



October 2017

INTERNATIONAL MAIL

Information on Changes and Alternatives to the Terminal Dues System

Accessible Version

Why GAO Did This Study

In 2016, USPS handled over 1 billion pieces of international mail—both inbound (received from other countries) and outbound (sent to other countries). International mail is governed by the UPU, which is comprised of over 190 member countries, including the United States. The UPU establishes remuneration rates, called terminal dues, for certain types of international mail exchanged between member countries. Questions have been raised about how current and future planned rates for terminal dues affect USPS and other stakeholders that are involved in international mail. GAO was asked to review the terminal dues system.

Among other issues, this report examines the financial effects of: (1) the current UPU rates for terminal dues and (2) the planned changes to those rates on USPS and mail stakeholders. GAO analyzed USPS's mail data for fiscal years 2012–2016; USPS's, the Postal Regulatory Commission's (PRC), and UPU's policies and documents; and applicable U.S. statutes. GAO interviewed USPS, PRC, and Department of State officials, and mail stakeholders, including U.S. companies, such as FedEx and UPS, and consultants. These stakeholders were identified through public comments made to PRC on proposals related to terminal dues. While not generalizable, the views provide illustrative examples.

This is a public version of a sensitive but unclassified report issued in August 2017. Information related to USPS's revenues, costs, and volumes for international mail that USPS has deemed proprietary has been omitted from this report.

View [GAO-18-112](#). For more information, contact Lori Rectanus at (202)512-2834 or rectanusl@gao.gov.

INTERNATIONAL MAIL

Information on Changes and Alternatives to the Terminal Dues System

What GAO Found

The Universal Postal Union (UPU), a specialized agency of the United Nations, created the terminal dues system so that designated postal operators in member countries could compensate designated postal operators in other countries for delivering mail in those countries. GAO found that it is not possible to quantify the financial effects of the terminal dues system on various U.S. mail stakeholders because the data needed to conduct such an analysis are not readily available. However, stakeholders GAO spoke with and literature GAO reviewed described differing impacts of the terminal dues system on U.S. stakeholders. For example,

- Analysis by the United States Postal Service (USPS)—the U.S. designated postal operator—found that the rates for inbound international terminal dues mail does not cover its costs for delivering that mail in the United States. As a result, USPS's net losses on this type of mail more than doubled between 2012 and 2016. In contrast, USPS analysis indicates that the rates for outbound international terminal dues mail has resulted in net positive revenues for USPS, which offset the losses from inbound terminal dues mail.
- U.S. businesses that send outbound terminal dues mail may benefit to the extent that their costs to mail items to certain countries through USPS may be lower than the actual mail delivery costs in those countries.
- U.S. consumers who receive imported products may pay lower mailing costs for products originating from low terminal dues rate countries.
- Express consignment operators such as FedEx and the United Parcel Service said the terminal dues system creates a competitive disadvantage for them. Representatives from these companies said that they have difficulty competing for some international mail business because they cannot offer pricing as low as the postage based on the terminal dues rates offered by designated postal operators.

The UPU adopted increased terminal dues rates for member countries starting in 2018. GAO found that these planned changes could affect U.S. stakeholders differently, but the effects are also difficult to quantify because of limited information and forecasting variability. Nevertheless, stakeholders identified examples of the potential effects that the planned changes could have on them. For example:

- For USPS, an increase in inbound terminal dues rates should reduce related losses for delivering this mail; although USPS's costs may increase from paying higher terminal dues rates to countries where USPS sends most of its outbound terminal dues mail.
- U.S. businesses that send outbound terminal dues mail may have to pay higher postage to USPS to cover the increase in terminal dues rates to send mail to other countries, thus increasing costs to them.
- U.S. consumers who receive lower-priced imported products may experience a reduced benefit because of the higher terminal dues rates for inbound mail.
- The increased rates for inbound terminal dues mail may allow rates offered by express consignment operators to become more competitive as they may be able to offer their mail products at more comparable costs.

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Abbreviations

CBP	U.S. Customs and Border Protection
ECO	express consignment operators
IPP	Integrated Product Plan
ISC	International Service Center
OIG	Office of Inspector General
PRC	Postal Regulatory Commission
State	Department of State
UPS	United Parcel Service
UPU	Universal Postal Union
USPS	United States Postal Service

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October 12, 2017

The Honorable Trey Gowdy
Chairman
The Honorable Elijah E. Cummings
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

The Honorable Mark Meadows
Chairman
The Honorable Gerald E. Connolly
Ranking Member
Subcommittee on Government Operations
Committee on Oversight and Government Reform
House of Representatives

In fiscal year 2016, the United States Postal Service (USPS) handled over 1 billion pieces of international mail—either “inbound” mail that was sent to the United States from foreign countries or “outbound” mail that was sent to foreign countries.¹ The movement of international mail is facilitated by the Universal Postal Union (UPU), a specialized agency within the United Nations that includes over 190 member countries.² UPU member countries designate postal operators, which must collect, receive

¹International mail refers to all types of mail that USPS handles to and from other countries including letter mail and parcels. The Universal Postal Union (UPU) defines letter-post mail as: small letters, large letters, and packets, or small packages up to 2 kilograms, among other types of mail. The UPU classifies letter-post items into three formats: (small letters, large letters and packets). For the purposes of this report, we will refer to letter-post items that are classified into these formats as “letter mail.” Certain larger mail between 0 kilograms to 30 kilograms is defined by the UPU as parcels. See Universal Postal Union, *Decisions of the 2016 Istanbul Congress* (Bern, Switzerland: 2017) and *Letter Post Manual* (Bern, Switzerland: 2013).

²Specialized agencies of the United Nations are legally independent international organizations with their own rules, membership, organs and financial resources, and were brought into relationship with the United Nations through negotiated agreements. The UPU was established in 1874 and became a specialized agency of the United Nations in 1948.

and deliver mail to and from other countries at set rates.³ These rates for letter mail are called “terminal dues.”⁴

Questions have been raised regarding these dues and the overall effect of the UPU’s terminal dues system on USPS and other U.S. stakeholders, such as domestic e-commerce businesses and consumers. Specifically, some have argued that the current terminal dues rates USPS receives from other countries may not cover USPS’s costs to deliver some mail from certain countries or may be less than the postage charged to a domestic U.S. customer for similarly sized mail. For these reasons, some argue that this system may create competitive disadvantages for some businesses such as:

1. express consignment operators (ECO)—such as FedEx and the United Parcel Service (UPS), which compete with USPS and designated postal operators for some international business—and
2. U.S. businesses that compete with foreign businesses that send mail under the terminal dues system (or “terminal dues mail”).

While UPU terminal dues rates will increase starting in 2018, some stakeholders have questioned if these changes will be sufficient to address the competitive disadvantages created by the terminal dues system. Not all international mail is subject to the terminal dues system. Mailers can use alternatives, such as USPS expedited mail for inbound and outbound international mail.

You asked us to review issues related to the UPU’s terminal dues system. This report describes the financial effects on domestic stakeholders of the following: (1) the rates under the current UPU terminal dues system, (2) planned changes to those rates, and (3) alternatives to the terminal dues system.

To describe the effects of the current UPU terminal dues system on stakeholders, we first identified the relevant stakeholders affected by terminal dues based on our reviews of comments submitted to the Postal Regulatory Commission (PRC) on proposals related to terminal dues for the 2016 UPU congress, as well as interviews with USPS, PRC,

³USPS is the designated postal operator for the United States.

⁴Parcels are covered under a different set of rates from terminal dues, called “inward land rates.”

Department of State (State), and industry consultants.⁵ We reviewed six economic models and analyses that estimated effects of the current terminal dues system on various stakeholders. We determined that each of these analyses appropriately include, though with certain limitations, the key elements of an economic analysis.

To determine the current rates under the UPU's terminal dues system and the effects of these rates on selected stakeholders, we analyzed USPS data and reports on inbound and outbound international mail, including volume, weight, costs and revenue from fiscal years 2012 through 2016 and UPU information on the current terminal dues system. We assessed the reliability of USPS's data on the volume, costs and revenue for international mail by reviewing documentation related to how the data are collected and processed. We found these data to be sufficiently reliable for the limited purpose of presenting this descriptive information. We reviewed federal statutes, PRC reports, USPS and UPU mail manuals, and other studies on international mail and terminal dues impacts. We also interviewed stakeholders such as USPS officials, representatives from ECOs and U.S. businesses, and consultants.

To assess the effect of planned changes to the current terminal dues system on domestic stakeholders, we analyzed UPU documents detailing the planned changes to the terminal dues system.⁶ We reviewed estimates of the financial effects of the planned changes to the terminal dues system prepared by USPS and others. USPS based its estimates on information from the UPU on the changes and USPS's historical revenues, costs, and volume of terminal dues mail.

To describe alternatives to the terminal dues system and estimate the effects of those alternatives on domestic stakeholders, we reviewed USPS documents, such as:

- USPS's international mail manual,
- USPS's agreements with other designated postal operators, and

⁵PRC is an independent federal regulatory agency that has regulatory oversight over USPS. For additional information on PRC's oversight activities and USPS performance information, see <https://www.prc.gov/> and <https://www.usps.com/>.

⁶The current terminal dues rates cover the period from 2014 to 2017. Planned changes to those rates take effect January 1, 2018, and are to last until December 31, 2021.

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- PRC's documentation of its reviews of USPS's bilateral and multilateral agreements and of USPS's international mail products.

Likewise, we analyzed USPS's revenue, cost, and volume information from fiscal years 2012 through 2016 on alternatives to the terminal dues system.⁷ We assessed the reliability of USPS's information on the volume, costs and revenue associated with its alternatives to the terminal dues system for international mail by reviewing documentation related to how the data are collected and processed. We found this information to be sufficiently reliable for the limited purpose of presenting this descriptive information.

For all of our objectives, we interviewed USPS, PRC and Department of State (State) officials, representatives of nine U.S. businesses or business associations affected by terminal dues, and three consultants for their views. We selected the businesses and consultants based on published reports documenting their knowledge of international mail and terminal dues issues, recommendations from stakeholders interviewed and comments submitted to PRC dockets soliciting public comments prior to the 2016 UPU congress. The views of these interviewees are not generalizable but illustrative of the issues faced by stakeholders affected by the terminal dues system. We also applied standard economic principles to describe effects on domestic stakeholders. For more details on our scope and methodology, see appendix I.

The performance audit on which this report is based was conducted from May 2016 to August 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate, evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We subsequently worked with USPS from June to October 2017 to prepare this public version of the original sensitive report. This public version was also prepared in accordance with these standards.

This is a public version of GAO-17-571SU that we issued in August 2017. This report excludes information that was deemed to be proprietary by

⁷We focused our scope to alternatives that directly affect USPS, as it is the domestic stakeholder most affected by the terminal dues system, and narrowed our analysis to the four most used or most mentioned alternatives to send international mail.

USPS and that must be protected from public disclosure. Therefore, this report omits proprietary information and certain data related to USPS's revenues, costs and volumes for international mail. Although the information provided in this report is more limited in scope, it addresses the same objectives as the sensitive report and the methodology used for both reports is the same.

Background

In fiscal year 2016, USPS handled over 1 billion pieces of international mail, which included over 976 million pieces of letter mail.⁸ According to USPS statistics, about 371 million pieces of letter mail (38 percent) was sent to other countries or "outbound" mail, while the majority of international letter mail, 605 million pieces (62 percent), was sent to the United States from other countries or "inbound" mail.

UPU member nations agree to provide a "single postal territory" for international mail, meaning designated postal operators must deliver inbound international mail to the recipient in their own country (i.e., provide universal service).⁹ The UPU created the terminal dues system in 1969 to establish a means for paying destination countries' designated postal operators for the cost of delivering the mail that originated in another UPU member country. UPU member countries vote every 4 years on the annual payment rates.¹⁰

The current terminal dues system was designed as a single rate structure for the delivery of letter mail, regardless of shape (i.e., letters, flats or packets). The system takes into account that this rate varies based on UPU's estimation of each nation's postal cost structure and economic

⁸International mail represented less than 1 percent of all the mail volume USPS handled in fiscal year 2016.

⁹For more information on how certain designated postal operators provide universal postal service in their countries, see GAO, *International Mail: Information on Designated Postal Operators and Universal Service in Selected Countries*, [GAO-16-813R](#) (Washington D.C.: Sept. 26, 2016).

¹⁰These rates are generally expressed in per-piece and per-kilogram amounts in Special Drawing Rights, a combination of five national currencies. According to the International Monetary Fund, Special Drawing Rights consist of a basket of these five currencies: the U.S. dollar, the Japanese yen, the European Euro, the Chinese renminbi, and the United Kingdom's pound sterling. One Special Drawing Right is equivalent to about \$1.38 in June 2017.

development. As such, the UPU divides its member countries into country groups based on the UPU's "postal development indicator," which is largely based on gross national income per capita and attempts to factor in the cost to deliver a letter based on statistics from the United Nations, the World Bank, and the UPU. Designated postal operators from transitional (formerly called "developing") countries generally pay a lower terminal dues rate for their mail to be delivered by designated postal operators in target (formerly called "industrialized") countries (see app. II for a list of the countries in each UPU country group). UPU limits the rates through caps and floors to minimize year-over-year variability.

In addition to USPS, numerous domestic stakeholders are affected by the terminal dues system, for example:

- ECOs, such as FedEx and UPS, that collect, transport, and deliver documents and packages sent to the United States from other countries. As they are not designated postal operators under the UPU, ECOs are not part of the terminal dues system and do not have access to terminal dues rates.¹¹
- Some U.S. businesses that compete with foreign companies for U.S. customers, including large e-commerce businesses, such as Amazon, and much smaller e-commerce related businesses, as well as U.S. businesses that obtain goods from other countries via international mail.
- U.S. businesses that send mail to other countries—such as business correspondence, advertisements, or e-commerce packages—and that have an interest in paying the lowest postage rate.
- U.S. consumers—mainly individuals who send or receive correspondence, gifts, or commercial goods through international mail.

Government also plays a role in the terminal dues system. The Department of State (State) represents the United States to the UPU, and State officials participate in the negotiations at the UPU congress, held every 4 years, that determine terminal dues rates. State also solicits input on terminal dues and other international postal issues through a Federal Advisory Committee on international mail that consists of USPS and PRC

¹¹ Designated postal operators agree to create a single postal territory by, among other things, providing universal service to the entire territory they serve and accept all mail sent to them by other designated postal operators under prescribed prices (terminal dues) set by the UPU.

officials, other federal agencies with jurisdiction over related issues (e.g., the U.S. Department of Commerce), and representatives from affected businesses.

PRC also has a role in international mail issues including terminal dues, USPS bilateral agreements, and USPS international mail products. First, State is required by statute to request PRC's views on terminal dues proposals before they are adopted by the UPU every 4 years to ensure that the U.S. positions on the relevant UPU proposals are consistent with PRC's standards and criteria for regulating USPS rates (or if not consistent, provide a foreign policy or national security interest justification). State then is required to ensure that the terminal dues proposals for market-dominant mail are consistent with PRC's views unless there is a foreign policy or national security concern.¹² Second, PRC is required by statute to review USPS proposals for international mail products to ensure compliance with legal requirements, such as

¹²Under 39 U.S.C. § 407(c)(1), before concluding any treaty, convention, or amendment that establishes a rate or classification for market-dominant products, the Secretary of State is required to request PRC views on whether any changes are consistent with PRC standards and criteria for regulating rates and classes for market-dominant products under 39 U.S.C. § 3622. Market-dominant international mail products include some international mail for which terminal dues apply, such as Outbound First-Class Mail International and Inbound International Letter-Post. Other international mail is included in competitive products, such as Priority Mail International and outbound international expedited services. Some international mail in the competitive category is also covered by terminal dues, such as certain types of outbound mail that fits UPU's definition of "letter-post" (i.e. letters, flats, and packets) and for which USPS pays terminal dues to designated postal operators.

requirements relating to cost coverage.¹³ Third, PRC has also sponsored studies on terminal dues issues in recent years.¹⁴

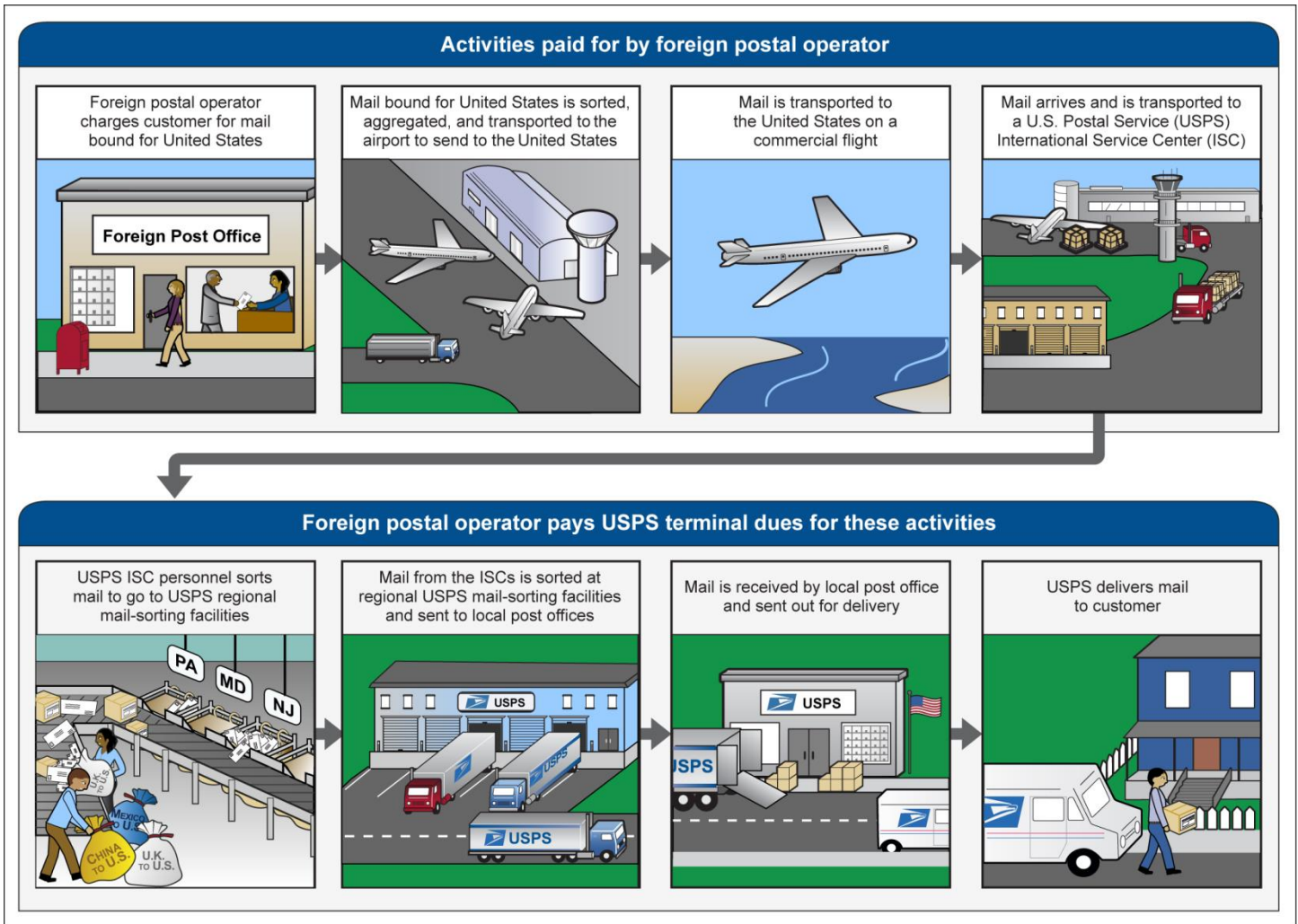
USPS officials stated that designated postal operators send mail to USPS for delivery to U.S. addresses under the UPU's Universal Postal Convention. Designated postal operators pay for the collection and transportation of mail to the United States and hand off mail to USPS at a USPS International Service Center (ISC) for sorting and final delivery (see fig. 1). USPS presents the inbound mail to U.S. Customs and Border Protection (CBP) for inspection at the ISC.¹⁵ Once the mail clears CBP inspection, the mail enters USPS's domestic mail stream for delivery. The process is reversed for outbound international mail collected by USPS for delivery to foreign addresses.

¹³PRC reviews proposals to establish and change rates for international products (including both mail in the competitive and market-dominant categories under Title 39 Chapter 36), as well as in its Annual Compliance Determination (39 U.S.C. § 3653). In this regard, international mail also can be covered by bilateral agreements (i.e. between USPS and various foreign designated postal operators) and negotiated service agreements (e.g. between USPS and various private companies that send international mail), as well as international competitive products. Pursuant to statute, each product in the competitive category is required to cover its costs by generating revenues that are at least equal to its attributable costs. 39 U.S.C. § 3633(a)(2). With respect to market-dominant mail, the statute includes a cost-coverage requirement as one of 14 "factors" that PRC is to consider when regulating market-dominant products. 39 U.S.C. § 3622(c)(2). PRC has applied these requirements in Annual Compliance Determination proceedings. In addition, when reviewing negotiated service agreements (NSA) for market-dominant mail, PRC is required to determine whether the NSA improves USPS's net financial position or enhances USPS's operational performance. 39 U.S.C. § 3622(c)(10)(A)(i),(ii).

¹⁴For example, see Copenhagen Economics, *Quantification of financial transfers caused by Universal Postal Union terminal dues: Final report* (Washington D.C.: Dec. 22, 2015); available at <https://www.prc.gov>; Copenhagen Economics, *The Economics of Terminal Dues: Final report* (Washington D.C.: Sept. 30, 2014); available at <https://www.prc.gov>.

¹⁵CBP, a component of the Department of Homeland Security, enforces statutes and regulations while ensuring the safe and efficient flow of goods through U.S. ports of entry. CBP does this, in part, by examining inbound international mail sent through USPS and ECOs for a variety of illegal items, such as narcotics or counterfeit goods. CBP also assesses customs duty on international mail, if any is owed. The inspections of international mail are completed at USPS's international service centers around the country.

Figure 1: Movement of Terminal Dues Mail to the United States



Source: GAO analysis of USPS data. | GAO-18-112

Current Terminal Dues Rates Benefit USPS despite Revenue Losses on Inbound Mail and Have Mixed Effects on Other U.S. Stakeholders

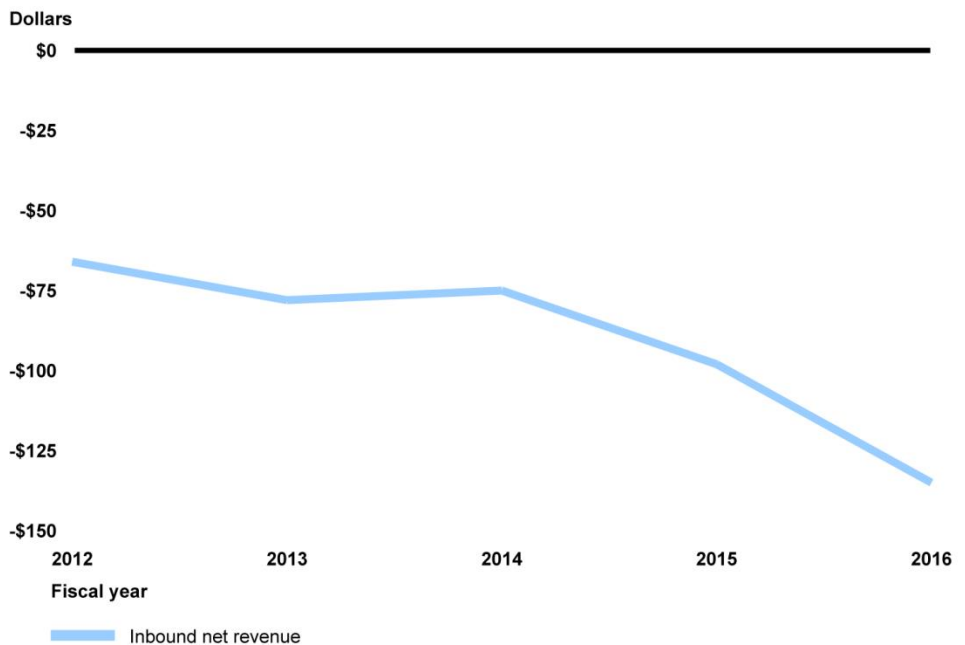
The Current Rates Benefit USPS, as Increasing Gains from Outbound Mail Outweigh the Increasing Losses on Inbound Mail

According to USPS analysis, USPS has generated positive net revenue from all terminal dues mail, which has increased from fiscal year 2012 to fiscal year 2016.¹⁶ This occurred even though losses from inbound mail more than doubled from \$66 million to \$135 million from fiscal year 2012 to fiscal year 2016 (see fig.2). Net revenue for outbound terminal dues mail increased during the same time period.

¹⁶At our request, USPS analyzed its data on international mail to separately identify revenues and costs for mail covered by terminal dues and mail not covered by terminal dues. This analysis was prepared for GAO and these data have not been previously reported. USPS considers net revenue information for all terminal dues mail and for outbound terminal dues mail to be proprietary and not subject to public disclosure. Net revenues are revenues minus attributable costs, which are defined by statute as postal costs that are attributable to a product through reliably identified causal relationships. 39 U.S.C. § 3631(b).

Figure 2: U.S. Postal Service's (USPS) Net Revenues Generated by Inbound Terminal Dues Mail, Fiscal Years 2012—2016

Dollars in millions.



Source: GAO analysis of USPS data. | GAO-18-112

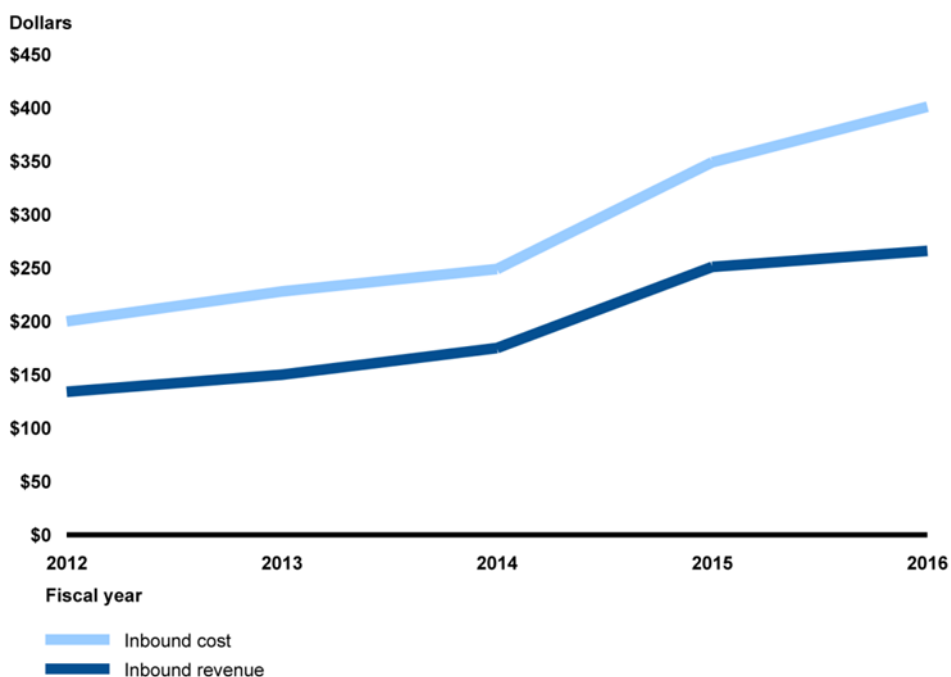
To understand this trend of declining net revenue for inbound terminal dues mail, it is important to understand the differences in inbound versus outbound mail. As USPS is the designated postal operator for the United States responsible for ensuring universal service under UPU agreements, it is required to accept and deliver all mail tendered to it from other designated postal operators (inbound mail), including mail sent under the terminal dues rates adopted by the UPU.

Losses on Inbound Terminal Dues Mail

USPS's recent losses on inbound terminal dues mail are due in part to the shift in this mail from primarily letters and flats to more packets (which are more costly for USPS to handle and deliver)—which outpaced the corresponding terminal dues revenue earned by USPS (see fig. 3).

Figure 3: U.S. Postal Service's (USPS) Revenues and Costs for Inbound Terminal Dues Mail, Fiscal Years 2012—2016

Dollars in millions.



Source: GAO analysis of USPS data. | GAO-18-112

These losses are exacerbated by the rising volume of inbound terminal dues mail. According to USPS, there has been an 86 percent increase in all inbound terminal dues mail between fiscal year 2012 and 2016—including a 19 percent increase between fiscal year 2015 and 2016 alone—with much of the increase attributable to international e-commerce.¹⁷ E-commerce mail consists mainly of packets that are heavier and irregular (see fig. 4 for examples). Most inbound letter mail to the United States in fiscal year 2016 was “packets,” defined by the UPU as small packages that weigh no more than 2 kilograms (about 4.4 pounds), often generated by e-commerce. USPS officials stated that packets generate higher costs as USPS’s delivery and processing costs for packets are higher than they are for letters. The current terminal dues system does not distinguish mail based on shape, and there is no

¹⁷USPS, *Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended September 30, 2016* (Washington, D.C.: Nov. 15, 2016).

separate rate for packets. A recent report commissioned by PRC found that the current terminal dues system, by reducing the price of international packet mail below what it would be without the system, is responsible for increasing the demand (and hence volume) of packets sent through USPS.¹⁸ According to the report, this increase in terminal dues packets reduces the demand for other types of international mail and ECOs.

Figure 4: Example of Inbound International Mail at a U.S. Postal Service's International Service Center



Source: GAO. | GAO-18-112

As mentioned above, losses occur because USPS's costs to deliver inbound terminal dues mail are higher than the terminal dues revenues for that mail. Specifically, PRC has recognized that terminal dues have not covered USPS's costs to deliver inbound letter mail since fiscal year

¹⁸ Copenhagen Economics, *The Economics of Terminal Dues: Final report*.

1998 and has reiterated this recently.¹⁹ USPS recently stated that the failure to cover USPS's costs for inbound mail was caused by the terminal dues system.²⁰ For example, currently, USPS is paid between \$1.13 and \$1.87 in terminal dues to deliver a 10-ounce packet from a developing country, an amount that does not include any additional surcharges for tracking and other features.²¹ Conversely, USPS officials told us that the published domestic rates for a 10-ounce piece of mail range from \$1.61 to the highest commercial rate of \$3.46. However, comparing these products is complicated, because they offer different features. According to USPS officials, packets sent under the terminal dues system do not include any tracking and have a delivery time of up to 3 weeks from some countries, while all USPS domestic mail products include tracking and have delivery times from as short as one day to an average of 2 to 3 days. In addition, 85 percent of USPS domestic mail receives discounted rates for mail that is entered in bulk and prepared in a way that reduces USPS's costs, including barcoding, presorting, and being entered into USPS's system closer to its final destination.

Net Revenue Increases for Outbound Terminal Dues Mail

USPS reports show that net revenue for outbound terminal dues mail increased from fiscal year 2012 to fiscal year 2016. The increased net revenue allowed USPS to more than offset its losses from inbound

¹⁹PRC, *Annual Compliance Determination Report: Fiscal Year 2007* (Washington, D.C.: Mar. 27, 2008).

²⁰PRC, *Annual Compliance Determination Report: Fiscal Year 2016* (Washington, D.C.: Mar. 28, 2017).

²¹Prices and terminal dues rates are as of April 2017. USPS officials stated that surcharges could range from \$0.96 to \$1.37. The terminal dues rate paid by the designated postal operator to USPS is not the price charged the foreign customer by the designated postal operator. This example demonstrates terminal dues rates for mail sent from a developing country in UPU Country Group III, which includes many countries from Asia where most international mail to the United States is sent from. See appendix II for the list of countries in UPU Group III.

terminal dues mail. The increase in net revenue came despite a decrease in outbound terminal dues mail volume over the same period.²²

The Current Terminal Dues System Also Benefits U.S. Businesses That Rely on Outbound International Mail and U.S. Consumers

According to stakeholders we interviewed as well as our economic analysis, businesses that send outbound international mail and U.S. consumers also benefit from the current terminal dues system similar to USPS (see table 1).

Table 1: Positive Effects of the Current Terminal Dues System on Selected U.S. Stakeholders	
Stakeholder	Description of Effects
Businesses that send outbound mail (e.g., e-commerce exporters)	U.S. businesses that send terminal dues mail may pay lower costs to send mail to countries where the terminal dues rate is lower than the destination country's delivery costs.
Consumers	U.S. consumers may pay less for imported products due to lower inbound mailing costs for terminal dues mail from low terminal dues countries. U.S. consumers may also benefit when shipping letters and small packages to certain countries, to the extent that terminal dues enables lower rates.

Source: GAO. | GAO-18-112

These stakeholders benefit for the following reasons:

- U.S. businesses that send outbound terminal dues mail, for example, e-commerce shippers or magazine publishers, may pay lower postal rates than what would be set by the destination country's designated postal operator to deliver that mail. This is the case for mail sent to many developed countries, such as in Europe, where most U.S.

²²USPS considers some information on outbound mail to be proprietary and not subject to public disclosure, such as revenues and costs, volume, and percentage changes. In addition, PRC has found that USPS is not earning all that it can under the current terminal dues system. Terminal dues can be adjusted downward if service performance does not achieve the UPU-established performance targets for timely delivery. PRC has found that USPS terminal dues have been reduced as they have not met these targets from fiscal year 2012 through 2016. PRC Annual Compliance Determination Reports, Fiscal Years 2012 through 2016.

outbound international mail is sent. In this case, the postage charged by USPS to the business reflects the relatively low terminal dues rate paid by USPS to those designated postal operators, rather than a higher rate that better reflects the designated postal operator's delivery costs.²³

- U.S. consumers also benefit from the current terminal dues system. As described above, U.S. consumers have spurred a significant increase in inbound international mail, especially from Asia where terminal dues rates are lower than USPS's costs, which contributes to low shipping prices for U.S. consumers.²⁴ For example, the USPS's Office of Inspector General (OIG) conducted a case study in 2015 that found that five low-cost items shipped from China cost about \$1.60 per item in shipping charges, while equivalent published domestic postage for the same items cost between \$2.04 and \$2.22 per item, depending on their exact weight.²⁵ Studies by the USPS OIG and WIK-Consult GmbH (WIK Consultants) have found similar benefits for consumers from the current terminal dues system.²⁶ U.S. consumers may also see the same kind of benefit from lower mailing prices as do U.S. businesses that send terminal dues mail to certain outbound countries, such as in Europe, that have higher delivery costs than the terminal dues paid to them by USPS.

²³Conversely, this benefit would diminish to the extent that USPS's outbound international mail rates are increased to reflect a higher terminal dues rate; such a rate would cover the mail delivery costs of the destination country's designated postal operator.

²⁴However, not all inbound letter mail from Asia is covered by terminal dues rates as USPS has bilateral agreements with some designated postal operators that specify rates that are higher than terminal dues rates for certain kinds of mail items. These agreements are described later in this report.

²⁵Office of the Inspector General, United States Postal Service, *Terminal Dues in the Age of E-Commerce*, RARC Report, RARC-WP-16-003 (Arlington, VA: Dec.14, 2015).

²⁶Office of the Inspector General, United States Postal Service, *Terminal Dues in the Age of E-Commerce*, Appendix B, and Alex Dieke, Antonia Niederprum and Sonja Thiele, WIK Consultants, *UPU-Terminal Dues and International E-Commerce* (Bad Honnef, Germany: September 2016).

Current Terminal Dues System Results in Competitive Disadvantages for Some Stakeholders

Despite creating some benefits for some U.S. stakeholders, the current terminal dues system also creates competitive disadvantages for other U.S. stakeholders (see table 2).²⁷

Table 2: Negative Effects of the Current Terminal Dues System on Selected U.S. Stakeholders

Stakeholder	Description of effects
Express consignment operators (ECO)	ECOs' international products are not cost competitive with terminal dues mail in part because ECOs cannot offer their products at the same rate as designated postal operators, which is based on terminal dues rates for some countries. To some extent, these effects are limited because terminal dues apply to letter mail that weighs up to 2 kilograms (4.4 pounds) and that has much slower delivery times and provides fewer services than ECOs' products.
Businesses affected by inbound mail	Some U.S. businesses are at a competitive disadvantage as they may incur higher shipping costs compared to companies from foreign mailers that pay postage based, in part, on relatively low terminal dues rates to send products to the United States.

Source: GAO analysis of stakeholder interviews and USPS Office of Inspector General reports. | GAO-18-112

The terminal dues system puts ECOs at a disadvantage because according to representatives from ECOs we spoke with, their volume for international items that are similar to those currently shipped at terminal dues rates is low, and they cannot compete on price with designated postal operators. Instead, they compete using other features such as tracking and delivery speed. Businesses overseas, like e-commerce companies such as Alibaba, can use the terminal dues system as a low-cost alternative to ECO service for items which have much slower delivery standards than offered by ECOs. This disadvantage is especially pronounced when ECOs compete with designated postal operators for business from countries with relatively low terminal dues rates, such as many countries in Asia.

U.S. businesses that compete with foreign companies that use inbound terminal dues mail are also disadvantaged by the current terminal dues system. Foreign businesses that send products from countries with low

²⁷Some ECOs have contracts with USPS to carry international mail and larger U.S. businesses affected by inbound mail, such as Amazon, may offer lower shipping prices to their U.S. customers for goods sent from lower-cost terminal dues countries.

terminal dues to U.S. consumers through USPS may have a competitive advantage over domestic businesses, which may have to pay a higher domestic postage. Representatives from two small U.S. businesses we spoke with stated that the disparity between postage charges available to foreign mailers under the terminal dues system versus the domestic postage available to them was a significant factor in reduced sales in recent years, although the disparity between postage charges is not the only disadvantage they faced from foreign competition.²⁸ We found this outcome may be less of a competitive disadvantage for larger businesses, such as Amazon, which may be able to obtain discounts on the domestic mailing prices from USPS based on volume, presorting, and other worksharing arrangements while smaller domestic mailers may not be able to secure such discounts. Even with discounting, the domestic-mailing price may still be higher than the foreign-mailing price charged by a designated postal operator a price that is based on, in part, a lower terminal dues rate. However, USPS officials cautioned that such comparisons are complicated because:

1. Terminal dues rates do not include other costs, such as the cost of collection, international transportation, and other costs that may be included in the price charged to the foreign mailer by the designated postal operator.
2. Significant amounts of international mail are sent in large quantities from foreign designated postal operators to USPS, making this mail not analogous to USPS's single-piece mail rates.
3. U.S. commercial customers may pay non-published rates established in negotiated service agreements that may be lower than USPS's single-piece published rates.

While we described above how different stakeholders are affected by the terminal dues system, it is not possible to quantify the system's impacts. For example, according to USPS officials, while the current system has a single rate for three shapes of terminal dues mail, USPS has over 3,000 rates for domestic mail, making rate comparisons of terminal dues mail products to domestic mail products imprecise. In addition, the terminal dues rate is a payment between designated postal operators, not the price paid by the foreign mailer. This price information may not be publicly

²⁸Aside from the terminal dues system and foreign competition, smaller mailers also may not generate enough volume with USPS to qualify for the lower rates for business mail entered in bulk quantities, such as large-volume domestic mailers or designated postal operators who can.

available as designated postal operators in other countries might also have non-published prices.

Planned Changes to Terminal Dues Rates Should Reduce USPS's Losses and Could Affect Other Stakeholders

Changes Should Reduce USPS's Losses from Terminal Dues System

Based on our analysis of the changes to the terminal dues system recently adopted by the UPU and of USPS's estimates of the financial impact of those changes, increased terminal dues rates should help reduce USPS's losses for inbound mail. All terminal dues rates will increase for inbound mail starting on January 1, 2018—especially for certain countries, which will increase by 13 percent per year specifically for packets.²⁹ By 2021, all but the least developed countries will have the same terminal dues rates for packets.³⁰ As the majority of terminal dues mail handled by USPS is inbound, the increase in revenue resulting from higher terminal dues may likely more than offset the increase in USPS's costs that will result from increases in terminal dues rates to the countries where most USPS outbound terminal dues mail is sent.

The UPU also created a new rate category for packets, in addition to a new tracked-packet surcharge, which will increase USPS's revenue.³¹ As described previously, the current terminal dues rates do not distinguish between letters, flats, or packets—even though packets are more

²⁹UPU Group III countries will have their terminal dues rates increase by 13 percent per year for packets. Other country groups' rates will increase between about 3 to 10 percent per year. These increases apply to caps and floors applied to terminal dues rates. Increasing the cap rates is significant as, according to USPS, many developed countries' terminal dues rates for inbound mail are already at the cap in 2017, meaning that without an increase in the caps, these countries would not see any increase in their terminal dues rates.

³⁰The UPU classifies the least developed countries into UPU Group IV. See appendix II for a list of countries in UPU Group IV and see appendix III for a summary of the planned rate increases for the 2018–2021 period.

³¹According to USPS officials, this new packet tracking surcharge will be 0.69 Special Drawing Rights per packet or \$0.96, as of June 2017.

expensive to handle and deliver due to their irregular size and heavier weight. This change should lead to higher terminal dues revenue for USPS. In addition, the UPU adopted the Integrated Product Plan (IPP) at the 2016 UPU congress; that, among other things, will require commercial goods to be sent under the terminal dues system as packets. According to USPS officials, this change could also increase terminal dues revenues, as all commercial items will be sent via packets, which will have higher terminal dues rates starting in 2018. However, decisions on other aspects of the IPP are expected to be made at a special UPU congress in 2018.³²

According to USPS projections, USPS will start earning positive net revenues for inbound terminal dues mail as a result of these changes. As terminal dues rates increase, USPS projections show that USPS will cover costs for inbound terminal dues mail from the 15 countries that sent most of the inbound terminal dues mail to the United States in fiscal year 2015.³³ The State Department official who coordinated the U.S. delegation to the 2016 UPU congress stated that these changes will achieve the government's goal of dramatically improving USPS's cost coverage for the delivery of inbound terminal dues mail, such as packets, from China and other developing countries, when the changes take effect in 2018.

However, other stakeholders we spoke with disagree on the extent of improvement. While PRC staff officials stated that the UPU has made some progress in closing the gap between terminal dues rates and domestic rates for equivalent domestic mail, they also stated that there is still a way to go to make the rates equivalent to each other. Similarly, PRC's Chairman stated that while the changes will improve USPS's cost coverage, they will not eliminate the negative impacts of the current terminal dues system and may in fact exacerbate them over the 2018–2021 period. In addition, he stated that while USPS projected that terminal dues proposals in 2008 and 2012 would increase USPS's cost coverage for inbound terminal dues mail, the improvement was negligible,

³²The UPU plans to hold an extraordinary congress in 2018 that will discuss the IPP, prior to the regular 2020 UPU congress.

³³USPS's projections do not take into account non-terminal dues related revenue from international mail, such as under a bilateral agreement or competitive express mail service products, but did account for multilateral agreement remuneration. Bilateral and multilateral agreements and competitive express mail service products are described in the next section of this report.

casting doubt on the accuracy of USPS's projections for the planned changes for the 2018–2021 period.³⁴ A consultant who has experience in international mail issues stated that, given some assumptions about changes in international mail volume, the terminal dues increases will still not be equal to the delivery costs for domestic postage for inbound terminal dues mail to countries such as the United States. He estimated that the difference between the new terminal dues rates and equivalent domestic postage for packets will be reduced from about 57 to 73 percent (depending on the sending country) in 2016 to about 50 percent by 2021.

Changes Could Affect U.S. Stakeholders Differently, but Effects Are Difficult to Quantify

According to stakeholders we interviewed as well as our analysis of UPU's terminal dues rates, the projected increase in terminal dues rates caused by the planned changes to the terminal dues system may negatively affect U.S. businesses that send outbound terminal dues mail and U.S. consumers (see table 3). U.S. businesses and U.S. consumers that send mail to other countries will pay higher postage rates for terminal dues mail, to the extent that USPS increases its prices to reflect the higher terminal dues USPS must pay to designated postal operators. However, increased terminal dues rates may still be less than the cost to deliver that mail for designated postal operators in relatively high cost countries, such as Norway and Germany. U.S. businesses and consumers benefit from this disparity as the postage they pay USPS to send mail to those countries is based on the terminal dues rates to those countries, not the delivery costs, which may be higher. U.S. consumers may also see shipping prices increase for inbound terminal dues mail, for example e-commerce packets, to the extent that any increases in postage charged to foreign mailers resulting from increased terminal dues rates are passed along to U.S. consumers.

³⁴The PRC Chairman commented on proposals to change the UPU terminal dues system prior to the 2016 UPU congress. According to a State Department official, these proposals were adopted by the 2016 UPU congress without significant changes. See Separate Views of Acting Chairman Robert G. Taub included in PRC's letter to the State Department dated Aug. 31, 2016, publicly filed as PRC, *Notice of Posting of Views*, PRC Docket No. IM2016-1 (Washington, D.C.: Oct. 7, 2016), <https://www.prc.gov/docs/97/97406/notice%20of%20posting%20of%20views.pdf> (last accessed June 7, 2017).

Table 3: Potential Negative Effects of Planned Changes to Terminal Dues System for Selected U.S. Stakeholders

Stakeholder	Description of potential negative effects
Businesses Affected by Outbound Mail	Postage for outbound terminal dues mail will likely increase, but still may be lower than the delivery cost for high-cost countries.
Consumers	Mailing prices for outbound terminal dues mail will likely increase, but prices still may be lower than the delivery cost for some high-cost countries. Higher terminal dues rates for inbound terminal dues mail may reduce the benefit from lower-priced imported products.

Source: GAO analysis of stakeholder interviews and economic analysis. | GAO-18-112

ECOs and U.S. businesses affected by inbound terminal dues mail should become more cost-competitive due to the planned increased terminal dues rates, although the planned changes may not eliminate all of the existing competitive disadvantages (see table 4). A State Department official stated that these new rates may still not fully cover the cost of delivery in some countries with very high postal delivery costs, potentially impacting ECOs' competitiveness in those countries. A representative from a small business that competes with overseas e-commerce businesses for U.S. consumers stated that any increase in terminal dues would make his business more price-competitive with foreign competitors. However, a representative from one small business affected by inbound terminal dues mail we spoke with stated that his business had already suffered due to the terminal dues system. He added that other factors also make it harder to compete and therefore it would be harder to recover even with higher terminal dues rates.

Table 4: Potential Positive Effects of Planned Changes to Terminal Dues System for Selected U.S. Stakeholders

Stakeholder	Description of potential effects
Express consignment operators (ECO)	Because terminal dues rates may increase mailing costs for international products offered by designated postal operators, ECOs may be more competitive.
Businesses affected by inbound mail	Mailing costs for foreign businesses sending terminal dues to U.S. consumers may increase as terminal dues rates increase, making U.S. businesses affected by inbound international mail more competitive.

Source: GAO analysis of stakeholder interviews and economic analysis. | GAO-18-112

While these changes may have different effects on U.S. stakeholders, it is difficult to quantify the future effects because of limited information and forecasting variability. As a result, it remains to be seen what the effects of these changes to this system will be on domestic stakeholders. USPS,

USPS OIG, PRC, and others have developed or adapted models and analyses that try to show the economic impacts of the terminal dues system on different stakeholders and estimate the impact of any changes to that system. We analyzed six recent models and analyses—including the USPS's, USPS OIG's, and PRC's models—that describe either different effects of the terminal dues system on USPS, all designated postal operators, or other stakeholders.³⁵ Some of these studies also try to measure how terminal dues rate increases may affect these stakeholders. Our review determined that these models and analyses can help inform stakeholders about the different overall effects of terminal dues. However, we also found that the analyses are limited in how they can predict or describe the effect of the terminal dues system, in part due to a lack of complete information on the following issues:

- the volume of mail, including its type and weight, that flows between each UPU member country;
- equivalent domestic postage rates that would be charged to domestic mailers for service equivalent to inbound terminal dues mail;
- the presence of alternative international mail agreements, such as bilateral and multilateral agreements;
- the number of U.S. businesses and consumers that receive or send international mail covered by terminal dues rates;
- the number and market characteristics of U.S. businesses that currently compete with imported products that are sent under terminal dues;
- how terminal dues rates and changes in those rates would affect supply chains between businesses in the U.S. and other countries; and,³⁶
- the share of postage costs of U.S. businesses for outbound mail that is covered by the terminal dues system and the proportion of total

³⁵GAO analyzed the following major economic models/analyses from: (1) USPS adaptation of the UPU's Terminal Dues Impact model; 2) *The Economics of Terminal Dues* by Copenhagen Economics, as requested by PRC; 3) the Terminal Dues Model of James Campbell; 4) USPS OIG; 5) Dieke, Niederprum, and Thiele of WIK Consultants, *UPU-Terminal Dues and International E-Commerce*; and 6) the model in the article *An Economist's Perspective on Terminal Dues* by Henirk, Ballebye, Okholm et. al of Copenhagen Economics.

³⁶WIK Consultants, *UPU, Terminal Dues and International E-Commerce*.

business costs; how important postage and shipping costs are to total costs of doing business, domestically and globally.

Our analysis also found that some of the models and analyses we reviewed did not make adjustments to factor in some or all of these potential mail-related changes, such as changes in:

- volume of international mail reimbursed by terminal dues changes in response to increases in terminal dues rates or changes in other international mail products offered by USPS or express consignment operators;
- monetary exchange rates, as all terminal dues are denominated in Special Drawing Rights, a combination of five major currencies, which all vary over time, introducing uncertainty to any projection of terminal dues rates; and,
- other international trade issues, such as customs duties, tariffs, labor costs, other shipping costs, and regulatory costs.

In the absence of models or analyses that take these factors into account, it is difficult to quantify the impact of terminal dues rate increases on other domestic stakeholders.

Alternatives to the Terminal Dues System Mainly Benefit USPS, While the Effects on Other Stakeholders Are Unclear

USPS Offers Several Alternatives to the Terminal Dues System for International Mail

Not all international mail is sent through the terminal dues system. USPS officials and mail stakeholders told us and USPS data indicate that mailers send a significant portion of U.S. inbound and outbound international mail using the following alternatives: bilateral and multilateral agreements, parcels, express mail service, and direct entry.³⁷ USPS data show that while terminal dues as a percentage of inbound international mail volume increased from about 50 percent in fiscal year 2012 to about 60 percent in fiscal year 2016, a significant portion of international mail comes into the United States via these alternatives.³⁸

Each of these alternatives is described in greater detail below.

- USPS negotiates **bilateral and multilateral agreements** for a number of countries, wherein USPS and other designated postal operators both pay higher rates for different mail products (inbound and outbound) with desirable features not available for terminal dues mail, such as tracking and faster delivery.³⁹ For example, USPS is party to the multilateral PRIME agreement, which gives priority delivery and performance bonuses (paid in addition to terminal dues) to mail from 31 countries. According to USPS officials, bilateral and

³⁷Even though there are additional alternative mail options, we analyzed these options because they represent a high volume of international mail or were mentioned most often by stakeholders.

³⁸USPS officials told us that they do not collect information on volumes of direct mail sent to the United States because it enters the mail stream as domestic mail.

³⁹USPS officials stated that they consider a number of economic and business factors in deciding whether to pursue a bilateral agreement with a designated postal operator, including revenues and cost coverage for both parties. USPS has six bilateral agreements in place as of April 2017, with Australia Post, China Post, Canada Post, Korea Post, the United Kingdom's Royal Mail, and Hong Kong Post. According to USPS, these agreements are for typically either a 1- or 2-year time frame, allowing USPS to respond to changing operating environments, customer demands, and market needs.

multilateral agreements have improved USPS's financial position. In reviewing these agreements, PRC has found that they improve USPS's financial position relative to what it would have been in the absence of these agreements.

- USPS offers products that provide **UPU parcel service** for both inbound and outbound mail, which includes tracking, liability insurance, and signature confirmation at delivery. Parcels are sent under UPU parcel rates, which are higher than what USPS would receive under the terminal dues system for comparable letter mail. USPS also offers "e-Commerce Parcel," a new parcel service established by the UPU in 2016. The e-Commerce Parcel product is aimed at the e-commerce marketplace and provides tracking, but no liability or signature confirmation. Under e-Commerce Parcel, designated postal operators determine the inbound delivery rates, which are expected to be lower than parcel service due to the service limitations. USPS officials stated that they are implementing the e-Commerce parcel service and reviewing its pricing strategy.
- USPS also provides **Express Mail Service** (also referred to as EMS) for both inbound and outbound international mail. Express Mail Service products provide express delivery of documents and merchandise, which take priority over other postal services and include signature confirmation and liability insurance for damaged or lost mail. Express Mail Service rates for inbound products can be set by bilateral agreements or determined by the receiving designated postal operator. During fiscal year 2016, inbound Express Mail Service products included shipments from 149 countries, including China, Japan, Korea, Canada, and France. Express Mail Service products for outbound U.S. mail include Priority Mail Express International service, a high-speed USPS mail service available to certain countries and available at designated USPS facilities, and Global Express Guaranteed service, a USPS international expedited delivery service provided through an alliance with FedEx.
- Mailers use **direct entry** as a way of accessing USPS domestic mail services from foreign countries without sending the item through a foreign designated postal operator. Under USPS's Global Direct Entry Wholesaler Program, third party companies, such as foreign e-commerce businesses selling products in the United States, send the items to the United States as cargo that bypasses designated postal operators, circumventing the terminal dues system entirely. Once the items clear customs, they are entered to USPS's system at domestic postage rates. Some of these items are entered into USPS's system outside of USPS's Global Direct Entry Wholesaler Program. For

example, we spoke with a representative of a U.S. company that provides direct entry services for foreign mailers, preparing items for easier entry through customs, for example by labeling items with barcodes that describe the product, and for USPS by applying U.S. domestic postage. The company representative stated that once the items clear customs, the company transports the items to one of 140 USPS distribution points (i.e. USPS's domestic mail processing facilities) to facilitate timely and efficient delivery.

As we discuss in more detail later, these alternatives may offer various benefits and disadvantages to customers that may choose them based on a combination of price, available features, and speed of delivery.

Alternatives to the Terminal Dues System Mainly Benefit USPS and U.S. Consumers, While the Effects on Other Stakeholders Are Unclear and Difficult to Quantify

USPS officials stated that alternatives to the terminal dues system earn increased net revenue for USPS, for example,

- Rates negotiated as part of bilateral and multilateral agreements, UPU parcel rates, and Express Mail Service product rates set by USPS are higher than terminal dues rates; this difference means negotiated rates provide better cost coverage and generate higher net revenues than terminal dues rates.
- Direct entry mail generates greater net revenue for USPS, because shippers enter the mail directly into USPS's domestic mail stream at domestic postal rates. USPS also realizes operational efficiencies from these alternatives due to mail entry and preparation requirements, leading to lower USPS costs. Direct entry mail is subject to the same preparation requirements as domestic mail entered in bulk quantities, such as being presorted and entered close to its final destination.

Although alternatives to the terminal dues system account for a significant portion of international mail handled by USPS, terminal dues mail continues to grow at a higher rate. From fiscal year 2012 to fiscal year 2016, the volumes of (1) USPS terminal dues mail, (2) mail covered by

bilateral and multilateral agreements, and (3) parcels increased, while Express Mail Service volume decreased.⁴⁰

U.S. consumers may also benefit from all four alternatives due to faster delivery than under the terminal dues system and from special features such as tracking, especially for higher-value items. However, U.S. consumers may pay more to use these alternatives given the special features they offer.

The effects of the alternatives on ECOs are unclear. Representatives from ECOs told us that USPS bilateral and multilateral agreement mail products and Express Mail Service products enjoy certain advantages, such as easier customs clearance, that make USPS's products more attractive to customers. However, the representatives added that the effects of USPS bilateral agreements on their business are unclear, because USPS considers the rates to be proprietary information that is not publicly available. The representatives also noted that they did not believe their products are able to compete directly with USPS bilateral and multilateral mail products because the rates for these products are based on comparatively low terminal dues rates. A 2015 USPS OIG study found that ECOs' rates are generally much higher than rates for USPS bilateral agreement and direct entry products, therefore ECOs' products are not price competitive with USPS's products.⁴¹ Express Mail Service and parcel products are priced higher than terminal dues rates and offer special features similar to those offered by ECOs, such as priority shipping and tracking, making those products more attractive for higher value and time sensitive items, and thus may compete with ECOs' products.

The effects of the alternatives on other international mail stakeholders, such as U.S. businesses that are affected by inbound or outbound international mail, are also unclear. For example, USPS bilateral

⁴⁰USPS considers exact percentages of these mail volumes to be proprietary and not subject to public disclosure.

⁴¹To research the China-to-U.S. competitive marketplace, the USPS OIG reached out to other designated postal operators and consolidators active in China. The analysis was based on publicly available sources that compare commercial rates from a variety of providers. The OIG used a third party website, which allowed retailers to enter a small package's weight, dimensions, and destination country and display the shipping options available by carrier, delivery time, rate, and features for comparison purposes. USPS OIG, *Terminal Dues in the Age of E-Commerce*, Appendix B, RARC-WP-16.

agreements may increase mailer options by providing faster service and more product features, all at a lower price that discourages competition from ECOs. However, the full effects of bilateral agreements are unclear, in part because these rates are not public. The extent that U.S. businesses related to outbound mail have access to and use direct entry options into other countries is also unclear. In addition, other non-postal related factors such as monetary exchange rates and product prices affect the competitiveness of U.S. businesses that are affected by inbound or outbound mail could be more important than mailing prices to their international competitiveness.

It is also difficult to quantify the effects of alternatives to the terminal dues system because of limited information. The information needed to determine the effects on domestic stakeholders from Express Mail Service products and bilateral agreements are not publicly available, as USPS regards this information as business proprietary.⁴² Effects on stakeholders from direct entry mail are also unclear, in part because this type of inbound mail may be difficult to distinguish from other domestic USPS mail, and information on direct entry mail is not collected by USPS. Use of alternatives also depends on terminal dues rates and other factors, such as overall mail volume trends, and the models and analyses we reviewed do not take these alternatives into account when modeling international mail trends. For example, none of the models and analyses we reviewed took into account bilateral agreements due to the lack of publicly available information.

Agency Comments

We provided a draft of this product to USPS, PRC, and the Department of State for their review and comment. In USPS's comments, reproduced in appendix IV, USPS generally agreed with our findings, described the impact of upcoming terminal dues changes, and emphasized that USPS has been taking efforts to improve its cost coverage and collect more revenue for international mail. In PRC's comments, reproduced in appendix V, PRC generally agreed with our findings. State did not provide any formal comments. USPS also provided technical comments, which

⁴²USPS is not required to disclose information of a commercial nature, including trade secrets, whether or not obtained from a person outside USPS, which under good business practice would not be publicly disclosed. 39 U.S.C. § 410(c)(2).

we incorporated as appropriate. PRC and State did not provide any technical comments.

If you or your staff have any questions about this report, please contact me at (202) 512-2834 or rectanusl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VI.

A handwritten signature in black ink that reads "Lori Rectanus". The signature is written in a cursive, flowing style.

Lori Rectanus
Director, Physical Infrastructure Issues

Appendix I: Objectives, Scope, and Methodology

This report describes the financial effects on domestic stakeholders of the following: (1) the rates under the current UPU terminal dues system, (2) planned changes to those rates, and (3) alternatives to the terminal dues system. For all of our objectives, we interviewed officials at the U.S. Postal Service (USPS), the Department of State (State), U.S. Customs and Border Protection (CBP), and the Postal Regulatory Commission (PRC); industry consultants; and selected mail stakeholders affected by terminal dues. We selected stakeholders affected by terminal dues based on our reviews of comments submitted to PRC on proposals related to terminal dues for the 2016 UPU congress, as well as interviews with USPS, PRC, State officials, and industry consultants.

To obtain background information and provide context for this report, we reviewed relevant federal statutes and U.S. policies; documentation from the UPU, State, USPS, USPS Office of Inspector General (USPS OIG); and knowledgeable consultants. Relevant legal sources that we reviewed include Title 39 of the U.S. Code and the 2006 Postal Accountability and Enhancement Act.¹ In addition, we reviewed the UPU constitution, UPU general regulations, and UPU agreements reached at the 2016 UPU congress, which define the terminal dues system. We reviewed documents of State's Advisory Committee on International Postal and Delivery Services under the Federal Advisory Committee Act, including minutes and proposals, and USPS and USPS OIG reports on terminal dues and international mail flows. We also reviewed related studies by third parties, including PRC-sponsored reports by Copenhagen Economics on the economic impacts of terminal dues and other terminal

¹2006 Postal Accountability and Enhancement Act, Pub. L. No. 109-435, 120 Stat. 3198 (2006).

dues related reports.² In addition, we reviewed GAO reports on related postal issues, as well as relevant academic literature, industry journals, books, and other publications, including news articles. We analyzed available USPS information for fiscal years 2015 and 2016 on international mail to and from the United States and to and from UPU-designated target and transitional countries to determine the most significant mail flows. USPS information for inbound and outbound international mail by country was only available beginning in fiscal year 2015.

To determine the current rates under the UPU terminal dues system and the effects of these rates on selected stakeholders, we reviewed and analyzed UPU documentation on terminal dues rates, and we identified and interviewed affected domestic mail stakeholders to obtain their views on the potential impacts of the current terminal dues system. We judgmentally selected stakeholders through interviews with USPS, State, PRC, and industry group officials and consultants and our review of mail stakeholder comments submitted to PRC pursuant to PRC proceedings on terminal dues and international mail related proposals and agreements. In addition, to select business and consultant stakeholders, we also reviewed published reports documenting their knowledge of international mail and terminal dues issues. We interviewed USPS and CBP officials and observed international mail processing by USPS and CBP at two USPS International Service Centers (ISC). We applied standard economic principles to describe effects of the current terminal dues system on domestic stakeholders.

To describe the effects of the current terminal dues system on USPS specifically, we reviewed USPS position papers, analyses, and reviewed and analyzed terminal dues models and analyses showing the effects of terminal dues, and reviewed UPU documents describing the terminal dues system, relevant USPS OIG reports, and PRC proceedings and

²These reports included: Copenhagen Economics, *Quantification of financial transfers caused by Universal Postal Union terminal dues: Final report* (Washington, D.C.: Dec. 22, 2015), available at <https://www.prc.gov>; Copenhagen Economics, *The Economics of Terminal Dues: Final report* (Washington, D.C.: Sept. 30, 2014), available at <https://www.prc.gov>; James Campbell, "Estimating the Effects of UPU Terminal Dues, 2014—2017," Presentation to 8th Bi-annual Postal Economics Conference on E-commerce, Digital Economy and Delivery Services Toulouse, Manufacture des Tabacs, Apr. 3-4, 2014; USPS OIG, *Terminal Dues in the Age of E-Commerce*, RARC-WP-16-003 (Arlington, VA: Dec.14, 2015); "UPU-Terminal Dues and International E-Commerce", Dieke, Niederprum and Thiele of WIK Consultants.

Annual Compliance Determination Reports. We analyzed USPS information and reports on inbound and outbound international mail, including volume, costs, and revenue from fiscal years 2012 to 2016 and UPU information describing the terminal dues system and rates from 2014 to 2017. We assessed the reliability of USPS's information on the volume, costs, and revenue for international mail by reviewing documentation related to how the data are collected and processed. We found this information to be sufficiently reliable for the limited purpose of presenting this descriptive information. We also visited the Chicago O'Hare International Airport and the New York John F. Kennedy International Airport International Service Centers to observe how USPS processes inbound and outbound international mail and how USPS interacts with CBP to clear international mail for delivery to U.S. addressees. We selected the Chicago O'Hare International Airport and the New York John F. Kennedy International Airport International Service Centers because they process most inbound international mail volume, as well as their location and interviews with USPS and CBP officials.

To determine planned changes to UPU terminal dues rates, we reviewed UPU documents that described the changes to the terminal dues system resulting from the 2016 UPU congress, including the 2018 through 2021 terminal dues rate structure. We also reviewed USPS and State proposals to the 2016 UPU congress and stakeholder comments submitted to PRC on proposals to the 2016 UPU congress. We applied standard economic principles to describe effects of the planned changes on domestic stakeholders.

We reviewed six economic models and analyses estimating different effects of the current and future terminal dues system on global postal flows and on various stakeholders. We selected the six models and analyses for analysis based on how current they were and whether they produced empirical findings related to the effects of terminal dues or changes in terminal dues. These models and analyses were taken from the published academic literature, economic papers, government reports, and government analyses. The studies used a range of methodologies from simulation modeling to experimental methods, in part due to the paucity of data on a number of variables such as trade flows or how terminal dues affect certain stakeholders, such as consumers and businesses. Our overall review of the studies was based on economic criteria and GAO guidance which included: the purpose of the model, the assumptions used, the data or lack of data, model validation methods, transparency of the model and data, sensitivity analysis, and peer review. Where appropriate, we also compared the results of the models or

analyses to other similar modeling results. The analyses we assessed address different questions relating to various mail stakeholders. We determined that these analyses appropriately include, though with certain limitations, the key elements of an economic analysis. Our overall assessment is that while these models and analyses include limitations and caveats, they still inform decision-makers and stakeholders about the different economic effects of terminal dues.

To determine the alternatives to the terminal dues system used by U.S. mail stakeholders and the implications of those alternatives for stakeholders, we interviewed USPS, PRC, and State officials, representatives from mailing industry companies, express consignment operators and other selected stakeholders affected by the terminal dues system, international mail consultants, and freight shipping and forwarding firms. We analyzed USPS information and reports on inbound and outbound international mail from fiscal year 2012 through fiscal year 2016, including volume, cost, and revenue data. We assessed the reliability of USPS's information on the volume, costs, and revenue for international mail by reviewing documentation related to how the data are collected and processed. We found this information to be sufficiently reliable for the limited purpose of presenting this descriptive information. We selected the four alternatives offered by USPS to the terminal dues system, including USPS bilateral and multilateral agreements with other designated postal operators, Express Mail Service products, parcels, and direct entry mail.

To describe these alternatives and determine their implications for mail stakeholders, we reviewed and analyzed USPS bilateral agreements with other designated postal operators, stakeholder comments on proposed bilateral agreements, PRC decisions on the proposed agreements, and USPS and USPS OIG documents and reports describing our selected alternatives. We reviewed USPS's bilateral agreements with China Post, Canada Post, Hong Kong Post, Korea Post, and Royal PostNL in the Netherlands, which were in force during the course of our work.

We applied standard economic principles to describe effects of these alternatives on domestic stakeholders.

The performance audit on which this report is based was conducted from May 2016 to August 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate, evidence to provide a reasonable basis for our findings and conclusions based on our audit

objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We subsequently worked with USPS from June to October 2017 to prepare this public version of the original sensitive report. This public version was also prepared in accordance with these standards.

This is a public version of GAO-17-571SU that we issued in August 2017. This report excludes information that was deemed to be proprietary by USPS and that must be protected from public disclosure. Therefore, this report omits proprietary information and certain data related to USPS's revenues, costs and volumes for international mail. Although the information provided in this report is more limited in scope, it addresses the same objectives as the sensitive report and the methodology used for both reports is the same.

Appendix II: List of Countries by Universal Postal Union's (UPU) Country Groups from 2014–2017 and from 2018–2021

The UPU divides its member countries into country groups based on the UPU's "postal development indicator," which is largely based on gross national income per capita and attempts to factor in the cost to deliver a letter based on statistics from the United Nations, the World Bank, and the UPU. The UPU uses the country groups to, among other things, apply terminal dues rates to international letter mail sent between member countries. The UPU consolidated its five country groups for the 2014–2017 period into four country groups for the 2018–2021 period: Group I includes the most developed countries, Groups II and III include developing countries, and Group IV includes the least developed countries.

Table 5: Universal Postal Union's (UPU) Country Group I from 2018–2021

Countries and territories	UPU group for 2014–2017
Australia	1.1
– Norfolk Island	1.1
Austria	1.1
Belgium	1.1
Canada	1.1
Denmark	1.1
– Faroe Islands	1.1
– Greenland	1.1
Finland (including the Åland Islands)	1.1
France	1.1
French Overseas Territories coming within the Union's jurisdiction by virtue of article 23 of the Constitution:	
– French Polynesia (including Clipperton Island)	1.1
– New Caledonia	1.1
– Wallis and Futuna Islands	1.1
Germany	1.1
Great Britain:	

**Appendix II: List of Countries by Universal
Postal Union's (UPU) Country Groups from
2014–2017 and from 2018–2021**

Countries and territories	UPU group for 2014–2017
– United Kingdom of Great Britain and Northern Ireland	1.1
– Guernsey	1.1
– Isle of Man	1.1
– Jersey	1.1
Overseas Territories (United Kingdom of Great Britain and Northern Ireland):	
– Falkland Islands (Malvinas)	1.1
– Gibraltar	1.1
– Pitcairn, Henderson, Ducie and Oeno Islands	1.1
– Tristan da Cunha	1.1
Greece	1.1
Iceland	1.1
Ireland	1.1
Israel	1.1
Italy	1.1
Japan	1.1
Liechtenstein	1.1
Luxembourg	1.1
Monaco	1.1
Netherlands	1.1
New Zealand (including the Ross Dependency)	1.1
Norway	1.1
Portugal	1.1
San Marino	1.1
Spain	1.1
Sweden	1.1
Switzerland	1.1
United States of America	1.1
Vatican	1.1

Source: GAO analysis of Universal Postal Union, Decisions of the 2016 Istanbul Congress. | GAO-18-112

Table 6: Universal Postal Union's (UPU) Country Group II from 2018–2021

Countries and territories	UPU group for 2014–2017
Aruba, Curaçao and Sint Maarten	1.2 (Aruba), 2 (Curaçao and Sint Maarten), previously part of "Netherlands Antilles and Aruba"

**Appendix II: List of Countries by Universal
Postal Union's (UPU) Country Groups from
2014–2017 and from 2018–2021**

Countries and territories	UPU group for 2014–2017
Antigua and Barbuda	2
Bahamas	1.2
Bahrain (Kingdom)	2
Barbados	2
Brunei Darussalam	2
Croatia	2
Cyprus	2
Czech Rep.	2
Dominica	2
Estonia	2
Grenada	2
Hong Kong, China	1.2
Hungary	2
Korea (Rep.)	2
Kuwait	1.2
Latvia	2
Macao, China	2
Malta	2
Territory under Netherlands:	
– Dutch Caribbean (Bonaire, Saba and Sint Eustatius)	1.1
Territory under New Zealand:	
– Cook Islands	2
Overseas Territories (United Kingdom of Great Britain and Northern Ireland):	
– Anguilla	1.2
– Bermuda	1.2
– British Virgin Islands	1.2
– Cayman Islands	1.2
– Montserrat	2
– Turks and Caicos Islands	1.2
Poland	2
Qatar	1.2
Saint Christopher (St. Kitts) and Nevis	2
Saudi Arabia	2
Singapore	1.2
Slovakia	2
Slovenia	1.2

Appendix II: List of Countries by Universal Postal Union's (UPU) Country Groups from 2014–2017 and from 2018–2021

Countries and territories	UPU group for 2014–2017
Trinidad and Tobago	2

Source: GAO analysis of Universal Postal Union, Decisions of the 2016 Istanbul Congress. | GAO-18-112

Table 7: Universal Postal Union's (UPU) Country Group III from 2018–2021

Countries and territories	UPU group for 2014–2017
Argentina	3
Belarus	3
Bosnia and Herzegovina	3
Botswana	3
Brazil	3
Bulgaria (Rep.)	3
Chile	3
China (People's Rep.)	3
Costa Rica	3
Cuba	3
Fiji	3
Gabon	3
Jamaica	3
Kazakhstan	3
Lebanon	3
Lithuania	3
Malaysia	3
Mauritius	3
Mexico	3
Montenegro	3
Nauru	3
Territory under New Zealand:	
– Niue	3
Oman	3
Panama (Rep.)	3
Romania	3
Russian Federation	3
Saint Lucia	3
Saint Vincent and the Grenadines	3
Serbia	3
Seychelles	3

Appendix II: List of Countries by Universal Postal Union's (UPU) Country Groups from 2014–2017 and from 2018–2021

Countries and territories	UPU group for 2014–2017
South Africa	3
Suriname	3
Thailand	3
the former Yugoslav Republic of Macedonia	3
Turkey	3
Ukraine	3
Uruguay	3
United Arab Emirates (UAE)	1.2
Venezuela (Bolivarian Rep.)	3

Source: GAO analysis of Universal Postal Union, Decisions of the 2016 Istanbul Congress. | GAO-18-112

Table 8: Universal Postal Union's (UPU) Country Group IV from 2018–2021

Countries and territories	UPU group for 2014–2017
Albania	4
Algeria	4
Afghanistan	5
Angola	5
Armenia	4
Azerbaijan	4
Bangladesh	5
Belize	4
Benin	5
Bhutan	5
Bolivia	4
Burkina Faso	5
Burundi	5
Cambodia	5
Cameroon	4
Cape Verde	4
Central African Rep.	5
Chad	5
Colombia	4
Comoros	5
Congo (Rep.)	4
Côte d'Ivoire (Rep.)	4
Dem People's Rep. of Korea	4

Appendix II: List of Countries by Universal
Postal Union's (UPU) Country Groups from
2014–2017 and from 2018–2021

Countries and territories	UPU group for 2014–2017
Dem. Rep. of the Congo	5
Djibouti	5
Dominican Republic	4
Ecuador	4
Egypt	4
El Salvador	4
Equatorial Guinea	5
Eritrea	5
Ethiopia	5
Gambia	5
Georgia	4
Ghana	4
Guatemala	4
Guinea	5
Guinea-Bissau	5
Guyana	4
Haiti	5
Honduras (Rep.)	4
India	4
Indonesia	4
Iran (Islamic Rep.)	4
Iraq	4
Jordan	4
Kenya	4
Kiribati	5
Kyrgyzstan	4
Lao People's Dem. Rep.	5
Lesotho	5
Liberia	5
Libya	4
Madagascar	5
Malawi	5
Maldives	4
Mali	5
Mauritania	5
Moldova	4

**Appendix II: List of Countries by Universal
Postal Union's (UPU) Country Groups from
2014–2017 and from 2018–2021**

Countries and territories	UPU group for 2014–2017
Mongolia	4
Morocco	4
Mozambique	5
Myanmar	5
Namibia	4
Nepal	5
Nicaragua	4
Niger	5
Nigeria	4
Overseas Territories (United Kingdom of Great Britain and Northern Ireland):	
– Ascension	4
– St Helena	4
Pakistan	4
Palestine	5
Papua New Guinea	4
Paraguay	4
Peru	4
Philippines	4
Rwanda	5
Samoa	5
Sao Tome and Principe	5
Senegal	5
Sierra Leone	5
Solomon Islands	5
Somalia	5
South Sudan	5
Sri Lanka	4
Sudan	5
Swaziland	4
Syrian Arab Rep.	4
Tajikistan	4
Tanzania (United Rep.)	5
Territory under New Zealand:	
– Tokelau	4
Territory under United States of America:	
– Samoa	4

**Appendix II: List of Countries by Universal
Postal Union's (UPU) Country Groups from
2014–2017 and from 2018–2021**

Countries and territories	UPU group for 2014—2017
Timor-Leste (Dem. Rep.)	5
Togo	5
Tonga (including Niuafo'ou)	4
Tunisia	4
Turkmenistan	4
Tuvalu	5
Uganda	5
Uzbekistan	4
Vanuatu	5
Viet Nam	4
Yemen	5
Zambia	5
Zimbabwe	4

Source: GAO analysis of Universal Postal Union, Decisions of the 2016 Istanbul Congress. | GAO-18-112

Appendix III: Average Annual Rate-Cap Increases of the Universal Postal Union's (UPU) Terminal Dues

Table 9: Average Annual Rate-Cap Increases of the Universal Postal Union's (UPU) Terminal Dues, 2014—2017 and 2018—2021

	2014—2017 Average Annual Rate-Cap Increase—All Letter Mail		2018—2021 Average Annual Rate-Cap Increase—Letters and Flats	2018—2021 Average Annual Rate-Cap Increase— Packets
Cap between Group 1 Countries	3 percent	Cap between Group I Countries	3 percent	3 percent
Cap between Group 1, Group 1.2, and Group 2 Countries	6 percent	Cap between Group I and Group II Countries	6 percent	10 percent
Single rate between Group 3 and all other countries	4 percent	Cap between Group I, Group II, and Group III Countries	6 percent	13 percent
Single rate between Group 4 and Group 5 Countries and all other countries	3 percent	Single rate between Group IV and all other countries	3 percent	3 percent

Source: GAO analysis of Universal Postal Union, Decisions of the 2016 Istanbul Congress. | GAO-18-112

Appendix IV: Comments from the United States Postal Service

MAURA A. MCDEVITT
VICE PRESIDENT, CONTROLLER



October 2, 2017

Ms. Lori Rectanus
Director, Physical Infrastructure Issues
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548-0001

RE: *International Mail: Information on Changes and Alternatives to the Terminal Dues System*
(GAO-18-112)

Dear Ms. Rectanus:

This communication is in response to the United States Government Accountability Office's (GAO) Report to Congressional Committees entitled *International Mail: Changes and Alternatives to the Terminal Dues System*.

We would like to thank your office for this comprehensive study on such an important public policy issue. The Postal Service finds the report balanced and reflective of many U.S. stakeholder views. We share many of the principal findings, and would like to provide the following additional comments:

- (1) While the first section of the report does point out some of the major shortcomings in the current Universal Postal Union (UPU) terminal dues system in effect from 2014 through the end of 2017, in terms of cost coverage on inbound international mail from certain countries, the Postal Service would like to stress some of the important strategies and initiatives we have undertaken in recent years to improve cost coverage. The Postal Service has entered into bilateral and multilateral agreements with many of our largest trading partners to alleviate these cost coverage issues stemming from UPU terminal dues. The bilateral agreements cover Postal Service costs on inbound international mail. The multilateral PRIME Express agreement provides substantial supplementary revenue in addition to UPU terminal dues based on additional service features, such as tracking and on-time delivery.
- (2) When assessing the revenue received to deliver inbound international letter post mail, it is important to take into account that the Postal Service receives not only base UPU terminal dues payments, but also many types of additional revenue, such as the PRIME bonus payments highlighted above. Some other surcharges and bonus payments are identified in the report and include: 1) UPU registered surcharge of approximately \$1 per piece; 2) UPU supplementary registered tracking payment of approximately \$0.75 per piece; and 3) Internal air conveyance dues charges per kilogram from Group 3, 4 and 5 countries. Comparisons are often made between a domestic postage rate and the base UPU terminal dues rate received for a mail piece of a certain weight. The additional payments received for that mail piece should also be factored into such comparisons. The report also points out that some of these comparisons are complicated as the domestic product can include tracking, delivery confirmation, and faster delivery times and may be mailed single-piece at retail. By contrast, inbound international mail is received in bulk; is largely prepared in letter trays, flat tubs, and bags; and avoids collection and processing costs that are incurred for domestic mail.

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- (3) Finally, the report stresses the positive changes of the new UPU terminal dues system that will take effect in a few months on January 1, 2018, to improve USPS cost coverages on inbound mail paid at UPU rates. The Postal Service expects a major turnaround of this loss situation with the implementation of the UPU Istanbul Congress decisions on a new terminal dues system that will be in effect for the years 2018 to 2021. The Postal Service worked diligently together with the Department of State and the Postal Regulatory Commission in terminal dues working groups since the 2012 UPU Congress in Doha to achieve changes in the system to improve cost coverage—especially with respect to small packets from certain Asian countries.

Thank you for this opportunity to respond to GAO's report.

Respectfully,



Maura A. McDevitt

Appendix V: Comments from the Postal Regulatory Commission



POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Office of the Chairman

September 26, 2017

Lori Rectanus
Director, Physical Infrastructure Issues
Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Rectanus:

Thank you for the opportunity to provide comments on the Government Accountability Office's (GAO) revised report *International Mail: Information on Changes and Alternatives to the Terminal Dues System* (GAO-18-112). The Postal Regulatory Commission (Commission) appreciates the opportunity for constructive dialogue that the GAO has provided in sharing and discussing the non-public report GAO-17-571SU and its revised report GAO-18-112. The Commission hopes that the document and studies it provided to GAO were helpful for its analysis. The Commission appreciates the GAO's changes made in the revised report in response to the Commission's earlier comments. The Commission offers the following comments on the revised report.

First, the Commission welcomes the GAO's revised report on the effects of current and planned terminal dues rates and the alternatives available to the Postal Service. The revised report is particularly relevant due to the increasing volume of inbound international letter mail, the growing marketplace for e-commerce goods, and planned modifications to the Universal Postal Union (UPU) terminal dues system.

The Commission has been involved in the review of terminal dues rates since 1998¹ and discusses the effects of terminal dues rates in all of its Annual Compliance Determination (ACD) reports. The Commission has routinely expressed concern about the effects of

¹ Pursuant to section 3663 of the Postal Reorganization Act, the Commission issued eight annual reports to Congress, covering FY 1998 through FY 2005, that covered international mail costs, revenues, and volumes. See Division A – Omnibus Consolidated Appropriations, Pub. L. No. 105-277, § 648(a), 112 Stat. 2681-527 (1998); see also Docket Nos. IM99-1, IM2000-1, IM2001-1, IM2002-2, IM2003-1, IM2004-1, IM2005-1 and IM2006-1.

noncompensatory terminal dues rates on Inbound Letter Post mail. In its Fiscal Year (FY) 2007 ACD Report, the Commission noted that the Inbound Letter Post revenue did not cover costs and resulted in a negative contribution of \$72.8 million.² Most recently, in its FY 2016 ACD Report, the Commission again found that Inbound Letter Post revenue did not cover costs and resulted in a negative contribution of \$134.5 million (up from \$97.9 million in the previous fiscal year).³ In its ACD reports, the Commission has repeatedly recommended that the U.S. pursue more compensatory terminal dues rates and that the Postal Service negotiate more compensatory rates in bilateral or multilateral agreements with foreign postal operators.⁴

Second, the Commission clarified statements in the GAO's draft report concerning the Commission's role in international mail issues with respect to terminal dues, Postal Service bilateral agreements, and Postal Service international mail products. The Commission clarified that under 39 U.S.C. § 407, the State Department must request Commission views on relevant UPU proposals *before* such proposals are considered and adopted by the UPU Congress. The Commission also clarified that section 407 applies not only to UPU terminal dues proposals, but to all treaties, conventions, or amendments that establish market dominant rates or classifications. GAO incorporated these clarifications in its revised report.

Third, the GAO correctly stated in the draft report that the Commission has a role in reviewing market dominant and competitive products as well as market dominant and competitive negotiated service agreements (NSAs) between the Postal Service and foreign postal operators or companies that send international mail. The GAO also correctly noted that the Commission applies separate standards when reviewing market dominant and competitive products. In its previous comments, the Commission clarified that it applies a different standard

² Docket No. ACR2007, Postal Regulatory Commission Annual Compliance Determination United States Postal Service Performance FY 2007, March 27, 2008, at 118 (FY 2007 ACD).

³ Docket No. ACR2016, Annual Compliance Determination Report, Fiscal Year 2016, March 28, 2017, at 65 (FY2016 ACD).

⁴ See FY 2007 ACD at 119; FY 2016 ACD at 67; see also Docket No. ACR2008, Postal Regulatory Commission Annual Compliance Determination, March 30, 2009, at 82; Docket No. ACR2009, Postal Regulatory Commission Annual Compliance Determination of the U.S. Postal Service Performance, March 29, 2010, at 109-110; Docket No. ACR2010, Annual Compliance Determination Report, Fiscal Year 2010, March 29, 2011, at 132; Docket No. ACR2011, Annual Compliance Determination Report, Fiscal Year 2011, March 28, 2012, at 145-146; Docket No. ACR2012, Annual Compliance Determination Report, Fiscal Year 2012 (revised May 7, 2013), May 7, 2013, at 146; Docket No. ACR2013, Annual Compliance Determination Report, Fiscal Year 2013, March 27, 2014, at 61; Docket No. ACR2014, Annual Compliance Determination Report, Fiscal Year 2014, March 27, 2015, at 54; Docket No. ACR2015, Annual Compliance Determination Report, Fiscal Year 2015, March 28, 2016, at 70.

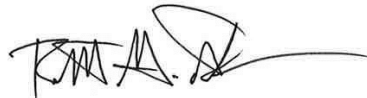
when reviewing market dominant NSAs than when it reviews market dominant prices of general applicability. Pursuant to 39 U.S.C. § 3622(c)(10), when it reviews a market dominant NSA, the Commission must determine whether the NSA improves the net financial position of the Postal Service or enhances the Postal Service's operational performance. 39 U.S.C. §§ 3622(c)(10)(A)(i) and (ii).

On page seven of its revised report, the GAO amended footnote 13 to include the different standard that the Commission applies when reviewing market dominant NSAs. The Commission appreciates this revision. The Commission would like to clarify that when it reviews market dominant NSAs, in addition to determining the net financial effect and/or identifying operational performance benefits, the Commission must also determine whether such NSAs will cause unreasonable harm to the marketplace and whether the agreement is available on public and reasonable terms to similarly situated mailers. 39 U.S.C. § 3622(c)(10).

The Commission appreciates the GAO's collaboration on its revised report and welcomes the valuable insight that the GAO has provided in discussing the effects of the current terminal dues system, the future terminal dues system, and alternatives to the terminal dues system relative to the Postal Service and all U.S. stakeholders.

With best wishes, I am

Sincerely yours,

A handwritten signature in black ink, appearing to read 'R. Taub', with a long horizontal flourish extending to the right.

Robert G. Taub
Chairman

Appendix VI: GAO Contacts and Staff Acknowledgments

GAO Contact

Lori Rectanus, (202) 512-2834, rectanusl@gao.gov

Staff Acknowledgments

In addition to the contact named above, Derrick Collins (Assistant Director); Greg Hanna (Analyst-in-Charge); Barbara El Osta; Camilo Flores; Kenneth John; Mike Mgebroff; Malika Rice; and Amy Rosewarne made key contributions to this report.

Appendix VII: Accessible Data

Data Tables

Data Table for Figure 2: U.S. Postal Service's (USPS) Net Revenues Generated by Inbound Terminal Dues Mail, Fiscal Years 2012—2016

Continental region	Inbound (62%)	Outbound (38%)
Africa	0%	1%
Asia	63%	11%
Caribbean	0%	1%
Europe	26%	38%
North America	8%	37%
Oceania	2%	7%
South America	1%	4%

Data Table for Figure 3: U.S. Postal Service's (USPS) Revenues and Costs for Inbound Terminal Dues Mail, Fiscal Years 2012—2016

FY	2012	2013	2014	2015	2016
Inbound Net Revenue	-\$66	-\$78	-\$75	-\$98	-\$135

Data Table for Figure 4: Example of Inbound International Mail at a U.S. Postal Service's International Service Center

FY	Inbound Revenue	Inbound Cost
2012	\$134	\$200
2013	\$150	\$228
2014	\$175	\$249
2015	\$251	\$349
2016	\$266	\$401

Agency Comment Letters

Text of Appendix IV: Comments from the United States Postal Service

Page 1

October 2, 2017

Ms. Lori Rectanus

Director, Physical Infrastructure Issues

United States Government Accountability Office 441 G Street, NW

Washington, DC 20548-0001

RE: International Mail: Information on Changes and Alternatives to the Terminal Dues System

(GAO-18-112)

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The Postal Service has entered into bilateral and multilateral agreements with many of our largest trading partners to alleviate these cost coverage issues stemming from UPU terminal dues. The bilateral agreements cover Postal Service costs on inbound international mail. The multilateral PRIME Express agreement provides substantial supplementary revenue in addition to UPU terminal dues based on additional service features, such as tracking and on-time delivery.

(2) When assessing the revenue received to deliver inbound international letter post mail, it is important to take into account that the Postal Service receives not only base UPU terminal dues payments, but also many types of additional revenue, such as the PRIME bonus payments highlighted above. Some other surcharges and bonus payments are identified in the report and include: 1) UPU registered surcharge of approximately \$1 per piece; 2) UPU supplementary registered tracking payment of approximately \$0.75 per piece; and 3) Internal air conveyance dues charges per kilogram from Group 3, 4 and 5 countries. Comparisons are often made between a domestic postage rate and the base UPU terminal dues rate received for a mail piece of a certain weight. The additional payments received for that mail piece should also be factored into such comparisons. The report also points out that some of these comparisons are complicated as the domestic product can include tracking, delivery confirmation, and faster delivery times and may be mailed single-piece at retail. By contrast, inbound international mail is received in bulk; is largely prepared in letter trays, flat tubs, and bags; and avoids collection and processing costs that are incurred for domestic mail.

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(3) Finally, the report stresses the positive changes of the new UPU terminal dues system that will take effect in a few months on January 1, 2018, to improve USPS cost coverages on inbound mail paid at UPU rates. The Postal Service expects a major turnaround of this loss situation with the implementation of the UPU Istanbul Congress decisions on a new terminal dues system that will be in effect for the years 2018 to 2021. The Postal Service worked diligently together with the Department of State and the Postal Regulatory Commission in terminal dues working groups since the 2012 UPU Congress in Doha to achieve changes in the system to improve cost coverage-especially with respect to small packets from certain Asian countries.

Thank you for this opportunity to respond to GAO's report.

Maura A. McDevitt

Text of Appendix V: Comments from the Postal
Regulatory Commission

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September 26, 2017

Lori Rectanus

Director, Physical Infrastructure Issues Government Accountability Office

441 G Street, NW Washington, DC 20548

Dear Ms. Rectanus:

Thank you for the opportunity to provide comments on the Government Accountability Office's (GAO) revised report International Mail: Information on Changes and Alternatives to the Terminal Dues System (GAO-18-112). The Postal Regulatory Commission (Commission) appreciates the opportunity for constructive dialogue that the GAO has provided in sharing and discussing the non-public report GAO-17-571SU and its revised report GAO-18-112. The Commission hopes that the document and studies it provided to GAO were helpful for its analysis. The Commission appreciates the GAO's changes made in the revised report in response to the Commission's earlier comments. The Commission offers the following comments on the revised report.

First, the Commission welcomes the GAO's revised report on the effects of current and planned terminal dues rates and the alternatives available to the Postal Service. The revised report is particularly relevant due to the increasing volume of inbound international letter mail, the growing marketplace for e-commerce goods, and planned modifications to the Universal Postal Union (UPU) terminal dues system.

The Commission has been involved in the review of terminal dues rates since 1998 ¹ and discusses the effects of terminal dues rates in all of its Annual Compliance Determination (ACD) reports. The Commission has routinely expressed concern about the effects of

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noncompensatory terminal dues rates on Inbound Letter Post mail. In its Fiscal Year (FY) 2007 ACD Report, the Commission noted that the Inbound Letter Post revenue did not cover costs and resulted in a negative contribution of \$72.8 million.² Most recently, in its FY 2016 ACD Report, the Commission again found that Inbound Letter Post revenue did not cover costs and resulted in a negative contribution of \$134.5 million (up from \$97.9 million in the previous fiscal year).³ In its ACD reports, the Commission has repeatedly recommended that the U.S. pursue

more compensatory terminal dues rates and that the Postal Service negotiate more compensatory rates in bilateral or multilateral agreements with foreign postal operators.⁴

¹ Pursuant to section 3663 of the Postal Reorganization Act, the Commission issued eight annual reports to Congress, covering FY 1998 through FY 2005, that covered international mail costs, revenues, and volumes. See Division A- Omnibus Consolidated Appropriations, Pub. L. No. 105-277, § 648(a), 112 Stat. 2681-527 (1998); see also Docket Nos. IM99-1, IM2000-1, IM2001-1, IM2002-2, IM2003-1, IM2004-1, IM2005-1 and IM2006-1.

² Docket No. ACR2007, Postal Regulatory Commission Annual Compliance Determination United States Postal Service Performance FY 2007, March 27, 2008, at 118 (FY 2007 ACD).

³ Docket No. ACR2016, Annual Compliance Determination Report, Fiscal Year 2016, March 28, 2017, at 65 (FY2016 ACD).

⁴ See FY 2007 ACD at 119; FY 2016 ACD at 67; see also Docket No. ACR2008, Postal

Regulatory Commission Annual Compliance Determination, March 30, 2009, at 82; Docket No. ACR2009, Postal Regulatory Commission Annual Compliance Determination of the U.S. Postal Service Performance, March 29, 2010, at 109-110; Docket No. ACR2010, Annual Compliance Determination Report, Fiscal Year 2010, March 29, 2011, at 132; Docket No. ACR2011, Annual Compliance Determination Report, Fiscal Year 2011, March 28, 2012, at 145-146; Docket No. ACR2012, Annual Compliance Determination Report, Fiscal Year 2012 (revised May 7, 2013), May 7, 2013, at 146; Docket No. ACR2013, Annual Compliance Determination Report, Fiscal Year 2013, March 27, 2014, at 61; Docket No. ACR2014, Annual Compliance Determination Report, Fiscal Year 2014, March 27, 2015, at 54; Docket No. ACR2015, Annual Compliance Determination Report, Fiscal Year 2015, March 28, 2016, at 70

Second, the Commission clarified statements in the GAO's draft report concerning the Commission's role in international mail issues with respect to terminal dues, Postal Service bilateral agreements, and Postal Service international mail products. The Commission clarified that under 39 U.S.C. § 407, the State Department must request Commission views on relevant UPU proposals before such proposals are considered and adopted by the UPU Congress. The Commission also clarified that section 407 applies not only to UPU terminal dues proposals, but to all treaties, conventions, or amendments that establish market dominant rates or classifications. GAO incorporated these clarifications in its revised report.

Third, the GAO correctly stated in the draft report that the Commission has a role in reviewing market dominant and competitive products as well as market dominant and competitive negotiated service agreements (NSAs) between the Postal Service and foreign postal operators or companies that send international mail. The GAO also correctly noted that the Commission applies separate standards when reviewing market dominant and competitive products. In its previous comments, the Commission clarified that it applies a different standard

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when reviewing market dominant NSAs than when it reviews market dominant prices of general applicability. Pursuant to 39 U.S.C. § 3622(c)(10), when it reviews a market dominant NSA, the Commission must determine whether the NSA improves the net financial position of the Postal Service or enhances the Postal Service's operational performance . 39 U.S.C. §§ 3622(c)(10)(A)(i) and (ii).

On page seven of its revised report, the GAO amended footnote 13 to include the different standard that the Commission applies when reviewing market dominant NSAs. The Commission appreciates this revision. The Commission would like to clarify that when it reviews market dominant NSAs, in addition to determining the net financial effect and/or identifying operational performance benefits, the Commission must also determine whether such NSAs will cause unreasonable harm to the marketplace and whether the agreement is available on public and reasonable terms to similarly situated mailers. 39 U.S.C. § 3622(c)(10).

The Commission appreciates the GAO's collaboration on its revised report and

welcomes the valuable insight that the GAO has provided in discussing the effects of the current terminal dues system, the future terminal dues system, and alternatives to the terminal dues system relative to the Postal Service and all U.S. stakeholders.

With best wishes, I am

Sincerely yours,

Robert G. Taub Chairman

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