

Postal Regulatory Commission
Supplement to Section 407(c)(1) Views

The Commission has identified the following proposals to amend the Universal Postal Union (UPU) Acts at the upcoming 2012 UPU Congress as having an impact on future rates and classifications. The Commission is unable to make a determination at this time on their consistency with section 3622 of title 39 as these proposals are mainly of potential future effect. However, as these proposals will eventually result in proposals to establish rates and classifications, the Commission offers the following comments.

I. Future Rates and Classifications for Letterpost

A. Proposals 37—Future Work on the Terminal Dues System for 2018-2021

Summary. Proposal 37 is a resolution of a general nature that sets out the work for the UPU in developing a terminal dues system for 2018-2021. This includes instructions to the Council of Administration (CA) to ensure that affordable universal service and the integrity of the postal network are maintained, and that the process of applying country-specific, cost-based principles for the remuneration of letter-post exchanges at the world-wide level continues to be applied. More specifically, it instructs the Postal Operations Council (POC) to conduct a cost study aimed at establishing a relationship between domestic tariffs and the cost of processing Inbound International Mail. It also asks the POC to “review the formula for converting the domestic tariffs of destination countries into terminal dues rates based on an accurate linearization methodology, taking into account the special situation of countries whose domestic tariffs are set on a social basis and do not cover the cost of providing inbound letter post delivery services.”

Comment. The UPU has taken a first step towards better cost coverage in its Proposal for 2014-2017. This proposal moves away from a long-standing methodology based on only one domestic rate, towards one that includes both a letter and a flat rate. The Commission urges more progress in this cycle and the following one (2018-2021) towards a more cost-based system. Areas for examination could include the cost-tariff ratio, shape-based rates and the caps and floors.

B. Proposal 78—Future Work on the Terminal Dues System for 2018-2021

Summary. Proposal 78 offers amendments to Proposal 37 on future terminal dues work from Brunei, Cambodia, China, Iran, Korea (Rep.) Malaysia, Nepal, Philippines, Samoa, Singapore, Thailand and Turkey. In general, these amendments would eliminate provisions in Proposal 37 that set deadlines for the transition to the target system. It calls for a study of the market, customer, and financial impacts of previous transition countries at least two years before the next Congress before proposals for further transition can be made. It also calls for the POC to endorse any updated classification methodology from the CA before adoption, and for “preferred results” of a cost study aimed at establishing the relationship between domestic tariffs and the cost of processing Inbound International Mail to be used as a basis for development of a future terminal dues model. Lastly, it eliminates a proposal to examine access pricing as an alternative remuneration system in which postal operators set their own rates for letter mail handling and delivery.

Comment. While the Commission agrees that studies of the financial and market impact of transition to the target system might be useful, it considers all aspects of this proposal that delay the transition of countries to the target terminal dues system during 2014-2017 as detrimental to the future viability of the UPU terminal dues system. The Commission agrees that examination of access pricing as an alternative terminal dues system is useful. It is concerned that using “preferred results” of a cost study as a basis of a new terminal dues system may result in a subjective outcome.

C. Proposal 81—Future Work on the Terminal Dues System for 2018-2021

Summary. This proposal was submitted by Denmark with support from Austria, Estonia, Finland, Iceland, Italy, Nicaragua, Norway, Sweden and Switzerland. It amends Proposal 37 on future terminal dues work by instructing the CA to develop terminal dues amendments for the 2016 Congress, for implementation in 2018-2021, that are cost-based, country-specific and “compatible with the main characteristics of national regulatory requirements and competition law at least for letter mail between group 1.1 countries from 2018 by, *inter alia*, ending rate cap regulation.” It also instructs the POC to conduct a study on establishing a non-discriminatory tariff relationship between domestic tariff services and the cost of processing corresponding Inbound International Mail.

Comment. This proposal pertains to the terminal dues system to be developed for 2018-2021 and does not establish rates for the coming 4-year cycle. It is imperative, however, that any future amendments to the terminal dues system be based on careful studies of the financial and economic impact of rate caps, and their removal, on designated operators, postal customers and private operators before any proposals are put forward to immediately end rate caps in the terminal dues system in 2018. The Commission supports the study called for in this proposal to examine non-discriminatory rates that could also be accessed by non-designated operators. The Commission also suggests that putting forward amendments to end terminal dues rate caps in 2018 without a clear understanding of the impact of the new rates on all stakeholders could be harmful to the future of the global postal network. Lastly, the Commission recommends that these studies be a priority for the Remuneration Group in the next cycle and be concluded so that there is sufficient time to factor the results into terminal dues proposals for 2016.

D. Proposal 46—Future Work on Letterpost Development and Supplementary Remuneration Associated with Quality Performances, Standards and Targets

Summary. This proposal calls for implementation of the Letterpost Action Plan in Congress document 20a, Annex 3. The Action Plan includes the development of new initiatives by the POC.

Comments. The Commission urges that any rates developed cover the relevant costs of the service being provided. To the extent that rates can be set by the designated operator, this approach offers the greatest possibility for appropriate cost coverage.

II. Future Rates and Classifications for Parcels

A. Proposal 69—Future Work on Inward Land Rates (Parcel Delivery Rates) and Other Remunerations for Parcel Post Items

Summary. This proposal instructs the POC to continue work from the last cycle in reviewing inward land rates for handling and delivery of air and surface parcels. More specifically, it instructs the POC to develop pricing options that are sufficiently flexible to meet customer needs, while maintaining adequate cost coverage required to support the enhancement of the network; to review the payment systems for parcels in open and closed transit and for missent and undeliverable parcels; and to develop a remuneration system for the merchandise return service for parcel post items.

Comment. While this proposal establishes no rates at this time, it sets the groundwork for the POC to establish rates in the future. With respect to revisions to future inward land rates, the Commission urges that any modification in inward land rates ensures adequate cost coverage for the Postal Service. The Commission prefers an inward land rate system that allows each designated operator to set its own inward land rate for parcel delivery. Postal Service rates are subject to review by the Commission. To the extent practicable, postal operators should be afforded the right to

establish inward land rates subject to review by postal regulators, if applicable. Once there is a concrete proposal from the POC to amend inward land rates, the Commission will need to give its view to the Department of State on the proposal's consistency with section 3622 of title 39,

B. Proposals 30.34.1 and 30.34.2

Summary. Proposal 20.34.1 gives the POC authority to establish a rate for an international parcels merchandise return service between Congresses.

Comment. The Commission strongly advocates for a remuneration system based on free determination of rates so that the Postal Service may set its own rates and ensure appropriate cost coverage. Rates for this service are subject to Commission review. To the extent the POC is authorized to establish such rates, appropriate parameters for the exercise of that authority should be included.

III. Electronic Postal Services

Proposal 20.14.91

Summary. This proposal from the POC establishes a classification for electronic postal services that designated postal operators may provide on an optional basis.

Comment. Provided that these services remain optional, the Commission views this proposal as consistent with section 3622 of title 39. The Commission notes that under current U.S. laws the Postal Service may not be able to provide the services listed in this new article to the Convention and these services should therefore remain optional.