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ORDER NO. 1340

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

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

Before Commissioners:

George A. Omas, Chairman;
Ruth Y. Goldway, Vice Chairman;
and Dana B. Covington, Sr.

International Mail Report

Docket No. IM2002-1

SECOND NOTICE OF INTERNATIONAL MAIL
DATA REQUIREMENTS FOR FY 2001

(Issued May 1, 2002)

In order to help the Commission prepare the report required by 39 U.S.C. Section 3663, on the costs, volumes, and revenues of the Postal Service's international mail services, the Service is requested to provide the following information on or before May 14, 2002.

1. In its FY 2001 reclassification, the Postal Service eliminated the minimum weight requirement for M-bag service (formerly, 11 pounds), reduced the number of country rate groups from six to five, and changed the rate structure from a fixed per-pound rate to one with a minimum rate for the first 11-pounds and a fixed per-pound rate thereafter.
 - a. What is the rationale for eliminating the minimum weight requirement?
 - b. What is the rationale for changing the number of country rate groups?
 - c. Under this structure, a single piece weighing up to 11 pounds, or two or more pieces weighing up to 11 pounds in total would pay the same postage. What is the rationale for this structure?

2. The Postal Service has stated that the purpose of the reclassification of international mail effective January 7, 2001 was to change from a content-based system to a speed-of-service based system. (See Federal Register, Vol.65, No. 237, December 8, 2000, p. 77076.) However, the Postal Service retained bulk rates for AO matter (air and economy M-bags), introduced bulk economy rates for Books and Sheet Music, and retained economy single-piece rates for Publishers' Periodicals? Please discuss the rationale for these exceptions to a system of rates not based on content.

3. Consider the shell table below.

Comparison of Unit Volume Variable Costs for Inbound Mail

| Category | Unit Cost | | Percentage Change |
|------------------------|------------------|----------------|--------------------------|
| | FY 2000 | FY 2001 | |
| Processing | | | |
| Surface LC/AO | | | |
| Surface PP | | | |
| Air LC/AO | | | |
| Air PP | | | |
| EMS | | | |
| Delivery | | | |
| Surface LC/AO | | | |
| Surface PP | | | |
| Air LC/AO | | | |
| Air PP | | | |
| EMS | | | |
| Domestic Trans. | | | |
| Surface LC/AO | | | |
| Surface PP | | | |
| Air LC/AO | | | |
| Air PP | | | |
| EMS | | | |
| Other | | | |
| Surface LC/AO | | | |
| Surface PP | | | |
| Air LC/AO | | | |
| Air PP | | | |
| EMS | | | |
| Total | | | |
| Surface LC/AO | | | |
| Surface PP | | | |
| Air LC/AO | | | |
| Air PP | | | |
| EMS | | | |

Sources: FY 2000 ICRA Report –PRC Version, March 15, 2001,p. B-8;
 FY 2001 ICRA Report –PRC Version, March 15, 2002,p. B-8.

The Postal Service is requested to insert the amounts from the cited sources into the table and calculate the percentage changes in unit cost by cost function for inbound service. The results reveal severe volatility in domestic transportation costs, as well as large increases in processing, delivery and other non-transportation costs. It also reveals that all unit costs for one category of mail have decreased.

- a. Please explain the decrease in unit costs for this one category of mail.
- b. Explain the volatility in domestic transportation costs.
- c. Explain the large increases in processing costs.
- d. Explain the large increases in delivery costs.
- e. Explain the large increases in other non-transportation costs.

4. Consider the shell table below.

| Comparison of Volume Variable Unit Domestic Transportation Costs for Outbound | | | |
|---|---------------------------|---------------------------|---------------------------|
| Category | Unit Cost 2000 | Unit Cost 2001 | Percent Change |
| Economy Printed Matter Periodicals International Surface Airlift Parcel Post | | | |
| Global Air Letters and Letter Packages Postcards International Priority Airmail Parcel Post Global Express Mail | | | |

Sources: FY 2000 ICRA Report –PRC Version, March 15, 2001,p. B-1;
 FY 2001 ICRA Report –PRC Version, March 15, 2002,p. B-1.

The Postal Service is requested to insert the amounts from the cited sources into the table and calculate the percentage changes in unit domestic transportation cost by category for inbound service. The results reveal severe volatility. Four of the nine categories experience large decreases while the other five experience large increases. Please explain this volatility.

5. Refer to the following shell table.

| Category | Processing | Delivery | Other | Int'l Trans. |
|--|-------------------|-----------------|--------------|-------------------------|
| Economy | | | | |
| Printed Matter | | | | |
| Periodicals | | | | |
| International Surface Airlift | | | | |
| Parcel Post | | | | |
| Air | | | | |
| Letters and Letter Packages ¹ | | | | |
| Postcards | | | | |
| International Priority Mail | | | | |
| Parcel Post | | | | |
| Global Express Mail | | | | |

Sources: FY 2000 ICRA Report –PRC Version, March 15, 2001,p. B-1;

FY 2001 ICRA Report –PRC Version, March 15, 2002,p. B-1.

1/ FY 2000 includes AO for comparison purposes

The Postal Service is requested to use the cited sources to calculate the percentage changes in unit cost by cost function for outbound service. The results reveal severe volatility in processing and other non-transportation costs. There are large increases in delivery and international transportation costs as well.

For processing, four of the nine categories experience large increases. Two of the categories experience large decreases. For other non-transportation costs, five of the nine categories experience large increases while the remaining categories decrease.

All categories experience large increases in delivery costs. For international transportation, two of the nine categories experience large increases.

- a. Please explain the volatility in processing and other non-transportation costs.
- b. Please explain the large increases in delivery costs.
- c. Please explain the large increases in international transportation costs.

6. The list of industrialized countries (ICs) in File: inb01v10pr.xls (Sheet: Rates) matches the list of ICs in File: TRN01v14pr.xls (Sheet: Rule2). For inbound terminal dues, Sheet: SDR 2 lists each of the ICs shown in Sheet: Rates. For outbound terminal dues, Sheet: tdu2 does not contain the same number of IC entries. The missing ICs are listed below.

| | | |
|------------------|-----------------------|------------------|
| Ascension Island | Luxembourg | Tristan Da Cunha |
| French Guiana | Martinique | Wallis & Fortuna |
| French Polynesia | New Caledonia | Guernsey |
| Falkland Islands | Pitcairn Island | Liechtenstein |
| Gibraltar | Portugal | Monaco |
| Guadeloupe | St. Pierre & Miquelon | San Marino |
| Iceland | Reunion Island | Vatican City |

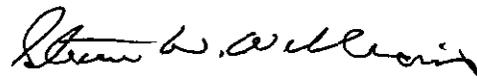
Please explain the apparent discrepancy between the number of ICs included in the calculation of inbound terminal dues compared with the calculation outbound terminal dues.

7. According to IMM Issue 26, page 240, Rate Group 3 includes all the industrialized countries, except Austria and the countries in Group 3, plus three developing countries (Andora, Faroe Islands, Greenland). Also, except for Gibraltar and Vatican City, the ICs in the table above are not contained in the Group 3 list. Please explain the rationale for excluding Austria and other ICs from Group 3 and for including some DCs in Group 3.

It is ordered:

The Postal Service shall provide the information described in the body of this Order on or before May 14, 2002.

By order of the Commission
(S E A L)


Steven W. Williams
Secretary