

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton;
Tony Hammond; and
Robert G. Taub

Competitive Product Prices
Inbound Air Parcel Post (at UPU Rates)
(MC2010-11)

Docket No. CP2013-27

ORDER ACCEPTING PRICE CHANGES
FOR INBOUND AIR PARCEL POST AT UPU RATES

(Issued December 28, 2012)

Introduction. The Postal Service proposes a change in rates not of general applicability for Inbound Air Parcel Post at Universal Postal Union (UPU) Rates, effective January 1, 2013.¹ For the reasons discussed below, the Commission concludes that the planned price changes satisfy applicable statutory criteria.

Background. The Notice incorporates by reference the explanation provided in predecessor Docket Nos. MC2010-11 and CP2010-11 of the UPU Postal Operations Council's mechanism for setting base rates for Inbound Air Parcel Post. The Notice also explains why the Governors, in Governors' Decision No. 09-15, established those

¹ Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability and Application for Non-Public Treatment of Materials Filed Under Seal, December 14, 2012 (Notice).

rates as the highest possible inward land rates for which the Postal Service is eligible under the UPU's Parcel Post Regulations. Notice at 2-3. The rates apply when there is no contractual relationship with the tendering postal operator for this product. *Id.* at 3.

Unique rate-setting process. Air parcels are inbound parcels eligible to receive transportation by air as opposed to surface. The Commission approved the addition of Inbound Air Parcel Post at UPU Rates to the competitive product list in Order No. 362, pursuant to Governors' Decision No. 09-15, November 16, 2009.² The rates authorized by the referenced Governors' Decision are "default" rates in that they apply when there is no contractual relationship with the tendering postal operator, and they are the highest possible inward land rates for which the United States is eligible. The Postal Service negotiates separate agreements for parcel rates with certain foreign posts, but most foreign posts compensate the Postal Service at the United States' default rates for inbound parcel delivery. Request at 2.

Payments between postal administrations for handling and delivering parcel post are referred to as inward land rates. Inward land rates are set according to formulas in the UPU Parcel Post Regulations, which the UPU Postal Operations Council relies on to establish inward land rates.³ These rates are based on a percentage of each member's inward land rate in 2004. UPU members may qualify for percentage "bonuses" to their base rate based upon their provision of certain value-added services.⁴ Notice, Attachment 2 at 1.

² Order No. 362, Docket Nos. MC2010-11 and CP2010-1, Order Adding Inbound Air Parcel Post at UPU Rates to Competitive Product List Docket, December 15, 2009; see also Docket Nos. MC2010-11 and CP2010-11, Request of the United States Postal Service to Add Inbound Air Parcel Post at Universal Postal Union (UPU) Rates to the Competitive Products List, Notice of Establishment of Prices and Classifications Not of General Applicability for Inbound Air Parcel Post at UPU Rates Established in Governors' Decision No. 09-15, and Application for Non-Public Treatment of Materials Filed Under Seal, November 17, 2009 (Request), which the Postal Service incorporates by reference. Notice at 2.

³ The UPU Postal Operations Council, a designated body of the UPU, is responsible for rate setting.

⁴ Services such as track and trace, home delivery, published delivery standards, and use of a common inquiry system may qualify UPU members for bonuses. Notice, Attachment 2 at 1. Members may also seek an inflation-related adjustment to the base rate. This adjustment is capped at 5 percent per year. Request at 3.

The Postal Service is responsible for gathering information that the UPU Postal Operations Council uses to calculate the rates, including completion of a questionnaire on service bonus eligibility and submission of annual inflation information.⁵ Based on this and similar information from the member posts, the UPU's secretariat publishes an annual notice establishing postal administrations' parcel rates for the following year.⁶ *Id.* at 2.

The Postal Service represents that the Governors formally “established” the prices for Inbound Air Parcel Post (at UPU Rates) as the highest possible inward land rates for which the Postal Service is eligible according to the UPU's Parcel Post Regulations. *Id.* It further observes that Article RC 193.3 allows implementation of modifications to the bonus payment portion of inward land rates twice each year, on January 1 and July 1, and notes that the UPU's International Bureau will confirm, by March 31, any changes to the inward land rates that apply beginning July 1. *Id.* at 2-3, n.3.

Postal Service's position. The Postal Service asserts that the planned rates comport with Governors' Decision 09-15 because they are the highest possible inward land rates for which the Postal Service is eligible, based on inflation increases and other factors. *Id.* at 2-3. It maintains that it has established that the new rates are in compliance with the requirements of 39 U.S.C. § 3633(a)(2). It therefore submits that it has met the requisite burden of proof. *Id.* at 3 (citing 39 U.S.C. § 3632(b)(3)).

Comments. In Order No. 1582, the Commission advised the public that the Postal Service had filed the instant Notice, along with supporting documentation, and invited interested persons to comment on the consistency of the planned rate changes

⁵ The applicable index is the Consumer Price Index for All Urban Consumers. *Id.*

⁶ Inward land rates are not publicly available. They are circulated to postal operators and government ministries through the UPU International Bureau circular and are accessible on a password-protected basis. *Id.* Attachment 1 at 6.

with applicable statutory criteria.⁷ The Public Representative filed comments.⁸ No other comments were received.

The Public Representative states that his review of the Notice, attachments thereto, and the supporting financial model indicates that the rates not of general applicability for Inbound Air Parcel Post at UPU Rates satisfy the requirements of 39 U.S.C. § 3633(a). PR Comments at 2. He observes that the Postal Service's Notice incorporates by reference the explanations of Inbound Air Parcel Post at UPU Rates contained in Docket Nos. MC2010-11 and CP2010-11, "justifying a finding of compliance with the statutory criteria." *Id.* at 3. He affirmatively notes that the financial model accompanying the Notice supports a conclusion that inward land rates for Inbound Air Parcel Post at UPU Rates comply with section 3633(a)(2). *Id.*

Standard of review. The Commission reviews price changes for competitive products under the criteria in 39 U.S.C. § 3633(a). These criteria prohibit the subsidization of competitive products by market dominant products (section 3633(a)(1)); require each competitive product to cover its attributable costs (section 3633(a)(2)); and enable competitive products as a whole to cover an appropriate share of institutional costs (section 3633(a)(3)).⁹

Commission analysis. The Commission has reviewed the Notice, supporting documentation, and PR Comments in terms of the criteria in 39 U.S.C. §§ 3633(a)(1) through (a)(3). As a result of this review, the Commission finds that the planned rates should not lead to the subsidization of competitive products by market dominant products; cover attributable costs; and should have a positive effect on the contribution that competitive products make to institutional costs. Thus, the Commission

⁷ Notice and Order Concerning Changes Affecting Inbound Air Parcel Post (at UPU Rates), December 17, 2012 (Order No. 1582).

⁸ Public Representative Comments on Postal Service Notice Concerning Change in Rates Not of General Applicability for Inbound Air Parcel Post at UPU Rates, December, 21, 2012 (PR Comments).

⁹ 39 CFR 3015.7(a) through (c) reflect the statutory criteria.

preliminarily finds that the planned rates for Inbound Air Parcel Post (at UPU Rates) are consistent with the relevant statutory criteria and regulatory requirements of 39 U.S.C. § 3633(a) and 39 CFR 3015.7.

It is ordered:

The planned rates for Inbound Air Parcel Post at UPU Rates, scheduled to take effect January 1, 2013, are in accordance with the relevant statutory and regulatory requirements of 39 U.S.C. § 3633(a) and 39 CFR 3015.7.

By the Commission.

Shoshana M. Grove
Secretary