues. In section 2, I describe the major proposals that will be presented at the Doha Congress and affect the rates and classifications for international market dominant postal products of the Postal Service. Section 3 provides a quantitative analysis of the most economically significant terminal dues proposal, the proposal that would establish delivery rates for letter post items exchanged among public postal operators in the most industrialized ("Group 1.1") countries. Section 4 suggests legal principles that should guide the Commission in preparing an opinion for the Department of State under § 407(c). Section 5 considers the procedures that should guide the Commission in developing a § 407(c) opinion. Finally, section 6 presents my conclusions and suggested next steps, taking account into the lack of preparatory work to date and the imminence of the Doha Congress.[2]

1 Background: the UPU and the market for international postal and delivery services

1.1 The UPU Doha Congress

The Universal Postal Union (UPU) is an intergovernmental organization that governs the exchange of international documents and parcels among designated operators (DOs). "Designated operators" are providers of postal services who have been designated by the governments of UPU member countries to provide the services

[2]On August 14, 2012, I submitted a "draft comment" in this proceeding in order to give interested parties a better understanding of the subject matter of this inquiry. This comment supersedes that draft comment entirely.

required or permitted by the acts of the UPU. With very few exceptions, DOs are government-owned or government-sponsored enterprises i.e., public postal operators. In addition to governing the exchange of international documents and parcels, in recent years the UPU has been gradually seeking to establish a legal basis for extending its “mission” to include additional services provided by DOs, such as domestic postal services, international express mail (EMS) services, and postal payment services and additional issues such as security, trade, and the environment. There are 192 “member countries” of the UPU, although many of these are very small and some are not true countries but territories governed by other countries.

The supreme authority of the UPU is the Congress. The Congress is an assembly of delegates from all member countries that meets every four years. The next UPU Congress convenes in Doha, Qatar, on September 24th. Each Congress revises and re-adopts the Universal Postal Convention. The Convention is a short document (37 articles) that establishes the basic legal framework for the exchange of documents and parcels among DOs. The Convention is binding on all UPU member countries. The next Universal Postal Convention will take effect on January 1, 2014, and expire on December 31, 2017.

Since 1994, the Congress has delegated much of its legislative authority to the Postal Operations Council (POC), which has become the effective seat of power in the UPU. The POC is a standing committee composed of delegates from 40 DOs, 16 from industrialized countries and 24 from developing countries. Although in principle the POC is elected by each Congress, the rules of selection ensure a high degree of stability.

Twenty-one DOs — including the Postal Service and the major European posts — have been “permanent” members since the POC was created in 1994; another nine have served on the POC for three of the four terms since 1994. In effect, then, the POC is simply a committee of the major DOs. The work of the POC is substantially dominated by the DOs from the very largest countries because they can devote far more staff resources to POC-related activities.[3]

The great majority of legal measures governing the international exchange of documents and parcels are adopted by the POC in the form of the Letter Post Regulations and the Parcel Post Regulations. The Regulations, as they are termed collectively, are not enacted by the POC until after Congress adjourns, so Congress is unaware of their final content. The Regulations are also binding on UPU member countries.[4] The Regulations will take effect and expire on the same dates as the Convention.

The main proposals relating to terminal dues and inward land rates which will be considered by the Doha Congress were developed by the Postal Operations Council since the end of the previous UPU Congress, held in Geneva in 2008. In some cases, what is proposed is reenactment of provisions already found in the 2008 Convention.

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[3]The “permanent” members of the POC have been the DOs of Belgium, Brazil, Canada, China, Cuba, Egypt, France, Germany, India, Italy, Japan, Korea, Morocco, Netherlands, New Zealand, Portugal, Russia, Spain, Switzerland, U.K., and the U.S.

[4]While the Convention sets out general principles and the Regulations addresses more operational details, the legal relationship between the two sets of rules is unclear. The Regulations are not issued under authority explicitly delegated in the Convention but rather under a general grant of authority provided in another UPU agreement, the General Regulations. It appears clear that the Convention can define or limit the legislative authority of the POC, but it does not appear the POC is limited to Regulations clearly authorized by the Convention.

Even though all of the spade work was done by DOs from the POC, some of these proposals have also been blessed by the Council of Administration (CA), a UPU standing committee of 41 delegates from UPU member countries. Regardless of such formalities, for simplicity this comment will refer to all of the amendatory and non-amendatory proposals of the POC and CA affecting terminal dues and inward land rates collectively as "the POC proposal."

1.2 International postal and delivery services market

As in the United States, in the international market for postal and delivery services, DOs are predominant in services for lightweight letter post items but minor, albeit significant, players in the broader delivery services market. According to a 2010 UPU study (the Adrenale Report), in 2008, DOs collectively accounted for about 85 percent of the volume and revenues in the cross-border market for non-express documents, a market encompassing about 6.2 billion items and generating $ 10.3 billion.[5] If lightweight (weighing 2 kg or less) parcels and express services are included, the market share of DOs is about 80 percent by volume and 37 percent by revenue. The total global market for conveyance of both lightweight international documents and parcels encompassed about 6.7 billion items and generated about $ 34.5 billion in revenues.

The Adrenale Report reported that the global market is dominated by just five operators who collectively share almost three-quarters of revenues from the global

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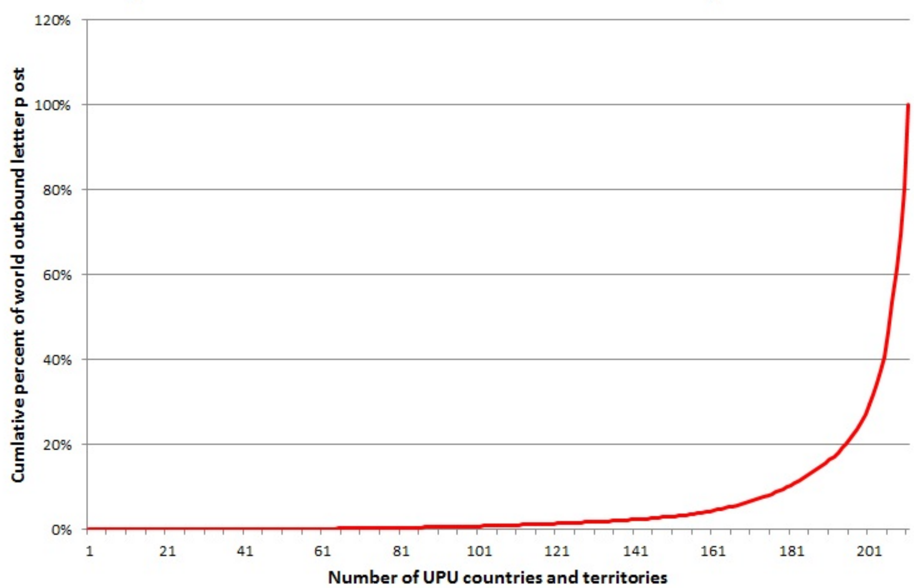
[5] Adrenale Corporation, *Market Research on International Letters and Lightweight Parcels and Express Mail Service Items* (2010) at 12 (hereafter "Adrenale Report"). Note that the figures in the Adrenale Report represent about 85 to 90 percent of the world market. The world market estimates presented in the text have been adjusted accordingly.

market: Deutsche Post/DHL (21%), FedEx (19%), UPS (16%), TNT (9%), and U.S. Postal Service (7%). Since the Adrenale Report, TNT has transferred most of its DO activities to a new company, Post NL, and UPS is seeking to acquire the rest of TNT.

Among DOs, the international letter post world is highly concentrated notwithstanding the long membership list of the UPU. Twelve DOs account for 75 percent of all outbound international letter post mail, and 30 DOs account for 90 percent. At the other end of the spectrum, 165 DOs contribute only about 5 percent of all outbound letter post mail. See Figure 1. Although the major DOs cooperate with each other as reciprocal agents, they also compete fiercely. Using modern electronics, multinational companies shift mail production facilities for regional customers to countries that offer high quality access to the international postal system at reasonable prices. Indeed, with the ending of the postal monopoly in most industrialized countries, DOs are establishing offices in each other’s territories to serve global customers.

Figure 1. Distribution of outbound international letter post mail



Source: Appendix B

1.3 Background of the POC terminal dues proposal

The POC terminal dues proposal to be considered in the Doha Congress is the fourth iteration of a terminal dues and anti-remail strategy first adopted by the 1999 Beijing Congress. The roots of this strategy go back to 1989 and the emergence of remail competition. A brief review of this background will help to illuminate issues underlying the terminal dues proposals to be considered by the Doha Congress.[6]

Prior to 1989, postal administrations (“administrations” because they were all government departments in those days) paid each other a fixed sum per kilogram for the delivery of inbound international mail. Since the costs of delivery varied enormously among countries of the world — and obviously depend on the number of items per kilogram — this charge per kilogram bore no relation to the cost of the delivery. It was a political compromise between the industrialized countries, who were the primary payers because they were net exporters, and the developing countries, who were the primary payees because they were net importers. The compromise terminal dues rate was necessarily well below domestic postage rates in the industrialized countries.

In 1980s, with the rise of private “courier” companies, some post offices began to take advantage of the non-cost-based nature of terminal dues by offering “remail” services. For example, a post office in country B would accept documents collected in country A and transported to it by courier and then forward the documents as

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[6]For further information and citations to sources, see chapter 6 in James I. Campbell Jr., Alex Kalevi Dieke, and Martin Zauner, *Study on the External Dimension of the EU Postal Acquis* (2010) (study for the European Commission) (available from http://ec.europa.eu/internal_market/post/studies_en.htm) and James I. Campbell Jr., “Evolution of Terminal Dues and Remail Provisions in European and International Postal Law" in *The Liberalisation of Postal Services in the European Union* (2002), edited by Damien Geradin. Both are also available from http://www.jcampbell.com.

international mail to country C for delivery at the terminal dues rate. This was termed "ABC" remail where A is the origin country, B is the remail post office, and C is the destination country. The mailer in country A would pay a charge covering the expenses of the courier company plus a handling fee for post office B plus the terminal dues payable to the post office in country C. All in all, the result was typically a better service at a lower price than provided through the international mail service of the national postal administration in country A. In this way, postal administrations began to compete with one another in the distribution of international mail by reselling the "club rate" — the low terminal dues available only to postal administrations.

Postal officials in the major administrations were shocked and dismayed by the prospect of remail competition. They resolved to establish higher, but still uniform, terminal dues for mail exchanged themselves. The first version of this strategy was adopted informally by a group of about 15 leading postal administrations in 1987. This strategy was viewed as anticompetitive by the EU Competition Directorate and the U.S. Department of Justice.[7] The competition authorities objected that an agreement setting a high uniform terminal dues rate amounted to a classic price-fixing arrangement that limited desirable competition and distorted international markets. They urged that terminal dues should be aligned with the domestic postage chargeable for comparable services and that postal administrations should make such rates available to all comers

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[7]Details of the objections of EU competition authorities to the anti-remail strategy of 1987 are recounted in James I. Campbell Jr., "Remail: Catalyst for Liberalizing European Postal Markets," in *Liberalisation of Postal Markets: Papers Presented at the 6th Königswinter Seminar*, edited by Gabriele Kulenkampf and Hilke Smit (2002). A copy may be obtained from http://www.jcampbell.com. The DOJ study questioning the 1987 terminal dues agreement and its aftermath is described in section 4.6, below.

— foreign posts, private delivery services, and big international mailers — on a non-discriminatory basis.

The principle of aligning terminal dues with domestic postage rates was gradually adopted in Europe. The first system was pioneered by Nordic postal administrations in 1988. In the Nordic system, terminal dues were set at 60 percent of retail domestic postage rates. Under pressure from European competition authorities, most EU postal administrations eventually joined a similar approach, called the REIMS agreement, in 1997. The REIMS agreement, now in its fifth version, governs the exchange of letter post items between many, but not all, European DOs. The European Postal Directive, adopted in 1997, extends the principle of cost-based terminal dues to intra-EU cross-border postal services.[8]

The UPU, however, has never adopted a terminal dues system truly aligned to domestic postage rates. The UPU's failure to do so is due, at least in part, to the failure of American authorities to require the Postal Service to follow the policy direction of the Executive Departments in the 1980s.[9] Instead, in the Washington Congress of 1989 and

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[8]See previous note.

[9]Most of this policy guidance took place out of public view. For examples in the public domain see, e.g. letter from President Ronald Reagan to Albert Casey, Postmaster General, May 1, 1986 ("I want us now to make sure that the Acts, and particularly Article 23 [the anti-remail provision], are not used to stifle healthy private competition in the international mail arena . . . Therefore, I am asking that you do all within your power, . . . to permit and promote marketplace competition in international mail, and to influence other nations to do likewise."); letter from James F. Rill, Ass't A.G., Antitrust Div., Dept. of Justice to Thomas G. Martin, Bureau of International Organization Affairs, Dept. of State, Oct 19, 1990) ("To the extent that the terminal dues differ from the actual cost of completing delivery, they have the potential to distort competition and unfairly disadvantage private competitors"); letter from Timothy J. McBride, Ass't Sec. for Trade Development, International Trade Administration, Dept. of Commerce, to John R. Bolton, Ass't Sec. for International Organization Affairs, Dept. of State, Nov. 2, 1989 ("The Commerce Department seeks to ensure reasonable opportunities for private sector (remail) competition in the provision of international delivery services."); letter from Janet Hale, Assoc. Dir. for Economics and Government, Office of Management and Budget, to Thomas G. Martin, Bureau of International Organization Affairs,

the Seoul Congress of 1994, the UPU sought to discourage remail by developing a two-tiered terminal dues system that would apply a high uniform rate to large volume bilateral flows and hence to the major exchanges of the industrialized countries. At the same time, the UPU continued the lower, simpler uniform rate for other bilateral exchanges, thus taking care of exchanges to and from developing countries.

In 1999, the Beijing Congress adopted what has become the pattern for subsequent terminal dues provisions. The Congress formally resolved that, in principle, all countries should eventually adopt a terminal dues system that will "approach more closely the costs of the services rendered." The Convention was amended to declare, "*The provisions of the present Convention concerning the payment of terminal dues are transitional arrangements, moving towards a country-specific payment system*." UPU members were divided into "industrialized countries" and "developing countries." A terminal dues rate for letter post items exchanged among industrialized countries was established by a formula that yielded a per item and per kg rate related to the 20 gram domestic tariff in each country. This link to domestic postage rates was a formality only, however. In reality, in almost all cases tight upper and lower limits established the terminal dues rates at levels unrelated to domestic postage. For developing countries, the traditional uniform rate per kg rate maintained. In sum, the UPU paid lip service to alignment of terminal dues with domestic postage while maintaining the anti-remail strategy of 1987 based a two-tiered terminal dues structure.

Dept. of State, Nov. 6, 1990 ("Despite this policy guidance [from President Reagan], Postal Service did little to advance this country's position in the 1989 Convention negotiated with other postal administrations"). See also the 1988 study by the Department of Justice quoted in section 4.6, below.

The terminal dues approach of the Beijing Congress was renewed without fundamental change in 2004 and 2008. The 2004 Bucharest Congress restated that "that the 1999 Beijing Convention contains transitional terminal dues arrangements and that the final objective is to move to a country-specific payment system that is cost-based" and renamed the terminal dues regime for industrialized countries the "target system" to emphasize the long term objective of economically based terminal dues. The terminal dues system for developing countries regime was renamed the "transitional system." The 2008 Geneva Congress instructed the Council of Administration "to ensure that, allowing for exceptions, the application of country-specific, cost-based remuneration principles will be universal by 31 December 2017." At the same time, these Congresses reenacted provisions for the "target system" that, for all almost all industrialized countries, set terminal dues by means of upper and lower limits that prevented operation of a formula linking terminal dues to domestic postage.

The UPU Congresses of 2004 and 2008 also renewed restrictive rules against remail competition and adopted new rules against competition from "extraterritorial offices of exchange" (ETOEs), an extension of remail competition. An ETOE is office of a DO established outside of its national territory and thus in competition with the local DO for international mail. Thus, an ETOE is an extension of the idea of remail. In the UPU, restrictions on remail and ETOEs are justified by the need to shield non-cost-based terminal dues from unfair "arbitrage" by competitors.

2 POC proposal for the Doha Congress

2.1 Terminal dues

The POC proposal for terminal dues in the 2014 through 2017 period is set out in Proposals 20.17.1, 20.18.1, and 20.19.1, amending the text of Articles 27 (general principles), 28 (target system), and 29 (transitional system) of the 2008 version of the Convention, respectively.[10]

2.1.1 Groups of countries defined by postal development

The POC proposal continues to classify countries as belonging to the "target system" or the "transitional system." Likewise, the POC proposal continues the division of DOs into six groups (confusingly, the first two groups are called "1.1" and "1.2") as shown in Table 1.

Table 1. TD Groups

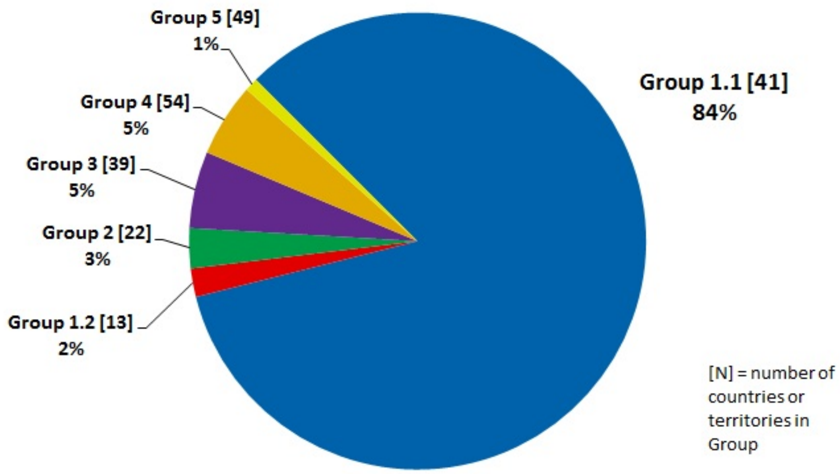
TD Group	Number of member countries and territories	Percent of outbound international mail	Percent of outbound international mail	Joined Target System
1.1	41	84%	71%	Always
1.2	13	2%	3%	2010
2	22	3%	4%	2012
3	39	5%	14%	
4	54	5%	8%	
5	49	1%	1%	

Source: See Appendix B

Terminal dues groups were introduced by the 2008 Geneva Congress. The groups are determined by each country's score according to a "postal development index" that reflects the volume of letters per capita, postal income as a percentage of the economy, number of post offices, and other indicators of the extent of public postal

[10] These articles, as they would be amended by the POC, are reproduced in Appendix A.

Figure 2. Distribution of outbound international letter post mail



Source: Appendix B

service. The groups serve two purposes: (i) to define sets of countries and territories that can, in principle, be moved together from the “transitional” system into the “target” system and (ii) to define contributions that DOs make to a UPU fund (the Quality of Service Fund) intended to aid DOs in the least developed countries. Figure 2 summarizes the relative importance of the terminal dues groups in the international letter post graphically.

The concept of linking terminal dues to the level of “postal development” is increasingly disconnected with reality. Countries modernizing after the age of paper-based communications will never develop the extensive universal postal services built by countries that modernized in the nineteenth and twentieth centuries. In the twenty-first century the number of letters or post offices per capita will bear no relation to the role of a country in international commerce and hence to the reasonableness of granting or not granting subsidized rates for the delivery of international mail that will, over time, include ever more lightweight commercial packages.

2.1.2 Target system: Group 1.1 System and the New Target System

In the 2008 Convention, the target system includes Groups 1.1, 1.2, and 2. The "target system" is not one system because different rules apply to different subsets of DOs. As a practical matter, it is more realistic to view the "target system" as consisting of two systems: a Group 1.1 System and a New Target System.[11]

The Group 1.1 System refers the terminal dues applicable to exchanges of letter post mail between the DOs in Group 1.1. There are 24 substantial Group 1.1 DOs.[12] All are based in industrialized countries and are far larger and more commercially sophisticated than other target system DOs; in reality, the Group 1.1 DOs are "living on a different planet" from the rest of the target system. Although Group 1.1 DOs account for about 84 percent of all outbound international letter post items, only about 75 or 80 percent of these items are sent to other Group 1.1 DOs. Thus, the Group 1.1 System of terminal dues applies to about two-thirds to three-quarters of all international letter post mail (precise figures are unknown).

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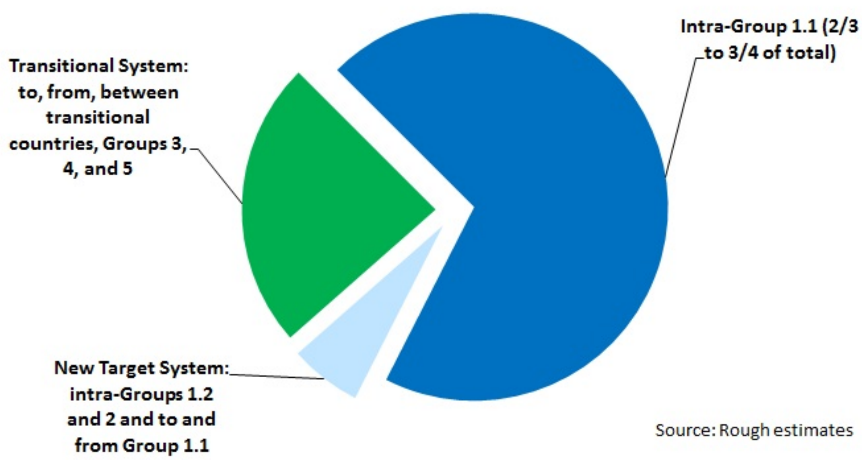
[11]"New target system" is the term used in the 2008 Convention to refer to Groups 1.2 and 2. In the POC proposal, the term "new target system" is changed to refer to Group 3. In this paper, I shall use "New Target System" to refer to the portions of the "target system" outside of the of Group 1.1 System.

[12]As explained in the previous section, technically Group 1.1 includes the DOs from 41 UPU member countries and territories. Of these, however, only 24 are of significant size. These are the DOs of Australia, Austria, Belgium, Canada , Denmark, Finland, France, Germany, Great Britain (United Kingdom), Greece , Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Netherlands , New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, and United States. In the interest of simplicity or because of unavailability of data, my analysis shall generally omit the other 17 Group 1.1 DOs. However, for completeness, they are the DOs of Falkland Islands - Malvinas, French Polynesia, Gibraltar, Guernsey, Isle of Man, Jersey, Liechtenstein, Martinique, Monaco, New Caledonia, Norfolk Island, Pitcairn Island, Reunion, San Marino, Tristan da Cunha, Vatican, and Wallis and Futuna Islands. According to UPU estimates, these 17 countries and territories account for only about 1 percent of the outbound and inbound letter post mail of Group 1.1.

Figure 3. Distribution of outbound international letter post mail by terminal dues regime



Under the POC proposal, in the Group 1.1 System, the terminal dues charge for each DO is expressed in the form of X per kg and Y per item. X and Y are nominally aligned with 70 percent of the priority (i.e., first class) domestic postage rates for DO using a standard formula that depends on the domestic postage for a 20 gram small letter rate and a 175 gram flat (large envelope). In actuality, this formula almost never is applies. As described more fully in section 3, below, for almost all Group 1.1 DOs, terminal dues are established by a “cap” or upper limit. The cap is a fixed amount per kg and per item which increases by 3 percent each year. In addition, terminal dues are further limited by a rule that they cannot increase more than 13 percent annually.

The New Target System refers to the portion of the target system that establishes terminal dues for exchanges of international letter post mail among the DOs in Groups 1.2 and 2 as well as exchanges of letter post mail between these DOs and the Group 1.1 DOs. Group 1.2 includes DOs from 13 small but well off developing countries such as Aruba, Bahamas, Bermuda, Cayman Islands, Hong Kong, Kuwait, Qatar, and Singapore. Similarly, Group 2 includes the DOs of mostly small and relatively advanced developing countries in the European Union (Croatia, Cyprus, Czech Rep., Estonia, Hungary, Malta, Poland, Slovakia), Caribbean (Antilles, Barbados, Montserrat, St. Kitts, Trinidad and Tobago), the Middle East (Bahrain, Saudi Arabia) and Asia (South Korea, Macao). As in the Group 1.1 System, terminal dues in the New Target System are expressed in terms of X per kg and Y per item. However, the cap provision, which is the major determinant of terminal dues, is set almost 30 percent lower. In 2010, the New Target System DOs accounted for about 8 percent of all outbound international mail. At a guess, therefore, some 6 percent of international outbound mail is covered by the New Target System.

According to the POC proposal for the Doha Congress, Group 3 will join the New Target System in 2016. Group 3 includes the DOs of Brazil, China, and Russia (India Post is in Group 4). If Group 3 is moved to the New Target System in 2016, the per kg and per item terminal dues for Group 3 DOs will be somewhat lower than the terminal dues for the other DOs in the system. Until the final meetings of the POC, the plan was to move Group 3 to the target system in 2014, Group 4 in 2016, and Group 5 in 2018. In February 2012, the developing countries revolted resulting in the omission of Groups 4 and 5 and postponement of the transfer of Group 3 until 2016. Disagreement over the inclusion of Group 3 in the target system persisted in the Council of Administration, however, and almost blocked endorsement of the entire POC terminal dues proposal. Given this opposition, led by Brazil and China, transfer of Group 3 to the New Target

System appears to be in doubt.[13]

2.1.3 Transitional System

Under the POC proposal, the Transitional System would prescribe a uniform rate for delivery of all letter post items sent to, from, or between DOs in the transitional system. The rate is expressed as a per kg rate, SDR 4.162 per kg in 2014, which rises by 3 percent per year. For bilateral flows of more than 30 tonnes per year (only about 7 percent of all bilateral exchanges in the transitional system), DOs may switch to a uniform per kg and per item rate. The per kg and per item rates are the same as applied to Group 3 in the target system, so the distinction between the target system and the transitional system is blurred. Unlike DOs in the target system, DOs in the transitional system are not required to separate letter post items by shape.

2.1.4 Restrictions on DOs' access to terminal dues rates: remail and ETOEs

The POC proposal for terminal dues is supplemented by two rules that would limit the access of DOs to terminal dues. These rules tend to become complex in application, but an examination of such details may be unnecessary for developing a § 407(c) opinion. In brief, the rules are as follows.

First, a DO is not entitled to delivery of its outbound international mail at terminal dues rates if the mail was received from or prepared by a mailer that does not reside in its national territory — i.e., the territory of the government that designates it as a DO. This is the rule against "remail." It is up to the destination DO to decide where the mailer resides. In the case of a multinational company with offices in many countries, the

[13] Generally the DOs in Groups 3, 4, and 5 object to the higher terminal dues and increased sorting that is required by the target system. See Proposal 20.28.4.

destination DO can grant or deny terminal dues almost at will. Restrictions on remail apply to all letter post mail, not only to items covered by a postal monopoly.[14]

Second, a DO is not entitled to delivery of its outbound international mail at terminal dues rates if the mail has been dispatched from an office that is not located in its national territory. This is the rule against ETOEs or "extraterritorial offices of exchange," first adopted by the 2004 Bucharest Congress. The potential for ETOE competition among DOs has increased substantially in the last decade. With the repeal of the postal monopoly in most industrialized countries and the growing importance of e-commerce parcels, the major DOs are becoming regional and global competitors with offices in multiple countries. The anti-ETOE rule is not limited to letter post mail; it applies to parcels and EMS as well.[15]

Together these rules sharply hinder competition in the international letter post market. Since each DO operating in its national territory has exclusive access to the terminal dues rates of other DOs, it has a substantial competitive advantage in the collection and forwarding of outbound letter post items prepared by persons residing in its territory. The competitive advantage applies against both private delivery services (because terminal dues are limited to DOs) and against other DOs (because they would be considered ETOEs). In short, restrictions on remail and ETOEs amount to a market allocation scheme.

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[14]Universal Postal Convention 2008, Article 26. There are several gradations of penalties ranging from surcharges to return of the mail depending on where the mailer is considered to reside. See Appendix A.

[15]The resolutions of the 2004 and 2008 Congresses, as well as their extension by Proposal 19 at the Doha Congress, are set out in Appendix A.

2.2 Inward land rates

Inward land rates are the equivalent of terminal dues for parcels (packages up to 30 kg). The POC proposal for setting inward land rate is a model of simplicity: the Congress should delegate price-fixing authority to the POC. This would be accomplished by reenacting Article 34 of the 2008 Convention which provides: "The Postal Operations Council shall have the authority to fix the following rates and charges, which are payable by designated operators in accordance with the conditions shown in the Regulations: . . . inward land rates for the handling of inward parcels."[16]

2.3 Floor for outbound international postage rates

A third rate-related rule in the POC proposal establishes domestic postage as a floor for outbound international postage rates. Article 6(3) of the proposed Convention, unchanged from the 2008 Convention, would provide that "The charges collected, including those laid down for guideline purposes in the Acts, shall be at least equal to those collected on internal service items presenting the same characteristics (category, quantity, handling time, etc.)."[17] This provision added to the Convention in the 1989 Washington Congress as one of several measures aimed at suppressing remail competition.

[16]See Appendix A.

[17]See Appendix A.

3 The POC proposal for intra-Group 1.1 terminal dues

The economic core of the POC proposal is the Group 1.1 System, the agreement on terminal dues exchanged among the 24 DOs of significant size in Group 1.1. As noted, intra-Group 1.1 traffic accounts for roughly two-thirds to three-quarters of all international letter post worldwide.

Over the last half century, Group 1.1 DOs have evolved from traditional postal administrations into sophisticated commercial enterprises in order to meet the demands of their highly industrialized economies. Each DO has developed services and prices to accommodate different types of shipments, different degrees of priority, and different levels of mailer preparation. Each DO continually analyzes its operations and makes adjustments, usually annually, to align prices with shifts in demand, volumes, and costs. If, in any one of the Group 1.1 countries, a public official were to suggest that the government should override this finely tuned menu of services and prices and establish a single rate for all domestic services two to five year years in advance and quoted in a foreign currency (incurring the risk of currency fluctuations), postal managers could be pardoned for thinking that this public official had taken leave of his senses. Yet this is precisely what the POC is proposing for the small portion of domestic postal services that each DO in a major industrialized country provides for DOs in other industrialized countries.

There are two essential features of the proposal Group 1.1 System. First, terminal dues are set at levels that give DOs access to each other’s postal services at rates much more favorable than available to non-DOs and ETOEs. Second, the uniform nature of intra-Group 1.1 terminal dues distorts relations between DOs, favoring some at the expense of others. In analyzing either effect, the starting point is an estimate of the relationship between terminal dues and domestic postage rates.

3.1 Estimating terminal dues equivalent to bulk domestic postage

As all impartial observers recognize, the straightforward way to eliminate unfairness or economic distortion in payments for delivery of international letter post items is for each DO to charge other DOs the domestic postage that would be due for delivery of similar letter post items. Domestic postage is the “gold standard” for two reasons. First, while it is impossible to obtain definitive cost data for the inbound delivery services of DOs, one may reasonably rely on domestic postage rates as a proxy for costs, at least in Group 1.1 countries where national law requires domestic postage rates to be based on costs and (usually) empowers an independent regulator to enforce this standard. Even without such controls, however, domestic postage rates should reflect costs because modern postal services in Group 1.1 countries are rarely subsidized from the public treasury.[18] Second, domestic postage is the proper standard because in the Group 1.1 world it is unjustifiable to discriminate against foreign mailers in the pricing of market dominant postal services ensured by government.

Hence, to evaluate the POC proposal for Group 1.1 countries, one must estimate the domestic postage for comparable mail. Since each DO is a bulk mail customer for every other DO, the relevant domestic rate is the comparable domestic bulk mail rate.

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[18]An exceptional case occurs if a country subsidizes a domestic project group for public policy reasons. In such case, it may be argued that inbound international mail should be charged the comparable domestic postage plus a fair share of the public subsidy.

Of course, for large domestic mailers, a DO provides several different bulk rates depending on the degree of pre-sorting, address cleanliness, shape of the mail, level of saturation, priority of service required, etc. There is no obvious reason why Group 1.1 DOs should not give each other a range of bulk mail rates and services just as they do domestic customers, but for purposes of analyzing the POC proposal, a more simplified approach to estimating bulk domestic postage is required. This begins with public postage rates for first class (priority) domestic mail.

In POC analyses, domestic postage tariffs are categorized by shape (or format) and weight step. There are three shapes:

- ordinary letters (abbreviated as "P" for the French *petite lettre*);
- large envelopes or flats (G for *grade lettre*), and
- bulky envelopes or, more simply, small packets (E for *autres envois*).

Using POC data on the distribution of mail among shapes and weight steps, the terminal dues that would be equivalent to bulk domestic postage rates for 2014 to 2017 may be estimated with three additional pieces of information.

1) What percent of the first class domestic rates represents a reasonable approximation of bulk domestic rates?
2) How much will domestic postage rates increase from 2011 until 2014 through 2017?
3) How much the distribution of letter post shift among the shapes (letters, flats, and small packets)?[19]

[19]In my calculations, I assume that the average weight per weight step and the distribution among the weight steps within each shape remains constant.

To answer this questions, I use two scenarios. The first scenario is called the "base scenario." It underlies most of the calculations in the comment. In the base scenario, I, like the UPU, assume that, in the Group 1.1 countries, 70 percent of first class mail rates represents a fair estimate of the bulk mail discount rate ("DomPost" for short) that a DO would charge for delivery of comparable domestic mail.[20] I also assume that the volume of letters and flats in the international letter post will decline by 15 percent from 2010 (the last year for which volume data is generally available) to 2014 and 5 percent per year thereafter. I further assume that small packet volume will increase 12 percent from 2010 to 2014 and 4 percent per year thereafter.[21] Finally, I assume that, given the declines in letter volumes, domestic postage rates in the Group 1.1 DOs will increase by 10 percent from 2011 (the last year for which postage data is generally available) to 2014 and by 4 percent per year thereafter. These estimates are fairly optimistic. They suggest an international postal system that is losing letters and envelopes at a manageable pace and compensating with modest but steady increases in international e-commerce. The base scenario is summarized in Table 2.

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[20]A figure of 70 percent of domestic postage may be thought of as follows. Assume that a reasonable discount for bulk priority (first class) mail is 20 percent of the retail rates and that bulk non-priority (standard) mail is priced 20 percent below priority mail. Assume further that inbound international letter post mail is about 50 percent priority mail and 50 percent non-priority mail. The average domestic bulk mail rate for inbound international mail is then 70 percent fo the retail rate. In fact, over the last two decades estimates of the most appropriate discount from retail priority rates have varied from 60 to 80 percent.

[21]In calculating the domestic postage for letters, flats, and small packets, I have used the same distribution among the weight steps and the average weights per weight step as used by the POC, the results of a 2011 study.

Table 2. Base scenario for estimating domestic postage rates in Group 1.1

	2014	2015	2016	2017
Percent volume increase by LP shape from 2010				
– Letters (P)	-15.0%	-5.0%	-5.0%	-5.0%
– Large envelopes (G)	-15.0%	-5.0%	-5.0%	-5.0%
– Small packets (E)	10.0%	4.0%	4.0%	4.0%
Percent increase in domestic rates from2011	10.0%	4.0%	4.0%	4.0%
Percent of priority domestic postage in DomPost	70.0%	70.0%	70.0%	70.0%

In a few cases, I will refer to a “recent trends scenario” to illustrate how much or how little different assumptions affect the estimates. In the recent trends scenario, I assume that the volume of letters and flats will decline over the 2011 to 2017 period at the same rate as experienced by the Postal Service in the last three years, about 20 percent per year. In the same period, the volume of small packets increased by 4.5 percent per year.[22] So I assume that the volume of small packets will increase by 15 perrcent from 2010 to 2014 and by 5 percent per year thereafter. Given the decline in international letters and flats, I assume that domestic volumes will also fall and domestic postage rates will increase somewhat more rapidly (5 percent per year instead of 4). The specific assumptions in the recent trends scenario are set out in table 3.

[22]Between the year Q3 FY2009/Q2 FY2010 and the year Q4 FY2010 to Q3 FY2011, the average annual declines in letters and flats were -18.8 percent and -22.5 percent, respectively (ignoring the extra quarter). In the same period, small packets (“parcels”) grew by 4.5 percent annually. These trends that letters and flats will be reduced to about 70 percent of 2011 volumes by 2017. Small packets will be up by 25 percent, a figure that USPs and other DOs will be going everything they can to increase. See, in the various ACR dockets, FirstClassMailIntl Worksheets R2010-4__68771.xls; Inbound_FCMI_Worksheets_ R2010-4__69609.xls; R2011-2_Inbound_FCMI_RateCap_Calc_REV_FINAL__71988.xls; R2011-2_ Outbound FCMI RateCap Calc__71988.xls; CAPCALC-FCMI-R2012-3_REDACTED__77996.xlsx; and Inbound FCMI CAP February 2009__62214.xls.

Table 3. Recent trends scenario for estimating domestic postage rates in Group 1.1

	2014	2015	2016	2017
Percent volume increase by LP shape from 2010				
– Letters (P)	-45.0%	-18.0%	-18.0%	-18.0%
– Large envelopes (G)	-52.0%	-22.0%	-22.0%	-22.0%
– Small packets (E)	15.0%	5.0%	5.0%	5.0%
Percent increase in domestic rates from 2011	15.0%	5.0%	5.0%	5.0%
Percent of priority domestic postage in DomPost	70.0%	70.0%	70.0%	70.0%

3.2 Preferential access to other Group 1.1 DOs

Basically, the POC proposal is that each Group 1.1 DO should charge SDR 0.294 per item and SDR 2.294 per kg for the domestic delivery of letter post items received from other DOs in 2014. These rates are available only to DOs and only when a DO is sending letter post items prepared by senders residing in its national territory (i.e., not remail) from an office located in the national territory of the country for which it is designated (i.e., not an ETOE). In U.S. dollars, the POC proposed terminal dues rate is $ 0.45 per item and $ 3.54 per kg at the exchange rates in effect in April 2012, but, of course, there is no way to know what the exchange rates will be in 2014.[23] In a few cases, the POC is proposing that a DO charges less than the “cap” because of low domestic postage rates, although there is also a minimum or floor rate of SDR 0.203 per item and SDR 1.591 per kg ($ 0.31 per item/$ 2.46 per kg).

The POC anticipates that only Israel and New Zealand will qualify for less than the full cap rate in 2014, but this depends on the assumption that domestic rates will rise by only 3.8 percent from 2011 to 2014. In short, “Everyone is at the cap” except that

[23]Since January 1, 2010, the value of the dollar to the SDR have varied between $ 1.452 and $ 1.623.

in 2014 four DOs (Australia Post, Canada Post, Spanish Post, USPS) will also be limited by the rule that terminal dues cannot increase by more than 13 percent over the previous year so they must charge less than the cap. The cap rate rises by 3 percent per year, so in 2017, the terminal dues rate at the cap will be SDR 0.321 per item and SDR 2.507 per kg ($ 0.50 per item/$ 3.87 per kg).

Using the assumptions of the base scenario, Chart 2a-1 shows the terminal dues charge in each Group 1.1 country for a typical inbound letter post item in 2014 calculated three ways.

- "POCRev" is the charge proposed by the POC.[24]
- "NoCap" is the terminal dues rate calculated according the POC formula for relating terminal dues to domestic postage but without the floor, cap, and annual limits imposed by the POC.
- "DomPost" represents 70 percent of the domestic first class postage rates for the mix of mail assumed as explained the preceding section.

From this chart, it is apparent that for most Group 1.1 DOs, the cap limit results in terminal dues that are substantially below bulk domestic postage and that the discrepancy varies significantly among the Group 1.1 DOs.[25]

Chart 3a is shows this underpricing more clearly. On average, the POC proposal

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[24]The "rev" indicates that, for purposes of imposing the floor and cap limits, I have assumed that domestic postage rates will rise by more than the 1.9 percent per year assumed by the POC. POCRev terminal dues are thus the terminal dues proposed by the POC. The only difference is that in my calculations some DOs are predicted to reach the cap or the 13 percent limit slightly more quickly than in the POC calculations.

[25]Calculations for this and following charts are provided in Appendix B. All calculations are carried out in SDRs, but for convenience I have converted the monetary figures into U.S. dollars at the rate of SDR 1.00 = US$ 1.5430.

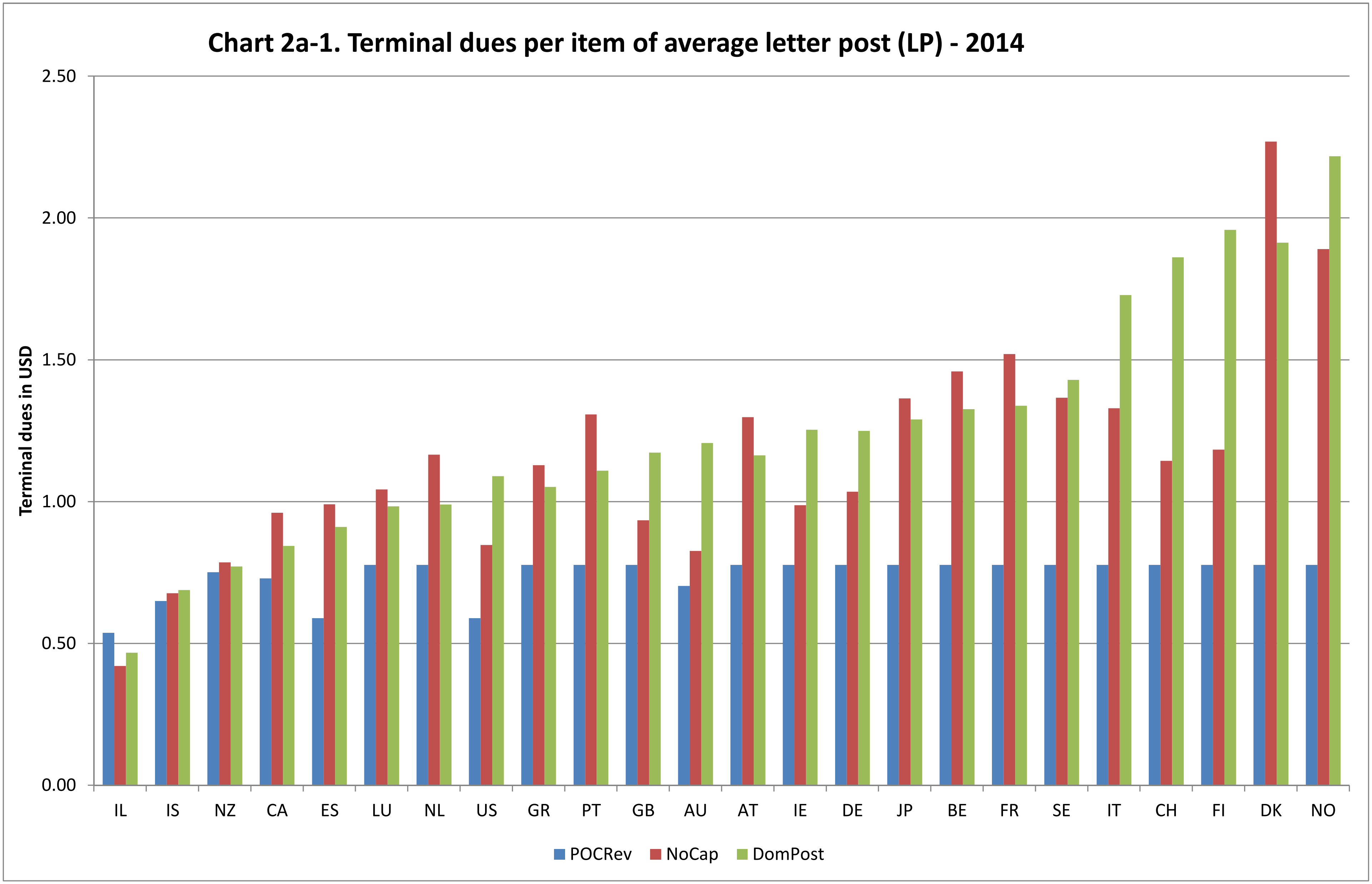
Chart 2a-1. Terminal dues per item of average letter post (LP) - 2014
Terminal dues in USD
2.50
2.00
1.50
1.00
0.50
0.00
IL IS NZ CA ES LU NL US GR PT GB AU AT IE DE JP BE FR SE IT CH FI DK NO
POCRev
NoCap
DomPost

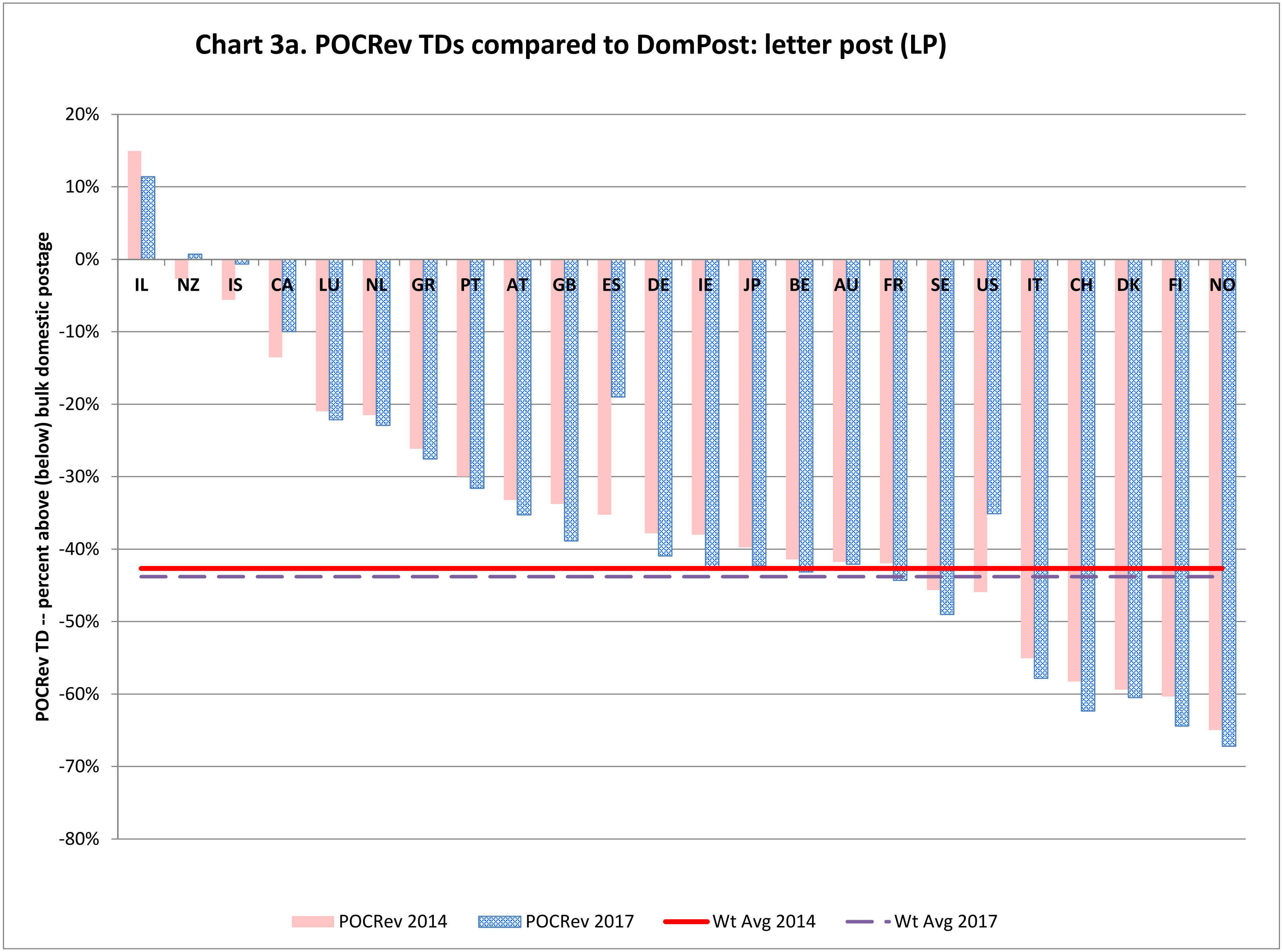

Chart 3a. POCRev TDs compared to DomPost: letter post (LP)
POCRev TD -- percent above (below) bulk domestic postage
20%
10%
0%
-10%
-20%
-30%
-40%
-50%
-60%
-70%
-80%
IL
NZ
IS
CA
LU
NL
GR
PT
AT
GB
ES
DE
IE
JP
BE
AU
FR
SE
US
IT
CH
DK
FI
NO
POCRev 2014
POCRev 2017
Wt Avg 2014
Wt Avg 2017

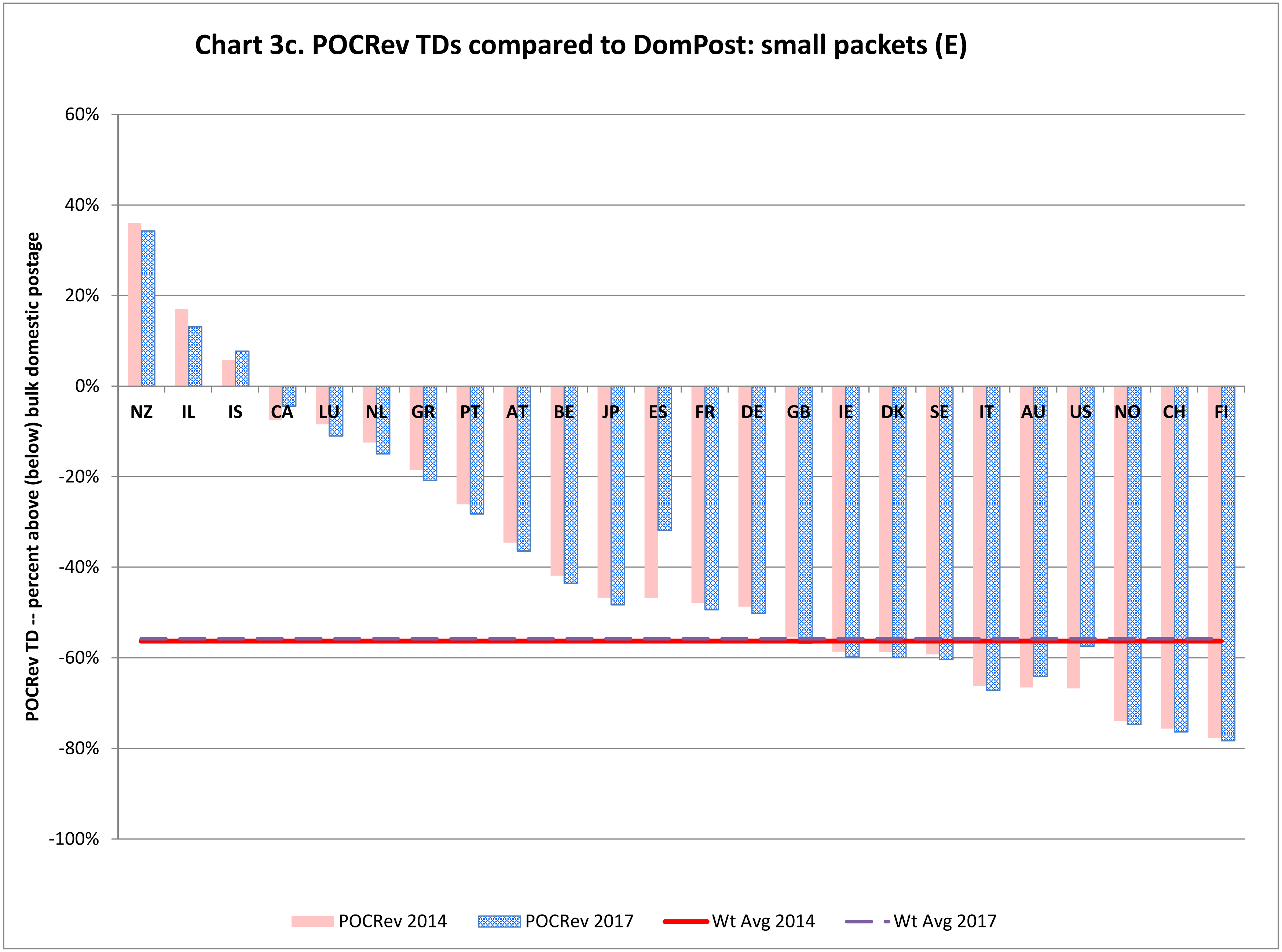

Chart 3c. POCRev TDs compared to DomPost: small packets (E)
POCRev TD -- percent above (below) bulk domestic postage
60%
40%
20%
0%
-20%
-40%
-60%
-80%
-100%
NZ
IL
IS
CA
LU
NL
GR
PT
AT
BE
JP
ES
FR
DE
GB
IE
DK
SE
IT
AU
US
NO
CH
FI
POCRev 2014
POCRev 2017
Wt Avg 2014
Wt Avg 2017

would result in the underpricing of terminal dues in 2014 by about 43 percent below comparable domestic postage (weighing the DOs according to their total inbound international letter post). This underpricing does not improve materially over the life of the POC proposal. In 2017, the average underpricing works out to 44 percent. As Chart 2a-1 implies, eliminating the cap and floor and annual increase restrictions in the POC proposal would significantly, but not totally, reduce the underpricing of terminal dues. In 2014, the average underpricing for the letter post without the pricing limits be about 10 percent, and in 2017, about 13 percent.

Under the POC proposal the terminal dues for different formats are not equally related to bulk domestic postage. The POC terminal dues proposal results in charges which are better aligned with domestic postage for letters (P) than for flats (G) and less well aligned for small packets (E). Chart 3c summarizes the underpricing of the POC terminal dues compared to domestic postage for a typical small packet. The average underpricing is 56 percent in both 2014 and 2017.

3.3 Distortions in relations between Group 1.1 DOs

Although Group 1.1 DOs as a group receive preferential rates for access to each other’s postal services, the POC proposal does not benefit all DOs equally. Indeed, the primary effect of the POC proposal may be to allow some DOs to benefit at the expense of other DOs and thus to distort the trade in international postal services.

How do these distortions arise? As explained above, under the POC proposal most Group 1.1 countries will charge a fixed "cap" rate for delivery of inbound international letter post items that is substantially less than domestic postage. Unless two DOs have equal costs and exchange equal amounts of letter post mail, this system creates a winner and loser in each bilateral exchange. A low cost DO (indicated by lower postage rate) gains compared to a high cost DO because the low cost DO is effectively trading something of less economic value for something of more economic value. Similarly, the DO that sends more letter post items than it receives gains over its trading partner because it is receiving more of an underpriced service.

To quantify such distortions in the exchange of mail between Group 1.1 DOs, one must know the volumes of letter post items that each DO exchanges with every other DO. This information is not publicly available. In general, however, total outbound and inbound mail volumes for the Group 1.1 DOs are publicly available or can be estimated. And studies have shown that international mail volumes are roughly proportional to trade in services generally. By assuming that the total outbound mail from each Group 1.1 DO is allocated to other DOs in the same proportion as the value of trade in all services, one can estimate the outbound volume of mail from one DO to another. For example, if 14 percent of the total value of trade in services exported by the U.S. is received by the U.K., then one may estimate that 14 percent of USPS's outbound letter post volume is sent to the U.K. Such a procedure is by no means perfect. Obvious errors crop up. For example, the volume of inbound mail to a given country may be too high (e.g., more than total inbound mail received from the world) or too low. It is necessary to adjust for such anomalies and to adjust further to ensure that total outbound equals total inbound. In a few cases, absence of trade data cannot be overcome, and the bilateral mail volume cannot be estimated (e.g., Switzerland to the

U.S.).

In this manner, it is possible to construct a "Bilateral Flow Model" for letter post between Group 1.1 DOs that is internally consistent and broadly plausible. The resulting bilateral mail volumes are certainly not accurate, but differences that emerge when two different sets of terminal dues charges are applied to the model should illuminate real differences between the two terminal dues systems. For purposes of the following analysis, I have used the Bilateral Flow Model set out in Table 5 of Appendix B.

To evaluate the effects of the POC proposal in a specific exchange of mail between two DOs, one must calculate how much terminal dues each DO will owe the other under the POC proposal and then, in the alternative, what each DO would owe the other if terminal dues equal to bulk domestic postage rates were charged. The net effect of the POC proposal is the difference between the two calculations. For example, according to the model, in 2014 the Postal Service will send France 15.3 million letter post items and will receive from France 24.6 million letter post items. The Postal Service will owe the French Post $ 14.9 million for delivery of outbound mail and charge the French Post $ 18.1 million for delivery of the inbound mail. The Postal Service will earn a net profit on the exchange of $ 3.2 million. If, on the other hand, each DO charged the other bulk domestic postage, the Postal Service would pay more for the delivery of outbound American mail and receive more for delivery of inbound French mail, earning a net profit of $ 7.9 million. In this case, the Postal Service would gain $ 4.6 million by using bulk domestic postage as the basis for terminal dues instead of the POC proposal. If the gain or loss for each bilateral exchange is calculated in this manner, the net effect of the POC proposal terminal dues, as compared to bulk domestic postage, may be seen.

Chart 8 shows the net gains or losses for each Group 1.1 DO in 2014 and 2017 due to deviations from domestic postage required by the POC proposal. As may be seen, the Nordic DOs and Japan Post lose substantially while Royal Mail (UK), Post NL (Netherlands), Canada Post,[26] Spanish Post, and the Postal Service gain. Note that these calculations do not take into account the effects of bilateral terminal dues agreements (e.g., a USPS-Canada Post agreement) which may ameliorate the effects of the POC proposal. As this chart shows, in 2014, net gains of the Postal Service are restrained by the 13 percent limit on year to year increases in terminal dues. By 2017, the Postal Service is one of the big winners along with Royal Mail.

Chart 9 shows the same losses and gains as Chart 8 but on a per item basis, where the gain or loss is divided by the outbound volume of the exporting DO. Typically, a DO will raise outbound international mail prices to compensate for losses incurred in the delivery on inbound international mail. This chart indicates that, under the assumptions of the model, Norway Post will have to add about $ 6 to the price of a typical outbound letter post item to recover losses incurred in delivering inbound mail. On the other hand, U.S. mailers will pay about 9 cents less on a typical outbound international mail item if the Postal Service passes on the full benefits of the terminal dues subsidy to outbound mailers. Both ends of this cross subsidy mechanism will increase by 2107, implying an added charge for Norwegian mailers of about $ 8 per

[26]The domestic postage data for Canada Post appear to me to understate the costs of Canada Post so results with respect to Canada Post should be treated with extra caution.

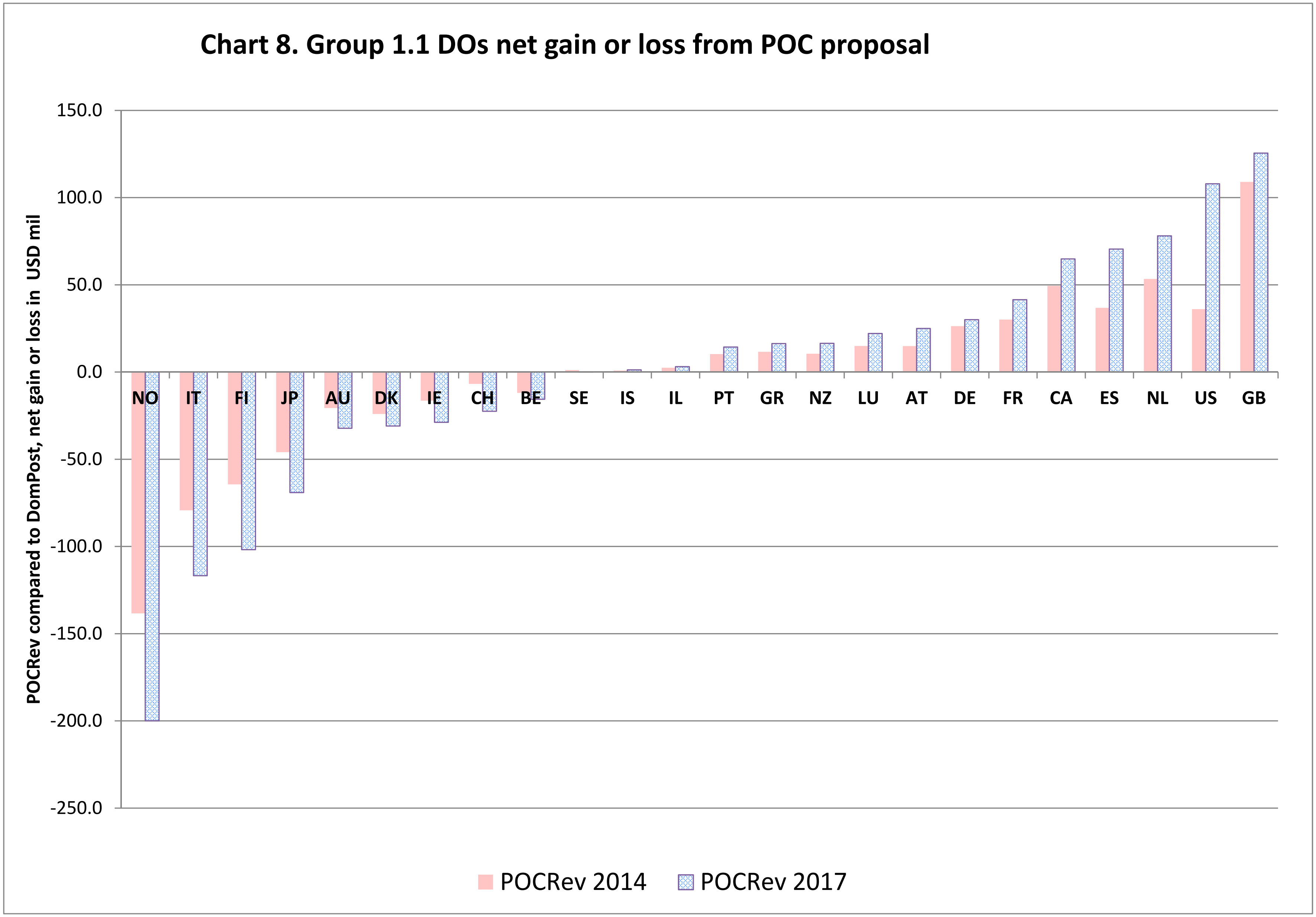

Chart 8. Group 1.1 DOs net gain or loss from POC proposal
POCRev compared to DomPost, net gain or loss in USD mil
150.0
100.0
50.0
0.0
-50.0
-100.0
-150.0
-200.0
-250.0
NO
IT
FI
JP
AU
DK
IE
CH
BE
SE
IS
IL
PT
GR
NZ
LU
AT
DE
FR
CA
ES
NL
US
GB
POCRev 2014
POCRev 2017

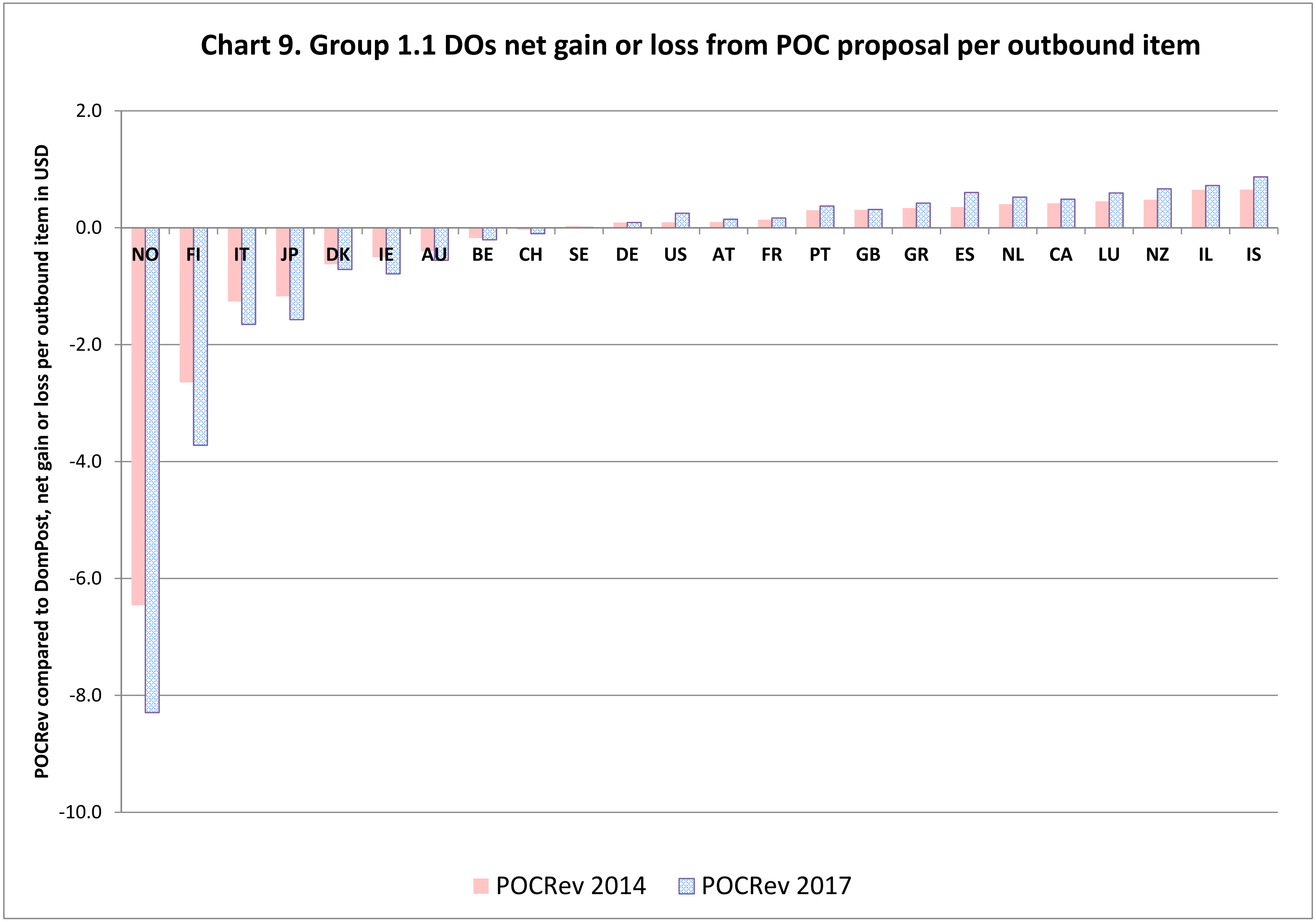

Chart 9. Group 1.1 DOs net gain or loss from POC proposal per outbound item
POCRev compared to DomPost, net gain or loss per outbound item in USD
2.0
0.0
-2.0
-4.0
-6.0
-8.0
-10.0
NO
FI
IT
JP
DK
IE
AU
BE
CH
SE
DE
US
AT
FR
PT
GB
GR
ES
NL
CA
LU
NZ
IL
IS
POCRev 2014
POCRev 2017

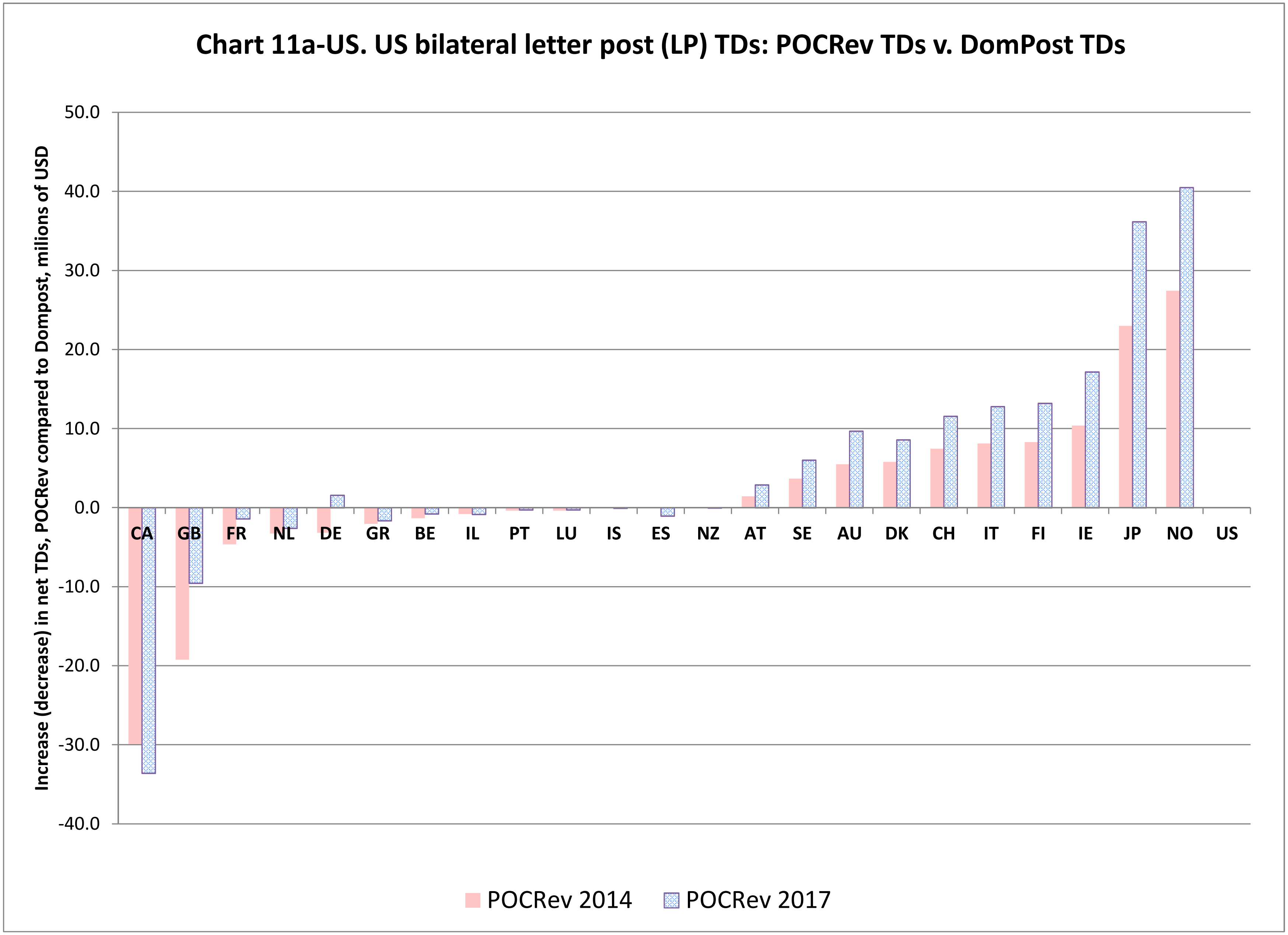
Chart 11a-US. US bilateral letter post (LP) TDs: POCRev TDs v. DomPost TDs
Increase (decrease) in net TDs, POCRev compared to Dompost, milions of USD
50.0
40.0
30.0
20.0
10.0
0.0
-10.0
-20.0
-30.0
-40.0
CA
GB
FR
NL
DE
GR
BE
IL
PT
LU
IS
ES
NZ
AT
SE
AU
DK
CH
IT
FI
IE
JP
NO
US
POCRev 2014
POCRev 2017

item and benefit for American mailers of about 25 cents.

3.4 Postal Service participation in the Group 1.1 System

The Bilateral Flow Model may also be used to examine relations between each Group 1.1 DO and its trading partners. As explained above, the POC proposal distorts the exchange of postal services, primarily because of the uniformity of the cap provision. A DO gains if the value of the discount off domestic postage that it receives on outbound letter post outweighs the discount that it gives on inbound letter post.

Under the assumptions of the base scenario (Table 2) and assuming no bilateral terminal dues agreements, the Bilateral Flow Model suggests that in 2014 the Postal Service will get a discount from other DOs of about 39 percent while giving up a discount on inward delivery of about 46 percent on a typical international letter post item. The net effect will be a gain of about $ 36 million.

Between 2014 and 2017, the Postal Service will take advantage of the 13 percent annual increase in terminal dues permitted DOs with relatively low domestic postage rates. In 2017 the Postal Service will reach the cap rate, and the annual limit will no longer apply. In the same period, postage rates will rise, likely by more by than the 3 percent built into the “hard cap” of the POC proposal. The Bilateral Flow Model suggests (with the assumptions noted above) that in 2017 the Postal Service will get a discount from other DOs of about 42 percent while giving up a discount on inward delivery of about 35 percent on a typical international letter post item. The net effect will be a gain of about $ 108 million. The net gain for one DO is a subsidy extracted from other DOs. In the case of the Postal Service, the cost of this subsidy is borne primarily by the Nordic post offices, Japan Post, An Post (Ireland), Post Italiane, and Swiss Post.[27] See Chart 11a-US.

For inbound mail, the discount off bulk domestic postage which the Postal Service will provide other Group 1.1 DOs as a result of the POC proposal is concentrated in the heavier weight steps. For a typical mix of letters and flats, a discount of about 20 percent in 2014 will be eliminated by 2017. On the other hand, for small packets, a discount of 67 percent in 2014 will decline only to 57 percent by 2017.[28]

For outbound mail, the Postal Service will receive a discount off bulk domestic postage in destination countries of about 39 percent in 2014. This will rise to about 42 percent in 2017 (again, using the base scenario and assuming no bilateral agreements). The overall discount on letters and flats is about 30 percent, while the discount on small packets is about 52 percent.

4 Principles relevant to a § 407(c) opinion

4.1 PAEA revisions in regulation of international postal services

The Commission' opinion on international postage rates set by intergovernmental agreement is required by § 407(c) of Title 39. This provision is only one of several important changes that the Postal Accountability and Enhancement Act (PAEA) made in the regulation of international postal products. These reforms included the following:

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[27]It should noted that the finer the analysis the greater the chance that the assumptions and estimates used to develop the Bilateral Flow Model will give inaccurate results. Therefore, the specific figures in this section in particular should be regarded with caution.

[28] See Tables 4-1-US and 4-4-US in Appendix B. This analysis uses UPU data relating to prices and mail characteristics and not the more specific data available to the Commission. These results should therefore be considered as rough estimates only.

1) *Adoption of a national policy on international postal and delivery services.* Congress adopted an explicit national policy towards "international postal services and other international delivery services." 39 U.S.C. § 407(a). The national policy towards international postal and delivery services forms one important thread in a broader national policy towards trade in services: "to reduce or to eliminate barriers to, or other distortions of, international trade in services (particularly United States service sector trade in foreign markets), including barriers that deny national treatment and restrictions on the establishment and operation in such markets."[29] These statutory policies should guide all federal agencies in the exercise of discretion affecting international postal and delivery services. *Note that there is no specific national policy towards international postal services;* federal agencies are directed to address international postal services as part of a comprehensive sectoral strategy embracing all types of international postal and delivery services.

2) *Freedom to compete fully but fairly in competitive markets*. One of the PAEA's most fundamental innovations was granting the Postal Service new freedom in competitive markets. The expectation of Congress was that "the open and fair competition with private sector firms will encourage the cost-effective provision of Postal Service competitive products." At the

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[29]Act of October 30, 1984, Pub. L. No. 98-573, § 305(a)(1), 98 Stat. 2948, *codified* 19 U.S.C. § 2114a(a)(1)(A) (2009). For convenience, this provision, along Title 39, the UPU Convention of 2008, and other relevant statutory provisions are included in James I. Campbell Jr., *Postal Laws of the United States* (2011)..

same time, Congress added a "number of provisions . . . to ensure that the Postal Service competes fairly with the private sector, particularly when offering products and services classified as competitive" and that "benefits the Postal Service gets by virtue of its status as a government entity do not give it an opportunity to abuse its new commercial freedom."[30]

3) *Extension of Commission rate authority to include international mail*. Prior to the PAEA, the Commission exercised no authority over international postal services.

4) *Expansion of international contracting authority of the Postal Service*. The PAEA granted the Postal Service new freedom to conclude "commercial or operational contracts related to providing international postal services and other international delivery services as it deems appropriate." 39 U.S.C. § 407(d). Prior law required the Postal Service to obtain Presidential consent before concluding an international contract. At the same time, Congress declared that "any such agreement involving an agency of a foreign government . . . must be solely contractual in nature and must apply only to the Postal Service and those agencies party to the contract. No contracts entered into by the Postal Service will be treated as binding international law."[31]

5) *Extension of U.S. antitrust law to the international postal matters outside*

[30]Senate Comm. Rept. 108-318 (Aug. 25, 2004) at 27.

[31]Senate Comm. Rept. 108-318 (Aug. 25, 2004) at 30.

the scope of the postal monopoly. As described below, the PAEA brought the activities of the Postal Service — and the acts of other federal agencies taken in concert with the Postal Service — within the ambit of the U.S. antitrust law for the first time. U.S. antitrust law is especially relevant to international postal services because the international postal market is substantially more competitive than the domestic market.

Taken together, these changes imply a much more active role for the Commission in international postal matters and an obligation to supply the technical expertise necessary to ensure that U.S. international postal policies serve larger national objectives which are not defined by reference to the welfare of the Postal Service but rather by reference to U.S. participation in the entire global sector.

4.2 In § 407c), the PAEA delegated to the Commission final decision authority over the economic aspects of international rates and classifications set by intergovernmental agreement.

Under § 407(c) of Title 39, United States Code, the Commission is required to provide the Secretary of State with its views relating to rates established by intergovernmental agreement. Subsection (c) states as follows:

> (c)(1) Before concluding any treaty, convention, or amendment that establishes a rate or classification for a product subject to subchapter I of chapter 36, the Secretary of State shall request the Postal Regulatory Commission to submit its views on whether such rate or classification is consistent with the standards and criteria established by the Commission under section 3622.
>
> (2) The Secretary shall ensure that each treaty, convention, or amendment concluded under subsection (b) is consistent with the views submitted by the Commission pursuant to paragraph (1), except if, or to the extent, the Secretary determines, in writing, that it is not in the foreign policy or national security interest of the United States to ensure

> consistency with the Commission's views. Such written determination shall be provided to the Commission together with a full explanation of the reasons thereof, provided that the Secretary may designate which portions of the determination or explanation shall be kept confidential for reasons of foreign policy or national security.

By its terms, section 407(c) delegates to the Commission *final authority* to determine the lawfulness of rates and classifications established by intergovernmental agreement with respect to economic and other criteria established by the postal law. The Secretary of State may override the Commission's determination *only* for reasons of foreign policy or national security. Otherwise, the Secretary "shall ensure each treaty, convention, or amendment concluded under subsection (b) is consistent with the views submitted by the Commission." Moreover, Congress required the Department to explain any failure to give full effect to the views of the Commission as completely and publicly as possible consistent with foreign policy or national security considerations. In sum, absent specific and compelling national security or foreign policy considerations, the Secretary is bound by the opinion of the Commission.

Vesting final authority to determine the economic and other Title 39 issues presented by UPU agreements was a necessary element in the modernization of the postal laws effected by the PAEA. How else could Congress ensure impartial and expert implementation of its mandate that international market dominant products meet the same standards as domestic rates and that intergovernmental agreements not be used to give the Postal Service (or anyone else) an unfair competitive advantage? Congress was well aware that postal conventions prior to 2006 raised serious questions about competitive fairness.[32] As the Commission will recall, in 2001 the primary author of the legislation, Rep. John McHugh, chairman of the House Postal Service Subcommittee, explicitly asked the Commission for a special report evaluating the financial effects of terminal dues. Before enactment of the PAEA, the Postal Service and the Department of State repeatedly requested both houses of Congress to eliminate the Commission's authority to block use of intergovernmental agreements to circumvent the regulatory safeguards of Title 39. The relevant Congressional committees firmly rejected these requests.[33]

Thus, the plain text of the § 407(c), the broad purposes of the PAEA, and the legislative history all make clear that Congress knowingly, deliberately, and firmly entrusted the Commission with final decision authority with respect to application of Title 39 criteria to international rates and classifications set by intergovernmental agreement.

4.3 Market dominant international mail products of USPS

Under the statute, the Commission's review of international rates is to address each "rate or classification for a product subject to subchapter I of chapter 36." What products are these? The Commission has not identified which international postal products are potentially affected by rate provisions in the Universal Postal Convention to be negotiated in the Doha Congress.

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[32]See, e.g., *International Postal Policy: Hearing Before the Subcomn. on the Postal Service of the House Comm. on Government Reform*, 106th Cong., 2d Sess., Ser. No. 106-133 (2000).

[33]The amendments sought by the Postal Service and the Department of State to the House and Senate bills are shown in Appendix C. Both the House and the Senate committees were presented with and rejected these efforts to emasculate the Commission's authority over international rates set by intergovernmental agreement. Similarly, these amendments also show clearly that Congress rejected a request to change the status of the Postal Service from an interested party (i.e., included in § 407(b)(2)(D)) to a policymaking government agency (i.e., included in § 407(b)(2)(A)).

Table 4 summarizes the volume, cost, and revenue data for the international postal products that appear to me likely to be affected by the terminal dues and inward land rates established by the UPU pursuant to the 2008 Universal Postal Convention. This table indicates that there are five or six products which must be addressed by the Commission in its § 407(c) opinion. Three are affected by terminal dues applicable to delivery of inbound international letter post mail: Inbound Single-Piece Mail, Inbound NSA Standard Mail, and Inbound NSA Package Mail. One or two are affected by proposed inward land rates applicable to delivery of inbound parcel post: Inbound Surface Parcel Post (at UPU Rates) and possibly Inbound NSA Mail Intl - Packages. One product is affected by the proposed rate floor for outbound postage rates: Outbound Single-Piece Mail.

4.4 Principles for evaluating rates for inbound international products

Delivery of inbound international mail is a domestic postal service. International and domestic postal items are sorted together on the same machines, conveyed together by the same transportation contractors, and delivered together by the same letter carriers. Evaluating whether or not a proposed rate for sorting, transportation, and delivery of a postal item to an address in the United States is consistent with the criteria of § 3622 is what the Commission does all the time.

Under § 3622, the Commission is directed to aim to achieve 9 objectives listed in § 3622(b) by taking account into the 14 factors listed in § 3622(c).[34] Factor (c)(14) states

[34] The Commission is also directed to include an annual limitation on the percentage changes in rates to each "class of mail, as defined in the Domestic Mail Classification Schedule as in effect on the date of enactment of the Postal Accountability and Enhancement Act." Since no international mail was included in the DMCS in 2006, I do not believe that the Commission is *statutorily* obliged to apply a rate

that, in addition to the specific factors listed, the Commission *must* take into account "the policies of this title" and *may* take into account "such other factors as the Commission determines appropriate." In considering these criteria, I suggest that the following four principles will be the most useful in assisting the Commission to evaluate delivery rates for the three inbound market dominant international products which are covered by the POC's terminal dues proposals. Note that the POC proposal does not include any specific inward land rates for delivery of inbound parcel post items. Instead the POC proposes that the Convention authorize the POC to fix rates as it deems appropriate. This proposal is considered in section 4.5, below, which discusses the role that the antitrust law should play in the Commission's § 407(c) opinion.

4.4.1 Inbound rates should reflect a fair and equitable distribution of costs.

One of the most important principles embodied in the Postal Reorganization Act (PRA) is that prices should cover costs. In the original act, § 3622(b)(3) required to the Commission to consider, as one of nine ratemaking factors, "the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type." Based on my analysis of the 20 years of Congressional ratemaking leading up to the enactment of the PRA, it seems clear to me

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cap to market dominant international mail products. § 3622(d)(2)(A). Since in 2006 the terminal dues for inbound market dominant products were set artificially low by the 2004 Universal Postal Convention, I suggest that Commission might wish to reconsider whether the statutory price cap should be applied to increases in terminal dues or other charges for inbound international market dominant products that merely bring these charges in line with domestic postage rates for comparable services. In my view, such increases should *not* be caught by the cap.

that this provision was one of the most significant achievements of the act.[35]

The statutory price cap of the PAEA has led the Commission to reassess the role of attributable cost as a price floor, now set by § 3622(c)(2), the successor to (b)(3). The Commission has concluded that the statutory price cap takes precedence over the attributable cost floor.[36] Moreover, the PAEA's introduction of the term "product" has raised doubts in some minds (incorrectly in my view) about the applicability of (c)(2) to each "type of mail service" below the class level. Nonetheless, the Commission has stood up for the principle of cost-covering rates by stressing the requirement of § 101(d) that "Postal rates shall be established to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis." Section 101(d) is made applicable to review of market dominant rates by the "policies of this title" language of § 3622(c)(14).

Whether grounded in § 3622(c)(2) or § 101(d), the essential principle is that prices should cover costs in a fair and equitable manner. In recent years, the Commission has firmly applied this principle to the pricing of Standard Flats. Since adoption of the PAEA, the Postal Service has persistently priced Standard Flats at less than attributable costs, averaging only 84.5 percent cost coverage over the last four years (2008 through 2011). In the 2010 Annual Compliance Report, the Commission ordered the Postal Service to raise rates for Standard Flats.[37] The Postal Service appealed to the court, but last April the Court of Appeals upheld the key points in the

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[35]"Universal Service Obligation: History and Development of Laws Relating to the Provision of Universal Postal Services," Appendix B in U.S. Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly* (2008), chapters 4 and 5.

[36]Annual Compliance Determination Report 2010, p. 18.

[37] Cite ??

Commission's reading of the act.[38]

Inbound Single-Piece Mail fails to satisfy the principle of cost-based pricing by an even wider margin than Standard Flats. Over the last four years, the Postal Service reports that cost coverage of Inbound Single-Piece Mail has been just 71.8 percent. Even allowing for the imprecision of data for small mail flows, it appears clear that terminal dues have failed to cover attributable cost for delivery Inbound Single-Piece Mail by a wide margin. Since Inbound Single-Piece Mail is a market dominant product within the First Class Mail class, the direct result is that other First Class mailers are forced to cross-subsidize the delivery of inbound foreign mail.

Why has this inequitable underpricing of Inbound Single-Piece Mail persisted? The standard answer is the 2008 Universal Postal Convention set terminal dues too low. The usual implication is that inadequate terminal dues are like bad weather, the product of complex and uncontrollable international political (rather than meteorological) forces. Yet this is not the case. In the 2008 Geneva Congress of the UPU, discontent over the failure of terminal dues regime for industrialized countries to reflect costs was palpable. The United States could have rallied these forces and sought a more cost-based approach, but it did not. Without a cost-based alternative, the Geneva Congress adopted the terminal dues provision now in place. At this point, the Commission could have prevented application of inadequate terminal dues to inbound international mail by finding that such terminal dues were inconsistent with the criteria of § 3622. While the Department of State could have then overruled the Commission based on foreign policy

[38]U.S. Postal Service v. Postal Regulatory Commission, __ F. 3d. __ (D.C. Cir. 2012, No. 11-1117)

or national security considerations, it hard to imagine such considerations arising with respect to the rates that the commercialized public postal operators in industrialized countries charge each for delivery of each other's international mail. Unlike bad weather, the fact that current terminal dues fail to cover the attributable costs of inbound international mail was foreseeable and avoidable by U.S. authorities in 2008.

Even so, there is no legal reason why the inadequate terminal dues provisions of the 2008 UPU Convention should have resulted in continuing losses on the present scale. Terminal dues are not the only way to fix delivery rates for Inbound Single-Piece Mail. At any time, the Postal Service could have adjusted the rates for Inbound Single-Piece Mail by negotiating alternative contractual arrangements with foreign postal operators. While contracts with 192 DOs (designated operators or foreign public postal operators) may have been infeasible, contracts with the 24 Group 1.1 DOs would have corrected the rates for about three-quarters of the Inbound Single-Piece Mail. Indeed, most of the Group 1.1 DOs are already party to an alternative terminal dues agreement, REIMS, that the Postal Service could have joined (and has been asked to join).

Turning to the POC proposal for terminal dues on the table at the Doha Congress, the question is whether the new set of terminal dues will "apportion the costs of all postal operations to all users of the mail on a fair and equitable basis." Specifically, will terminal dues cover the attributable costs incurred by the Postal Service in delivering inbound market dominant products during the period of effectiveness of the next UPU Convention, 2014 through 2017?

For simplicity, let us consider only the Group 1.1 terminal dues rates for Inbound

Single-Piece Mail received from the most industrialized countries. Since volumes and costs 18 months to five and half years in the future can only be guessed, it impossible to provide firm answers. What is clear that the POC proposal will increase terminal dues for Inbound Single-Piece Mail substantially. For a typical inbound international mail item weighing about 81.8 grams (2.9 oz.),[39] the Postal Service will be able to raise terminal dues on inbound mail by about 63 percent from 2013 to 2017. If in 2011 terminal dues covered 75 percent of the costs of delivering Inbound Single-Piece Mail from industrialized countries (developing countries are a different issue) and if those costs increase by 3 percent per year and if the average weight per items remains unchanged — a lot of ifs — the cost coverage of terminal dues will rise from about 81 percent in 2014 to 107 percent in 2017. Average cost coverage will be about 94 percent. Naturally, if the cost coverage in 2011 was lower or costs rise more quickly, cost coverage will be reduced. Cost coverage will be also reduced if the mix of Inbound Single-Piece Mail shifts more towards small packets — a virtual certainty — because the POC proposal is closer to domestic postage for letters and flats than for small packets (First Class parcels and Priority Mail). Overall, it appears unlikely that terminal dues charged to Group 1.1 DOs will cover attributable costs in the period 2014 through 2017, although there is a plausible possibility that terminal dues will achieve this level in 2017. This is only a guess, however. It is clear that more quantitative and transparent analysis is needed to provide even reasonably good estimates.

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[39]This is the figure developed by a 2010 POC study. According to Postal Service data, in 2010 the average weight per item for inbound First Class Mail International was 3.5 oz. See Docket R2011-2, 2011_R2011-2_Inbound_FCMI_ RateCap_Calc_REV_FINAL__71988.xls (Inbound FCMI BD Summary).

In sum, the most optimistic view of the POC terminal dues proposal is that it creates a substantial risk that other First Class Mail users will be required to bear some of the costs attributable to and all of the institutional costs fairly allocatable to delivery of inbound mail from foreign countries in the 2014 to 2017 period.

4.4.2 Inbound rates should avoid undue or unreasonable discrimination.

Section 403(c) of Title 39 provides that the Postal Service shall not "make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user." This prohibition is either directly applicable to Inbound Single-Piece Mail and all other postages or made applicable by § 3622(c)(14). In either case, the prohibition against unjust discrimination is not a factor to be weighed against other factors, but a standard which must be met in addition to the weighing process required by §§ 3622(b) and (c).

To clarify the issue of discrimination, consider two mailers standing in line in a New York City post office, one American and one German (or French or British or Japanese or from any other Group 1.1 country). Each tenders the postal clerk a similar set of documents and parcels for delivery to American addresses as first class mail. The postal clerk charges the American one price and then charges the German a completely different price that is 35 to 60 percent less than what the American just paid. For good measure, the postal clerk announces, "Prices for Americans will be reviewed every year, but we are guaranteeing the prices for our German customers until 2018!" Then, realizing that his announcement left some additional matters unsaid, the postal clerk continues, "But we will give this discount to German mailers only if they send us the mail via an office of the Deutsche Post that is physically located in Germany. We wiill not give the discount if the German mailer sends us the mail using an American delivery service like FedEx or UPS. Nor if the German mailer goes across the border into the Netherlands and gives his mail to Post NL. Nor if the German mailer gives his mail to a Post NL office in Germany. Have a nice day!"

Reduced to basics, this is the POC proposal. The fact that foreign mailers are tendering their mail to the New York post office (or other USPS office of exchange) after a plane ride is not significant to the question of discrimination. The question which the Commission must address is whether such price discriminations create "undue or unreasonable discrimination among users" or represent an "undue or unreasonable preference." What is the just or reasonable basis for *not* charging mailers from other countries — in particular, other industrialized countries — the same rates as Americans are charged for similar services? What is the just or reasonable basis for charging different delivery rates for inbound international mail depending on whether the foreign mailer is sending his or her letter post items to the United States via the local post office, a private delivery service, or a postal operator headquartered in another country?

I do not believe that many Americans would oppose the practice of giving discounted rates for delivery of personal mail received from mailers in truly needy developing countries. Nor would most people oppose reasonable measures to prevent a DO from a developing country abusing such generosity by, for example, setting up an office in London and sending British mail to the U.S. for delivery at discounted rates meant to assist poor mailers in the DO's home country.

The price discriminations embedded in the POC proposal and related restrictions on DO access of terminal dues raise much more fundamental issues.[40] In 2002, then Commissioner Ruth Goldway summarized these issues well in the following statement to the Department of State:

> The basic point of the March 19 letter was not that "terminal dues should be more closely tied to actual costs" but that *charges for the delivery of inbound international mail, essentially a U.S. domestic mail service, should cover both attributable costs and a fair share of institutional costs. Absent overriding considerations of foreign policy or national security, prices set for the delivery of inbound international mail should be consistent with the equitable principles of the Postal Reorganization Act.* The Act requires that the Commission when recommending rates, take into account "the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type.'" See 39 U.S.C. §3622(b)(3). *A fair share of institutional costs would seem, a priori, to be the proportion of institutional costs borne by domestic mail,* although further investigation might indicate a different conclusion. If prices for inbound international mail do not meet the Act's ratemaking criteria, then domestic mailers are being unjustly burdened by the "discount" accorded foreign mailers in the same sense that any class of domestic mailers would be burdened by an unjustifiable discount to other domestic mailers.[41]

Precisely. The issue raised by § 403(c) is not whether terminal dues cover attributable costs but whether they “cover both attributable costs and a fair share of institutional costs” because “prices set for the delivery of inbound international mail should be consistent with the equitable principles of the Postal Reorganization Act.” This

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[40] I do not believe that a program of discounted terminal dues enforced by destination DOs is the most fair or efficient way to assist mailers in the least developed countries. A top to bottom review of the whole terminal dues concept is long past due. A constructive proposal along these lines, Proposal 81, was submitted to the Doha Congress by a group of countries led by the Nordics.

[41] Letter from Commissioner Ruth Goldway, Postal Rate Commission, to E. Michael Southwick, Deputy Assistant Secretary for International Organization Affairs, Department of State, April 9, 2002, page 2.

is the discrimination between American and foreign mailers in a nutshell. No less fundamental is the discrimination between a foreign DO and an American (or foreign) express company when they bring shipments of exactly the same mail from a foreign country to the United States and tender the mail to the Postal Service in New York for delivery.

Beyond such observations, postal law does not offer much guidance. Among domestic mailers, the question of discrimination has arisen only very rarely and almost never in rates reviewed by the Commission. While international rate practices may be more questionable, international rates only came within the jurisdiction of the Commission at the end of 2006, and for most of the period since then the challenges of applying the PAEA to domestic mail issues have rightly received top priority from the Commission.[42]

4.4.3 Inbound rates should advance national policies fostering trade in international postal and delivery services.

Although delivery of Inbound Single-Piece Mail is a domestic postal service, the fact that it originates as international mail obliges the Commission to consider the national policy on “international postal services and other international delivery services” set out in § 407. The objectives prescribed by § 407(a) form an international extension to the statement of national postal policy set out in § 101. These policy objectives must

[42]Nonetheless, the tradition against undue or unreasonable discrimination has a long history in American regulatory agencies and jurisprudence. Prevention of unreasonable discrimination was one of the main reasons for creation of the Interstate Commerce Commission in 1887. Many other regulatory agencies have addressed questions of unjust discrimination, as have the courts on review. If the Commission is in doubt about whether the discriminations between different groups of American and foreign mailers of items for domestic delivery that result from the POC proposal are "undue" or "unreasonable," I suggest a review of these precedents.

be taken into account in a § 3622 review of rates affecting international postal services no less than the policies of § 101 are considered in a domestic rate proceeding. Formally, the policies and prescriptions of § 407 are incorporated into a § 3622 analysis by § 3622(a)(14) along with the policies of § 101.

As noted above, § 407 commits the United States "to promote and encourage communications between peoples by efficient operation of *international postal services and other international delivery services* for cultural, social, and economic purposes" and "to promote and encourage unrestricted and undistorted competition in the provision of *international postal services and other international delivery services.*" This policy pointedly does *not* single out providers of postal services for special preference. Indeed, § 407 does the opposite. It explicitly prohibits the Secretary of State from participating in any intergovernmental agreement that would grant providers of postal services an "undue or unreasonable preference" in the provision of competitive products or agreeing to dissimilar treatment for providers of postal services in the application of U.S. customs and other import and export laws. "Because it is good for the Postal Service" is no longer a sufficient or even a lawful basis for government participation in a intergovernmental agreement. Post-PAEA, the question is, Does a proposed agreement further national objectives for trade in the international postal and delivery services sector? In assessing the POC proposal for terminal dues for Inbound Single-Piece Mail, this is the question the Commission must ask itself.

The primary effects of the POC proposal are manifested in the exchange of services among the 24 Group 1.1 countries for the simple reason that they account for roughly two-thirds of all international letter post items in the global postal market and as much as three-quarters of all international mail imported and exported by the Postal Service. As is apparent from the quantitative analysis in section 3, above, the POC proposal causes substantial distortions and restrictions in this market. There are two main effects.

- *Restrictions on international access to DOs.* DOs grant access to each other's postal services on a highly preferred basis. Under the "base scenario" described above (Table 2), the average discount for all letter post items in 2014 appears to be about 43 percent.[43] For small packets — the submarket most commercially significant for the future — the discount is 56 percent. These percentages do not change materially over the period of effectiveness of the next UPU Convention, 2014 through 2017.
- *Economic distortions in the trade in postal services.* The POC proposes to transfer wealth from the some DOs to other DOs. As explained above, the gainers are low cost exporting DOs and the losers are high cost importing DOs. This much is beyond dispute. Exactly how much is gained or lost is less clear because bilateral mail flow data is non-public. In section 3, I described a Bilateral Flow Model that gives *very rough* estimates of the transfers of wealth among Group 1.1 DOs. Using this model and the base scenario (Table 2) — and disregarding possible bilateral agreements between DOs that would replace the terminal dues of the POC proposal

[43] If one assumes a more rapid shift to small packets, the model predicts slightly larger discounts but not markedly so.

> — the net transfer of wealth among Group 1.1 countries is $ 264 million in 2014 and grows to $ 400 million in 2017. Scenario 2 is conservative. If the recent trends scenario is used instead (Table 3), the total distortions will increase to $ 580 million (2014) and $ 1.2 billion (2017).

It is worth stepping back for a moment to consider what these exclusionary practices amount to from the perspective of domestic U.S. postal experience. What the system of reciprocal terminal dues discounts does is restrict entry into the upstream portion of the international postal market. Private delivery services and extraterritorial offices of DOs are severely handicapped in their ability to collect and forward international mail downstream to the DOs that deliver the mail. Why does this make sense? In the United States, liberal competition in the upstream market, first encouraged by the Commission in the 1970s, has proven a great boon to development of postal services. The POC proposal is a short-sighted attempt to prevent entry into the portion of the international market where competition could best serve the interests of all parties, mailers, private operators, and the DOs themselves. From a domestic U.S. perspective, the POC proposal resembles a plan by the Postal Service to foreclose downstream access by providing especially low downstream access rates to a single private delivery service in return for reciprocal benefits. I do not suggest the Postal Service would ever propose such a plan, but the very idea shows how misguided is the POC proposal.

The POC proposal is also inconsistent with the national policy objective “to promote and encourage a clear distinction between governmental and operational responsibilities." While there may be some role for governmental assistance in the organization of international postal services to and from small developing countries, it defies credibility to suggest that the Postal Service and such sophisticated enterprises as Canada Post, Royal Mail, La Poste, Deutcshe Post, Post NL, Sweden Post, Norway Post, and so forth need the assistance of the Department of State to arrange a contract for the exchange of letter post items. These enterprises already work together contractually to provide EMS services. Many of them already have bilateral and multilateral contractual arrangements respecting terminal dues.

Insofar as trade among the Group 1.1 countries is concerned, use of governmental authority to determine such operational issues as what DOs will pay each other for delivery services is flatly contrary to the national policy adopted by Congress. Against this contraction, there appears not a scintilla of public benefit. There is no justification for governmental involvement in financial relations between DOs in industrialized countries. If the U.S. did not agree to the portion of the POC proposal relating to terminal dues among Group 1.1 DOs, there can be no doubt that the Postal Service is fully capable to negotiating contractual arrangements to secure flexible, cost-covering compensation for delivery of inbound international mail.

4.4.4 Inbound rates for market dominant products may not cross-subsidize outbound rates for competitive products (and should not cross-subsidize outbound market dominant rates)

As noted above, in addition to the specific objectives and criteria set out in § 3622 and its incorporation of other "policies of this title," subsection § 3622(c)(14) also gives the Commission discretion to include in its evaluation "such other factors as the

Commission determines appropriate." What other factors should the Commission consider in evaluating the lawfulness of terminal dues rates for Inbound Single-Piece Mail?

In supporting the POC proposal, the Postal Service has argued that allowing terminal dues among Group 1.1 DOs to become better aligned with bulk domestic postage rates "would lead to immediate and substantial increases in international postage rates for U.S. outbound mailers, and substantial cost increases to the Postal Service."[44] The plain implication is that, in evaluating the consistency of *inbound* terminal dues with the standards of § 3662, the Commission should take into account financial benefits that the Postal Service obtains from the artificially low terminal dues that the POC proposal would establish for *outbound* international mail, i.e., the effective discount that results from setting terminal dues for the Postal Service's outbound mail below the domestic rates that foreign DOs would normally charge for delivery of comparable domestic mail.

How much money is involved? According to the (again, very rough) estimates produced by the Bilateral Flow Model (using the base scenario of Table 2 and disregarding any bilateral terminal dues arrangement that may be concluded), in 2014, the Postal Service will give other DOs a discount of about $ 154 million but receive a discount from other Group 1.1 DOs worth about $ 191 million, producing a net benefit to the Postal Service of $ 36 million. By 2017 the discount on inbound mail will increase

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[44]"U.S. Postal Service Comments on Jim Campbell's five proposals submitted to the FACA for consideration," p. 1, distributed as Department of State, Advisory Committee on International Postal and Delivery Service, IPoDS 2012.2 – Doc 5a (undated, distributed for the meeting of May 15, 2012).

(not decline) to $ 169 million, but the value of discounts on delivery on outbound mail to Group 1.1 DOs will increase to $ 277 million, so much that the net benefit to the Postal Service will rise to $ 108 million in 2017.

Should this windfall for outbound postal services be considered in judging the lawfulness of inbound rates? No, it should not. In effect, the argument is that a rate for a market dominant product that is unacceptable under the statutory standards which the Commission is required to uphold should be considered acceptable because the Postal Service obtains some other economic benefit in return. Such a proposition is inconsistent with even-handed implementation of the regulatory framework. Would the Commission accept a discriminatory discount on market dominant postal services for big banks because the banks give the Postal Service a discount on banking services? Of course not, if for no other reason than that such a barter arrangement fails provide accounts that correctly reflect costs.[45]

Far worse from a § 3622 perspective is that at least 85 percent of the benefit which the Postal Service will derive from discounted delivery of inbound *market dominan*t mail will go to create unlawful preferences for outbound *competitive* mail products. According to the Annual Compliance Report 2011 and underlying data, there are three major outbound international mail products subject to terminal dues:

[45]So long as terminal dues for outbound mail are linked to terminal dues for inbound mail, there is a barter element in the exchange of international mail that results in a misstatement of true costs. Where the Postal Service charges a DO cost-based non-discriminatory terminal dues for inbound international mail, this misstatement will be eliminated automatically for outbound mail sent to that DO. In other cases, the Commission may wish to consider reforms in the way the Postal Service accounts for the costs of outbound market dominant products.

International Priority Mail,[46] other competitive International and NSA Mail, and Outbound Single-Piece International Mail. The first two are in the competitive category. In 2011, they accounted for 68 percent of the $ 2.0 billion in revenues earned on outbound products which will have access to the terminal dues proposed by the POC. Moreover, of the $ 644 million which the Postal Service earned from the Outbound Single-Piece International Mail product, $ 367 million was derived from first class international parcels (small packets). The Postal Service has recently asked the Commission to move the small packets portion of Outbound Single-Piece International Mail to the competitive category because “First-Class Mail International Packages and Rolls . . . compete in a vibrant marketplace with private sector enterprises, such as FedEx, DHL and UPS.”[47] Assuming the Commission agrees with the Postal Service some time before 2014, at least 85 percent of the revenue from outbound international mail subject to terminal dues will be derived from products in which the Postal Service is actively competing with private international delivery services. Indeed, the proportion of outbound competitive products is bound to increase in the 2014 to 2017 period because international letters and flats are rapidly disappearing while small packets are increasing. By 2017, the proportion of competitive product revenues from outbound international mail subject to

[46]A small portion of International Priority Mail apparently consists of parcels weighing more than 2 kg and therefore subject to inward land rates rather than terminal dues. This portion is unknown, but it should be disregarded in calculating the total outbound revenue derived from products subject to terminal dues.

[47]PRC, Docket No. MC2012-44, Order No. 1435 (Aug. 16, 2012) (“Notice and Order on Request to Transfer Outbound Single-piece First-class Mail International Package and Rolls to Competitive Product List”) at 2.

terminal dues will likely rise to 90 percent by 2014 and to 95 percent in 2017.[48]

Under the norms of §§ 407 and 3662, otherwise impermissible discounts on domestic postal services for inbound market dominant letter post items cannot be justified by preferential discounts for the Postal Service's outbound competitive products. Such a *quid pro quo* would represent a deliberate underpricing of market dominant products for the explicit purpose of subsidizing the rates of competitive products, an outcome directly contrary to the injunction in § 3622(a)(1) ("prohibit the subsidization of competitive products by market-dominant products"). Moreover, such an arrangement would fly in the face of the national policy objective "to promote and encourage unrestricted and undistorted competition in the provision of international postal services and other international delivery services." Indeed, under § 407(b)(1), a Convention that gives the Postal Service a 40 to 50 percent preference on rates for delivery of outbound competitive products by DOs in Group 1.1 countries would appear to be *per se* beyond the authority of the Secretary of State to agree to since such an enormous discount certainly constitutes "an undue or unreasonable preference."

Moreover, it is obvious that the possibility that the Postal Service may lose access to preferentially low terminal dues for outbound international mail will have *no effect* on postage rates that U.S. mailers pay for outbound *market dominant* postal services. The Commission has included market dominant outbound international mail services under the cap on First Class postage rates. The Postal Service already raises

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[48]These estimates assume the International Priority Mail is primarily composed of package and will grow at the same rate as First Class Mail International packets. The figures are given between the results of the base scenario (Table 2) and the recent trends scenario (Table 3)

its rates each year to the full extent permitted by the cap.

Instead, U.S. mailers of outbound market dominant postal services will benefit substantially by aligning terminal dues with domestic postage because the First Class mail cap includes much more inbound mail than outbound mail. Using the discount calculations quoted above (?? pages 54-55), if reciprocal terminal dues discounts are eliminated among Group 1.1 countries, in 2014 the Postal Service will gain $ 154 million in higher charges for delivering inbound market dominant mail and pay only about $ 29 million more in terminal dues for delivery of outbound market dominant products (since only about 15 percent of outbound international first class mail is in the market dominant category). This is a net gain of $ 125 million for the pool of First Class market dominant mailers, an annual gain that will continue at roughly the same level through 2017. If we use the (probably more realistic) “recent trends” scenario (Table 3) instead of the conservative “base scenario” (Table 2), the net gain for market dominant mailers could reach $ 500 million a year by 2017.

Last, but by no means least in my view, is the question of fairness and the role of the United States in the world. When the net effects of the POC proposal are added up, the bottom line is that mailers in some Group 1.1 countries will be forced to subsidize the Postal Service and, perhaps, selected groups of American mailers. Success in such a scheme could be viewed as a tribute to the political power of the United States government but not to the character of its civilization.

4.5 Principles for evaluating rates for <u>outbound</u> international products

The single outbound market dominant product subject to terminal dues appears to be Outbound Single-Piece Mail. The terminal dues proposed by the POC are not postage rates that the Postal Service will charge U.S. mailers but only costs that the Postal Service incurs in the supply of outbound mail services. Since the Commission does not regulate the charges of the Postal Service's suppliers, the Commission's scrutiny of outbound mail will necessarily be limited in the context of a § 407(c) opinion. Nonetheless, one element of the POC proposal must be considered.

4.5.1 Outbound international postage rates should not be required to exceed domestic postage rates.

As noted above, the proposed Convention would create a price floor on the postage rates that the Postal Service charges U.S. outbound mailers. The floor is the domestic rate for items "presenting the same characteristics (category, quantity, handling time, etc.)."[49] Since most of the cost of an end-to-end postal service is due to the cost of delivery, a cost-based rate for international service to a foreign country where the DO has a significantly lower cost structure than the Postal Service could result in outbound rates that are lower than domestic U.S. rates. Prohibiting the Postal Service from charging cost-based rates to low cost foreign destinations plainly distorts commerce and unreasonably discriminates against mailers to such countries. The inconsistency of such a rate floor provision with the principles of § 3622 seems too obvious for extended explanation.

4.6 Policies and requirements of U.S. antitrust law

As the Supreme Court has said, "In enacting the Sherman Act . . . Congress mandated competition as the polestar by which all must be guided in ordering their

[49]2008 Universal Postal Convention, Art. 6(3). See Appendix A.

business affairs."[50] In the PAEA, Congress added the polestar of competition to the heavens above the Postal Service. New subsection § 409(e) of Title 39 applies U.S. antitrust law to all non-monopoly activities of the Postal Service, including international postal agreements and intergovernmental agreements like the Universal Postal Convention. Section 409(e) provides:

> (e)(1) To the extent that the Postal Service, or other Federal agency acting on behalf of or in concert with the Postal Service, engages in conduct with respect to any product which is not reserved to the United States under section 1696 of title 18, the Postal Service or other Federal agency (as the case may be) —
>
> > (A) shall not be immune under any doctrine of sovereign immunity from suit in Federal court by any person for any violation of Federal law by such agency or any officer or employee thereof; and
> >
> > (B) shall be considered to be a person (as defined in subsection (a) of the first section of the Clayton Act) for purposes of —
> >
> > > (i) the antitrust laws (as defined in such subsection); and
> > >
> > > (ii) section 5 of the Federal Trade Commission Act to the extent that such section 5 applies to unfair methods of competition

By taking the extraordinary step of extending the ambit of the antitrust law to include Federal agencies working "on behalf of or in concert with the Postal Service," Congress clearly emphasized its intent that an intergovernmental agreement at the UPU should not be used to make an end run around the principles of U.S. antitrust law where non-monopoly international services are concerned.

Of course, DOs are collaborators as well as competitors. Do the antitrust law prohibit price-fixing and market allocation by collaborators? Yes, they do. In modern

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[50]City of Lafayette v. Louisiana Power & Light Co., 435 U.S. 389, 406 (1978).

commerce, companies in a sector often interact as both competitors and collaborators. In 2000, the Department of Justice and Federal Trade Commission jointly issued guidelines on the level of permissible cooperation among competitors. The guidelines declare, in part:

> Agreements of a type that always or almost always tends to raise price or to reduce output are per se illegal. The Agencies challenge such agreements, once identified, as per se illegal. *Types of agreements that have been held per se illegal include agreements among competitors to fix prices or output, rig bids, or share or divide markets by allocating customers, suppliers, territories, or lines of commerce*. The courts conclusively presume such agreements, once identified, to be illegal, without inquiring into their claimed business purposes, anticompetitive harms, procompetitive benefits, or overall competitive effects. The Department of Justice prosecutes participants in hard-core cartel agreements criminally.[51]

Although a proper antitrust analysis is complex and beyond the scope of this comment, it is apparent that several elements of the POC proposal raise serious questions when measured against the requirements and policies of the antitrust law. For example,

1) The proposal to agree to fix rates (terminal dues) for the supply of non-monopoly services by DOs to other DOs (some state owned, some privatized).

2) The proposal to restrict the ability of private delivery services to compete against a national DO in providing downstream access to foreign DOs by limiting access to terminal dues in the destination country.

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[51]Federal Trade Commission, and Department of Justice, “Antitrust Guidelines for Collaborations Among Competitors” (2000), p. 3. On the applicability of the antitrust law to international operations see Department of Justice and Federal Trade Commission, “Antitrust Enforcement Guidelines for International Operations” (1995).

3) The proposal to protect the market position of each national DO in the provision of outbound postal services for mail originating from residents of its national territory by restrictions on remail and ETOEs.

4) The proposal to delegate to the POC authority to fix inward land rates.

5) The proposal to establish domestic postal rates as a floor for postal rates for outbound postal services.

In particular, the proposal to vest the POC — a committee of 40 DOs, many of whom are direct competitors with one another — with authority to fix inward land rates for parcel post services, appears inconsistent with U.S. antitrust law virtually by definition.

With respect to the proposals to continue restrictive access to terminal dues and restrictions on remail competition, the implications of U.S. antitrust principles were identified in plain terms in a study by the Department of Justice (DOJ) in 1988.

> Under the current terminal dues system, *terminal dues are uniform for all types of international mail and for all postal administrations, even though their costs vary widely. These differences between prices and costs cause substantial allocative inefficiencies*. . . .
>
> *Any terminal dues rate that does not reflect costs accurately impairs the efficient operation of the market* by imposing artificial costs on either reraailers or postal administrations. . . .
>
> [W]e believe that any terminal dues agreement between USPS and a foreign postal administration should include safeguards to ensure that remailers are allowed to engage in remail activities and are not forced to pay terminal dues that are above costs. The most effective safeguard, in our view, would be assurances that remailers would be permitted to post mail in the domestic postal system of the country of destination, at the rate that would be charged for comparable domestic mail.
>
> This protection, to be fully effective, requires that *each postal*

> *administration participating in a new terminal dues agreement: 1) allow private companies to collect international mail and ship it out of the country, 2) accept international mail from private companies, and 3) refrain from any discrimination, in terms, conditions, or rates, between domestic mail and remail*. . . .
>
> The current terminal dues structure produces distortions in the economic structure of the international mail system. *Since terminal dues do not accurately reflect costs, the current system causes a subsidy to flow from some parties to others, provides artificial cost advantages to remailers in some cases and to postal administrations in others, and generally impairs the efficient operation of the international mail system.*[52]

Although written more than two decades ago, DOJ's analysis can be applied to the current POC proposal without changing a word. The only needed to bring it up to date is to point out that antitrust concerns for suppression of remail competition would now apply equally to the more modern suppression of ETOE competition. In Europe, a recent study by a professor of European competition and regulatory law, Damien Geradin, has come to similar conclusions with the respect to applicability of European competition rules to the terminal dues scheme proposed by the POC, at least as it applies to relations among Group 1.1 DOs.

Recent application of the antitrust law to the U.S. international airline industry provides another indication of the potential implications of antitrust principles for POC proposals on terminal dues and inward land rates. In the international aviation industry, it was the practice that committees of airlines in the International Air Transport Association (IATA) would agree on the rates that airlines charged each other for

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[52]Department of Justice, "Evaluating a Proposed Agreement on Terminal Dues" (1988), a staff study enclosed with a letter from Charles F. Rule, Assistant Attorney General for the Antitrust Division, to Carol T. Crawford, Associate Director for Economics and Government, Office of Management and Budget, Mar. 1, 1988, at pp. 16, 18, 21-22, 25 (footnotes omitted, emphasis added) .

providing onward air transportation for passengers or cargo that had been conveyed to an immediate point by an airline that originated the traffic but did not serve the final destination. In 2007, the Department of Transportation (DOT) concluded that IATA agreements setting “interline” rates for passengers and cargo were *per se* violations of U.S. antitrust law.[53] The similarities between forwarding passengers and cargo and forwarding international letter post items and parcels seem apparent.

Continued U.S. participation in an intergovernmental postal agreement inconsistent with U.S. antitrust principles might be rendered more understandable — although not necessarily more acceptable — if the U.S. found itself in a situation in which the benefits of international postal service could not be obtained without the agreement of 192 countries and 191 stood firm against any role for antitrust law. But this will not be the situation in Doha. As noted above, the key terminal dues agreement for the United States, governing two-thirds to three-quarters of U.S. outbound and inbound international letter post, is the terminal dues regime applicable to the 24 Group 1.1 DOs, a subset of the target system. Of these 24 DOs, 17 are based in the European Union and European Economic Area (subject to EU law), where competition rules have been applied to international postal services repeatedly over the last 25 years.[54] If the

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[53]Order 2007-3-27 (Mar. 30, 2007) at 37 (passenger fares), 48 (cargo rates). DOT rejected the claim that interline agreements were necessary to create a product that airlines were unable to offer individually. Id. at 45. DOT was especially concerned that IATA conferences allowed airlines to influence charges in markets which they did not serve directly. Id. at 35. DOT also condemned negotiations that did not directly set the level of passenger fares but nonetheless agreed on "fare or rate levels . . . , conditions of service . . ., and price applicability conditions." Id. at 39.

[54]Even so, within the EU/EEA area, UPU terminal dues arrangements continue to have a distorting effect despite the primacy of the EU Postal Directive and EU competition rules. Many EU DOs support UPU terminal dues reform as preferable to the rigors of lengthy litigation and political dispute.

17 EU/EEA countries are treated a block for antitrust law purposes, then the Group 1.1 terminal dues regime embraces just 8 jurisdictions: Australia, Canada, the European Union (including EEA), Israel, Japan, New Zealand, Switzerland, and the U.S. In this 8-player market (excluding intra-EU/EEA traffic), the United States and the EU account for at least two-thirds of all cross-border letter post. Thus, within Group 1.1, ensuring respect for antitrust principles in international postal exchanges comes down to insistence by the appropriate authorities in the U.S. and (largely already committed) EU. And if antitrust law principles prevail in relations among Group 1.1 DOs, there is no reason to doubt that international postal services will continue under the aegis of the UPU without interruption. Far from being politically impossible, application of antitrust principles in postal relations among Group 1.1 countries — and perhaps including other countries — is eminently feasible and, indeed, legally required in the two dominant jurisdictions. In sum, “the UPU made me do it” is not an excuse for failing to give effect to U.S. antitrust law and principles in the Postal Service’s most significant international postal markets.

Assuming that some or all of the five elements of the POC proposal listed at the beginning of the section are likely incompatible with the antitrust law, what are the implications for the Commission’s § 407(c) opinion? Under § 3622(c)(14), the Commission is obliged to take into account “the policies of this title.” This standard appears to include § 409(e), for extension of the antitrust law to non-monopoly activities of the Postal Service is certainly a “policy” and “of this title.” Moreover, the Commission’s interpretation of terms such as “unrestricted and undistorted competition” and “undue or unreasonable preference” should be informed by potential violations of antitrust law. In preparing its § 407(c) opinion, therefore, the Commission should consider fully and transparently the implications of the antitrust law for the conduct involved.

Careful consideration of the implications of antitrust principles for UPU rate agreements is appropriate for a second reason. Subsection § 409(e) imposes a specific obligation on the Commission and other Federal agencies to refrain from taking any steps which might amount to “acting on behalf of or in concert with the Postal Service” in practices which may be inconsistent with antitrust law. By advising the Department of State that a proposed agreement on terminal dues or inward land rate is “consistent with the standards and criteria established by the Commission under section 3622,” is the Commission acting “on behalf of or in concert with the Postal Service” in a manner that is inconsistent with the requirements of the antitrust law? It seems to me that the answer is clearly “no” if the role of the Commission acts within the scope of duties prescribed by statute — i.e., the duties of an independent, impartial, and transparent evaluator of facts and law, conscientiously applying the policies of § 3622, including taking due account of the implications of the antitrust law. The answer might be different, however, if the Commission goes beyond its statutory role and joins with the Postal Service and Department of State into a more collaborative, less transparent effort that aims, directly or indirectly, to advance the commercial fortunes of the Postal Service in the context of the Doha Congress.

5 Procedures for a § 407(c) review of rates for international postal items

5.1 Legal consequences of a § 407(c) opinion

As noted above, the views of the Commission submitted to the Department of State under § 407(c) represent a final regulatory determination on the question of whether "a rate or classification for a product subject to subchapter I of chapter 36 . . . is consistent with the standards and criteria established by the Commission under section 3622." If the Commission determines that rate provisions of the Universal Postal Convention are consistent with Title 39, then the Department of State may conclude the Convention with respect to these provisions. If not, the Department of State must seek appropriate amendments or reservations to the Convention unless it "determines, in writing, that it is not in the foreign policy or national security interest of the United States to ensure consistency with the Commission's views." § 407(c)(2).

The legal implications of the new Convention for U.S. statutes are unclear to me, and, I suspect, for others. If the Convention is concluded by the Department of State in accordance with § 407, it appears that the *Convention may become the law of the United States and supersede inconsistent provisions of Title 39 and other statutes of the United States*.[55] If so, then the Commission's § 407(c) opinion may critically affect the

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[55]*See* American Law Institute, 1 *Rest. 3rd, Restatement of the Foreign Relations Law* § 115(2) (1987). The possibility that the 2012 Universal Postal Convention may override inconsistent provisions of U.S. statutes is not a mere technicality. In 2007, in the Commission's rulemaking that developed procedures for the review of adjustments in domestic postage rates under § 3662, the Postal Service adopted the position that in the implementation of § 407(e)(2) — the provision requiring equal customs treatment for competitive products of the Postal Service and similar products of private delivery services — one of "two key issues [that would] need to be resolved to determine whether private sector customs requirements should be applied to postal shipments" was "whether any requirements for parity would be consistent with the international obligations of the United States under the Universal Postal Convention." Docket RM2007-1, "Initial Comments of the United States Postal Service in Response to Order No. 26" (Sep. 24, 2007), p. 23 n. 40. If, as the Postal Service clearly implies, the Universal Postal Convention

Commission's authority to enforce provisions of Title 39 within respect to international letter post and parcel post services until 2018. Rate provisions of the Convention relating to market dominant inbound products self-evidently affect (i) the rates of U.S. mailers of market dominant products in both inward and outward markets and (ii) the ability of private delivery services to compete with the Postal Service in both inward and outward markets and with respect to both market dominant and competitive products. Indeed, the Commission's § 407(c) opinion may also affect the authority of the Department of Justice and he Federal Trade Commission to apply the antitrust and fair trading laws to international postal services for the same period. Then, too, because of the prominent role of the United States in the UPU and the fact that the Universal Postal Convention is a global convention, U.S. participation in the Convention could also influence substantially the rates that DOs charge each other for delivery of international letter post and parcel post services worldwide, and in particular in exchange among Group 1.1 DOs. U.S. participation in the Convention thus has potentially significant effects of U.S. private delivery services in the global market as well as in the U.S. international market. As explained above, on its face the POC proposal severely handicaps the ability of U.S. private delivery services to compete in the market for downstream entry of international documents and parcels in the postal system of the destination country.

supersedes U.S. customs law, then does it supersede U.S. postal, security, antitrust, and trade laws and agreements as well?

5.2 Appropriate procedures for a § 407(c) review

Given the significant legal consequences of § 407(c) opinion, the Commission should develop and publish rules for the conduct of a § 407(c) proceeding just as it has for other rate proceedings. It is apparent that a § 407(c) review of rates and classifications of market dominant products for *inbound* international mail is not materially different from a § 3622(d) review of rates and classifications for market dominant *domestic* products. In each case, the Commission is considering whether a proposed rate for a domestic mail service (i.e., a service provided wholly within the U.S.) is consistent with the standards of § 3622. The starting point for fashioning procedures for a § 407(c) proceeding should therefore be the procedures already in place for the annual review of adjustments in domestic market dominant products. 39 C.F.R. part 310.

These procedures, which established the "modern system of ratemaking," were adopted in 2007 after extended consultation with affected parties.[56] The final procedures reflected the Commission's recognition that it was obliged to give full effect to the requirements of the Administrative Procedure Act (APA) even while it was constrained to meet the tight 45-day time limit of § 3622(d)(1)(C). When several parties expressed concern that the initially proposed procedures did not expressly require full disclosure of the details of proposed rate adjustments, the Commission amended its proposed procedures to be more explicit.

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[56] *See* Docket RM 2007-1, Order Nos. 2 (Jan. 30, 2007)(advanced notice of proposed rulemaking), 15 (May 17, 2007) (second advanced notice of proposed rulemaking)), 26 (Aug. 26, 2007) (notice of proposed rulemaking), and 43 (Oct. 29, 2007) (final rule).

> The Commission revises its proposed regulations governing public notices to explicitly include the categories of information that section 553 requires. Under the final rules, the public can be assured that such notices will contain summaries of the Postal Service's proposed rate and classification-related changes in sufficient detail to satisfy the notice requirements of the APA.[57]

When some parties questioned whether they would have an adequate opportunity to comment on proposed rates, the Commission gave assurances that it recognized

> That APA provision is designed to ensure that the opinion of those whose interests will be affected by an agency's rules will be heard before a rule is finalized, not after. Courts have emphasized the distinction: " . . . Section 553 is designed to insure that [parties affected by an agency decision] have an opportunity to participate in and influence agency decision-making at an early stage, when the agency is more likely to give real consideration to alternative ideas. [quoting United States Steel Corp. v. EPA, 595 F.2d 207, 214 (5th Cir. 1979)].[58]

Procedures for a § 407(c) proceeding should adhere to the framework already established in Part 3010 for two reasons. First, these procedures are required by the Administrative Procedure Act and constitute the basic standards of fairness. Such considerations are as applicable to a review of rates for international market dominant mail products as to a review of rates for other market dominant products. Second, a federal regulatory agency must be reasonably consistent and logical in its application of law if it is not to drift on to the rocks of arbitrariness. If rates for most market dominant products are regulated according to one set of procedures, the Commission should have definite and articulable reasons for departing from such procedures in the

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[57] Docket RM 2007-1, Order No. 43 (Oct. 29, 2007) at para. 2013.

[58] Docket RM 2007-1, Order No. 43 (Oct. 29, 2007) at para. 2027.

regulating other market dominant products.[59]

To be sure, there are some differences between rates for international and domestic market dominant products, but these do not appear to warrant substantially different review procedures. With respect to rates for delivery of inbound terminal dues, the major differences are that (i) the proposer is, in effect, the Department of State; (ii) that the “policies of this title” incorporated by (c)(14) point to a somewhat different array of considerations than raised in the consideration of a domestic postage rate; and (iii) the 45-day limit for review of new domestic rates does not apply in the context of a § 407(c) review. With respect to inward land rates, the only issue is procedural: whether it is consistent with § 3622 to delegate ratemaking authority to the POC. And with respect to outbound international rates, the only question is whether it is consistent with § 3622 to establish domestic rates as a floor price. These last two issues appear to be simply questions of law.

These observations suggest that a § 407(c) proceeding, like a § 3622(d) should with begin with an announcement from the Commission that provides, inter alia, “A concise description of the planned for changes in rates, fees, and the Mail Classification Schedule.” 39 C.F.R. § 3010.13(a). The notice should also include an explanation of the new rates by the proponent of the rates, in this case the Department of State. The explanation should include underlying cost calculations that justify the new rates and

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[59]See, e.g., *Chamber of Commerce v. SEC*, 412 F.3d 133 (D.C. Cir. 2005) (agency must examine responsible alternatives and provide a satisfactory explanation for its action including a rational connection between the facts found and the choice made); *Chamber of Commerce v. SEC*, 443 F.3d 890 (D.C. Cir. 2006) (agency must provide for public evaluation technical studies and data upon which the agency relies); *American Radio Relay League v. FCC*, 524 F.3d 227 (D.C. Cir. 2008 (agency must provide reasoned explanation for extrapolation from empirical data).

provide a discussion that "demonstrates how the planned rate adjustments are designed to help achieve the objectives listed in 39 U.S.C. 3622(b) and properly take into account the factors listed in 39 U.S.C. 3622(c)," 39 C.F.R. § 3010.14. Such explanations should, in particular, address the objectives and requirements of § 407 including such relevant issues as:

- To what extent will the proposed rates and related practices promote and encourage communications between peoples by efficient operation of international postal services and other international delivery services for cultural, social, and economic purposes?
- To what extent will the proposed rates and related practices distort or restrict competition in the provision of international postal and delivery services outside the scope of the U.S. postal monopoly?
- Why is it necessary to set the proposed rates by intergovernmental agreement as opposed to allowing DOs to establish delivery rates by normal commercial contracts?
- To what extent do the proposed rates imply or risk the creation of an undue or unreasonable preference for the Postal Service or other provider of competitive products?

In addition, I suggest that the Commission provide or invite economic and legal analyses of the consequences of the proposed rates so that commenters may participate knowledgeably in the exotic and unfamiliar terrain of UPU rate-setting. For example, the following analysis would appear to be especially helpful:

- a Commission analysis of how the proposed rates vary from comparable domestic postage in the U.S. and other major trading partners and the extent to which the Postal Service gains or loses by virtue of such variations in exchange of market dominant and competitive products;
- an analysis by Department of Justice or Federal Trade Commission or other qualified person on the implications of the antitrust laws and policies for the proposed rates;
- an analysis by the Department of State or other qualified person on the legal effects of the Convention on U.S. statutes.

After considering comments of affected parties, the Commission should "determine, at a minimum, whether the planned rate adjustments are consistent with . . . 39 U.S.C. 3626 . . . and issue an order announcing its findings." 39 C.F.R. § 3010.13(c). Indeed, a Congressional intent that the Commission should issue a final order with specific findings and reasons is clearly implied by the statutory requirement that the Department of State provide a written and public explanation of any exceptions it takes to the Commission's § 407(c) opinion based on considerations of national security or foreign policy.

6 Conclusions and next steps

Although preliminary, this review of the issues presented by a § 407(c) opinion is sufficient to demonstrate that there are many basic questions surrounding the consistency of POC proposals for rates and classification of products subject to subchapter I of chapter 36 with the standards and criteria of 39 U.S.C. § 3622. Such questions require a full review by the Commission in a proceeding fully compatible with the procedural safeguards of the Administrative Procedure Act.

The passage of time, however, now severely constrains the options available to the Commission and the Department of State. The Doha Congress will be completed in about 60 days. It is too late to develop and adopt specific procedures for preparing a § 407(c) opinion. Indeed, even if such procedures were in place, it is probably too late to complete a notice and comment hearing and prepare a well considered § 407(c) opinion before the end of the Doha Congress. Nonetheless, before concluding the Convention, the Department is obliged to "request the Postal Regulatory Commission to submit its views." Since the Commission cannot, in the time remaining, prepare its views in a comprehensive and fair manner compatible with the Administrative Procedure Act, the Department cannot, insofar as the United States is concerned, conclude the Convention at the end of the Doha Congress.[60]

This is hardly a disaster. At the end of the 2008 Geneva Congress, the United States was unable to finalize its position with the respect to the other main act negotiated at a UPU congress, the Postal Payment Services Agreement. The U.S. resolved its internal policy issues after the end of the congress and signed later. Since the Postal Payment Services Agreement did not go into effect until 16 months after the close of the Congress, late signature by the United States has no practical effect. Thus,

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[60]For the Commission to attempt to complete a § 407(c) opinion in a manner that does not deal comprehensively with the relevant issues and does not comply with the APA is a worse option. Aside from the injustice to the parties affected, such a hasty § 407(c) could presumably be overturned by the courts.

the Commission can complete a § 407(c) opinion in full compliance with the APA after conclusion of the Doha Congress. A delayed signature is not a problem.

What is a problem is that by the time the Commission completes its § 407(c) opinion, the United States will have lost the opportunity to seek amendments or reservations that could meet any objections of the Commission. Thus, if the Commission finds a departure from the standards and criteria § 3622, the Department will not be able to sign the Convention. Again, I believe that the issues raised in this comment are sufficient to show that an objective and fair inquiry by the Commission could uncover some inconsistencies with the standards and criteria § 3622. The risk of not being able to conclude the Convention in a manner consistent with U.S. law is not negligible.

The best solution, therefore, is for the Commission to encourage the Department to seek such amendments and reservations to the Convention as may be necessary to preserve the authority of the Commission to review the final Convention for inconsistencies with U.S. regulatory law and require such remedies as may be necessary ensure compliance with Title 39. This is, in fact, not a major departure from what seems to be the legal status quo for a large part of the industrialized countries. Member States of the EU and EEA — accounting about 60 percent of all outbound international mail — already declare after each Congress that

> The delegations of the member countries of the European Union declare that their countries will apply the Acts adopted by this Congress in accordance with their obligations pursuant to the Treaty establishing the European Community and the General Agreement on Trade in Services (GATS) of the World Trade Organization.

If the EU can make such a declaration, why cannot the United States require that it, too, will apply the Acts adopted by the Doha Congress in accordance with its obligations pursuant to its national law? A properly drafted reservation would ensure that the U.S. can continue to give full effect to Title 39, customs and security laws, and antitrust laws. (Indeed, any other position would imply that the United States is *not* required to do so because the Convention overrides U.S. law, a seemingly untenable position.) If the U.S. adopts such a reservation, the Commission will be able to provide post-Congress review of provisions relating to terminal dues and inward land rates as they affect market dominant international products well before the January 1, 2014, implementation date.

Thank you for your consideration of this comment.

Respectfully submitted,

James I. Campbell Jr.

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APPENDIX A

PROPOSALS AFFECTING MARKET DOMINANT RATES AND CLASSIFICATIONS FOR INTERNATIONAL POSTAL PRODUCTS AND SERVICES EXCHANGED AMONG POSTAL ADMINISTRATIONS TO BE NEGOTIATED AT THE UPU DOHA CONGRESS

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Section C

Charges, surcharges, exemption from postal charges and methods of denoting prepayment

Article 6
Charges

1 The charges for the various international postal and special services shall be set by the member countries or their designated operators, depending on national legislation, in accordance with the principles set out in the Convention and its Regulations. They shall in principle be related to the costs of providing these services.

2 The member country of origin or its designated operator, depending on national legislation, shall fix the postage charges for the conveyance of letter- and parcel-post items. The postage charges shall cover delivery of the items to the place of address provided that this delivery service is operated in the country of destination for the items in question.

3 The charges collected, including those laid down for guideline purposes in the Acts, shall be at least equal to those collected on internal service items presenting the same characteristics (category, quantity, handling time, etc.).

4 Member countries or their designated operators, depending on national legislation, shall be authorized to exceed any guideline charges appearing in the Acts.

5 Above the minimum level of charges laid down in 3, member countries or their designated operators may allow reduced charges based on their national legislation for letter-post items and parcels posted in the territory of the member country. They may, for instance, give preferential rates to major users of the Post.

6 No postal charge of any kind may be collected from customers other than those provided for in the Acts.

7 Except where otherwise provided in the Acts, each designated operator shall retain the charges which it has collected.

■ **Commentary**

6.5 This provision enables DOs to take commercial measures to tackle more effectively the problems posed by competition. It is, however, stipulated that the international rates may not be lower than the domestic rates for the same types of item. This is because, in addition to the costs of posting and delivery, international items also entail costs for processing at offices of exchange and for conveyance from the country of origin to the country of destination.

6.6 When a supplementary charge is payable in addition to their postage value, commemorative or charity postage stamps must be so designed as to leave no doubt about that value.

6.7 As regards the Conv, the exceptions are mentioned below:
– RL 139 (commission and other possible postal charges for items to be delivered free of charge);
– RL 142 (value of reply coupons exchanged against postage stamps for other DOs).

Prot Article II
Charges

1 Notwithstanding article 6, Australia, Canada and New Zealand shall be authorized to collect postal charges other than those provided for in the Regulations, when such charges are consistent with the legislation of their countries.

Article RL 105
Postage charges

1 Guideline postage charges are given in the table below:

Category	Weight	Guideline charges for items for the least expensive geographical zone	Guideline charges for items for the most expensive geographical zone
1	2	3	4
		SDR	SDR
1.1 Charges in the system based on speed:			
Priority items	up to 20 g	0.43	0.62
	above 20 g up to 100 g	0.96	1.53
	above 100 g up to 250 g	1.80	3.14
	above 250 g up to 500 g	3.54	6.22
	above 500 g up to 1000 g	5.99	10.83
	above 1000 g up to 2000 g	9.55	19.33
	per additional step of 1000 g	5.66 (optional)	8.67 (optional)
Non-priority items	up to 20 g	0.37	0.43
	above 20 g up to 100 g	0.67	0.99
	above 100 g up to 250 g	1.33	1.71
	above 250 g up to 500 g	2.60	3.43
	above 500 g up to 1000 g	4.33	5.68
	above 1000 g up to 2000 g	6.99	10.43
	per additional step of 1000 g	3.86 (optional)	5.42 (optional)

Article 26
Posting abroad of letter-post items

1 A designated operator shall not be bound to forward or deliver to the addressee letter-post items which senders residing in the territory of its member country post or cause to be posted in a foreign country with the object of profiting by the more favourable rate conditions there.

2 The provisions set out under 1 shall be applied without distinction both to letter-post items made up in the sender's country of residence and then carried across the frontier and to letter-post items made up in a foreign country.

3 The designated operator of destination may claim from the sender and, failing this, from the designated operator of posting, payment of the internal rates. If neither the sender nor the designated operator of posting agrees to pay these rates within a time limit set by the designated operator of destination, the latter may either return the items to the designated operator of posting and shall be entitled to claim reimbursement of the redirection costs, or handle them in accordance with its national legislation.

4 A designated operator shall not be bound to forward or deliver to the addressees letter-post items which senders post or cause to be posted in large quantities in a country other than the country where they reside if the amount of terminal dues to be received is lower than the sum that would have been received if the mail had been posted in the country where the senders reside. The designated operator of destination may claim from the designated operator of posting payment commensurate with the costs incurred and which may not exceed the higher of the following two amounts: either 80% of the domestic tariff for equivalent items, or the rates applicable pursuant to articles 28.3 to 28.7 or 29.7, as appropriate. If the designated operator of posting does not agree to pay the amount claimed within a time limit set by the designated operator of destination, the designated operator of destination may either return the items to the designated operator of posting and shall be entitled to claim reimbursement of the redirection costs, or handle them in accordance with its national legislation.

Prot Article XIII
Posting abroad of letter-post items

1 Australia, Austria, United Kingdom of Great Britain and Northern Ireland, Greece, New Zealand and United States of America reserve the right to impose a charge, equivalent to the cost of the work it incurs, on any designated operator which, under the provisions of article 26.4, sends to it items for disposal which were not originally dispatched as postal items by their services.

2 Notwithstanding article 26.4, Canada reserves the right to collect from the designated operator of origin such amount as will ensure recovery of not less than the costs incurred by it in the handling of such items.

3 Article 26.4 allows the designated operator of destination to claim, from the designated operator of posting, appropriate remuneration for delivering letter-post items posted abroad in large quantities. Australia and the United Kingdom of Great Britain and Northern Ireland reserve the right to limit any such payment to the appropriate domestic tariff for equivalent items in the country of destination.

4 Article 26.4 allows the designated operator of destination to claim, from the designated operator of posting, appropriate remuneration for delivering letter-post items posted abroad in large quantities. The following member countries reserve the right to limit any such payment to the limits authorized in the Regulations for bulk mail: Bahamas, Barbados, Brunei Darussalam, China (People's Rep.), United Kingdom of Great Britain and Northern Ireland, Overseas Dependent Territories of the United Kingdom, Grenada, Guyana, India, Malaysia, Nepal, Netherlands, Netherlands Antilles and Aruba, New Zealand, Saint Lucia, Saint Vincent and the Grenadines, Singapore, Sri Lanka, Suriname, Thailand and United States of America.

5 Notwithstanding the reservations under 4, the following member countries reserve the right to apply in full the provisions of article 26 of the Convention to mail received from Union member countries: Argentina, Austria, Benin, Brazil, Burkina Faso, Cameroon, Côte d'Ivoire (Rep.), Cyprus, Denmark, Egypt, France, Germany, Greece, Guinea, Israel, Italy, Japan, Jordan, Lebanon, Luxembourg, Mali, Mauritania, Monaco, Morocco, Norway, Portugal, Saudi Arabia, Senegal, Syrian Arab Rep. and Togo.

6 In application of article 26.4 Germany reserves the right to request the mailing country to grant compensation of the amount it would receive from the country of which the sender is resident.

7 Notwithstanding the reservations made under article XIII, China (People's Rep.) reserves the right to limit any payment for delivering letter-post items posted abroad in large quantities to the limits authorized in the UPU Convention and Letter Post Regulations for bulk mail.

Terminal Dues Articles of the Universal Postal Convention

With amendments to the 2008 Convention proposed by the Postal Operations Council for adoption by the Doha Congress (Props 20.27.1, 20.28.1, and 20.29.1).

Article 27

Terminal dues. General provisions

1 Subject to exemptions provided in the Regulations, each designated operator which receives letter-post items from another designated operator shall have the right to collect from the dispatching designated operator a payment for the costs incurred for the international mail received.

2 For the application of the provisions concerning the payment of terminal dues by their designated operators, countries and territories shall be classified in accordance with the lists drawn up for this purpose by Congress in its resolution C ~~18/2008~~ xx/2012, as follows:

2.1 countries and territories in the target system prior to 2010;

2.2 countries and territories in the target system as of 2010 and 2012 ~~(new target system countries)~~;

2.2bis countries and territories in the target system as from 2014 (new target system countries);

2.3 countries and territories in the transitional system.

3 The provisions of the present Convention concerning the payment of terminal dues are transitional arrangements, moving towards a country-specific payment system at the end of the transition period.

4 Access to domestic services. Direct access

4.1 In principle, each designated operator shall make available to the other designated operators all the rates, terms and conditions offered in its domestic service on conditions identical to those proposed to its
national customers. It shall be up to the designated operator of destination to decide whether the terms and conditions of direct access have been met by the designated operator of origin.

4.2 Designated operators of countries in the target system shall make available to other designated operators the rates, terms and conditions offered in their domestic service, on conditions identical to those
proposed to their national customers.

4.3 Designated operators of new target system countries may opt not to make available to other designated operators the rates, terms and conditions offered in their domestic service on conditions identical to those proposed to their national customers. Those designated operators may, however, opt to make available to a limited number of designated operators the application of domestic conditions, on a reciprocal basis, for a trial period of two years. After that period, they must choose either to cease making available the application of domestic conditions or to continue to make their own domestic conditions available to all designated operators. However, if designated operators of new target system countries ask designated operators of target system countries for the application of domestic conditions, they must make available to all designated operators the rates, terms and conditions offered in their domestic service on conditions identical to those proposed to their national customers.

4.4 Designated operators of countries in the transitional system may opt not to make available to other designated operators the application of domestic conditions. They may, however, opt to make available to a limited number of designated operators the application of domestic conditions, on a reciprocal basis, for a trial period of two years. After that period, they must choose either to cease making available the application of domestic conditions or to continue to make their own domestic conditions available to all designated operators.

5 Terminal dues remuneration shall be based on quality of service performance in the country of destination. The Postal Operations Council shall therefore be authorized to supplement the remuneration in articles 28 and 29 to encourage participation in monitoring systems and to reward designated operators for reaching their quality targets. The Postal Operations Council may also fix penalties in case of insufficient quality, but the remuneration shall not be less than the minimum remuneration according to articles 28 and 29.

6 Any designated operator may waive wholly or in part the payment provided for under 1.

7 M bags weighing less than 5 kilogrammes shall be considered as weighing 5 kilogrammes for terminal dues payment purposes. ~~For M bags, t~~The terminal dues rates to be applied for M bags shall be: ~~0.793 SDR per kilogramme. M bags weighing less than 5 kilogrammes shall be considered as weighing 5 kilogrammes for terminal dues payment purposes.~~

7.1 for the year 2014, 0.815 SDR per kilogramme;

7.2 for the year 2015, 0.838 SDR per kilogramme;

7.3 for the year 2016, 0.861 SDR per kilogramme;

7.4 for the year 2017, 0.885 SDR per kilogramme.

8 For registered items there shall be an additional payment of ~~0.55 SDR per item for 2010 and 2011 and 0.6 SDR for 2012 and 2013~~ 0.617 SDR per item for 2014, 0.634 SDR per item for 2015, 0.652 SDR per item for 2016 and 0.670 SDR for 2017. For insured items, there shall be an additional payment of ~~1.1 SDR per item for 2010 and 2011 and 1.2 SDR for 2012 and 2013~~ 1.234 SDR per item for 2014, 1.269 SDR per item for 2015, 1.305 SDR per item for 2016 and 1.342 SDR for 2017. The Postal Operations Council shall be authorized to supplement remuneration for these and other supplementary services where the services provided contain additional features to be specified in the Letter Post Regulations.

8bis For terminal dues payment purposes, letter-post items posted in bulk by the same sender and received in the same dispatch or in separate dispatches in accordance with the conditions specified in the Letter Post Regulations shall be referred to as "bulk mail". The payment for bulk mail shall be established as provided for in articles 28 and 29.

9 Any designated operator may, by bilateral or multilateral agreement, apply other payment systems for the settlement of terminal dues accounts.

10 Designated operators may exchange non-priority mail on an optional basis by applying a 10% discount to the priority terminal dues rate.

~~11 Designated operators may exchange format-separated mail on an optional basis at a discounted terminal dues rate.~~

12 The provisions applicable between designated operators of countries in the target system shall apply to any designated operator of a country in the transitional system which declares that it wishes to join the target system. The Postal Operations Council may set transitional measures in the Letter Post Regulations. The full provisions of the target system may apply to any new target designated operator that declares that it wishes to apply such full provisions without transitional measures.

Article 28

Terminal dues. Provisions applicable to mail flows between designated operators of countries in the target system

1 Payment for letter-post items, including bulk mail but excluding M bags and IBRS items, shall be established on the basis of the application of the rates per item and per kilogramme reflecting the handling costs in the country of destination. ~~; these costs must be related to the domestic tariffs. The rates shall be calculated in accordance with the conditions specified in the Letter Post Regulations.~~ Charges corresponding to priority items in the domestic service which are part of the universal service provision will be used as a basis for the calculation of terminal dues rates.

1bis The terminal dues rates in the target system shall be calculated taking into account, where applicable in the domestic service, the classification of items based on their format, as provided for in article 12bis of the Convention.

1ter Designated operators in the target system shall exchange format-separated mails in accordance with the conditions specified in the Letter Post Regulations.

2 Payment for IBRS items shall be as described in the Letter Post Regulations.

~~3 The rates per item and per kilogramme shall be calculated on the basis of a percentage of the charge for a 20-gramme priority letter in the domestic service, which shall be 70% for countries in the target system prior to 2010 and 100% for countries entering the target system from 2010 or 2012 (new target system countries).~~

~~4 The Postal Operations Council will conduct a study of the cost of handling inbound mail during 2009 and 2010. If this study reveals a percentage different from the 70% set out under paragraph 3, the POC shall consider whether to change the percentage of the charge for a 20-gramme priority letter for the years 2012 and 2013.~~

~~5 From the charge used for the calculation in paragraph 3 above, 50% of the VAT or other taxes shall be excluded for the years 2010 and 2011, and 100% for the years 2012 and 2013.~~

5bis The rates per item and per kilogramme shall be calculated on the basis of 70% of the charges for a 20-gramme small (P) letter-post item and for a 175-gramme large (G) letter-post item, exclusive of VAT or other taxes.

5ter The Postal Operations Council shall define the conditions for the calculation of the rates as well as the necessary operational, statistical and accounting procedures for the exchange of format-separated mails.

5quater The rates applied for flows between countries in the target system in a given year shall not lead to an increase of more than 13% in the terminal dues revenue for a letter-post item of 81.8 grammes, compared to the previous year.

6 The rates applied for flows between countries in the target system prior to 2010 may not be higher than:

6.1 for the year ~~2010~~ 2014, ~~0.253~~ 0.294 SDR per item and ~~1.980~~ 2.294 SDR per kilogramme;

6.2 for the year ~~2011~~ 2015, ~~0.263~~ 0.303 SDR per item and ~~2.059~~ 2.363 SDR per kilogramme;

6.3 for the year ~~2012~~ 2016, ~~0.274~~ 0.312 SDR per item and ~~2.141~~ 2.434 SDR per kilogramme;

6.4 for the year ~~2013~~ 2017, ~~0.285~~ 0.321 SDR per item and ~~2.227~~ 2.507 SDR per kilogramme.

7 The rates applied for flows between countries in the target system prior to 2010 may not be lower than: ~~the rates in 2009, prior to application of the quality of service link. The rates may also not be lower than:~~

7.1 for the year ~~2010~~ 2014, ~~0.165~~ 0.203 SDR per item and ~~1.669~~ 1.591 SDR per kilogramme;

7.2 for the year ~~2011~~ 2015, ~~0.169~~ 0.209 SDR per item and ~~1.709~~ 1.636 SDR per kilogramme;

7.3 for the year ~~2012~~ 2016, ~~0.173~~ 0.215 SDR per item and ~~1.750~~ 1.682 SDR per kilogramme;

7.4 for the year ~~2013~~ 2017, ~~0.177~~ 0.221 SDR per item and ~~1.792~~ 1.729 SDR per kilogramme.

7bis The rates applied for flows between countries in the target system as from 2010 and 2012 as well as between these countries and countries in the target system prior to 2010 may not be higher than:

7bis.1 for the year 2014, 0.209 SDR per item and 1.641 SDR per kilogramme;

7bis.2 for the year 2015, 0.222 SDR per item and 1.739 SDR per kilogramme;

7bis.3 for the year 2016, 0.235 SDR per item and 1.843 SDR per kilogramme;

7bis.4 for the year 2017, 0.249 SDR per item and 1.954 SDR per kilogramme.

7ter The rates applied for flows between countries in the target system as from 2010 and 2012 as well as between these countries and countries in the target system prior to 2010 may not be lower than the rates provided for in paragraphs 7.1 to 7.4 above.

8 The rates applied for flows to, from or between new target system countries, other than for bulk mail, shall be those provided for in article 28, paragraphs 7.1 to 7.4.~~:~~

~~8.1 for the year 2010: 0.155 SDR per item and 1.562 SDR per kilogramme;~~

~~8.2 for the year 2011: 0.159 SDR per item and 1.610 SDR per kilogramme;~~

~~8.3 for the year 2012: 0.164 SDR per item and 1.648 SDR per kilogramme;~~

~~8.4 for the year 2013: 0.168 SDR per item and 1.702 SDR per kilogramme.~~

9 The payment for bulk mail sent to countries in the target system prior to 2010 shall be established by applying the rates per item and per kilogramme provided for in article 28, paragraphs ~~3~~ 5bis to 7.

9bis The payment for bulk mail sent to countries in the target system as from 2010 and 2012 shall be established by applying the rates per item and per kilogramme provided for in article 28, paragraphs 7bis to 7ter.

10 For registered or insured items not carrying a barcoded identifier or carrying a barcoded identifier that is not compliant with UPU Technical Standard S10, there shall be a further additional payment of 0.5 SDR per item unless otherwise bilaterally agreed.

11 No reservations may be made to this article, except within the framework of a bilateral agreement.

Article 29

Terminal dues. Provisions applicable to mail flows to, from and between designated operators of countries in the transitional system

1 In preparation for the entry into the target system of the designated operators of countries in the terminal dues transitional system, payment for letter-post items, including bulk mail but excluding M bags and IBRS items, shall be established on the basis of ~~yearly increases of 2.8% on the adjusted 2009 rates, using the worldwide average of 14.64 items per kilogramme~~ a rate per item and a rate per kilogramme.

2 Payment for IBRS items shall be as described in the Letter Post Regulations.

3 The rates applied for flows to, from and between countries in the transitional system shall be:

3.1 for the year ~~2010~~ 2014: ~~0.155~~ 0.203 SDR per item and ~~1.562~~ 1.591 SDR per kilogramme;

3.2 for the year ~~2011~~ 2015: ~~0.159~~ 0.209 SDR per item and ~~1.610~~ 1.636 SDR per kilogramme;

3.3 for the year ~~2012~~ 2016: ~~0.164~~ 0.215 SDR per item and ~~1.648~~ 1.682 SDR per kilogramme;

3.4 for the year ~~2013~~ 2017: ~~0.168~~ 0.221 SDR per item and ~~1.702~~ 1.729 SDR per kilogramme.

4 For flows below ~~100~~ 30 tonnes a year the per kilogramme and per item components shall be converted into a total rate per kilogramme on the basis of a worldwide average of ~~14.64~~ 12.23 items per kilogramme, except for the year 2014, for which the total rate per kilogramme of the year 2013 shall apply. The following rates shall apply:

4.1 for the year ~~2010~~ 2014: ~~3.831~~ 4.162 SDR per kilogramme;

4.2 for the year ~~2011~~ 2015: ~~3.938~~ 4.192 SDR per kilogramme;

4.3 for the year ~~2012~~ 2016: ~~4.049~~ 4.311 SDR per kilogramme;

4.4 for the year ~~2013~~ 2017: ~~4.162~~ 4.432 SDR per kilogramme.

5 For mail flows over ~~100~~ 30 tonnes per year the flat rate per kilogramme listed above shall be applied if neither the origin designated operator nor the destination designated operator requests the revision mechanism in order to revise the rate on the basis of the actual number of items per kilogramme, rather than the worldwide average. The sampling for the revision mechanism shall be applied in accordance with the conditions specified in the Letter Post Regulations.

6 The downward revision of the total rate in paragraph 4 may not be invoked by a country in the target system against a country in the transitional system unless the latter asks for a revision in the opposite direction.

6bis Designated operators of countries in the terminal dues transitional system may send format-separated mail on an optional basis, in accordance with the conditions specified in the Letter Post Regulations. In the case of format separated-exchanges the rates in paragraph 3 above shall apply.

7 The payment for bulk mail to designated operators of countries in the target system shall be established by applying the rates per item and per kilogramme provided for in article 28. For bulk mail received, designated operators in the transitional system may request payment according to paragraph 3.

8 No reservations may be made to this article, except within the framework of a bilateral agreement.

Article 34
Authority of the POC to fix charges and rates

1 The Postal Operations Council shall have the authority to fix the following rates and charges, which are payable by designated operators in accordance with the conditions shown in the Regulations:

1.1 transit charges for the handling and conveyance of letter mails through one or more intermediary countries;

1.2 basic rates and air conveyance dues for the carriage of mail by air;

1.3 inward land rates for the handling of inward parcels;

1.4 transit land rates for the handling and conveyance of parcels through an intermediary country;

1.5 sea rates for the conveyance of parcels by sea.

2 Any revision made, in accordance with a methodology that ensures equitable remuneration for designated operators performing the services, must be based on reliable and representative economic and financial data. Any change decided upon shall enter into force at a date set by the Postal Operations Council.

■ **Commentary**

34.1.3 The 2004 Bucharest Congress instructed the POC to establish the level of the basic rate per parcel and basic rate per kg for all DOs.

Article RC 192
Inward land rates based on service features provided

1 Level of the inward land rates base rate

1.1 For the years 2010 to 2013, the level of inward land rates referred to in article 33.1 of the Convention is given below:

1.1.1 The base rate shall be a country-specific maximum inward land rate per parcel and per kilogramme. These rates shall be calculated by setting the rate at 71.4% of the rate set by an individual designated operator for the year 2004 plus any inflation adjustments requested under article RC 193.

1.1.2 However, if the new base inward land rate is less than 2.85 SDR per parcel and 0.28 SDR per kilogramme, subject to the cap set in 1.1.3, the inward land rate applicable to such a designated operator shall be the level of the global minimum inward land rate of 2.85 SDR per parcel and 0.28 SDR per kilogramme.

1.1.3 Where a particular designated operator applies the minimum inward land rate as determined under 1.1.2, the actual application shall be subject to a cap of the combined per-parcel and per-kilogramme remuneration of 4.25 SDR for a parcel of 5 kilogrammes. If 71.4% of the sum of the 2004 per-parcel and per-kilogramme remuneration is above 4.25 SDR, the minimum rate shall be formed by 71.4% of both the per-parcel and per-kilogramme rate. If 71.4% of the sum of the 2004 per-parcel and per-kilogramme remuneration is below 4.25 SDR, the minimum rates shall be formed in accordance with 1.1.2.

25th CONGRESS

Proposal of a general nature **19**

COUNCIL OF ADMINISTRATION

Resolution

Continuation of the study on extraterritorial offices of exchange, international mail processing centres, and issues surrounding the designation of multiple operators in a single country

Congress,

Recognizing
that the UPU policy on extraterritorial offices of exchange (ETOEs) and registration of international mail processing centre (IMPC) codes, established by Congress resolutions C 44/2004 and C 63/2008, is still in force,

Reaffirming
that an ETOE is defined as an office or facility operated by or in connection with a designated operator on the territory of another country, and that these offices are established by designated operators for commercial purposes to draw business in markets outside their own national territory,

Bearing in mind
that, in accordance with article 2 of the Convention, adopted at the Bucharest Congress, UPU member countries notify the International Bureau of their operator or operators officially designated to operate postal services and to fulfil the obligations arising from the Acts of the Union on their territory,

Also recognizing
that ETOEs are not in the same situation as designated operators (DOs) executing the obligations arising from the Acts of the Union,

Noting
that, since the 2008 Congress, the number of ETOEs has increased from 110 in 2008 to 141 in 2011,

Also noting
that these ETOEs are operated by 18 DOs in 23 member countries, that some ETOEs are being operated by non-DOs and are registered as IMPCs, and that the registration of IMPC codes for non-DOs has been suspended since 2007,

Acknowledging
that the national policies of UPU member countries on ETOEs are very diverse,

Convinced
that there remain legitimate operational concerns with respect to the handling of items received from ETOEs in areas such as identification of the operator sending the mail, return of verification notes, undeliverable items, correct and fair remuneration for the delivery of items received, application of UPU procedures, and forms for Customs and airlines,

Also convinced
that this could represent a risk to the integrity of the global postal network and of the Union and should be addressed in a transparent and progressive manner,

Further noting
the results of the study conducted by an external consultant on the impact of the new postal market players on the UPU mission and activities, which showed that there were an increasing number of bilateral agreements between DOs and non-DOs (all types of mail service providers, including DOs from one country operating in another country as non-DOs), and that these bilateral agreements complemented the multilateral agreements that already existed,

Noting in addition
that a number of recommendations were proposed in the light of the study conducted by an external consultant, within the framework of the work of the CA Committee 1 Interconnectivity Project Group (IPG), on the implications of the existence of multiple DOs in a single country for international mail exchanges under the Acts of the Union,

Also acknowledging
the work already done by the POC in reviewing the technical standards, including standard S34, in order to facilitate identification of sending operators,

Invites

UPU member countries:

– to provide the International Bureau with the latest information on their national policies on ETOEs and IMPC registration;
– to respect the conditions laid down in resolutions C 44/2004 and C 63/2008;
– to respect the national policies defined by other UPU members,

Instructs

the Council of Administration, in consultation with the Postal Operations Council,

– to conduct a study, with the aim of producing a definitive policy, on the conditions of access for non-DOs to IMPC codes, as well as to other UPU products, such as the International Postal System applications (IPS, IPS Light), POST*Net and POST*Clear, in order to manage these access conditions in a properly regulated manner, and in the interests of transparency and efficiency;
– to study the fundamental principles to be considered by any member country which designates multiple operators to operate postal services and fulfil the obligations arising from the Acts of the Union on its territory, including their rights and obligations, and, when necessary, to develop proposals for Congress,

Also instructs

the Postal Operations Council:

– to study all operational recommendations resulting from the IPG's study on the implications of the existence of multiple DOs in a single country for international mail exchanges under the Acts of the Union and, where appropriate, to implement them as quickly as possible;
– to continue to study ways and means whereby UPU technical standards could better respond to the needs of the postal environment in which multiple DOs exist in a single country and other stakeholders are involved,

Further instructs

the International Bureau, in liaison with the POC:

– to manage the IMPC registration process, to maintain and publish the list of active IMPCs, and to make this list readily accessible;
– to publish the modifications regarding IMPC code list 108 as key information;

– to provide updated IMPC codes in a timely manner;
– to advise all operators regularly of withdrawn IMPC codes;
– to collect and share the latest information on UPU member country policies concerning ETOEs.

Reasons. – See Congress–Doc 11, section 3.1.4. The recommendations stemming from the IPG's study on the implications of the existence of multiple DOs in a single country for international mail exchanges under the Acts of the Union are listed in the same Congress–Doc.

[Resolution of 2004 Bucharest Congress}

Resolution C 44/2004

Extraterritorial offices of exchange (ETOEs)

Congress,

Recognizing
that, for the purpose of this resolution, an extraterritorial office of exchange (ETOE) is defined as an office or facility operated by or in connection with a postal operator outside its national territory, on the territory of another country, and that these offices are established by postal operators for commercial purposes to draw business in markets outside their own national territory,

Noting
that the issue of ETOEs has been extensively studied within the Universal Postal Union in recent years,

Noting further
that, as a result of the discussion on the issue of ETOEs during the 2001 CA session, a provisional measure was adopted as resolution CA 17/2001, which confirmed that the Acts of the Union did not at present contain provisions for settling ETOE-related questions, and which protected the revenues of postal administrations that delivered items dispatched by ETOEs,

Recognizing
that the CA subsequently adopted resolution CA 2/2003 as a provisional measure, until Congress took a decision on ETOEs, whereby any UPU member country seeking to establish an ETOE must obtain the agreement of the host country of the ETOE, according to the host country's legislation,

Recognizing further
that national legislation or policy has thus far been expected to determine whether items dispatched from ETOEs are to be treated as mail under the UPU Acts,

Aware
that the absence of a UPU decision in the matter may cause economic distortions in relations between administrations as regards remuneration of the administration of destination for items sent by ETOEs,

Considering
that the compensation currently received under terminal dues is premised on the mutual exchange of mails in carrying out the universal service obligation, and that this compensation does not necessarily cover the related costs of the delivering administration, particularly in industrialized countries,

Considering further
that this issue will not be equitably resolved in the medium term, to the point where compensation for one-way traffic will be adequate for the delivering administration in all circumstances,

Recognizing
that, according to the DC tariff questionnaire sent out by the Terminal Dues Action Group in 2002, a majority of postal administrations in developing countries report that domestic rates do not cover their costs, meaning that they provide insufficient remuneration compared with terminal dues,

Decides that

i ETOEs are not in the same situation as postal administrations executing universal service obligations under the UPU Acts;
ii items sent from ETOEs are considered commercial items not subject to the UPU Acts, unless the destination postal administration has announced a policy agreeing to apply those Acts to the items it receives from ETOEs;
iii the dispatch of items via an ETOE shall not result in a decrease of the remuneration that the destination postal administration would receive for the delivery of those items (including, where applicable, the payment for the Quality of Service Fund provided for in article 31 of the Convention);
iv items tendered by ETOEs:
  a shall be treated according to the national policy of the destination country,
  b may be treated in accordance with the rates, terms and conditions of acceptance for domestic postal products, or
  c may be charged terminal dues if the destination postal administration has announced a policy to apply the UPU Acts to items tendered by ETOEs,
v the commercial customs clearance procedures of the destination country shall apply to items sent from ETOEs, unless the destination postal administration has agreed to apply the UPU Acts;
vi no documentation provided for under the Acts of the UPU may be used for any purposes relating to items sent from ETOEs to the postal administration of the destination country, including for purposes relating to airlines, to Customs and to other parties, unless the destination postal administration has agreed to apply the UPU Acts,

Further decides

that the agreement of any UPU member country must be obtained, in accordance with its national legislation, by any other countries or operators seeking to establish ETOEs within that country,

Invites

member countries to advise the International Bureau of national legislation or policy that makes the operation of an ETOE on its territory legitimate or authorized, *Instructs*

the Postal Operations Council and the International Bureau to adopt procedures enabling the issue and withdrawal of International Mail Processing Centre (IMPC) codes in a manner consistent with the provisions of this resolution, including the requirement for ETOE operators to obtain the agreement of the member country in which they are seeking to establish an ETOE,

Declares

that nothing in this resolution may be construed as requiring an administration to accept items from any ETOEs as mail under the UPU Acts.

(Proposal 048, Committee 3, 4th meeting)

Resolution C 45/2004
International reply coupons service

Congress,

Having noted
Beijing Congress resolution C 45/1999 introducing a new accounting system for the international reply coupons service,

Having further noted
that, under the new accounting system, advance payment of the price of the international reply coupons is mandatory,

Having realized
that some developing postal administrations cannot afford the advance payment and thus cannot purchase international reply coupons,

Having further realized
that such postal administrations cannot provide the international reply coupons service to their customers,

Instructs

the Postal Operations Council and the International Bureau, each in its area of responsibility:

- to study ways and means of discontinuing the present system of mandatory advance payment while at the same time guaranteeing the financial health of the system.
- to amend the Letter Post Regulations accordingly.

(Proposal 045, Committee 4, 6th meeting)

Considering
that article RL 190 of the Letter Post Regulations and article RC 178 of the Parcel Post Regulations clearly provide for the form of delivery of dispatches and the generation of the appropriate number of copies of the respective forms,

Also considering
that some designated operators are failing to comply with these articles,

Recommends

that countries be urged to comply with the existing provisions and to take all necessary steps to rectify the situation with respect to incoming dispatches.

(Proposal 77, Committee 4, 5th meeting)

Resolution C 63/2008
Extraterritorial offices of exchange (ETOEs) and international mail processing centres (IMPCs)

Congress,

Noting
the stabilizing effect of Bucharest Congress resolution C 44/2004 on the growth of ETOEs and on the number of countries in which they operate, due mainly to:
– the requirement that the UPU member country in which an ETOE is located must give its agreement to the establishment of an ETOE, according to its national policy;
– the granting to the UPU member country of destination of a choice in determining how to treat items received from an ETOE, according to its national policy;
– better notification requirements for registering with the UPU as an international mail processing centre (IMPC);
– the recommendation that UPU member countries announce their policies with respect to ETOEs, and the subsequent publication of these policies by the International Bureau,

Bearing in mind
article 2 of the Convention, adopted at the Bucharest Congress, which requires UPU member countries to announce the entity or entities (governmental entity and designated operator(s)) responsible for fulfilling the obligations arising from the Acts of the Union on their territory,

Acknowledging
that national policies of UPU member countries may differ on the issue of ETOEs,

Noting also
that international mail processing centres (IMPCs) have been registered to private companies,

Also bearing in mind
that the UPU has endeavoured to seek compatibility between the Acts of the Union and WTO disciplines such as most favoured nation status, non-discrimination and equal access,

Aware
of the fact that there remain legitimate operational concerns with respect to the handling of items received from ETOEs and IMPCs registered to private companies in the areas of:
- applying UPU procedures and forms for Customs and airlines;
- security issues regarding the identity of the real sender of the mail;
- return of verification notes;
- undeliverable items;
- lack of operational and contact information for the destination country;
- correct remuneration for the delivery of items received,

Considering
that UPU forms are fundamental components of the UPU Acts,

Taking into account
the work already begun by the POC (Standards Board) to review technical standards such as S10, S34 and S35, in order to facilitate identification of sender operators,

Decides

i that the operator designated by a UPU member country under article 2 of the Convention may continue to request registration of IMPCs established for its own purposes and on its own national territory;

ii that the governmental entity of the UPU member country provided under article 2 of the Convention shall make the registration request or provide written authorization for all other IMPCs to be established on its territory;

iii to continue the suspension of requests for registration of IMPCs to private companies, referring a decision on the matter to the Council of Administration and the outcome of its study,

Invites

UPU member countries
- to review and notify the International Bureau of their national policies on ETOEs and on IMPCs registered to private companies, taking into account other national policies and the need to use agreed standards and procedures;

– to respect and observe the conditions laid out in resolution C 44/2004;
– to respect the national policies defined by other UPU members,

Instructs

the Council of Administration, in consultation with the Postal Operations Council, to conduct a study of ETOEs and IMPCs, to include the organization of domestic postal markets and the effect of national or regional policies on the UPU and on the UPU Acts (Convention, Regulations, UPU forms, including the implications of a declaration of multiple operators through article 2 of the Convention and the registration of IMPCs to private companies), as well as on other agreements reached at the UPU level (airlines and customs handling, worldwide quality of service measurement, Quality of Service Fund, etc.),

Also instructs

the Postal Operations Council:
– to study and adjust, or recommend the adjustment of, the information requirements in standard S34 and on paper UPU forms in such a way that the origin and the operator of the mail is clearly identifiable to the destination operator, as well as to the airlines and customs authorities handling the mail, in order to bring information requirements for ETOEs and IMPCs registered to private companies, in line with the requirements of other offices of exchange established by UPU designated operators;
– to study the operational issues involved in a situation where more than one operator in the same country dispatches or receives international items, including the impact on barcode structure, on track and trace systems, on quality measurement systems, etc.;
– to review current policies and make recommendations on the referencing of technical standards in the UPU Regulations,

Further instructs

the International Bureau, in liaison with the POC:
– to manage the registration process, maintain and publish lists of active IMPCs, by type and by location, and make them readily available and accessible; this would include IMPCs:
  • registered by the operators designated to fulfil the Acts of the Union, for their own purposes and on their own territory;
  • registered as ETOEs;
  • registered as IMPCs by private companies;
  • registered as military IMPCs;
– to collect and share with other member countries and designated operators:
  • information on UPU member country policies (entities notified under article 2 of the Convention, policies and conditions for establishing ETOEs on their territory and for receiving ETOE items, etc.);

- operational information on ETOEs and IMPCs registered to private companies.

(Proposal 23, Committee 3, 7th meeting)

Resolution C 64/2008
Cooperation in the area of postal statistics

Congress,

Taking into account
that the Universal Postal Union (UPU), as the specialized agency of the United Nations dealing with the postal field, is responsible for making relevant information and analyses on the development of the sector available to its members,

Noting
the role of the UPU as a specialized agency of the United Nations qualified to gather, analyze, publish, harmonize and improve postal statistics,

Aware
that the postal statistics published by the International Bureau represent an important working tool for member countries, and need to respond to the expectations and information needs of all postal sector players,

Considering
the importance of statistical data that are reliable, consistent and relevant for the macro-economic studies carried out by the Council of Administration and Postal Operations Council, and for the application of the methodology for classification of countries and territories for participation in the target terminal dues system and the Quality of Service Fund,

Also aware
of the need to guarantee the confidentiality of certain information provided, if member countries so wish,

Strongly encourages

member countries and designated operators to provide the International Bureau with:

– reliable, consistent and relevant statistical data, and especially data relating to:
  a postal infrastructure,
  b volumes of letter post, postal parcels and express items,
– statistical data that are reliable, consistent and relevant for classification of countries for terminal dues system and Quality of Service Fund purposes;

APPENDIX B

DATA AND CALCULATIONS

This appendix includes the major calculations used in the analysis set out in section 3. They are derived from a spreadsheet model. The basic inputs for this model are the following:

- Outbound and inbound international mail volumes for the 24 Group 1.1 DOs. These volumes were obtained from UPU statistics, PRC reports (for USPS, estimates by WIK (for EU DOs), confidential information, and my estimates based on historical trends.
- The UPU terminal dues “tool” for 2012 (Ver. 3, 18 Feb 2012), available from the UPU internet site.
- Domestic postage rates for 2008 and updates for 2011 from the UPU.
- The characteristics of average international letter post mail developed by the UPU in CEP C 1 GFT 2011.1–Doc 4a.Annexe 4 (13 Apr 2011).
- OECD data on trade in services among the 24 Group 1.1 countries. I used “total trade in services” and in some cases filled in blanks used “trade in telecommunications services.”

I will be glad to model as a library reference if the Commission so requests.

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Scenario 2 (Base) - Summary

24-Aug-12

User Inputs			**2014**	**2015**	**2016**	**2017**
Percent volume increase by LP shape						
Letters (P)			-15.0%	-5.0%	-5.0%	-5.0%
Large envelopes (G)			-15.0%	-5.0%	-5.0%	-5.0%
Small packets (E)			10.0%	5.0%	5.0%	5.0%
Percent increase in domestic rates			10.0%	4.0%	4.0%	4.0%
DomPost: percent of priority domestic postage			70.0%	70.0%	70.0%	70.0%

Implied Characteristics of Letter Post	**2011**	**2014**	**2015**	**2016**	**2017**
Percent of letter post					
Letters (P)	67.9%	65.5%	64.4%	63.3%	62.1%
Large envelopes (G)	19.7%	19.0%	18.7%	18.3%	18.0%
Small packets (E)	12.4%	15.5%	16.9%	18.3%	19.9%
Total Letter post (LP) (check)	100.0%	100.0%	100.0%	100.0%	100.0%
Items per Kilogram (IPK)					
Letters and large envelopes (PG)		23.20	23.20	23.20	23.20
Small packets (E)		2.83	2.83	2.83	2.83
Total Letter post (LP)		10.94	10.94	10.94	10.94

Summary results		**2014**		**2017**	
		POCRev	NoCap	POCRev	NoCap
Group 1.1 countries					
Average discount from DomPost - letterpost		-42.7%	-10.3%	-43.8%	-13.2%
Average discount from DomPost - small packets		-56.3%	-31.6%	-55.8%	-31.6%
Total gain/loss (millions of currency units)	USD	408	310	617	476
Selected country (TDCalc2): United States					
Gain/loss (millions of currency units)	USD	36.1	-43.4	108.0	-70.4
Discount off DomPost outbound - letter post		-39%	-7%	-42%	-9%
Discount off DomPost inbound - letter post		-46%	-22%	-35%	-27%
Discount off DomPost inbound - smal packets		-52%	-26%	-57%	-52%

Table 2a. Terminal dues per item of average letter post (LP)

24-Aug-12

Currency & date USD 1.5430 = 1 SDR Apr 2012 Scenario 2

	2014	2015	2016	2017
IPK for typical LP item	10.94	10.46	9.99	9.53
Rate multiplier from 2011	110.0%	114.4%	119.0%	123.7%

				2014			2015			2016			2017		
	Offsets- do not change	1	2	3	4	5	8	9	10	13	14	15	18	19	20
No	Country	ISO	Cur	POCRev	NoCap	DomPost	POCRev	NoCap	DomPost	POCRev	NoCap	DomPost	POCRev	NoCap	DomPost
13	Israel	IL	Cur	0.54	0.42	0.47	0.56	0.45	0.50	0.59	0.47	0.53	0.62	0.50	0.56
11	Iceland	IS	Cur	0.65	0.68	0.69	0.72	0.72	0.73	0.76	0.76	0.77	0.81	0.81	0.81
18	New Zealand	NZ	Cur	0.75	0.79	0.77	0.82	0.83	0.81	0.86	0.88	0.85	0.90	0.94	0.90
4	Canada (1)	CA	Cur	0.73	0.96	0.84	0.82	1.02	0.89	0.86	1.08	0.94	0.90	1.15	1.00
21	Spain	ES	Cur	0.59	0.99	0.91	0.68	1.05	0.97	0.78	1.11	1.04	0.90	1.18	1.11
16	Luxembourg	LU	Cur	0.78	1.04	0.98	0.82	1.11	1.04	0.86	1.17	1.10	0.90	1.24	1.16
17	Netherlands (1)	NL	Cur	0.78	1.17	0.99	0.82	1.24	1.05	0.86	1.31	1.11	0.90	1.39	1.17
24	United States	US	Cur	0.59	0.85	1.09	0.68	0.90	1.18	0.78	0.95	1.28	0.90	1.01	1.39
10	Greece	GR	Cur	0.78	1.13	1.05	0.82	1.20	1.11	0.86	1.27	1.18	0.90	1.35	1.24
20	Portugal	PT	Cur	0.78	1.31	1.11	0.82	1.39	1.17	0.86	1.47	1.24	0.90	1.56	1.32
9	Great Britain	GB	Cur	0.78	0.93	1.17	0.82	0.99	1.26	0.86	1.05	1.36	0.90	1.12	1.47
1	Australia (1)	AU	Cur	0.70	0.83	1.21	0.81	0.87	1.31	0.86	0.93	1.43	0.90	0.99	1.56
2	Austria	AT	Cur	0.78	1.30	1.16	0.82	1.38	1.23	0.86	1.46	1.31	0.90	1.55	1.39
12	Ireland	IE	Cur	0.78	0.99	1.25	0.82	1.05	1.35	0.86	1.11	1.46	0.90	1.18	1.58
8	Germany	DE	Cur	0.78	1.04	1.25	0.82	1.10	1.33	0.86	1.16	1.43	0.90	1.24	1.53
15	Japan	JP	Cur	0.78	1.36	1.29	0.82	1.45	1.37	0.86	1.54	1.46	0.90	1.63	1.56
3	Belgium	BE	Cur	0.78	1.46	1.33	0.82	1.55	1.41	0.86	1.64	1.49	0.90	1.74	1.59
7	France	FR	Cur	0.78	1.52	1.34	0.82	1.61	1.42	0.86	1.71	1.52	0.90	1.82	1.62
22	Sweden	SE	Cur	0.78	1.37	1.43	0.82	1.45	1.53	0.86	1.54	1.65	0.90	1.63	1.77
14	Italy	IT	Cur	0.78	1.33	1.73	0.82	1.41	1.85	0.86	1.49	1.99	0.90	1.59	2.14
23	Switzerland	CH	Cur	0.78	1.14	1.86	0.82	1.21	2.02	0.86	1.29	2.20	0.90	1.37	2.39
6	Finland	FI	Cur	0.78	1.18	1.96	0.82	1.25	2.13	0.86	1.33	2.32	0.90	1.41	2.53
5	Denmark	DK	Cur	0.78	2.27	1.91	0.82	2.41	2.03	0.86	2.55	2.15	0.90	2.71	2.28
19	Norway	NO	Cur	0.78	1.89	2.22	0.82	2.00	2.38	0.86	2.13	2.56	0.90	2.26	2.75

Notes

(1) UPU data on domestic postage rates for Canada, Netherlands, supplemented with data from operator websites. Canadanian domestic appear relatively understated.

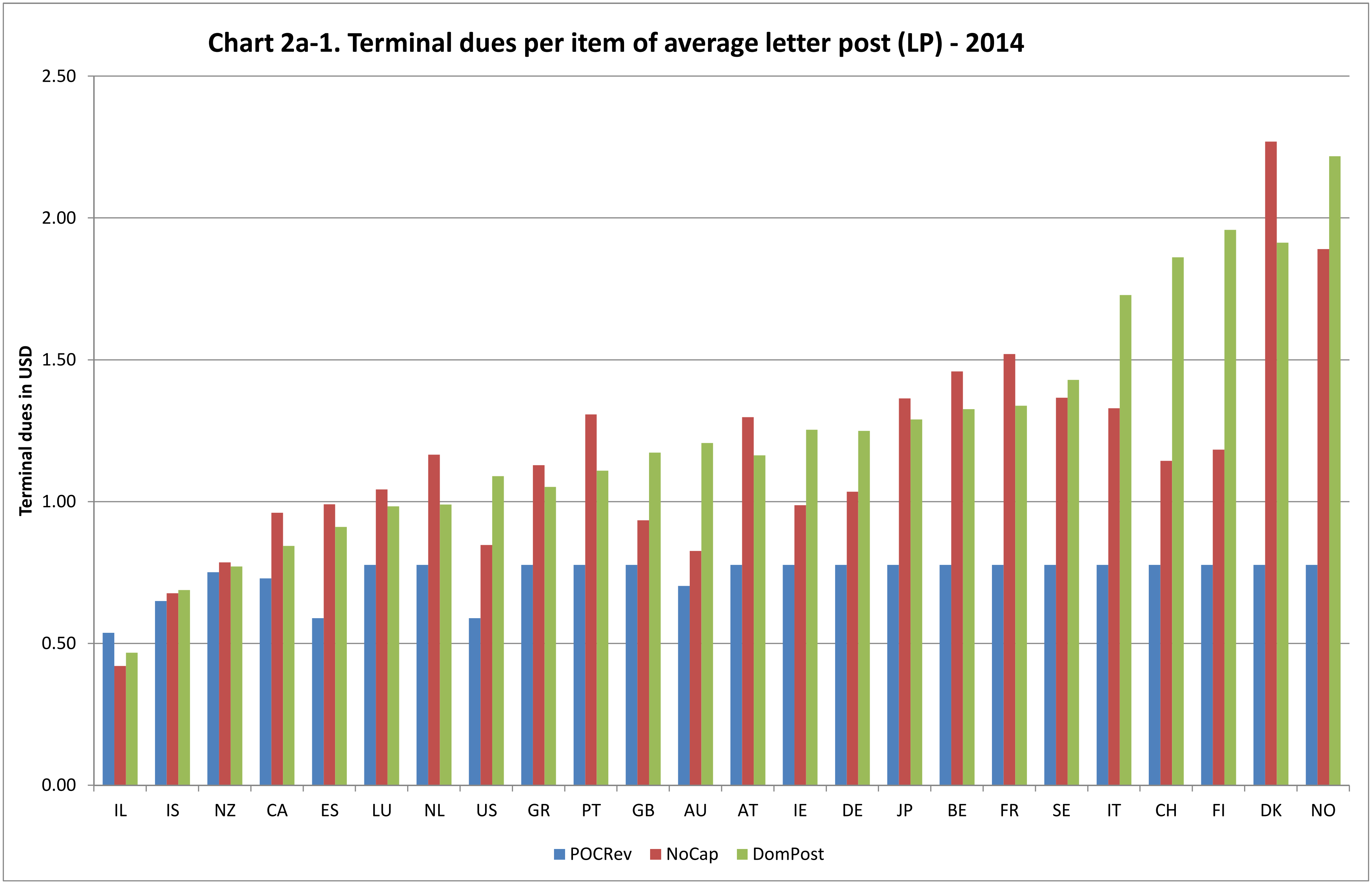


Chart 2a-1. Terminal dues per item of average letter post (LP) - 2014
Terminal dues in USD
2.50
2.00
1.50
1.00
0.50
0.00
IL
IS
NZ
CA
ES
LU
NL
US
GR
PT
GB
AU
AT
IE
DE
JP
BE
FR
SE
IT
CH
FI
DK
NO
POCRev
NoCap
DomPost

Table 2b. TDs per item of average letters/large envelopes (PG)

24-Aug-12

Currency for table USD 1.5430 = 1 SDR Apr 2012

Scenario 2

	2014	2015	2016	2017
IPK for typical LP item	10.94	10.46	9.99	9.53
Rate multiplier from 2011	110.0%	114.4%	119.0%	123.7%

				2014			2015			2016			2017		
	Terminal dues in														
	Offsets- do not change	1	2	3	4	5	8	9	10	13	14	15	18	19	20
No	Country	ISO	Cur	POCRev	NoCap	DomPost	POCRev	NoCap	DomPost	POCRev	NoCap	DomPost	POCRev	NoCap	DomPost
13	Israel	IL	Cur	0.42	0.33	0.37	0.43	0.34	0.38	0.44	0.35	0.40	0.46	0.37	0.41
11	Iceland	IS	Cur	0.50	0.53	0.56	0.55	0.55	0.58	0.57	0.57	0.61	0.59	0.59	0.63
24	United States	US	Cur	0.46	0.66	0.57	0.52	0.69	0.60	0.59	0.71	0.62	0.66	0.74	0.65
1	Australia (1)	AU	0	0.55	0.64	0.58	0.62	0.67	0.60	0.64	0.70	0.63	0.66	0.72	0.65
21	Spain	ES	0	0.46	0.77	0.63	0.52	0.80	0.66	0.59	0.84	0.68	0.66	0.87	0.71
4	Canada (1)	CA	0	0.57	0.75	0.68	0.62	0.78	0.71	0.64	0.81	0.74	0.66	0.84	0.77
9	Great Britain	GB	0	0.61	0.73	0.68	0.62	0.76	0.71	0.64	0.79	0.74	0.66	0.82	0.77
18	New Zealand	NZ	0	0.58	0.61	0.69	0.62	0.64	0.71	0.64	0.66	0.74	0.66	0.69	0.77
12	Ireland	IE	0	0.61	0.77	0.73	0.62	0.80	0.75	0.64	0.83	0.78	0.66	0.87	0.82
17	Netherlands (1)	NL	0	0.61	0.91	0.81	0.62	0.95	0.85	0.64	0.98	0.88	0.66	1.02	0.92
16	Luxembourg	LU	0	0.61	0.81	0.82	0.62	0.85	0.85	0.64	0.88	0.89	0.66	0.91	0.92
10	Greece	GR	0	0.61	0.88	0.86	0.62	0.91	0.89	0.64	0.95	0.93	0.66	0.99	0.97
8	Germany	DE	0	0.61	0.81	0.87	0.62	0.84	0.90	0.64	0.87	0.94	0.66	0.91	0.98
20	Portugal	PT	0	0.61	1.02	0.89	0.62	1.06	0.92	0.64	1.10	0.96	0.66	1.15	1.00
2	Austria	AT	0	0.61	1.01	0.90	0.62	1.05	0.93	0.64	1.10	0.97	0.66	1.14	1.01
6	Finland	FI	0	0.61	0.92	0.91	0.62	0.96	0.95	0.64	1.00	0.99	0.66	1.04	1.03
23	Switzerland	CH	0	0.61	0.89	0.92	0.62	0.93	0.95	0.64	0.96	0.99	0.66	1.00	1.03
22	Sweden	SE	0	0.61	1.07	0.92	0.62	1.11	0.96	0.64	1.15	1.00	0.66	1.20	1.04
15	Japan	JP	0	0.61	1.06	0.94	0.62	1.11	0.98	0.64	1.15	1.01	0.66	1.20	1.05
7	France	FR	0	0.61	1.19	0.98	0.62	1.23	1.02	0.64	1.28	1.06	0.66	1.33	1.11
3	Belgium	BE	0	0.61	1.14	1.03	0.62	1.18	1.07	0.64	1.23	1.11	0.66	1.28	1.16
14	Italy	IT	0	0.61	1.04	1.12	0.62	1.08	1.16	0.64	1.12	1.21	0.66	1.17	1.26
19	Norway	NO	0	0.61	1.47	1.42	0.62	1.53	1.48	0.64	1.59	1.54	0.66	1.66	1.60
5	Denmark	DK	0	0.61	1.77	1.50	0.62	1.84	1.56	0.64	1.91	1.63	0.66	1.99	1.69

Notes

(1) UPU data on domestic postage rates for Canada, Netherlands, supplemented with data from operator websites. Canadanian domestic appear relatively understated.

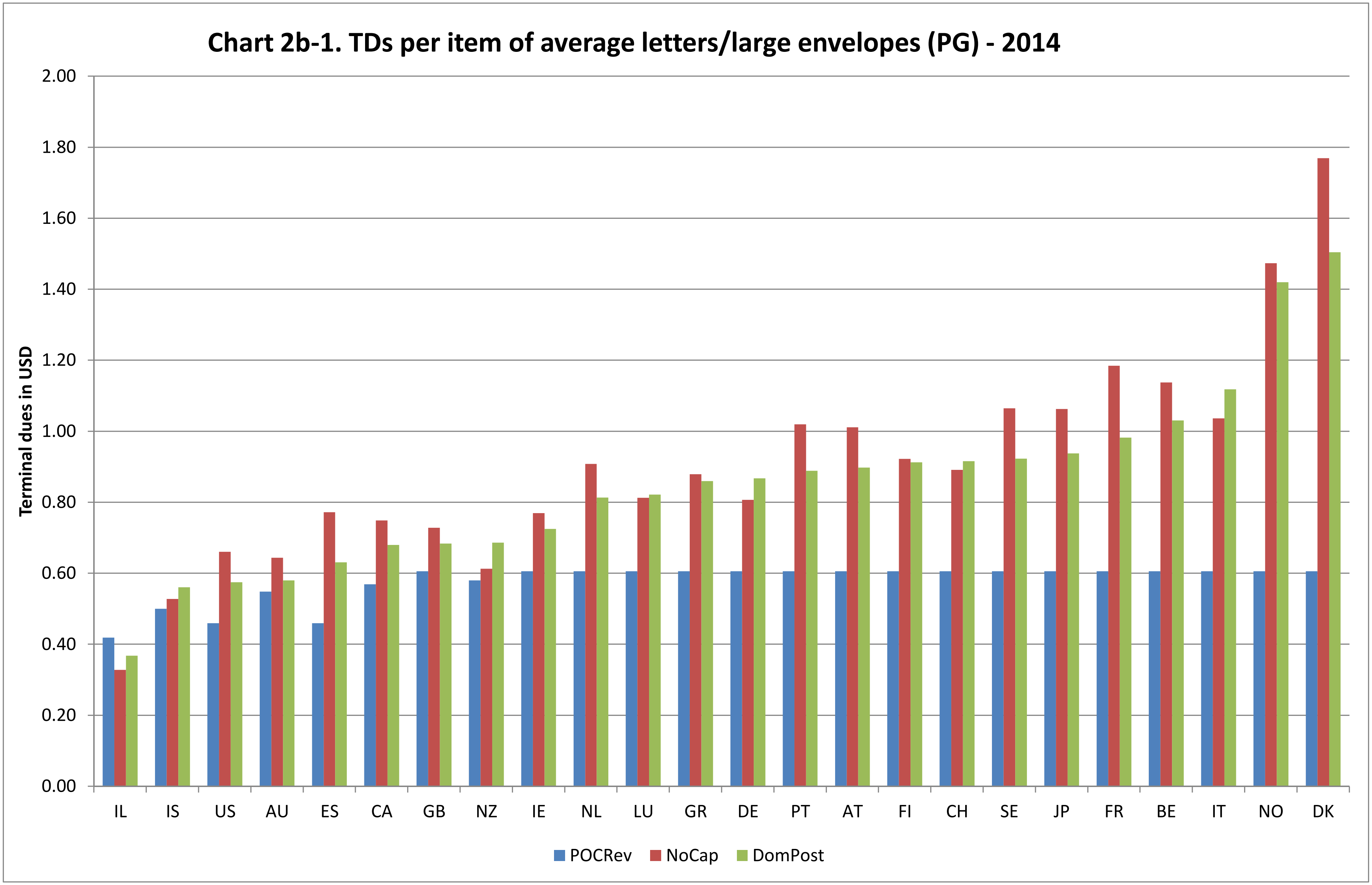


Chart 2b-1. TDs per item of average letters/large envelopes (PG) - 2014
Terminal dues in USD
2.00
1.80
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
IL
IS
US
AU
ES
CA
GB
NZ
IE
NL
LU
GR
DE
PT
AT
FI
CH
SE
JP
FR
BE
IT
NO
DK
POCRev
NoCap
DomPost

24-Aug-12

Table 2c. TDs per item of average small packets (E)

Currency for table USD 1.5430 = 1 SDR Apr 2012 Scenario 2

	2014	2015	2016	2017
IPK for typical LP item	10.94	10.46	9.99	9.53
Rate multiplier from 2011	110.0%	114.4%	119.0%	123.7%

	Terminal dues in			2014			2015			2016			2017		
	Offsets- do not change	1	2	3	4	5	8	9	10	13	14	15	18	19	20
No	Country	ISO	Cur	POCRev	NoCap	DomPost	POCRev	NoCap	DomPost	POCRev	NoCap	DomPost	POCRev	NoCap	DomPost
13	Israel	IL	Cur	1.18	0.93	1.01	1.22	0.96	1.05	1.25	1.00	1.09	1.29	1.04	1.14
18	New Zealand	NZ	Cur	1.68	1.73	1.23	1.76	1.80	1.28	1.81	1.87	1.34	1.86	1.94	1.39
11	Iceland	IS	Cur	1.46	1.49	1.38	1.55	1.55	1.44	1.61	1.61	1.49	1.67	1.67	1.55
4	Canada (1)	CA	Cur	1.60	2.11	1.73	1.76	2.20	1.80	1.81	2.28	1.88	1.86	2.37	1.95
16	Luxembourg	LU	Cur	1.71	2.29	1.86	1.76	2.38	1.94	1.81	2.48	2.01	1.86	2.58	2.10
17	Netherlands (1)	NL	Cur	1.71	2.56	1.95	1.76	2.67	2.03	1.81	2.77	2.11	1.86	2.88	2.19
10	Greece	GR	Cur	1.71	2.48	2.09	1.76	2.58	2.18	1.81	2.68	2.27	1.86	2.79	2.36
20	Portugal	PT	Cur	1.71	2.88	2.31	1.76	2.99	2.40	1.81	3.11	2.50	1.86	3.23	2.60
21	Spain	ES	Cur	1.29	2.18	2.43	1.46	2.27	2.53	1.65	2.36	2.63	1.86	2.45	2.74
2	Austria	AT	Cur	1.71	2.85	2.61	1.76	2.97	2.71	1.81	3.09	2.82	1.86	3.21	2.93
3	Belgium	BE	Cur	1.71	3.21	2.93	1.76	3.34	3.05	1.81	3.47	3.17	1.86	3.61	3.30
15	Japan	JP	Cur	1.71	3.00	3.20	1.76	3.12	3.33	1.81	3.24	3.47	1.86	3.37	3.60
7	France	FR	Cur	1.71	3.34	3.27	1.76	3.48	3.41	1.81	3.62	3.54	1.86	3.76	3.68
8	Germany	DE	Cur	1.71	2.28	3.33	1.76	2.37	3.46	1.81	2.46	3.60	1.86	2.56	3.74
9	Great Britain	GB	Cur	1.71	2.05	3.83	1.76	2.14	3.98	1.81	2.22	4.14	1.86	2.31	4.31
24	United States	US	Cur	1.29	1.86	3.89	1.46	1.94	4.05	1.65	2.01	4.21	1.86	2.09	4.38
12	Ireland	IE	Cur	1.71	2.17	4.12	1.76	2.26	4.29	1.81	2.35	4.46	1.86	2.44	4.64
5	Denmark	DK	Cur	1.71	4.99	4.14	1.76	5.19	4.30	1.81	5.40	4.47	1.86	5.61	4.65
22	Sweden	SE	Cur	1.71	3.00	4.18	1.76	3.12	4.35	1.81	3.25	4.53	1.86	3.38	4.71
1	Australia (1)	AU	Cur	1.54	1.82	4.61	1.74	1.89	4.80	1.81	1.96	4.99	1.86	2.04	5.19
14	Italy	IT	Cur	1.71	2.92	5.04	1.76	3.04	5.25	1.81	3.16	5.46	1.86	3.29	5.67
19	Norway	NO	Cur	1.71	4.16	6.56	1.76	4.32	6.82	1.81	4.49	7.09	1.86	4.67	7.37
23	Switzerland	CH	Cur	1.71	2.51	7.00	1.76	2.61	7.28	1.81	2.72	7.57	1.86	2.83	7.87
6	Finland	FI	Cur	1.71	2.60	7.64	1.76	2.71	7.95	1.81	2.81	8.27	1.86	2.93	8.60

Notes
(1) UPU data on domestic postage rates for Canada, Netherlands, supplemented with data from operator websites. Canadanian domestic appear relatively understated.

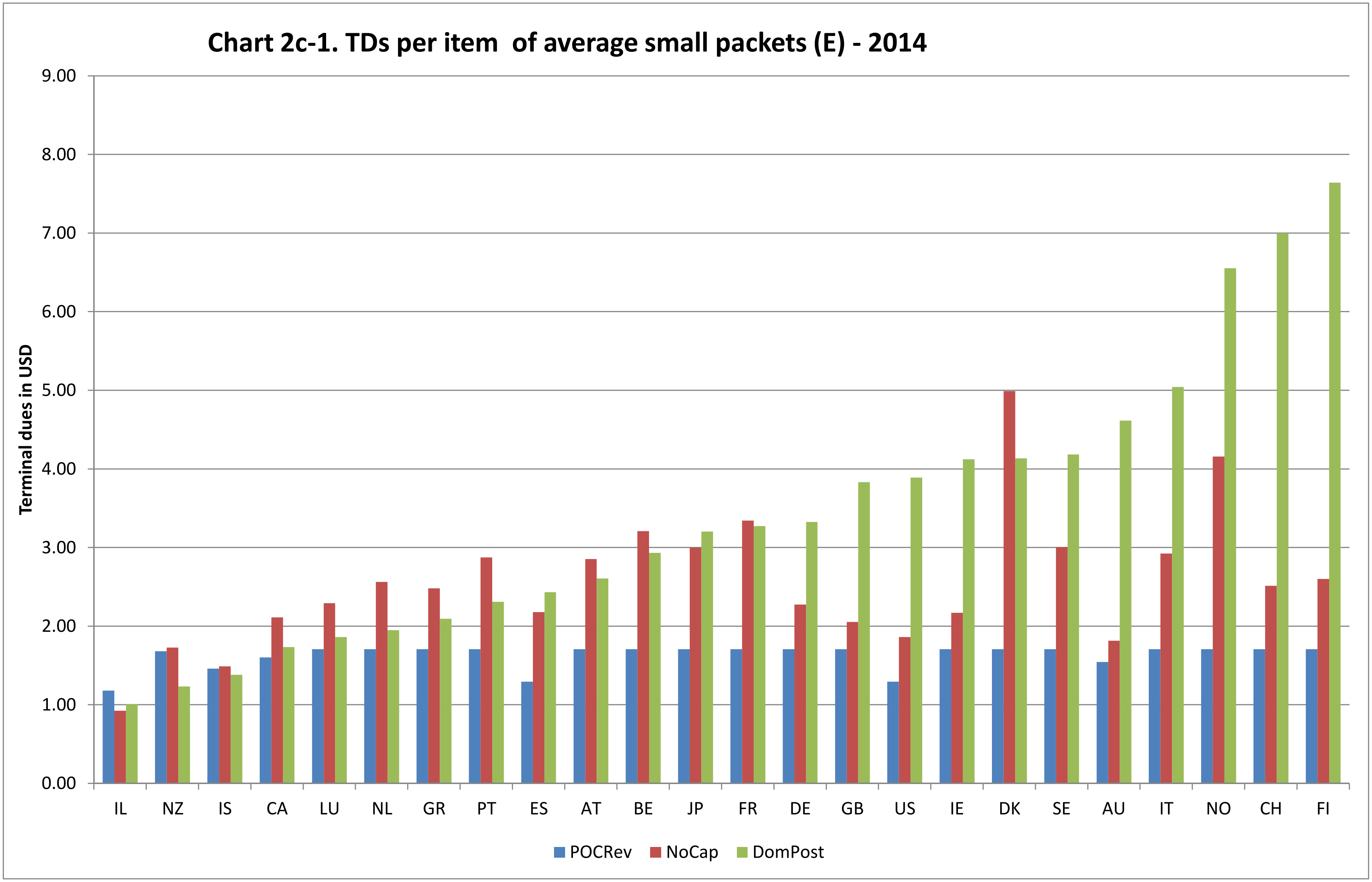


Chart 2c-1. TDs per item of average small packets (E) - 2014
Terminal dues in USD
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
IL
NZ
IS
CA
LU
NL
GR
PT
ES
AT
BE
JP
FR
DE
GB
US
IE
DK
SE
AU
IT
NO
CH
FI
POCRev
NoCap
DomPost

Table 3a. TDs compared to Dompost: letter post (LP)

24-Aug-12

Currency & date USD 1.5430 = 1 SDR Apr 2012 Scenario 2

	2014	2015	2016	2017
IPK for typical LP item	10.94	10.46	9.99	9.53
Rate multiplier from 2011	110.0%	114.4%	119.0%	123.7%

				2014					2017				
				TD per item			TD compared to DomPost		TD per item			TD compared to DomPost	
No	Country	ISO	% In	POCRev	NoCap	DomPost	POCRev	NoCap	POCRev	NoCap	DomPost	POCRev	NoCap
13	Israel	IL	0.6%	0.538	0.421	0.468	15%	-10%	0.621	0.503	0.557	11%	-10%
18	New Zealand	NZ	1.2%	0.751	0.786	0.772	-3%	2%	0.901	0.939	0.895	1%	5%
11	Iceland	IS	0.1%	0.650	0.678	0.688	-6%	-2%	0.809	0.809	0.814	-1%	-1%
4	Canada	CA	4.3%	0.730	0.961	0.844	-14%	14%	0.901	1.147	1.001	-10%	15%
16	Luxembourg	LU	0.8%	0.777	1.043	0.984	-21%	6%	0.901	1.245	1.157	-22%	8%
17	Netherlands	NL	4.4%	0.777	1.166	0.990	-22%	18%	0.901	1.393	1.169	-23%	19%
10	Greece	GR	1.2%	0.777	1.128	1.052	-26%	7%	0.901	1.348	1.244	-28%	8%
20	Portugal	PT	1.0%	0.777	1.308	1.109	-30%	18%	0.901	1.562	1.318	-32%	19%
2	Austria	AT	7.8%	0.777	1.298	1.164	-33%	12%	0.901	1.551	1.393	-35%	11%
9	Great Britain	GB	9.4%	0.777	0.935	1.173	-34%	-20%	0.901	1.116	1.474	-39%	-24%
21	Spain	ES	2.8%	0.590	0.991	0.911	-35%	9%	0.901	1.184	1.113	-19%	6%
8	Germany	DE	12.4%	0.777	1.035	1.250	-38%	-17%	0.901	1.236	1.526	-41%	-19%
12	Ireland	IE	2.6%	0.777	0.988	1.253	-38%	-21%	0.901	1.180	1.577	-43%	-25%
15	Japan	JP	5.3%	0.777	1.364	1.290	-40%	6%	0.901	1.630	1.562	-42%	4%
3	Belgium	BE	3.1%	0.777	1.460	1.326	-41%	10%	0.901	1.744	1.585	-43%	10%
1	Australia	AU	5.8%	0.703	0.826	1.207	-42%	-32%	0.901	0.986	1.556	-42%	-37%
7	France	FR	6.5%	0.777	1.520	1.339	-42%	14%	0.901	1.816	1.618	-44%	12%
22	Sweden	SE	2.2%	0.777	1.367	1.429	-46%	-4%	0.901	1.632	1.768	-49%	-8%
24	United States	US	10.8%	0.590	0.847	1.090	-46%	-22%	0.901	1.012	1.389	-35%	-27%
14	Italy	IT	4.9%	0.777	1.329	1.728	-55%	-23%	0.901	1.588	2.137	-58%	-26%
23	Switzerland	CH	3.8%	0.777	1.144	1.861	-58%	-39%	0.901	1.366	2.392	-62%	-43%
5	Denmark	DK	1.9%	0.777	2.270	1.913	-59%	19%	0.901	2.711	2.281	-60%	19%
6	Finland	FI	2.8%	0.777	1.184	1.958	-60%	-40%	0.901	1.413	2.533	-64%	-44%
19	Norway	NO	4.3%	0.777	1.891	2.218	-65%	-15%	0.901	2.259	2.747	-67%	-18%
	Avg (weighted)			1.147	1.795	2.000	-43%	-10%	1.388	2.144	2.469	-44%	-13%

Note: Average weighted according to the percentage of Grp 1.1 mail imported (from all countries) by each country.

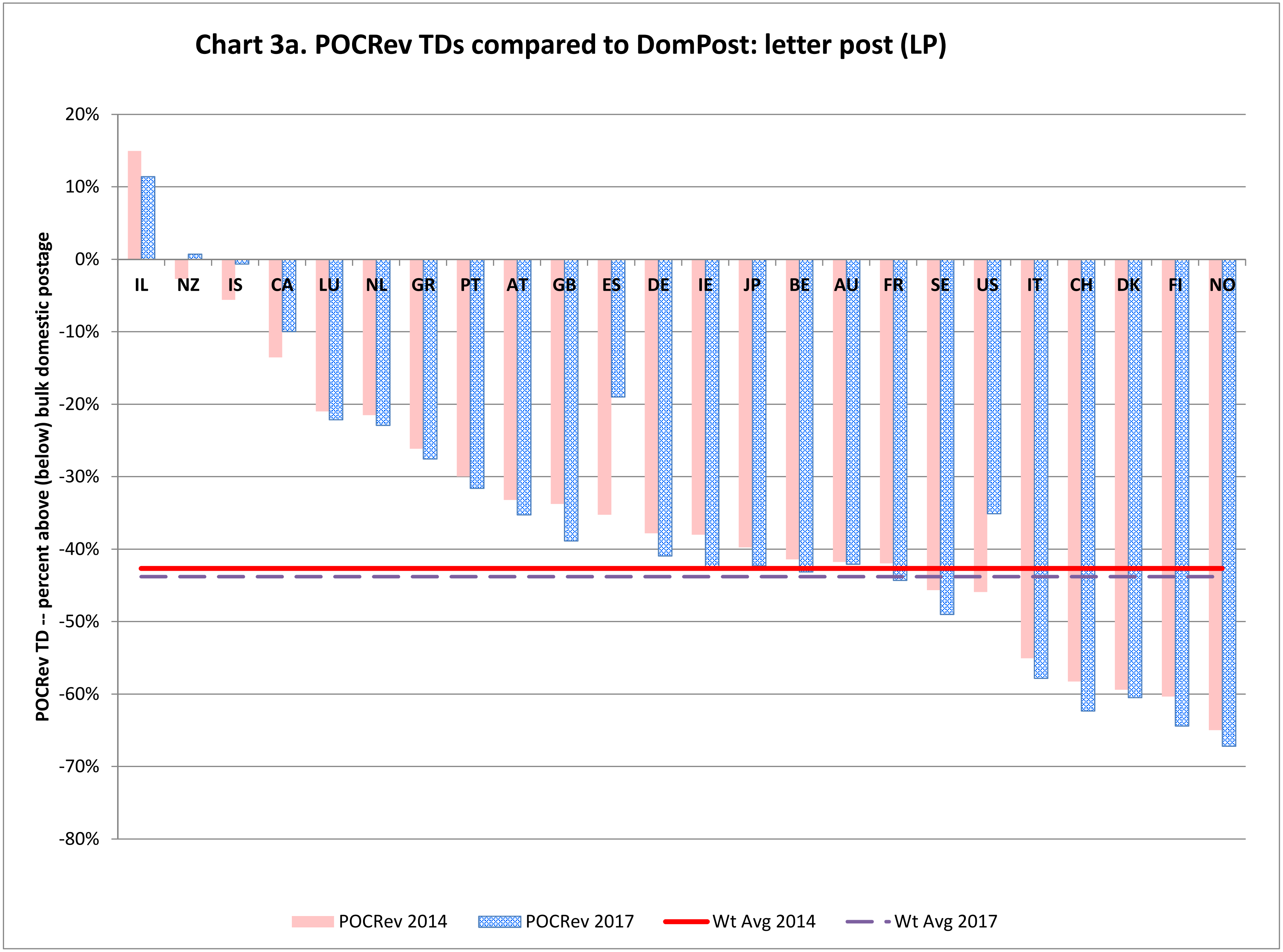


Chart 3a. POCRev TDs compared to DomPost: letter post (LP)
POCRev TD -- percent above (below) bulk domestic postage
20%
10%
0%
-10%
-20%
-30%
-40%
-50%
-60%
-70%
-80%
IL
NZ
IS
CA
LU
NL
GR
PT
AT
GB
ES
DE
IE
JP
BE
AU
FR
SE
US
IT
CH
DK
FI
NO
POCRev 2014
POCRev 2017
Wt Avg 2014
Wt Avg 2017

Table 3b. TDs compared to Dompost: letters and envelopes (PG)

24-Aug-12

Currency & date USD 1.5430 = 1 SDR Apr 2012

Scenario 2

	2014	2015	2016	2017
IPK for typical LP item	10.94	10.46	9.99	9.53
Rate multiplier from 2011	110.0%	114.4%	119.0%	123.7%

				2014					2017				
				TD per item			TD compared to DomPost		TD per item			TD compared to DomPost	
No	Country	ISO	% In	POCRev	NoCap	DomPost	POCRev	NoCap	POCRev	NoCap	DomPost	POCRev	NoCap
13	Israel	IL	0.6%	0.419	0.328	0.368	14%	-11%	0.456	0.369	0.414	10%	-11%
1	Australia (1)	AU	5.8%	0.548	0.644	0.580	-5%	11%	0.662	0.724	0.653	1%	11%
11	Iceland	IS	0.1%	0.500	0.528	0.561	-11%	-6%	0.594	0.594	0.631	-6%	-6%
9	Great Britain	GB	9.4%	0.606	0.729	0.684	-11%	7%	0.662	0.819	0.770	-14%	6%
18	New Zealand	NZ	1.2%	0.580	0.613	0.687	-16%	-11%	0.662	0.689	0.772	-14%	-11%
4	Canada (1)	CA	4.3%	0.569	0.749	0.680	-16%	10%	0.662	0.842	0.765	-13%	10%
12	Ireland	IE	2.6%	0.606	0.770	0.725	-16%	6%	0.662	0.866	0.816	-19%	6%
24	United States	US	10.8%	0.460	0.660	0.575	-20%	15%	0.662	0.743	0.647	2%	15%
17	Netherlands (1)	NL	4.4%	0.606	0.908	0.814	-25%	12%	0.662	1.023	0.915	-28%	12%
16	Luxembourg	LU	0.8%	0.606	0.813	0.822	-26%	-1%	0.662	0.914	0.925	-28%	-1%
21	Spain	ES	2.8%	0.460	0.772	0.631	-27%	22%	0.662	0.869	0.710	-7%	22%
10	Greece	GR	1.2%	0.606	0.879	0.860	-30%	2%	0.662	0.990	0.967	-32%	2%
8	Germany	DE	12.4%	0.606	0.807	0.868	-30%	-7%	0.662	0.908	0.976	-32%	-7%
20	Portugal	PT	1.0%	0.606	1.020	0.889	-32%	15%	0.662	1.147	1.000	-34%	15%
2	Austria	AT	7.8%	0.606	1.012	0.898	-32%	13%	0.662	1.139	1.010	-34%	13%
6	Finland	FI	2.8%	0.606	0.923	0.913	-34%	1%	0.662	1.038	1.027	-36%	1%
23	Switzerland	CH	3.8%	0.606	0.892	0.916	-34%	-3%	0.662	1.003	1.030	-36%	-3%
22	Sweden	SE	2.2%	0.606	1.065	0.923	-34%	15%	0.662	1.199	1.038	-36%	15%
15	Japan	JP	5.3%	0.606	1.063	0.938	-35%	13%	0.662	1.197	1.055	-37%	13%
7	France	FR	6.5%	0.606	1.185	0.982	-38%	21%	0.662	1.333	1.105	-40%	21%
3	Belgium	BE	3.1%	0.606	1.138	1.031	-41%	10%	0.662	1.281	1.160	-43%	10%
14	Italy	IT	4.9%	0.606	1.036	1.118	-46%	-7%	0.662	1.166	1.258	-47%	-7%
19	Norway	NO	4.3%	0.606	1.474	1.420	-57%	4%	0.662	1.659	1.597	-59%	4%
5	Denmark	DK	1.9%	0.606	1.769	1.504	-60%	18%	0.662	1.991	1.692	-61%	18%
	Avg (weighted)			0.895	1.399	1.307	-32%	7%	1.019	1.574	1.470	-31%	7%

Note Average weighted according to the percentage of Grp 1.1 mail imported (from all countries) by each country.

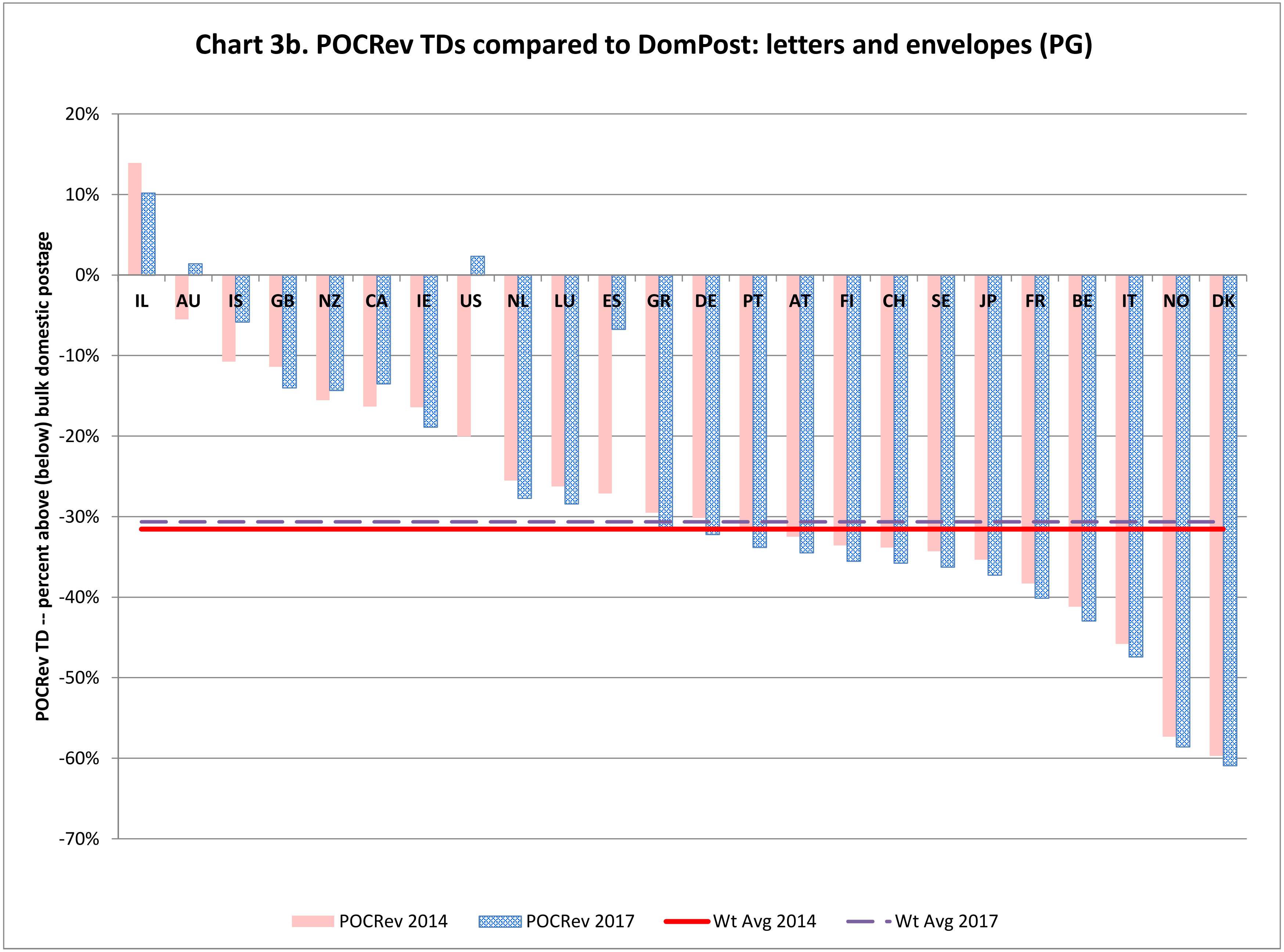


Chart 3b. POCRev TDs compared to DomPost: letters and envelopes (PG)
POCRev TD -- percent above (below) bulk domestic postage
20%
10%
0%
-10%
-20%
-30%
-40%
-50%
-60%
-70%
IL
AU
IS
GB
NZ
CA
IE
US
NL
LU
ES
GR
DE
PT
AT
FI
CH
SE
JP
FR
BE
IT
NO
DK
POCRev 2014
POCRev 2017
Wt Avg 2014
Wt Avg 2017

Table 3c. TDs compared to Dompost: small packets (E)

24-Aug-12

Currency & date USD 1.5430 = 1 SDR Apr 2012 Scenario 2

	2014	2015	2016	2017
IPK for typical LP item	10.94	10.46	9.99	9.53
Rate multiplier from 2011	110.0%	114.4%	119.0%	123.7%

				2014					2017				
				TD per item			TD compared to DomPost		TD per item			TD compared to DomPost	
No	Country	ISO	% In	POCRev	NoCap	DomPost	POCRev	NoCap	POCRev	NoCap	DomPost	POCRev	NoCap
18	New Zealand	NZ	1.2%	1.680	1.729	1.235	36%	40%	1.865	1.943	1.389	34%	40%
13	Israel	IL	0.6%	1.182	0.925	1.010	17%	-8%	1.285	1.040	1.136	13%	-8%
11	Iceland	IS	0.1%	1.461	1.489	1.381	6%	8%	1.673	1.673	1.553	8%	8%
4	Canada (1)	CA	4.3%	1.603	2.113	1.734	-8%	22%	1.865	2.375	1.951	-4%	22%
16	Luxembourg	LU	0.8%	1.707	2.293	1.863	-8%	23%	1.865	2.577	2.095	-11%	23%
17	Netherlands (1)	NL	4.4%	1.707	2.564	1.949	-12%	32%	1.865	2.883	2.192	-15%	32%
10	Greece	GR	1.2%	1.707	2.482	2.095	-19%	18%	1.865	2.790	2.356	-21%	18%
20	Portugal	PT	1.0%	1.707	2.875	2.309	-26%	25%	1.865	3.232	2.598	-28%	24%
2	Austria	AT	7.8%	1.707	2.855	2.607	-35%	10%	1.865	3.210	2.933	-36%	9%
3	Belgium	BE	3.1%	1.707	3.210	2.934	-42%	9%	1.865	3.610	3.300	-43%	9%
15	Japan	JP	5.3%	1.707	3.000	3.204	-47%	-6%	1.865	3.373	3.604	-48%	-6%
21	Spain	ES	2.8%	1.295	2.180	2.432	-47%	-10%	1.865	2.451	2.735	-32%	-10%
7	France	FR	6.5%	1.707	3.344	3.275	-48%	2%	1.865	3.759	3.683	-49%	2%
8	Germany	DE	12.4%	1.707	2.277	3.326	-49%	-32%	1.865	2.559	3.742	-50%	-32%
9	Great Britain	GB	9.4%	1.707	2.055	3.832	-55%	-46%	1.865	2.309	4.310	-57%	-46%
12	Ireland	IE	2.6%	1.707	2.171	4.125	-59%	-47%	1.865	2.442	4.640	-60%	-47%
5	Denmark	DK	1.9%	1.707	4.991	4.135	-59%	21%	1.865	5.611	4.652	-60%	21%
22	Sweden	SE	2.2%	1.707	3.005	4.184	-59%	-28%	1.865	3.378	4.706	-60%	-28%
14	Italy	IT	4.9%	1.707	2.923	5.044	-66%	-42%	1.865	3.286	5.674	-67%	-42%
1	Australia (1)	AU	5.8%	1.544	1.816	4.615	-67%	-61%	1.865	2.041	5.191	-64%	-61%
24	United States	US	10.8%	1.295	1.862	3.891	-67%	-52%	1.865	2.093	4.377	-57%	-52%
19	Norway	NO	4.3%	1.707	4.157	6.555	-74%	-37%	1.865	4.674	7.373	-75%	-37%
23	Switzerland	CH	3.8%	1.707	2.514	7.000	-76%	-64%	1.865	2.826	7.874	-76%	-64%
6	Finland	FI	2.8%	1.707	2.602	7.644	-78%	-66%	1.865	2.925	8.598	-78%	-66%
	Weighted avg			2.520	3.947	5.770	-56%	-32%	2.871	4.437	6.491	-56%	-32%

Note Average weighted according to the percentage of Grp 1.1 mail imported (from all countries) by each country.

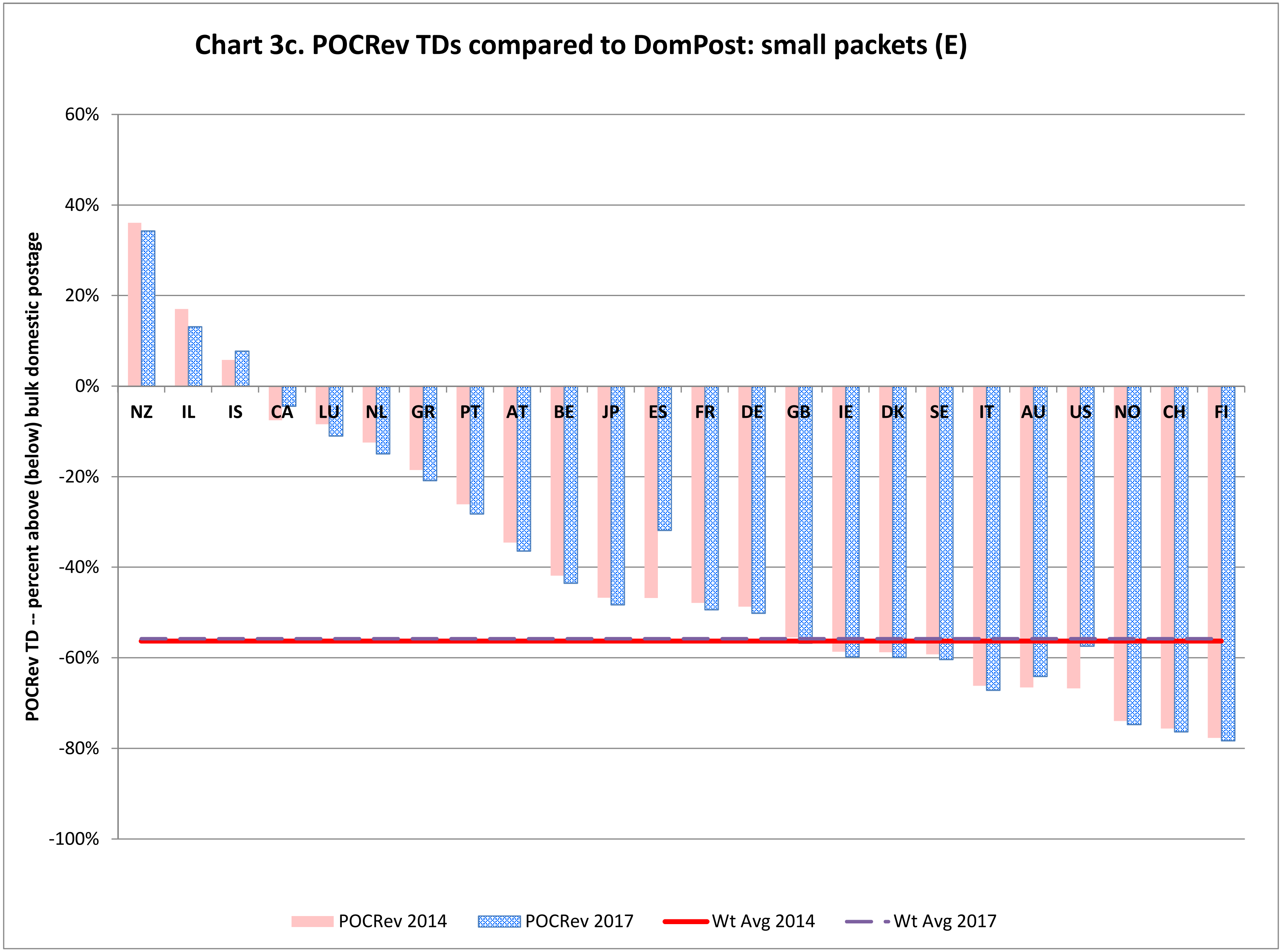


Chart 3c. POCRev TDs compared to DomPost: small packets (E)
POCRev TD -- percent above (below) bulk domestic postage
60%
40%
20%
0%
-20%
-40%
-60%
-80%
-100%
NZ
IL
IS
CA
LU
NL
GR
PT
AT
BE
JP
ES
FR
DE
GB
IE
DK
SE
IT
AU
US
NO
CH
FI
POCRev 2014
POCRev 2017
Wt Avg 2014
Wt Avg 2017

24-Aug-12

Table 4-1. Domestic postage by shape/weight step: United States - 2014

Country & year	US	2014		
Currency & date	USD	1.5430 = 1 SDR		Apr 2012

Scenario	2	
Rate multiplier from 2011	110.0%	
POCRev per kg & item	1.741	0.223
NoCap per kg & item	2.506	0.32
% of prirority domestic rates	70%	

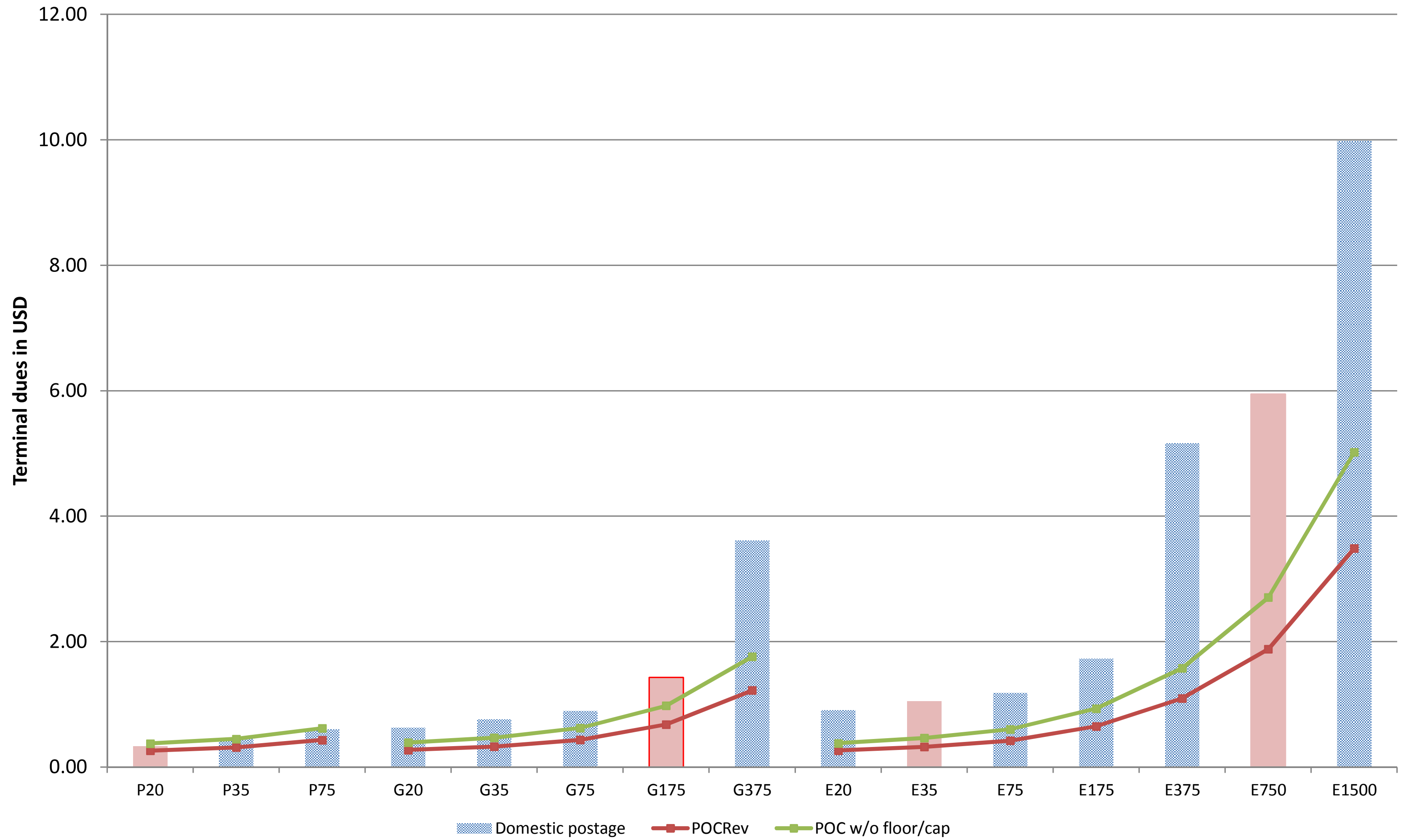
Terminal dues in USD	**P20**	**P35**	**P75**	**G20**	**G35**	**G75**	**G175**	**G375**	**E20**	**E35**	**E75**	**E175**	**E375**	**E750**	**E1500**
POCRev	0.261	0.312	0.432	0.272	0.326	0.434	0.680	1.223	0.265	0.322	0.420	0.650	1.097	1.880	3.489
POC w/o floor/cap	0.375	0.449	0.621	0.391	0.469	0.624	0.978	1.760	0.380	0.462	0.604	0.934	1.578	2.705	5.021
Domestic postage	0.331	0.469	0.606	0.629	0.763	0.896	1.431	3.616	0.910	1.047	1.184	1.731	5.163	5.949	9.989
Shape/weight steps															
From weight, g	0	21	51	0	21	51	101	251	0	21	51	101	251	501	1001
To weight, g	20	35	100	20	35	100	250	500	20	35	100	250	500	1000	2000
% of items within shape	76%	21%	2%	6%	26%	27%	31%	10%	6%	8%	12%	23%	21%	21%	9%
% of items per shape/wt	50%	14%	1%	1%	5%	5%	6%	2%	1%	1%	2%	4%	3%	3%	1%
Avg wt per shape/wt, g	14.28	33.25	77.92	18.39	38.41	78.70	170.22	372.34	15.52	36.85	73.45	158.86	325.32	616.80	1215.81

Distribution of LP by shape	**P**	**G**	**E**	**LP**
Percent of volume	65.5%	19.0%	15.5%	100%

Average TD per shape per item		**P**	**G**	**E**	**LP**	**PG**	**Check**	
POCRev	USD	0.276	0.556	1.174	0.469	0.286	0.382	0.469
NoCap	USD	0.396	0.799	1.689	0.673	0.411	0.549	0.673
Domestic postage	USD	0.367	1.294	3.891	1.090	0.486	0.707	1.090

TDs compared to DomPost	**P**	**G**	**E**	**LP**	**PG**
POCRev	-24.7%	-57.1%	-69.8%	-57.0%	-41.1%
NoCap	8.1%	-38.3%	-56.6%	-38.2%	-15.4%

Chart 4-1-US. Domestic postage by shape/weight step: United States - 2014



24-Aug-12

Table 4-4. Domestic postage by shape/weight step: United States - 2017

Country & year	US	2017	
Currency & date	USD	1.5430 = 1 SDR	Apr 2012

Scenario	2	
Rate multiplier from 2011	123.7%	
POCRev per kg & item	2.507	0.321
NoCap per kg & item	2.816	0.36
% of prirority domestic rates	70%	

Terminal dues in USD	**P20**	**P35**	**P75**	**G20**	**G35**	**G75**	**G175**	**G375**	**E20**	**E35**	**E75**	**E175**	**E375**	**E750**	**E1500**
POCRev	0.376	0.450	0.622	0.392	0.470	0.625	0.979	1.761	0.381	0.464	0.605	0.936	1.579	2.707	5.024
POC w/o floor/cap	0.422	0.504	0.699	0.440	0.527	0.702	1.100	1.978	0.427	0.520	0.679	1.050	1.774	3.040	5.643
Domestic postage	0.373	0.527	0.682	0.707	0.858	1.008	1.609	4.068	1.023	1.177	1.331	1.947	5.808	6.692	11.237
Shape/weight steps															
From weight, g	0	21	51	0	21	51	101	251	0	21	51	101	251	501	1001
To weight, g	20	35	100	20	35	100	250	500	20	35	100	250	500	1000	2000
% of items within shape	76%	21%	2%	6%	26%	27%	31%	10%	6%	8%	12%	23%	21%	21%	9%
% of items per shape/wt	47%	13%	1%	1%	5%	5%	6%	2%	1%	2%	2%	5%	4%	4%	2%
Avg wt per shape/wt, g	14.28	33.25	77.92	18.39	38.41	78.70	170.22	372.34	15.52	36.85	73.45	158.86	325.32	616.80	1215.81

Distribution of LP by shape		**P**	**G**	**E**	**LP**
Percent of volume		62.1%	18.0%	19.9%	100%

Average TD per shape per item		**P**	**G**	**E**	**LP**	**PG**	**Check**	
POCRev	USD	0.397	0.800	1.690	0.727	0.391	0.584	0.727
NoCap	USD	0.446	0.898	1.898	0.816	0.438	0.656	0.816
Domestic postage	USD	0.413	1.456	4.377	1.389	0.518	0.900	1.389

TDs compared to DomPost	**P**	**G**	**E**	**LP**	**PG**
POCRev	-3.7%	-45.0%	-61.4%	-47.7%	-24.6%
NoCap	8.0%	-38.3%	-56.6%	-41.2%	-15.4%

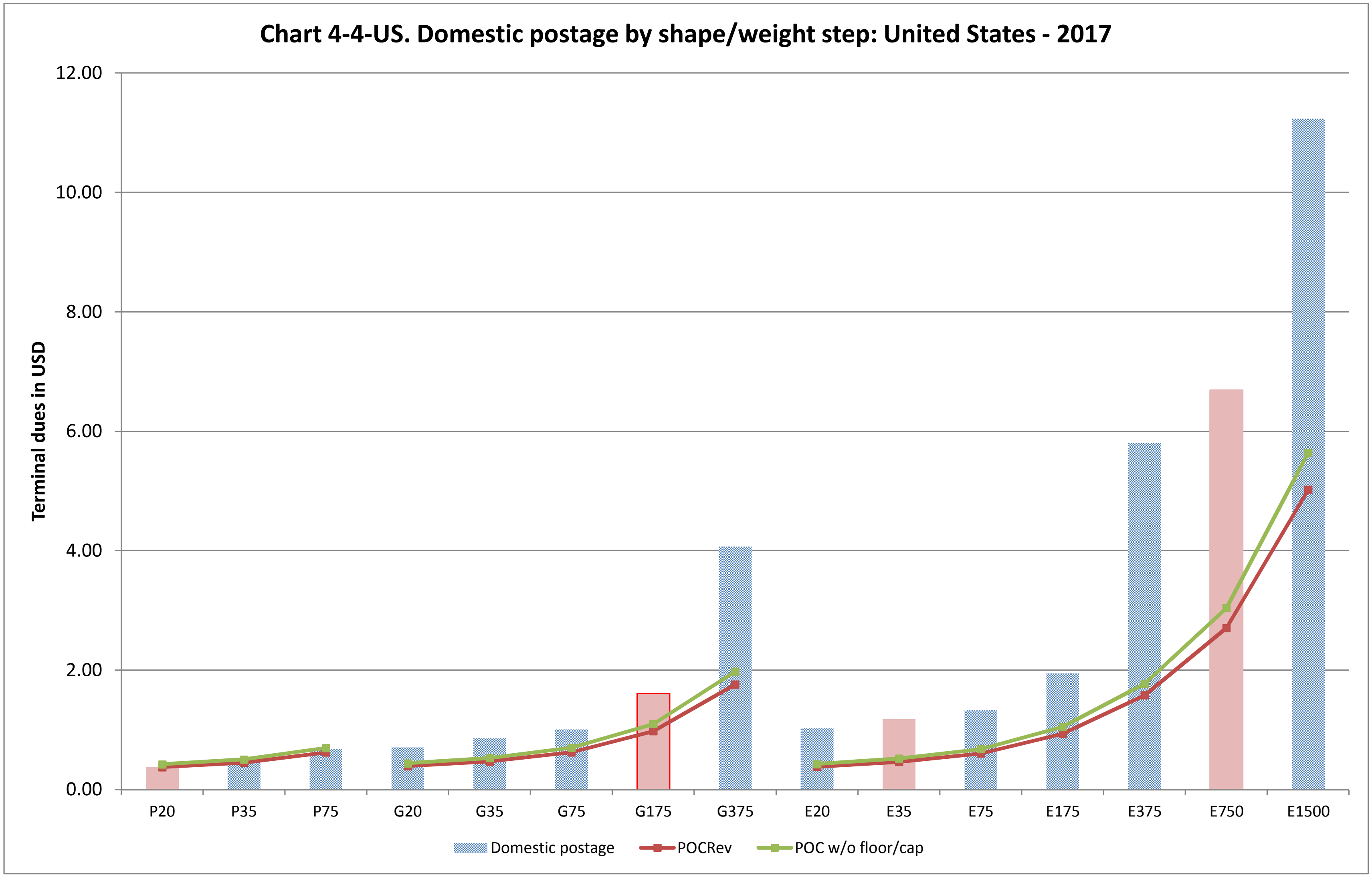


Chart 4-4-US. Domestic postage by shape/weight step: United States - 2017
Terminal dues in USD
12.00
10.00
8.00
6.00
4.00
2.00
0.00
P20
P35
P75
G20
G35
G75
G175
G375
E20
E35
E75
E175
E375
E750
E1500
Domestic postage
POCRev
POC w/o floor/cap

Table 6-1. Bilateral Flow Model: Intra-Group 1.1 Letter Post Volumes

Millions of items; negative net = inbound balance

No	Origin	ISO	2014			2015			2016			2017		
Offset			10	10		11	11		12	12		13	13	
No	Origin	ISO	Out	In	Net	Out	In	Net	Out	In	Net	Out	In	Net
24	United States	US	386.0	308.5	77.5	401.5	320.9	80.6	417.5	333.7	83.9	434.2	347.0	87.2
9	Great Britain	GB	355.0	249.9	105.0	369.2	259.9	109.2	383.9	270.3	113.6	399.3	281.2	118.1
8	Germany	DE	293.1	299.4	-6.3	304.8	311.4	-6.5	317.0	323.8	-6.8	329.7	336.8	-7.0
7	France	FR	219.3	156.0	63.3	228.1	162.2	65.9	237.2	168.7	68.5	246.7	175.4	71.2
23	Switzerland	CH	202.4	104.1	98.3	210.5	108.3	102.2	218.9	112.6	106.3	227.7	117.1	110.6
2	Austria	AT	151.1	187.4	-36.3	157.1	194.9	-37.8	163.4	202.7	-39.3	169.9	210.8	-40.8
17	Netherlands	NL	132.4	120.0	12.3	137.7	124.8	12.8	143.2	129.8	13.3	148.9	135.0	13.9
4	Canada	CA	117.6	102.6	15.0	122.3	106.8	15.6	127.2	111.0	16.2	132.3	115.5	16.8
21	Spain	ES	103.7	69.8	33.9	107.9	72.6	35.3	112.2	75.5	36.7	116.7	78.5	38.2
3	Belgium	BE	67.4	87.4	-19.9	70.1	90.9	-20.7	72.9	94.5	-21.6	75.9	98.3	-22.4
14	Italy	IT	62.8	117.6	-54.8	65.3	122.3	-57.0	67.9	127.2	-59.3	70.6	132.3	-61.7
1	Australia	AU	51.6	79.5	-27.9	53.7	82.6	-29.0	55.8	85.9	-30.2	58.0	89.4	-31.4
15	Japan	JP	39.1	127.1	-88.0	40.7	132.2	-91.5	42.3	137.5	-95.2	44.0	143.0	-99.0
22	Sweden	SE	38.7	52.2	-13.6	40.2	54.3	-14.1	41.8	56.5	-14.7	43.5	58.7	-15.3
5	Denmark	DK	38.6	46.5	-7.9	40.1	48.3	-8.2	41.7	50.3	-8.6	43.4	52.3	-8.9
20	Portugal	PT	34.3	24.4	9.9	35.7	25.4	10.3	37.1	26.4	10.7	38.6	27.5	11.1
10	Greece	GR	34.4	28.0	6.4	35.8	29.1	6.7	37.2	30.3	6.9	38.7	31.5	7.2
12	Ireland	IE	32.5	72.3	-39.8	33.8	75.2	-41.4	35.2	78.2	-43.1	36.6	81.4	-44.8
16	Luxembourg	LU	32.9	20.4	12.5	34.2	21.3	13.0	35.6	22.1	13.5	37.0	23.0	14.0
6	Finland	FI	24.3	67.3	-43.0	25.3	70.0	-44.7	26.3	72.8	-46.5	27.4	75.7	-48.4
19	Norway	NO	21.4	104.8	-83.3	22.3	109.0	-86.7	23.2	113.3	-90.1	24.1	117.9	-93.7
18	New Zealand	NZ	21.9	29.9	-7.9	22.8	31.1	-8.3	23.7	32.3	-8.6	24.7	33.6	-8.9
13	Israel	IL	3.9	9.1	-5.2	4.0	9.4	-5.4	4.2	9.8	-5.6	4.3	10.2	-5.9
11	Iceland	IS	1.3	1.4	-0.1	1.3	1.5	-0.1	1.4	1.5	-0.1	1.4	1.6	-0.1

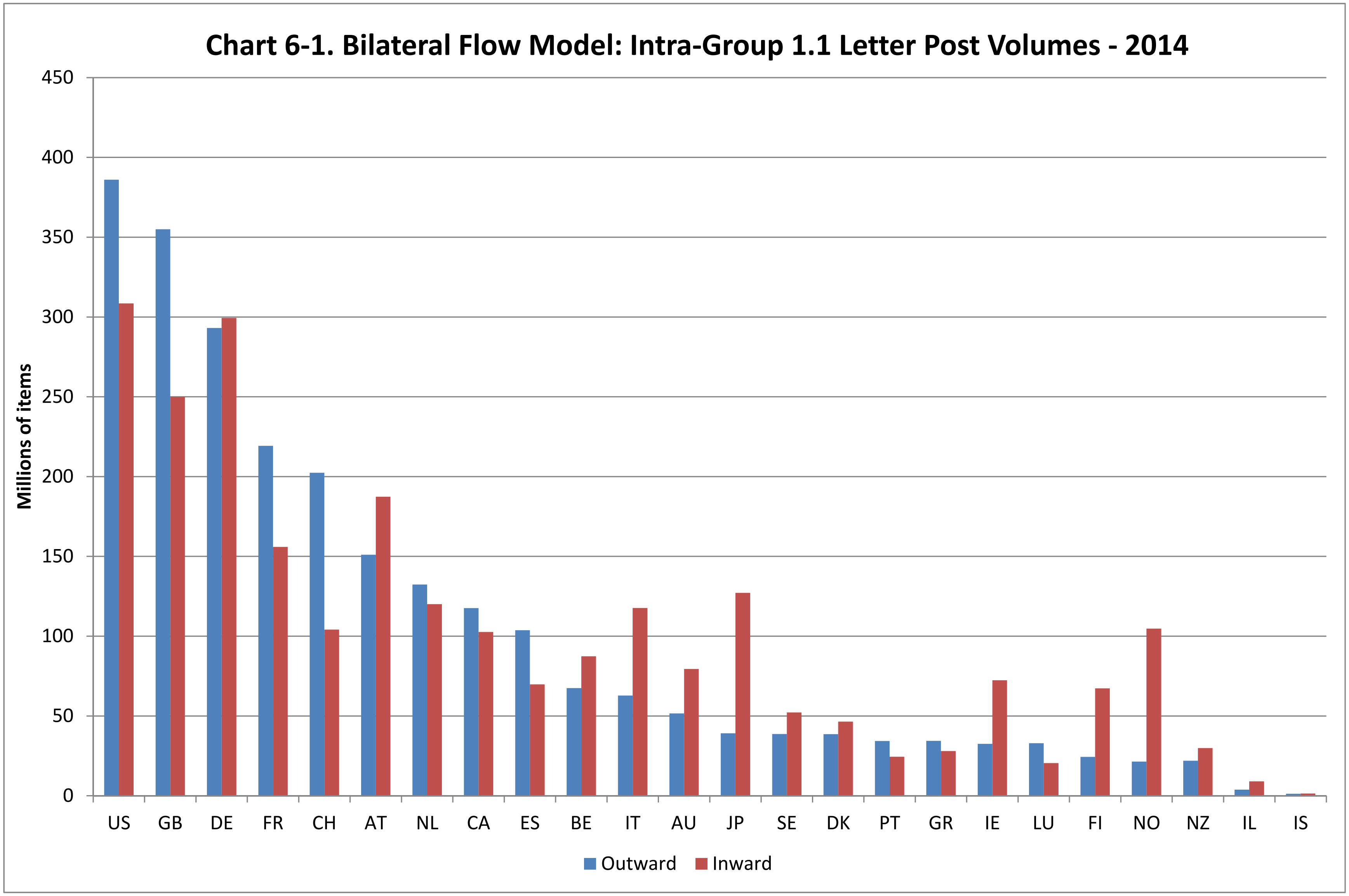


Chart 6-1. Bilateral Flow Model: Intra-Group 1.1 Letter Post Volumes - 2014
Millions of items
450
400
350
300
250
200
150
100
50
0
US
GB
DE
FR
CH
AT
NL
CA
ES
BE
IT
AU
JP
SE
DK
PT
GR
IE
LU
FI
NO
NZ
IL
IS
Outward
Inward

Table 7a. Bilateral flow model: net terminal dues from Group 1.1

24-Aug-12

Currency & date SDR 1.0000 = 1 SDR Apr 2012 Scenario 2

Millions of items; negative net = inbound balance

No	Origin	ISO	2014			2015			2016			2017		
			POCRev	NoCap	DomPost	POCRev	NoCap	DomPost	POCRev	NoCap	DomPost	POCRev	NoCap	DomPost
1	Australia	AU	11.7	8.0	25.1	15.9	8.8	29.1	17.2	9.7	33.8	18.3	10.8	39.2
2	Austria	AT	19.3	47.2	9.6	20.7	52.0	9.2	22.3	57.5	8.6	23.9	63.5	7.7
3	Belgium	BE	11.1	30.6	18.9	11.8	33.7	20.3	12.5	37.2	21.7	13.1	41.1	23.2
4	Canada	CA	-1.3	-9.7	-33.3	-1.2	-10.7	-38.6	-5.0	-11.7	-44.7	-9.8	-13.1	-51.8
5	Denmark	DK	4.8	36.2	20.3	4.9	40.0	21.9	5.1	44.1	23.5	5.2	48.7	25.3
6	Finland	FI	22.0	31.6	63.7	23.9	34.9	72.5	26.0	38.5	82.7	28.3	42.5	94.2
7	France	FR	-27.1	-7.8	-46.6	-31.5	-8.4	-52.9	-36.2	-9.3	-60.2	-41.6	-10.5	-68.4
8	Germany	DE	8.5	-30.0	-8.5	7.3	-33.1	-10.4	6.0	-36.6	-12.6	4.3	-40.4	-15.2
9	Great Britain	GB	-39.7	-115.3	-110.3	-48.5	-127.2	-122.1	-57.8	-140.2	-135.2	-68.6	-155.0	-150.0
10	Greece	GR	-2.1	-4.4	-9.7	-2.7	-4.9	-11.1	-3.3	-5.4	-12.8	-4.1	-6.0	-14.7
11	Iceland	IS	0.0	-0.5	-0.6	0.0	-0.5	-0.6	0.0	-0.6	-0.7	0.0	-0.7	-0.8
12	Ireland	IE	20.6	21.8	31.2	22.3	24.0	35.2	24.2	26.5	39.7	26.2	29.3	44.9
13	Israel	IL	1.4	-0.3	-0.2	1.4	-0.3	-0.3	1.5	-0.3	-0.4	1.6	-0.3	-0.5
14	Italy	IT	28.7	53.1	80.0	30.9	58.5	89.3	33.4	64.6	99.8	36.1	71.3	111.7
15	Japan	JP	46.5	87.0	76.2	50.0	95.9	84.1	53.8	105.9	92.8	57.8	116.9	102.6
16	Luxembourg	LU	-6.0	-11.8	-15.7	-6.7	-13.0	-17.7	-7.4	-14.4	-19.9	-8.2	-15.9	-22.5
17	Netherlands	NL	-3.9	-10.3	-38.5	-5.2	-11.4	-44.3	-6.4	-12.5	-50.9	-8.0	-13.8	-58.6
18	New Zealand	NZ	4.1	0.8	-2.7	4.4	0.9	-3.4	4.8	1.0	-4.4	5.2	1.1	-5.5
19	Norway	NO	42.7	112.3	132.4	46.4	123.8	147.7	50.4	136.7	164.9	54.8	150.9	184.3
20	Portugal	PT	-4.1	-5.6	-10.8	-4.8	-6.2	-12.2	-5.6	-6.8	-13.9	-6.5	-7.5	-15.8
21	Spain	ES	-24.7	-36.0	-48.6	-24.5	-39.6	-54.3	-23.7	-43.8	-60.7	-22.2	-48.3	-67.9
22	Sweden	SE	7.3	10.8	6.6	7.8	11.9	7.2	8.3	13.1	8.0	8.9	14.5	8.8
23	Switzerland	CH	-47.7	-84.4	-43.3	-53.0	-93.1	-45.6	-58.5	-102.8	-47.8	-64.6	-113.4	-50.0
24	United States	US	-71.9	-123.4	-95.3	-69.7	-136.0	-103.0	-61.6	-150.3	-111.3	-50.3	-165.9	-120.2

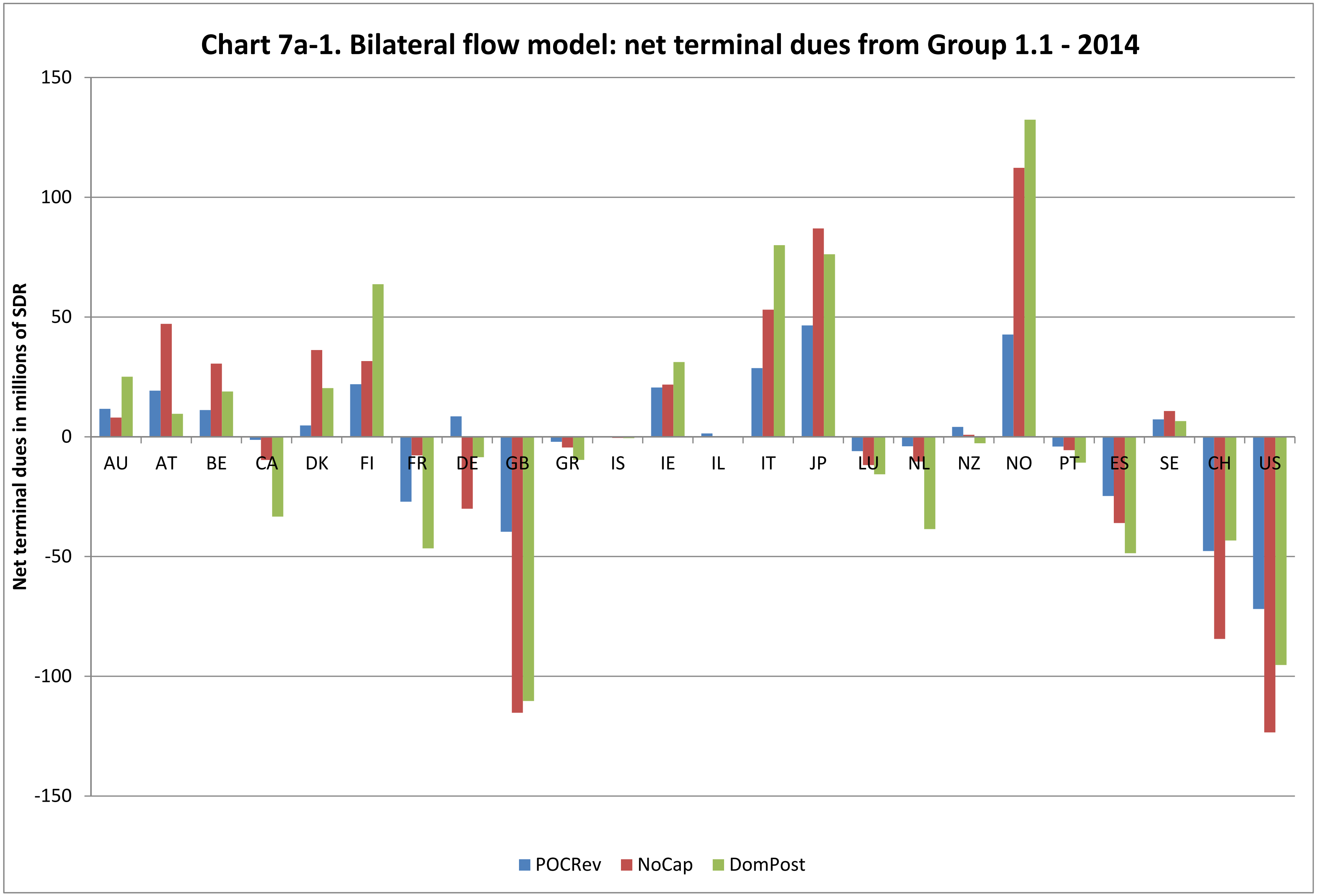


Chart 7a-1. Bilateral flow model: net terminal dues from Group 1.1 - 2014
Net terminal dues in millions of SDR
150
100
50
0
-50
-100
-150
AU
AT
BE
CA
DK
FI
FR
DE
GB
GR
IS
IE
IL
IT
JP
LU
NL
NZ
NO
PT
ES
SE
CH
US
POCRev
NoCap
DomPost

Table 8. Group 1.1 DOs net gain or loss from POC proposal

24-Aug-12

Currency & date USD 1.5430 = 1 SDR Apr 2012 Scenario 2

Figures in millions; negative net = inbound balance

			2014				2015				2016				2017		
No	Origin	ISO	POCRev	NoCap	x	x	POCRev	NoCap	x	x	POCRev	NoCap	x	x	POCRev	NoCap	x
19	Norway	NO	-138.4	-31.0			-156.3	-36.8			-176.7	-43.6			-199.9	-51.5	
14	Italy	IT	-79.2	-41.6			-90.2	-47.6			-102.5	-54.5			-116.7	-62.3	
6	Finland	FI	-64.4	-49.5			-75.1	-58.1			-87.5	-68.1			-101.8	-79.9	
15	Japan	JP	-45.9	16.6			-52.7	18.3			-60.3	20.2			-69.0	22.2	
1	Australia	AU	-20.7	-26.3			-20.4	-31.4			-25.5	-37.1			-32.2	-43.9	
5	Denmark	DK	-24.1	24.5			-26.2	27.9			-28.4	31.8			-30.9	36.2	
12	Ireland	IE	-16.4	-14.5			-19.9	-17.2			-24.0	-20.3			-28.8	-24.0	
23	Switzerland	CH	-6.8	-63.4			-11.5	-73.4			-16.5	-84.8			-22.5	-97.8	
3	Belgium	BE	-12.0	18.0			-13.1	20.8			-14.2	24.0			-15.5	27.7	
22	Sweden	SE	1.1	6.5			0.8	7.2			0.5	7.9			0.2	8.8	
11	Iceland	IS	0.8	0.1			1.0	0.2			1.1	0.2			1.2	0.2	
13	Israel	IL	2.5	0.0			2.7	0.0			2.9	0.1			3.1	0.2	
20	Portugal	PT	10.3	8.0			11.5	9.3			12.9	10.9			14.4	12.8	
10	Greece	GR	11.6	8.0			13.0	9.6			14.6	11.4			16.4	13.5	
18	New Zealand	NZ	10.5	5.4			12.1	6.8			14.1	8.3			16.5	10.2	
16	Luxembourg	LU	14.9	6.0			17.0	7.2			19.4	8.6			22.1	10.2	
2	Austria	AT	14.9	58.0			17.7	66.0			21.1	75.5			25.0	86.0	
8	Germany	DE	26.3	-33.2			27.3	-35.0			28.7	-37.1			30.0	-38.9	
7	France	FR	30.1	60.0			33.1	68.6			37.0	78.5			41.5	89.4	
4	Canada	CA	49.4	36.5			57.8	43.0			61.3	50.9			64.9	59.7	
21	Spain	ES	36.8	19.4			45.9	22.6			57.1	26.1			70.5	30.2	
17	Netherlands	NL	53.4	43.5			60.4	50.8			68.6	59.3			78.1	69.1	
24	United States	US	36.1	-43.4			51.4	-51.0			76.7	-60.2			108.0	-70.4	
9	Great Britain	GB	109.0	-7.6			113.6	-7.8			119.6	-7.7			125.5	-7.7	
	Gains		407.9	310.5			465.3	358.3			535.6	413.5			617.3	476.4	
	Losses		-407.9	-310.5			-465.3	-358.3			-535.6	-413.5			-617.3	-476.4	

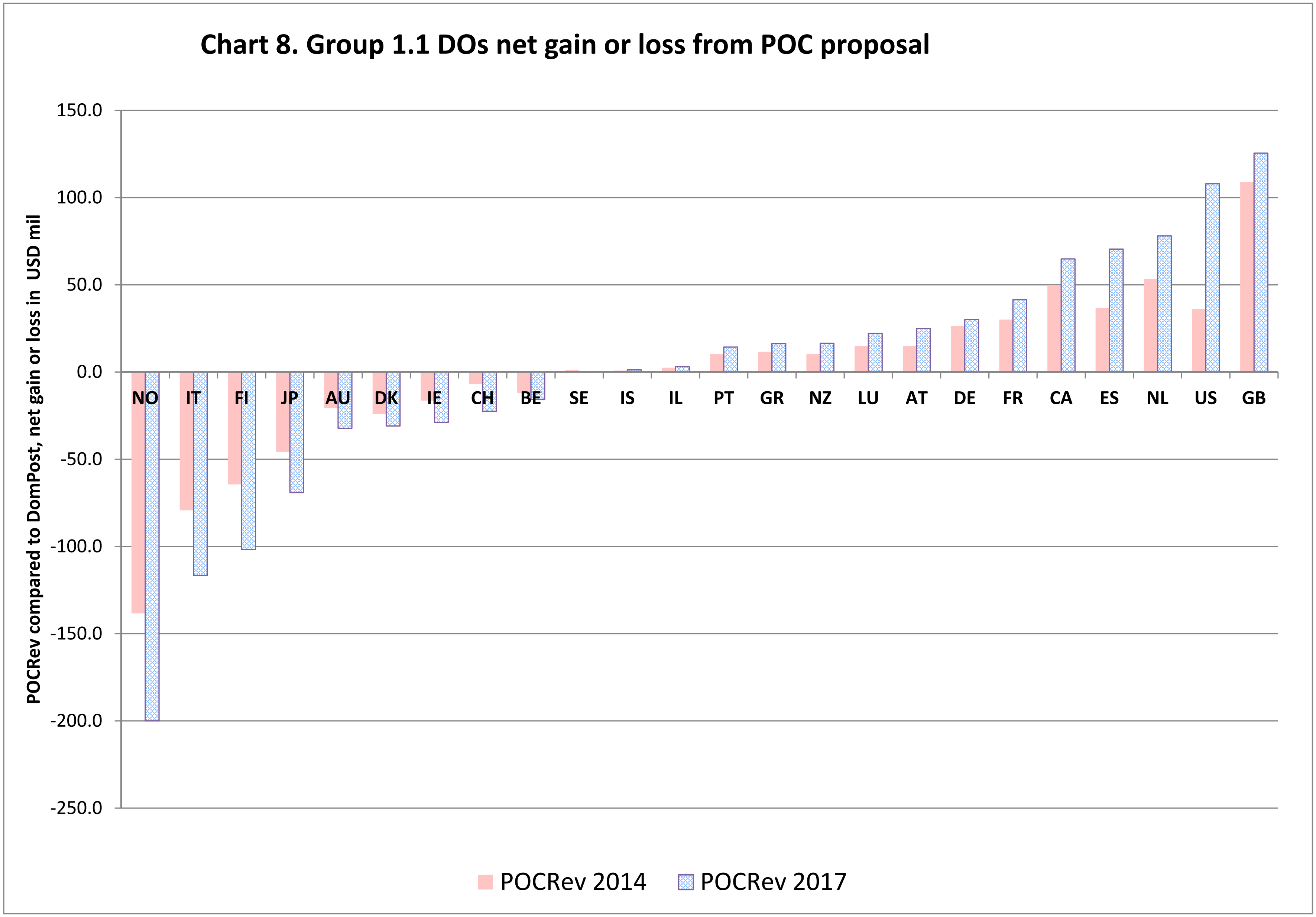


Chart 8. Group 1.1 DOs net gain or loss from POC proposal
POCRev compared to DomPost, net gain or loss in USD mil
150.0
100.0
50.0
0.0
-50.0
-100.0
-150.0
-200.0
-250.0
NO
IT
FI
JP
AU
DK
IE
CH
BE
SE
IS
IL
PT
GR
NZ
LU
AT
DE
FR
CA
ES
NL
US
GB
POCRev 2014
POCRev 2017

Table 9. Group 1.1 DOs net gain or loss from POC proposal per outbound item

24-Aug-12

Currency & date USD 1.5430 = 1 SDR Apr 2012 Scenario 2

Arrays	TDCalc!$C$2:	TDCalc!$C$21:$AR$45		TDCalc!$C$6:	TDCalc!$C$61:$AR$85		TDCalc!$C$1(	TDCalc!$C$101:$AR$125		TDCalc!$C$1.	TDCalc!$C$141:$AR$165	
Offset POCRev/NoCap	8	11	14	8	11	14	8	11	14	8	11	14
Offset DomPost, Out vol	14	14	10	14	14	11	14	14	12	14	14	13

Millions of items; negative net = inbound balance

			2014			2015			2016			2017		
No	Origin	ISO	POCRev	NoCap	Outward volume to Grp 1.1	POCRev	NoCap	Outward volume to Grp 1.1	POCRev	NoCap	Outward volume to Grp 1.1	POCRev	NoCap	Outward volume to Grp 1.1
19	Norway	NO	-6.458	-1.444	21.4	-7.013	-1.650	22.3	-7.623	-1.880	23.2	-8.293	-2.138	24.1
6	Finland	FI	-2.647	-2.034	24.3	-2.969	-2.297	25.3	-3.324	-2.589	26.3	-3.719	-2.917	27.4
14	Italy	IT	-1.262	-0.662	62.8	-1.380	-0.729	65.3	-1.510	-0.802	67.9	-1.652	-0.882	70.6
15	Japan	JP	-1.174	0.425	39.1	-1.295	0.449	40.7	-1.425	0.477	42.3	-1.569	0.504	44.0
5	Denmark	DK	-0.624	0.636	38.6	-0.653	0.696	40.1	-0.682	0.762	41.7	-0.712	0.834	43.4
12	Ireland	IE	-0.505	-0.446	32.5	-0.589	-0.509	33.8	-0.682	-0.578	35.2	-0.787	-0.656	36.6
1	Australia	AU	-0.400	-0.510	51.6	-0.380	-0.584	53.7	-0.457	-0.666	55.8	-0.555	-0.756	58.0
3	Belgium	BE	-0.178	0.266	67.4	-0.187	0.296	70.1	-0.195	0.328	72.9	-0.205	0.365	75.9
23	Switzerland	CH	-0.034	-0.313	202.4	-0.054	-0.349	210.5	-0.075	-0.387	218.9	-0.099	-0.430	227.7
22	Sweden	SE	0.028	0.168	38.7	0.021	0.179	40.2	0.013	0.188	41.8	0.004	0.202	43.5
8	Germany	DE	0.090	-0.113	293.1	0.090	-0.115	304.8	0.091	-0.117	317.0	0.091	-0.118	329.7
24	United States	US	0.093	-0.113	386.0	0.128	-0.127	401.5	0.184	-0.144	417.5	0.249	-0.162	434.2
2	Austria	AT	0.099	0.384	151.1	0.113	0.420	157.1	0.129	0.462	163.4	0.147	0.506	169.9
7	France	FR	0.137	0.273	219.3	0.145	0.301	228.1	0.156	0.331	237.2	0.168	0.363	246.7
20	Portugal	PT	0.301	0.233	34.3	0.323	0.262	35.7	0.347	0.293	37.1	0.372	0.331	38.6
9	Great Britain	GB	0.307	-0.021	355.0	0.308	-0.021	369.2	0.311	-0.020	383.9	0.314	-0.019	399.3
10	Greece	GR	0.338	0.234	34.4	0.363	0.267	35.8	0.392	0.306	37.2	0.422	0.350	38.7
21	Spain	ES	0.355	0.187	103.7	0.426	0.210	107.9	0.509	0.233	112.2	0.605	0.259	116.7
17	Netherlands	NL	0.403	0.329	132.4	0.439	0.369	137.7	0.479	0.414	143.2	0.524	0.464	148.9
4	Canada	CA	0.420	0.310	117.6	0.472	0.352	122.3	0.482	0.400	127.2	0.490	0.452	132.3
16	Luxembourg	LU	0.453	0.181	32.9	0.496	0.209	34.2	0.544	0.241	35.6	0.597	0.277	37.0
18	New Zealand	NZ	0.479	0.248	21.9	0.532	0.297	22.8	0.595	0.351	23.7	0.668	0.413	24.7
13	Israel	IL	0.651	-0.007	3.9	0.674	0.006	4.0	0.699	0.024	4.2	0.725	0.043	4.3
11	Iceland	IS	0.654	0.092	1.3	0.739	0.114	1.3	0.803	0.141	1.4	0.873	0.170	1.4

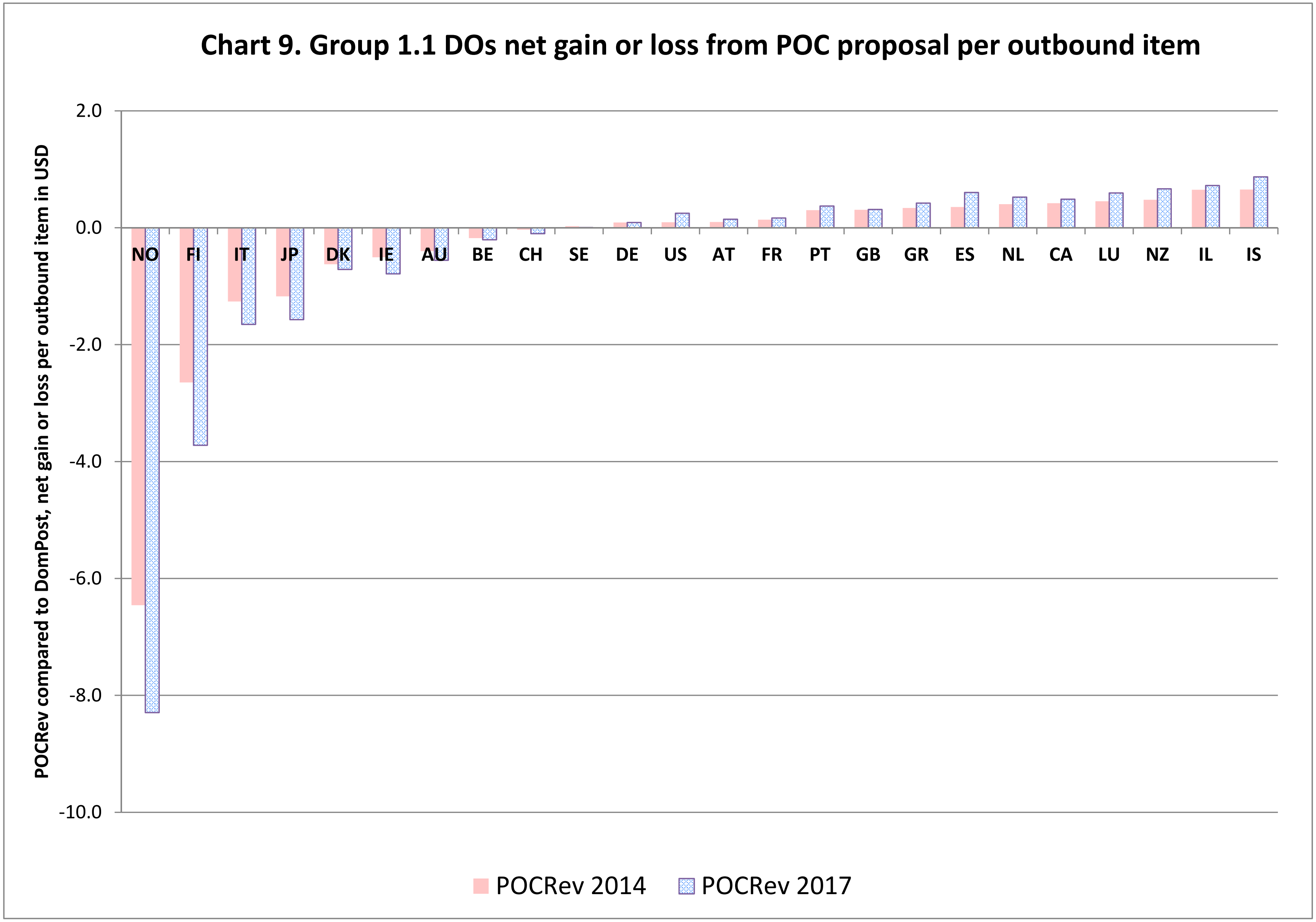


Chart 9. Group 1.1 DOs net gain or loss from POC proposal per outbound item
POCRev compared to DomPost, net gain or loss per outbound item in USD
2.0
0.0
-2.0
-4.0
-6.0
-8.0
-10.0
NO
FI
IT
JP
DK
IE
AU
BE
CH
SE
DE
US
AT
FR
PT
GB
GR
ES
NL
CA
LU
NZ
IL
IS
POCRev 2014
POCRev 2017

Table 10a-1-US. US outbound and Inbound TDs

24-Aug-12

Origin country	US	
Currency & date	USD	1.5430 = 1 SDR Apr 2012
Year	2014	
Type of mail	LP	Letter post

Scenario 2

No	Partner	ISO	POCRev Outward TDs	POCRev Inward TDs	POCRev Net	x	NoCap Outward TDs	NoCap Inward TDs	NoCap Net	DomPost Outward TDs	DomPost Inward TDs	DomPost Net	x	POCRev	NoCap
1	Australia	AU	14.0	5.3	-8.7		16.4	7.7	-8.8	24.0	9.9	-14.2		5.5	5.4
2	Austria	AT	7.9	2.9	-5.0		13.2	4.2	-9.0	11.8	5.4	-6.4		1.4	-2.6
3	Belgium	BE	3.1	4.1	1.0		5.8	6.0	0.1	5.3	7.7	2.4		-1.3	-2.2
4	Canada	CA	47.2	43.9	-3.3		62.1	63.1	1.0	54.5	81.2	26.7		-29.9	-25.7
5	Denmark	DK	5.6	2.8	-2.8		16.4	4.0	-12.3	13.8	5.2	-8.6		5.8	-3.7
6	Finland	FI	5.9	0.7	-5.1		9.0	1.1	-7.9	14.8	1.4	-13.4		8.3	5.6
7	France	FR	14.9	18.1	3.2		29.1	26.0	-3.1	25.6	33.5	7.9		-4.6	-10.9
8	Germany	DE	21.3	19.0	-2.3		28.4	27.3	-1.1	34.3	35.2	0.9		-3.2	-2.0
9	Great Britain	GB	42.5	48.2	5.6		51.2	69.2	18.1	64.2	89.1	24.9		-19.2	-6.8
10	Greece	GR	5.4	4.7	-0.8		7.9	6.7	-1.2	7.4	8.7	1.3		-2.1	-2.5
11	Iceland	IS	0.5	0.1	-0.4		0.5	0.1	-0.4	0.5	0.2	-0.4		0.0	0.0
12	Ireland	IE	18.9	1.4	-17.5		24.0	2.0	-22.0	30.4	2.5	-27.9		10.4	5.9
13	Israel	IL	1.6	0.7	-0.9		1.3	1.0	-0.3	1.4	1.3	-0.1		-0.8	-0.1
14	Italy	IT	8.7	3.0	-5.7		14.9	4.3	-10.6	19.4	5.6	-13.8		8.1	3.2
15	Japan	JP	47.0	9.4	-37.6		82.5	13.6	-69.0	78.0	17.4	-60.6		23.0	-8.4
16	Luxembourg	LU	1.4	0.9	-0.5		1.9	1.2	-0.6	1.8	1.6	-0.2		-0.4	-0.5
17	Netherlands	NL	11.0	7.4	-3.6		16.5	10.6	-5.9	14.1	13.7	-0.4		-3.3	-5.5
18	New Zealand	NZ	1.7	0.0	-1.7		1.8	0.0	-1.8	1.8	0.0	-1.8		0.0	0.0
19	Norway	NO	16.3	3.2	-13.1		39.6	4.6	-35.0	46.5	5.9	-40.5		27.5	5.5
20	Portugal	PT	1.0	1.0	-0.1		1.7	1.4	-0.3	1.5	1.8	0.3		-0.4	-0.7
21	Spain	ES	5.6	3.6	-2.0		9.4	5.1	-4.3	8.6	6.6	-2.1		0.0	-2.2
22	Sweden	SE	5.9	1.4	-4.4		10.3	2.1	-8.2	10.8	2.7	-8.1		3.7	-0.1
23	Switzerland	CH	5.4	0.0	-5.4		7.9	0.0	-7.9	12.8	0.0	-12.8		7.5	5.0
24	United States	US	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
	Total		292.8	181.9	-110.9		451.8	261.4	-190.5	483.4	336.4	-147.0		-36.1	43.4
	Diff from DomPost		-190.5	-154.4	36.1		-31.5	-75.0	-43.4						
	Diff from DomPost %		-39%	-46%			-7%	-22%							
	Total after exemptions		292.84	181.92	-110.93		451.84	261.38	-190.46	483.38	336.36	-147.02		-36.1	43.4
	Diff from DomPost		-190.5	-154.4	36.1		-31.5	-75.0	-43.4						
	Diff from DomPost %		-39%	-46%			-7%	-22%							

Table 10a-2-US. US outbound and Inbound TDs

24-Aug-12

Origin country	US			
Currency & date	USD	1.5430 = 1 SDR	Apr 2012	Scenario 2
Year	2015			
Type of mail	LP	Letter post		

No	Partner	ISO	POCRev Outward TDs	POCRev Inward TDs	POCRev Net	x	NoCap Outward TDs	NoCap Inward TDs	NoCap Net	DomPost Outward TDs	DomPost Inward TDs	DomPost Net	x	POCRev	NoCap
1	Australia	AU	16.8	6.4	-10.4		18.1	8.4	-9.7	27.2	11.1	-16.1		5.7	6.4
2	Austria	AT	8.6	3.5	-5.1		14.6	4.7	-9.9	13.1	6.1	-6.9		1.8	-3.0
3	Belgium	BE	3.4	5.0	1.6		6.4	6.6	0.1	5.8	8.6	2.8		-1.2	-2.7
4	Canada	CA	54.9	52.6	-2.3		68.4	69.6	1.2	60.0	91.5	31.5		-33.7	-30.3
5	Denmark	DK	6.1	3.4	-2.8		18.0	4.5	-13.6	15.2	5.9	-9.3		6.6	-4.2
6	Finland	FI	6.4	0.9	-5.5		9.9	1.2	-8.7	16.8	1.6	-15.2		9.7	6.5
7	France	FR	16.2	21.7	5.4		32.1	28.7	-3.4	28.3	37.7	9.4		-3.9	-12.8
8	Germany	DE	23.3	22.8	-0.5		31.3	30.1	-1.2	38.1	39.6	1.5		-2.1	-2.7
9	Great Britain	GB	46.5	57.7	11.2		56.4	76.3	19.9	72.0	100.3	28.3		-17.1	-8.4
10	Greece	GR	5.9	5.6	-0.3		8.7	7.4	-1.3	8.1	9.8	1.7		-2.0	-3.0
11	Iceland	IS	0.6	0.1	-0.5		0.6	0.1	-0.4	0.6	0.2	-0.4		-0.1	0.0
12	Ireland	IE	20.6	1.6	-19.0		26.4	2.2	-24.3	34.1	2.8	-31.3		12.3	7.0
13	Israel	IL	1.8	0.8	-0.9		1.4	1.1	-0.3	1.6	1.4	-0.1		-0.8	-0.2
14	Italy	IT	9.5	3.6	-5.9		16.4	4.8	-11.7	21.6	6.3	-15.3		9.4	3.7
15	Japan	JP	51.4	11.3	-40.1		91.0	14.9	-76.1	86.4	19.7	-66.8		26.7	-9.3
16	Luxembourg	LU	1.5	1.0	-0.5		2.0	1.4	-0.7	1.9	1.8	-0.1		-0.4	-0.6
17	Netherlands	NL	12.0	8.9	-3.2		18.2	11.7	-6.5	15.4	15.4	0.0		-3.2	-6.5
18	New Zealand	NZ	2.0	0.0	-2.0		2.0	0.0	-2.0	2.0	0.0	-2.0		0.0	-0.1
19	Norway	NO	17.8	3.8	-13.9		43.7	5.1	-38.6	51.8	6.7	-45.2		31.2	6.6
20	Portugal	PT	1.1	1.2	0.0		1.9	1.5	-0.4	1.6	2.0	0.4		-0.4	-0.8
21	Spain	ES	6.7	4.3	-2.4		10.4	5.6	-4.8	9.6	7.4	-2.2		-0.2	-2.6
22	Sweden	SE	6.4	1.7	-4.7		11.4	2.3	-9.1	12.0	3.0	-9.0		4.3	-0.1
23	Switzerland	CH	5.9	0.0	-5.9		8.7	0.0	-8.7	14.5	0.0	-14.5		8.7	5.8
24	United States	US	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
	Total		325.4	217.8	-107.5		498.1	288.2	-209.9	537.7	378.8	-158.9		-51.4	51.0
	Diff from DomPost		-212.4	-161.0	51.4		-39.7	-90.7	-51.0						
	Diff from DomPost %		-39%	-42%			-7%	-24%							
	Total after exemptions		325.35	217.84	-107.51		498.05	288.15	-209.90	537.73	378.85	-158.88		-51.4	51.0
	Diff from DomPost		-212.4	-161.0	51.4		-39.7	-90.7	-51.0						
	Diff from DomPost %		-39%	-42%			-7%	-24%							

Table 10a-3-US. US outbound and Inbound TDs

24-Aug-12

Origin country	US		
Currency & date	USD	1.5430 = 1 SDR	Apr 2012
Year	2016		
Type of mail	LP	Letter post	

Scenario 2

No	Partner	ISO	POCRev Outward TDs	POCRev Inward TDs	POCRev Net	x	NoCap Outward TDs	NoCap Inward TDs	NoCap Net	DomPost Outward TDs	DomPost Inward TDs	DomPost Net	x	POCRev	NoCap
1	Australia	AU	18.5	7.7	-10.8		20.0	9.3	-10.7	30.7	12.5	-18.2		7.4	7.6
2	Austria	AT	9.4	4.2	-5.2		16.1	5.1	-10.9	14.4	6.9	-7.5		2.3	-3.4
3	Belgium	BE	3.7	6.0	2.2		7.1	7.2	0.1	6.5	9.7	3.3		-1.0	-3.1
4	Canada	CA	59.9	63.1	3.1		75.6	76.7	1.1	66.1	103.1	37.1		-33.9	-35.9
5	Denmark	DK	6.7	4.0	-2.6		19.9	4.9	-15.0	16.8	6.6	-10.2		7.5	-4.8
6	Finland	FI	7.0	1.1	-5.9		10.9	1.3	-9.6	19.0	1.8	-17.3		11.3	7.7
7	France	FR	17.7	26.0	8.3		35.4	31.6	-3.8	31.4	42.5	11.1		-2.8	-14.9
8	Germany	DE	25.4	27.3	1.9		34.5	33.2	-1.3	42.3	44.6	2.3		-0.5	-3.7
9	Great Britain	GB	50.8	69.2	18.4		62.2	84.2	21.9	80.8	113.1	32.3		-13.9	-10.4
10	Greece	GR	6.5	6.7	0.2		9.6	8.2	-1.4	8.9	11.0	2.1		-1.9	-3.5
11	Iceland	IS	0.6	0.1	-0.5		0.6	0.1	-0.5	0.6	0.2	-0.4		-0.1	0.0
12	Ireland	IE	22.5	2.0	-20.6		29.2	2.4	-26.8	38.3	3.2	-35.1		14.5	8.3
13	Israel	IL	1.9	1.0	-0.9		1.5	1.2	-0.3	1.7	1.6	-0.1		-0.8	-0.2
14	Italy	IT	10.4	4.3	-6.1		18.1	5.2	-12.9	24.1	7.1	-17.1		11.0	4.2
15	Japan	JP	56.1	13.6	-42.6		100.5	16.5	-84.0	95.8	22.2	-73.6		31.1	-10.3
16	Luxembourg	LU	1.7	1.2	-0.4		2.3	1.5	-0.7	2.1	2.0	-0.1		-0.3	-0.7
17	Netherlands	NL	13.2	10.6	-2.5		20.1	12.9	-7.2	17.0	17.4	0.4		-2.9	-7.6
18	New Zealand	NZ	2.1	0.0	-2.1		2.2	0.0	-2.2	2.1	0.0	-2.1		0.0	-0.1
19	Norway	NO	19.4	4.6	-14.8		48.2	5.6	-42.6	57.9	7.5	-50.4		35.5	7.8
20	Portugal	PT	1.2	1.4	0.2		2.1	1.7	-0.4	1.8	2.3	0.5		-0.3	-0.9
21	Spain	ES	8.0	5.1	-2.9		11.4	6.2	-5.2	10.7	8.3	-2.3		-0.6	-2.9
22	Sweden	SE	7.0	2.1	-4.9		12.5	2.5	-10.0	13.4	3.4	-10.0		5.1	0.0
23	Switzerland	CH	6.4	0.0	-6.4		9.6	0.0	-9.6	16.4	0.0	-16.4		10.0	6.8
24	United States	US	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
	Total		356.3	261.3	-95.0		549.7	317.8	-231.9	598.8	427.1	-171.7		-76.7	60.2
	Diff from DomPost		-242.5	-165.8	76.7		-49.1	-109.4	-60.2						
	Diff from DomPost %		-40%	-39%			-8%	-26%							
	Total after exemptions		356.35	261.32	-95.03		549.72	317.79	-231.94	598.84	427.14	-171.70		-76.7	60.2
	Diff from DomPost		-242.5	-165.8	76.7		-49.1	-109.4	-60.2						
	Diff from DomPost %		-40%	-39%			-8%	-26%							

Table 10a-4-US. US outbound and Inbound TDs

24-Aug-12

Origin country: US
Currency & date: USD 1.5430 = 1 SDR Apr 2012
Year: 2017
Type of mail: LP Letter post

Scenario 2

No	Partner	ISO	POCRev Outward TDs	POCRev Inward TDs	POCRev Net	x	NoCap Outward TDs	NoCap Inward TDs	NoCap Net	DomPost Outward TDs	DomPost Inward TDs	DomPost Net	x	POCRev	NoCap
1	Australia	AU	20.2	9.2	-11.0		22.1	10.3	-11.8	34.8	14.1	-20.7		9.7	8.9
2	Austria	AT	10.3	5.1	-5.3		17.8	5.7	-12.1	15.9	7.8	-8.1		2.9	-3.9
3	Belgium	BE	4.1	7.1	3.1		7.8	8.0	0.2	7.1	11.0	3.9		-0.8	-3.7
4	Canada	CA	65.5	75.5	10.0		83.4	84.7	1.4	72.8	116.4	43.6		-33.6	-42.2
5	Denmark	DK	7.3	4.8	-2.5		22.0	5.4	-16.6	18.5	7.4	-11.0		8.6	-5.5
6	Finland	FI	7.7	1.3	-6.4		12.0	1.4	-10.6	21.6	2.0	-19.6		13.2	9.0
7	France	FR	19.4	31.1	11.7		39.1	34.9	-4.1	34.8	48.0	13.2		-1.4	-17.3
8	Germany	DE	27.8	32.7	4.9		38.1	36.7	-1.4	47.1	50.4	3.3		1.6	-4.8
9	Great Britain	GB	55.5	82.8	27.3		68.7	93.0	24.3	90.8	127.7	36.9		-9.6	-12.6
10	Greece	GR	7.1	8.1	1.0		10.6	9.0	-1.6	9.8	12.4	2.6		-1.7	-4.2
11	Iceland	IS	0.7	0.1	-0.5		0.7	0.2	-0.5	0.7	0.2	-0.5		-0.1	-0.1
12	Ireland	IE	24.6	2.3	-22.3		32.2	2.6	-29.6	43.0	3.6	-39.4		17.2	9.9
13	Israel	IL	2.1	1.2	-0.9		1.7	1.3	-0.4	1.9	1.8	-0.1		-0.9	-0.3
14	Italy	IT	11.4	5.2	-6.2		20.0	5.8	-14.2	26.9	8.0	-19.0		12.8	4.8
15	Japan	JP	61.3	16.2	-45.1		110.9	18.2	-92.7	106.3	25.0	-81.3		36.2	-11.4
16	Luxembourg	LU	1.8	1.5	-0.3		2.5	1.7	-0.8	2.3	2.3	0.0		-0.3	-0.8
17	Netherlands	NL	14.4	12.7	-1.6		22.2	14.3	-7.9	18.7	19.6	1.0		-2.6	-8.9
18	New Zealand	NZ	2.3	0.0	-2.3		2.4	0.0	-2.4	2.3	0.0	-2.3		0.0	-0.1
19	Norway	NO	21.2	5.5	-15.7		53.2	6.2	-47.0	64.7	8.5	-56.2		40.5	9.2
20	Portugal	PT	1.3	1.7	0.3		2.3	1.9	-0.4	2.0	2.6	0.6		-0.3	-1.1
21	Spain	ES	9.6	6.1	-3.5		12.6	6.9	-5.8	11.9	9.4	-2.5		-1.1	-3.3
22	Sweden	SE	7.7	2.5	-5.2		13.9	2.8	-11.1	15.0	3.8	-11.2		6.0	0.1
23	Switzerland	CH	7.0	0.0	-7.0		10.6	0.0	-10.6	18.6	0.0	-18.6		11.6	8.0
24	United States	US	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
	Total		390.4	312.8	-77.6		607.0	351.0	-255.9	667.6	482.0	-185.5		-108.0	70.4
	Diff from DomPost		-277.2	-169.2	108.0		-60.6	-131.0	-70.4						
	Diff from DomPost %		-42%	-35%			-9%	-27%							
	Total after exemptions		390.36	312.79	-77.57		606.99	351.04	-255.95	667.56	482.03	-185.53		-108.0	70.4
	Diff from DomPost		-277.2	-169.2	108.0		-60.6	-131.0	-70.4						
	Diff from DomPost %		-42%	-35%			-9%	-27%							

Table 11a-US. US bilateral letter post (LP) TDs: POCRev TDs v. DomPost TDs

Origin country	US					
Currency & date	USD	1.5430 = 1 SDR	Apr 2012		Scenario	2

	2014	2015	2016	2017
IPK for typical LP item	10.94	10.46	9.99	9.53
Rate multiplier from 2011	110.0%	114.4%	119.0%	123.7%

			2014					**2017**				
			Terminal dues (mil USD)			TD compared to DomPost		Terminal dues (mil USD)			TD compared to DomPost	
No	Country	ISO	POCRev	NoCap	DomPost	POCRev	NoCap	POCRev	NoCap	DomPost	POCRev	NoCap
4	Canada	CA	-3.3	1.0	26.7	-29.9	-25.7	10.0	1.4	43.6	-33.6	-42.2
9	Great Britain	GB	5.6	18.1	24.9	-19.2	-6.8	27.3	24.3	36.9	-9.6	-12.6
7	France	FR	3.2	-3.1	7.9	-4.6	-10.9	11.7	-4.1	13.2	-1.4	-17.3
17	Netherlands	NL	-3.6	-5.9	-0.4	-3.3	-5.5	-1.6	-7.9	1.0	-2.6	-8.9
8	Germany	DE	-2.3	-1.1	0.9	-3.2	-2.0	4.9	-1.4	3.3	1.6	-4.8
10	Greece	GR	-0.8	-1.2	1.3	-2.1	-2.5	1.0	-1.6	2.6	-1.7	-4.2
3	Belgium	BE	1.0	0.1	2.4	-1.3	-2.2	3.1	0.2	3.9	-0.8	-3.7
13	Israel	IL	-0.9	-0.3	-0.1	-0.8	-0.1	-0.9	-0.4	-0.1	-0.9	-0.3
20	Portugal	PT	-0.1	-0.3	0.3	-0.4	-0.7	0.3	-0.4	0.6	-0.3	-1.1
16	Luxembourg	LU	-0.5	-0.6	-0.2	-0.4	-0.5	-0.3	-0.8	0.0	-0.3	-0.8
11	Iceland	IS	-0.4	-0.4	-0.4	0.0	0.0	-0.5	-0.5	-0.5	-0.1	-0.1
21	Spain	ES	-2.0	-4.3	-2.1	0.0	-2.2	-3.5	-5.8	-2.5	-1.1	-3.3
18	New Zealand	NZ	-1.7	-1.8	-1.8	0.0	0.0	-2.3	-2.4	-2.3	0.0	-0.1
2	Austria	AT	-5.0	-9.0	-6.4	1.4	-2.6	-5.3	-12.1	-8.1	2.9	-3.9
22	Sweden	SE	-4.4	-8.2	-8.1	3.7	-0.1	-5.2	-11.1	-11.2	6.0	0.1
1	Australia	AU	-8.7	-8.8	-14.2	5.5	5.4	-11.0	-11.8	-20.7	9.7	8.9
5	Denmark	DK	-2.8	-12.3	-8.6	5.8	-3.7	-2.5	-16.6	-11.0	8.6	-5.5
23	Switzerland	CH	-5.4	-7.9	-12.8	7.5	5.0	-7.0	-10.6	-18.6	11.6	8.0
14	Italy	IT	-5.7	-10.6	-13.8	8.1	3.2	-6.2	-14.2	-19.0	12.8	4.8
6	Finland	FI	-5.1	-7.9	-13.4	8.3	5.6	-6.4	-10.6	-19.6	13.2	9.0
12	Ireland	IE	-17.5	-22.0	-27.9	10.4	5.9	-22.3	-29.6	-39.4	17.2	9.9
15	Japan	JP	-37.6	-69.0	-60.6	23.0	-8.4	-45.1	-92.7	-81.3	36.2	-11.4
19	Norway	NO	-13.1	-35.0	-40.5	27.5	5.5	-15.7	-47.0	-56.2	40.5	9.2
24	United States	US	0.0	0.0	0.0			0.0	0.0	0.0		
	Totals		-110.9	-190.5	-147.0	36.1	-43.4	-77.6	-255.9	-185.5	108.0	-70.4
	Compare to DomPost outbound		-39%	-7%				-42%	-9%			
	Compare to DomPost inbound		-46%	-22%				-35%	-27%			

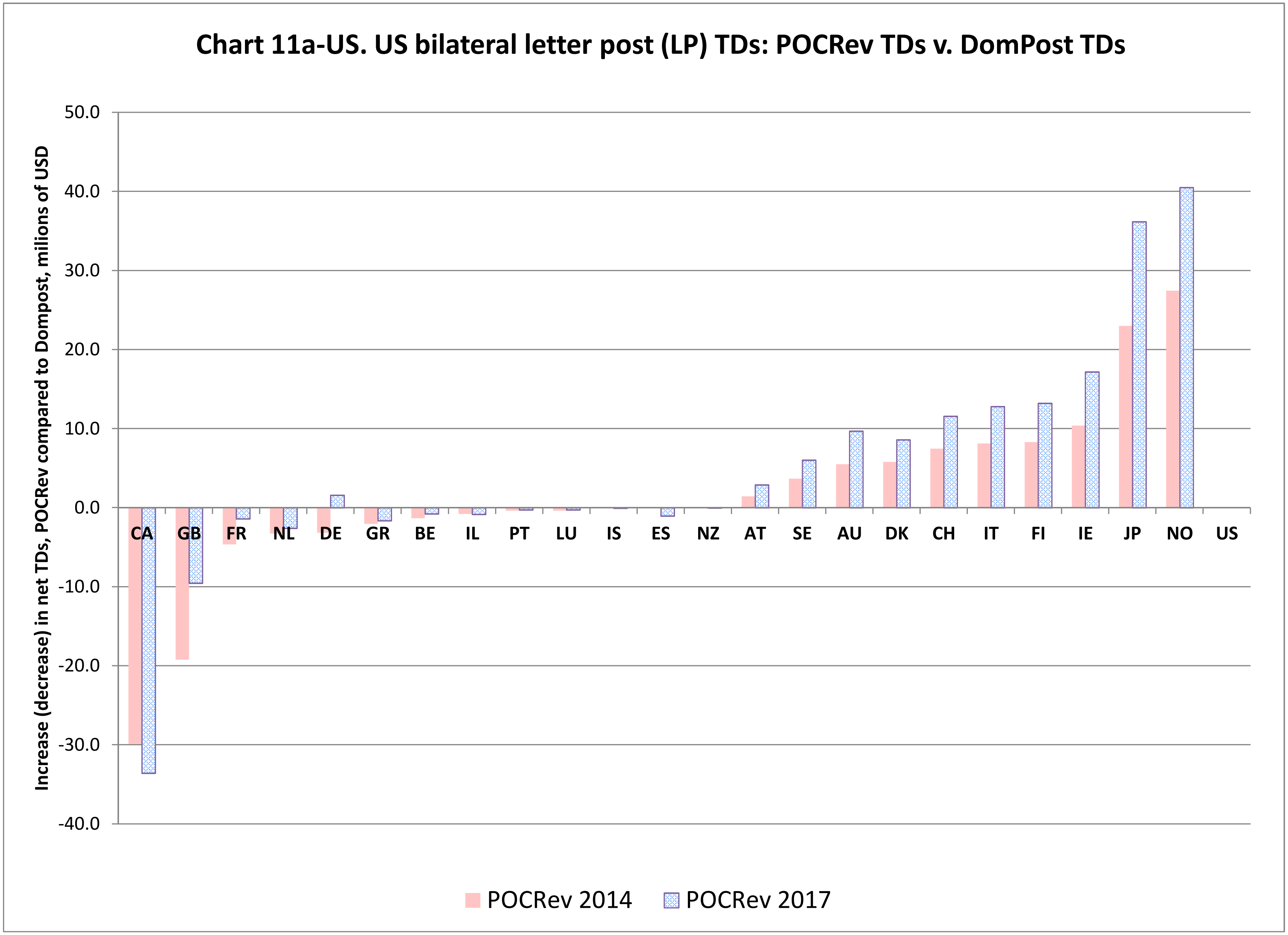


Chart 11a-US. US bilateral letter post (LP) TDs: POCRev TDs v. DomPost TDs
Increase (decrease) in net TDs, POCRev compared to Dompost, milions of USD
50.0
40.0
30.0
20.0
10.0
0.0
-10.0
-20.0
-30.0
-40.0
CA
GB
FR
NL
DE
GR
BE
IL
PT
LU
IS
ES
NZ
AT
SE
AU
DK
CH
IT
FI
IE
JP
NO
US
POCRev 2014
POCRev 2017

Scenario 3 (USPS recent trends) - Summary

24-Aug-12

User Inputs			**2014**	**2015**	**2016**	**2017**
Percent volume increase by LP shape						
Letters (P)			-45.0%	-18.0%	-18.0%	-18.0%
Large envelopes (G)			-52.0%	-22.0%	-22.0%	-22.0%
Small packets (E)			15.0%	5.0%	5.0%	5.0%
Percent increase in domestic rates			15.0%	5.0%	5.0%	5.0%
DomPost: percent of priority domestic postage			70.0%	70.0%	70.0%	70.0%

Implied Characteristics of Letter Post	**2011**	**2014**	**2015**	**2016**	**2017**
Percent of letter post					
Letters (P)	67.9%	61.1%	57.8%	53.9%	49.5%
Large envelopes (G)	19.7%	15.4%	13.9%	12.3%	10.8%
Small packets (E)	12.4%	23.4%	28.3%	33.8%	39.8%
Total Letter post (LP) (check)	100.0%	100.0%	100.0%	100.0%	100.0%
Items per Kilogram (IPK)					
Letters and large envelopes (PG)		24.55	25.06	25.57	26.09
Small packets (E)		2.83	2.83	2.83	2.83
Total Letter post (LP)		10.94	10.94	10.94	10.94

Summary results		**2014**		**2017**	
		POCRev	NoCap	POCRev	NoCap
Group 1.1 countries					
Average discount from DomPost - letterpost		-48.0%	-14.9%	-52.8%	-21.5%
Average discount from DomPost - small packets		-58.2%	-31.6%	-58.9%	-31.6%
Total gain/loss (millions of currency units)	USD	580	471	1168	993
Selected country (TDCalc2): United States					
Gain/loss (millions of currency units)	USD	31.1	-70.9	105.8	-161.0
Discount off DomPost outbound - letter post		-45%	-11%	-50%	-17%
Discount off DomPost inbound - letter post		-53%	-30%	-50%	-40%
Discount off DomPost inbound - smal packets		-54%	-26%	-60%	-52%

APPENDIX C

CHANGES IN THE PAEA REVISION OF SECTION 407 OF TITLE 39 REQUESTED BY THE DEPARTMENT OF STATE AND POSTAL SERVICE BUT NOT ADOPTED BY CONGRESS

Interagency Meeting – UPU issues and postal legislation

(State Department, 30 March 2005)

Report

This document summarizes the results of the Interagency Meeting on UPU issues and postal reform legislation held at the State Department on March 30 to review and reach decisions on several issues related to U.S. participation in the UPU. Representatives from the Departments of Commerce, Justice, Homeland Security, the Postal Rate Commission, the Postal Service and USTR attended the meeting.

Draft Senate and House postal reform legislation – international postal arrangements

Participants agreed that it would be advantageous for stakeholder agencies to agree upon on a common proposed revision to the sections on "international postal arrangements" of both the current versions of House and Senate draft postal reform bills. The House version is H.R. 22; the Senate version is S. 662.

Attached is a text that reflects the stakeholder consensus as of March 30th on Section 405 of S. 622 concerning "international postal arrangements". Stakeholder agencies agreed that they should base their comments on the current Senate bill (S. 662) rather than the current House bill, H.R. 22, whose section 305 concerns international postal arrangements. The agencies should send any additional comments, if any, on this text to State (to three email addresses: Don Booth, Dennis Delehanty and Heather Von Behren) **by Wednesday, April 6**.

State will explore the possibilities for submitting a Statement of Administration Position on the international postal arrangements sections of both the House and Senate bills. This Statement of Administration Position would reflect the consensus of the stakeholder agencies in UPU issues.

[…]

Report drafted by Dennis Delehanty

1 April 2005

H.R. 22

SEC. 305. INTERNATIONAL POSTAL ARRANGEMENTS.

(a) IN GENERAL- Section 407 of title 39, United States Code, is amended to read as follows:

`Sec. 407. International postal arrangements

`(a) It is the policy of the United States--

`(1) to promote and encourage communications between peoples by efficient operation of international postal services and other international delivery services for cultural, social, and economic purposes;

`(2) to promote and encourage a market-based approach ~~unrestricted and undistorted competition~~ in the provision of international postal services and other international delivery services, except where provision of such services by private companies may be prohibited by law of the United States;

`(3) to promote and encourage a clear distinction between governmental and operational responsibilities with respect to the provision of international postal services; ~~and other international delivery services by the Government of the United States and by intergovernmental organizations of which the United States is a member; and~~

`(4) to participate in multilateral and bilateral agreements with other countries to accomplish these objectives; and

'(5) to promote consistency with all applicable international agreements to which the United States is a party."~~.~~

`(b)(1) The Secretary of State shall be responsible for formulation, coordination, and oversight of foreign policy related to international postal ~~services~~arrangements ~~and other international delivery services,~~ and shall have the power to conclude postal treaties~~,~~ and conventions ~~and amendments related to international postal services and other international delivery services~~, except that the Secretary may not conclude any postal treaty~~,~~ or convention~~, or other international agreement (including those regulating international postal services)~~ if such treaty ~~,~~or convention~~, or agreement~~ would, with respect to any competitive product, grant an undue or unreasonable preference to the Postal Service~~, a private provider of international postal or delivery services,~~ or any other person.

'(2) An entity other than the Postal Service may not export mail matter from the United States to other countries using Universal Postal Union documentation or U.S. Postal Service equipment. The Attorney General is authorized to make application to a district court of the United States for an order directing compliance with this subsection.

`(3~~2~~) In carrying out the responsibilities specified in paragraph (1), the Secretary of State shall exercise primary authority for the conduct of foreign policy with respect to international postal arrangements~~services and international delivery services~~, including the determination of United States positions and the conduct of

United States participation in negotiations with foreign governments and international postal bodies. In exercising this authority, the Secretary--

`(A) shall coordinate with other agencies as appropriate, and in particular, should consider ~~shall give full consideration to~~ the authority vested by law or Executive order in the ~~Postal Regulatory Commission, the Department of Commerce, the Department of Transportation, and the Office of the United States Trade Representative in this area~~ Department of Commerce, the Department of Homeland Security, the Department of Transportation, the Office of the United States Trade Representative, the Postal Regulatory Commission and the Postal Service in this area;

`(B) shall maintain continuing liaison with other executive branch agencies concerned with postal and delivery services;

`(C) shall maintain continuing liaison with the Committee on Government Reform of the House of Representatives and the Committee on Homeland Security and Governmental Affairs of the Senate;

`(D) shall maintain appropriate liaison with ~~both representatives of the Postal Service and~~ representatives of users and private providers of international postal services and other international delivery services to keep informed of their interests and problems, and to provide such assistance as may be needed to ensure that matters of concern are promptly considered by the Department of State or (if applicable, and to the extent practicable) other executive branch agencies; and

`(E) shall assist in arranging meetings of such public sector advisory groups as may be established to advise the Department of State and other executive branch agencies in connection with international postal services and international delivery services.

`(~~3~~4) The Secretary of State shall establish an advisory committee (within the meaning of the Federal Advisory Committee Act) to perform such functions as the Secretary considers appropriate in connection with carrying out subparagraphs (~~A~~D) through (~~D~~E) of paragraph (~~2~~3).

'(5) For purposes of this subsection, the terms 'users' and 'private providers' refer to US citizens or private companies substantially owned or controlled by persons who are citizens of the United States.

`(c)~~(1)~~ Before concluding any postal treaty~~,~~ or convention~~, or amendment~~ that establishes a rate or classification for a product subject to subchapter I of chapter 36, the Secretary of State shall request the Postal Regulatory Commission to submit ~~a decision~~its views on whether such rate or classification is consistent with the standards and criteria established by the Commission under section 3622.

~~`(2) The Secretary shall ensure that each treaty, convention, or amendment concluded under subsection (b) is consistent with a decision of the Commission adopted under paragraph (1), except if, or to the extent, the Secretary determines, by written order, that considerations of foreign policy or national security require modification of the Commission's decision.~~

'(d) The Secretary of State may, in coordination with the Postmaster General or his designee, draw upon the personnel and resources of the Postal Service to

negotiate and conclude postal treaties or conventions, provided that such authority is exercised subject to subsection (b).
`(~~d~~e) Nothing in this section shall be considered to prevent the Postal Service from entering into such commercial or operational contracts related to providing international postal services ~~and other international delivery services~~ as it deems appropriate, except that--

`(1) any such contract made pursuant to this subsection with an agency of a foreign government (whether under authority of this subsection or otherwise) shall be solely contractual in nature and may not purport to be binding under international law; and

`(2) a copy of each such contract between the Postal Service and an agency of a foreign government shall be transmitted to the Secretary of State and the Postal Regulatory Commission not later than the effective date of such contract.

`(~~e~~f)(1) With respect to shipments of international mail that are competitive products within the meaning of section 3631 that are exported or imported by the Postal Service, the Bureau of Customs and Border Protection of the Department of Homeland Security and other appropriate Federal agencies shall apply the customs laws of the United States and all other laws relating to the importation or exportation of such shipments in the same manner to both shipments by the Postal Service and similar shipments by private companies.
`(2) For purposes of this subsection, the term `private company' means a private company substantially owned or controlled by persons who are citizens of the United States. [←Note: this subsection is not in the Senate bill S. 662.]
`(3) In exercising the authority under ~~pursuant to~~ subsection (b) to conclude new postal treaties~~,~~ and conventions ~~and amendments~~ related to international postal services and to renegotiate such treaties~~,~~ and conventions ~~and amendments~~, the Secretary of State shall, to the maximum extent practicable, take such measures as are within the Secretary's control to encourage the governments of other countries to make available to the Postal Service and private companies a range of nondiscriminatory customs procedures that will fully meet the needs of all types of American shippers. The Secretary of State shall consult with the United States Trade Representative and the Commissioner of Customs, Department of Homeland Security in carrying out this paragraph.
`(4) The provisions of this subsection shall take effect 6 months after the date of the enactment of this subsection or such earlier date as the Bureau of Customs and Border Protection of the Department of Homeland Security may determine in writing.'.
(b) EFFECTIVE DATE- Notwithstanding any provision of the amendment made by subsection (a), the authority of the United States Postal Service to establish the rates of postage or other charges on mail matter conveyed between the United States and other countries shall remain available to the Postal Service until--

(1) with respect to market-dominant products, the date as of which the regulations promulgated under section 3622 of title 39, United States Code (as amended by section 201(a)) take effect; and

(2) with respect to competitive products, the date as of which the regulations promulgated under section 3633 of title 39, United States Code (as amended by section 202) take effect.

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S. 662

SEC. 405. INTERNATIONAL POSTAL ARRANGEMENTS.

(a) IN GENERAL.—Section 407 of title 39, United States Code, is amended to read as follows:

‘‘§ 407. International postal arrangements

‘‘(a) It is the policy of the United States—

‘‘(1) to promote and encourage communications between peoples by efficient operation of international postal services and other international delivery services for cultural, social, and economic purposes;

‘‘(2) to promote and encourage a market-based approach in ~~unrestricted and undistorted competition in~~ the provision of international postal services and other international delivery services, except where provision of such services by private companies may be prohibited by law of the United States;

‘‘(3) to promote and encourage a clear distinction between governmental and operational responsibilities with respect to the provision of international postal services; and

‘‘(4) to participate in multilateral and bilateral agreements with other countries to accomplish these objectives; and~~.~~

“(5) to promote consistency with all applicable international agreements to which the United States is a party.”

‘‘(b)(1) The Secretary of State shall be responsible for formulation, coordination, and oversight of foreign policy related to international postal ~~services~~ arrangements and shall have the power to conclude postal treaties and conventions, except that the Secretary may not conclude any postal treaty or convention if such treaty or convention would, with respect to any competitive product, grant an undue or unreasonable preference to the Postal Service, ~~a private provider of international postal services,~~ or any other person.

“(2) An entity other than the Postal Service may not export mail matter from the United States to other countries using Universal Postal Union documentation or U.S. Postal Service equipment. The Attorney General is authorized to make application to a district court of the United States for an order directing compliance with this subsection.

‘‘(~~2~~3) In carrying out the responsibilities specified in paragraph (1), the Secretary of State shall exercise primary authority for the conduct of foreign policy with respect to international postal ~~services~~arrangements, including the determination of United States positions and the conduct of United States participation in negotiations with foreign governments and international postal bodies. In exercising this authority, the Secretary~~—~~-

‘‘(A) shall coordinate with other agencies as appropriate, and in particular, should consider the authority vested by law or Executive order in ~~the Postal Regulatory Commission,~~ the Department of Commerce, the Department of Homeland Security, the Department of Transportation, the Office of the United States Trade Representative, the Postal Regulatory Commission and the Postal Service ~~and the Office of the United States Trade Representative~~ in this area;

‘‘(B) shall maintain continuing liaison with other executive branch agencies concerned with postal and delivery services;

‘‘(C) shall maintain continuing liaison with the Committee on Homeland Security and Governmental Affairs of the Senate and the Committee on Government Reform of the House of Representatives;

‘‘(D) shall maintain appropriate liaison with ~~both representatives of the Postal Service and~~ representatives of users and private providers of international postal services and other international delivery services to keep informed of their interests and problems, and to provide such assistance as may be needed to ensure that matters of concern are promptly considered by the Department of State or (if applicable, and to the extent practicable) other executive branch agencies; and

‘‘(E) shall assist in arranging meetings of such public sector advisory groups as may be established to advise the Department of State and other executive branch agencies in connection with international postal services and international delivery services.

‘‘(~~3~~ 4) The Secretary of State shall establish an advisory committee (within the meaning of the Federal Advisory Committee Act) to perform such functions as the Secretary considers appropriate in connection with carrying out subparagraphs ~~(A) through~~ (D) and (E) of paragraph (3~~2~~).

“(5) For purposes of this subsection, the terms ‘users’ and ‘private providers’ refer to US citizens or private companies substantially owned or controlled by persons who are citizens of the United States.

`(c) Before concluding any postal treaty or convention that establishes a rate or classification for a product subject to subchapter I of chapter 36, the Secretary of State shall request the Postal Regulatory Commission to submit its views on whether such rate or classification is consistent with the standards and criteria established by the Commission under section 3622.

‘(d) The Secretary of State may, in coordination with the Postmaster General or his designee, draw upon the personnel and resources of the Postal Service to negotiate and conclude postal treaties or conventions, provided that such authority is exercised subject to subsection (b).

‘‘(~~d~~ e) Nothing in this section shall be considered to prevent the Postal Service from entering into such commercial or operational contracts related to providing international postal services as it deems appropriate, except that--

`(1) any such contract made pursuant to this subsection with an agency of a foreign government (whether under authority of this subsection or otherwise) shall be solely contractual in nature and may not purport to be binding under international law; and

`(2) a copy of each such contract between the Postal Service and an agency of a foreign government shall be transmitted to the Secretary of State and the Postal Regulatory Commission not later than the effective date of such contract.

`(~~e~~ f)(1) With respect to shipments of international mail that are competitive products within the meaning of section 3631 that are exported or imported by the Postal Service, the Customs Service and other appropriate Federal agencies shall apply the customs laws of the United States and all other laws relating to the importation or exportation of such shipments in the same manner to both shipments by the Postal Service and similar shipments by private companies.

`(2) In exercising the authority under subsection (b) to conclude new postal treaties and conventions related to international postal services and to renegotiate such treaties and conventions, the Secretary of State shall, to the maximum extent practicable, take such measures as are within the Secretary's control to encourage the governments of other countries to make available to the Postal Service and private companies a range of nondiscriminatory customs procedures that will fully meet the needs of all types of American shippers. The Secretary of State shall consult with the United States Trade Representative and the Commissioner of Customs in carrying out this paragraph.

`(3) The provisions of this subsection shall take effect 6 months after the date of enactment of this subsection or such earlier date as the Customs Service may determine in writing.'.

(b) EFFECTIVE DATE- Notwithstanding any provision of the amendment made by subsection (a), the authority of the United States Postal Service to establish the rates of postage or other charges on mail matter conveyed between the United States and other countries shall remain available to the Postal Service until--

(1) with respect to market-dominant products, the date as of which the regulations promulgated under section 3622 of title 39, United States Code (as amended by section 201(a)) take effect; and

(2) with respect to competitive products, the date as of which the regulations promulgated under section 3633 of title 39, United States Code (as amended by section 202) take effect.