DAN G. BLAIR
CHAIRMAN

June 30, 2008

Gerald C. Anderson
Deputy Assistant Secretary
for Economic and Global Issues
Bureau of International Organization Affairs
U.S. Department of State
Washington, DC 20520

Dear Deputy Assistant Secretary Anderson:

This responds to your letter of June 10, 2008, requesting the view of the Postal Regulatory Commission (Commission) with respect to proposals to amend the Acts of the Universal Postal Union (UPU) that will be considered at the upcoming 24th UPU Congress in Geneva. In accordance with Section 407(c) of the Postal Accountability and Enhancement Act (PAEA), Public L. 435-109, 120 stat. 3198 (2006), the Commission offers the Department of State its view on the relevant proposals identified in your letter and some recent additional proposals that we have identified that also establish rates and classifications. As the consideration of proposals to establish rates and classifications in the UPU is an ongoing process with key decisions made both at and between Congresses, we will promptly provide our view at key decision points in UPU deliberations both during and between Congresses.

Section 407(c)(1) of the PAEA requires the Secretary of State, before concluding any treaty, convention or amendment that establishes a rate or classification for a product, to request that the Commission's views on whether such rate or classification is consistent with the standards and criteria established by the Commission under Section 3622. On October 29, 2007, the Commission issued Order No. 43 establishing a modern system of regulating rates and classes for market-dominant products. The Commission has analyzed the UPU proposals giving due consideration to the requirements set out in that order, along with the objectives, factors and criteria for modern ratemaking that are set out in Section 3622.

The Commission is deeply concerned about the Postal Service's negative contribution of $73 million in FY2007 on inbound international letter mail. In the Annual Compliance Determination that we issued on March 27, 2008, we highlighted that this net loss on inbound international letter mail directly results from the failure of terminal dues rates to cover attributable costs. The impact of non-compensatory terminal dues rates on the Postal Service's revenues remains a long-standing problem. Section 3622(c)(2), in particular, contains the requirement "that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus the portion of all other costs of the Postal Service reasonably assignable to such class or type."

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Insufficient cost coverage on inbound international mail causes domestic mailers to subsidize foreign mailers, who access the U.S. postal network at terminal dues rates that are lower than domestic U.S. postage rates paid by American citizens. Section 101(d) of Title 39 provides that "postal rates shall be established to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis." In addition, Section 403(c) of Title 39 states that "in providing services and establishing classifications, rates and fees under this title, the Postal Service shall not, except as specifically authorized in this title, make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preference to any such user." Rates that do not cover cost do not fairly apportion costs and grant preferences to mailers, in this case foreign mailers, who benefit from such rates.

The four proposals to amend the current UPU terminal dues system (proposals 20.28.2Rev1, 20.29.1Rev1, 20.30.2, 20.31.1) offer a minimal improvement in the Postal Service's current $73 million negative contribution on inbound international mail, which has been worsening over the past several years. While these proposals provide for an increase of 2.4% with industrialized countries and 2.8% with developing countries, these increases would be offset by cost increases. The Consumer Price Index for the 12-month period ending in May 2008 shows cost increases at 3.5%.

We also recognize, however, that the terminal dues rates in these four proposals are higher than the existing rates and encourage the gradual transition of developing countries into a country-specific remuneration system for letter mail. These proposals would allow the Postal Service to limit increases in First-Class Mail to the Consumer Price Index in accordance with the requirements of Section 3622 of the PAEA, particularly as international letter mail is a very small portion of total First-Class Mail. In addition, they would offer foreign postal administrations access to domestic worksharing discounts at the same rates, terms and conditions as domestic mailers, which are already subject to the Commission's oversight for consistency with Section 3622. They would foster predictability and stability in rates and promote a high quality of service standard through the terminal dues bonuses and penalties that are tied to quality of service and payments to a Quality of Service Fund for developing countries to improve their postal infrastructure.

While the proposed terminal dues rates are unlikely to produce revenues that are sufficient to cover the attributable costs of inbound letter post, proposed resolution 25.Rev1, which contains the proposed future work of the UPU, includes language directing the Postal Operations Council (POC) to determine an appropriate formula for converting domestic rates to terminal dues rates. In this context, the POC is directed to investigate the efficacy of a multiple tariff-based system, which is preferred by the Commission. The proposed terminal dues system is based on a single domestic tariff. For the United States that is the 42 cent stamp. The system favored by the Commission would include additional First-Class rates for higher ounce increments as well as the relatively new shape-based rates in First-Class. On its face, the multiple tariff-based approach is more cost-based that the single domestic rate approach. As the Department of State strongly supports proposal 25 Rev.1 and the multiple tariff-based approach, the Commission can view the terminal dues proposals, including the resolution directing the future work of the POC, as being consistent with Section 3622. It is only when viewed as a whole and primarily because of proposal 25 Rev 1 that in a long-run context the Commission can find that the group of proposals is consistent with Section 3622.

As an overall policy, it is the Commission's opinion that rates paid by postal administrations in the UPU for the handling, transport and delivery of letter mail, also known as terminal dues, should be aligned to domestic postage rates as closely as possible to ensure appropriate cost coverage for postal administrations that deliver the mail. There should also be a reasonable transition towards a terminal dues system in which all postal administrations pay the same rate to access the same foreign postal delivery network, regardless of the country of origin, in order to eliminate arbitrage opportunities and incentives for remail. The U.S. Government should, therefore, actively promote terminal dues rates in the UPU that are closely aligned to domestic postage rates and provide sufficient cost coverage to handle, transport and deliver inbound international mail, while recognizing that any rate increases should be gradual to minimize the impact on mailers and that consideration will need to be given to the situation of developing countries whose domestic rates are set below cost for social reasons.

In addition to our view on the main proposals establishing new terminal dues rates for the delivery of letter mail, we have also reviewed other UPU Congress proposals identified in the attachment to this letter that establish rates and classifications. With the exception of proposal 20.27.3, Posting Abroad of Letter Post Items, we view all of these proposals as consistent with Section 3622 of the PAEA. As all other proposals are consistent with Section 3622 of the PAEA, we understand that it is the Department of State that is responsible for finalizing the U.S. position, taking into consideration the views of all stakeholders and domestic policies related to the handling of mail. We therefore also offer our input on the U.S. position with respect to these proposals.

For the reasons described in the attachment to this letter, proposal 20.27.3 from Great Britain is inconsistent with Section 3622 as, if adopted, it would exacerbate the Postal Service's current negative contribution on inbound international mail by converting domestic mail into inbound international mail, thus depriving the Postal Service of domestic revenues that cover cost for terminal dues that do not.

I would be pleased to meet with you to discuss any of these issues. On behalf of the Postal Regulatory Commission, I wish the U.S. delegation the greatest success at the Geneva Congress in furthering the UPU's mission to promote an affordable, quality universal postal service.

Yours truly,

Dan G. Blair

Dan G. Blair
Chairman

Attachment

Attachment

Proposal 20.1.2, Definitions

This proposal from the UPU Council of Administration provides definitions for parcels and small packets and therefore potentially establishes a classification. The Commission views this proposal as consistent with the PAEA. However, as the proposed definitions simply reference provisions already contained in the UPU Acts, they appear superfluous. The Commission therefore believes that these definitions may not be necessary for inclusion in the UPU Acts.

Proposals 20.7.2, Exemption from postal charges, 20.12.2, Basic services, and 25.106.1, Special charges

These proposals from Luxembourg would reclassify current "literature for the blind" to "mail for the blind" for purposes of requirements that member countries accept, handle, convey and deliver such items and for exemption from postal and storage charges. The Commission views these proposals as consistent with Section 3622 of the PAEA.

Proposal 20.18.3, Customs control. Customs duty and other fees

This proposal from Italy would allow postal administrations to collect fees from customers for the presentation of non-dutiable items to Customs. Currently, such fees can only be collected for dutiable items. The Commission views this proposal as consistent with Section 3622 of the PAEA. Recognizing the requirements of some customs administrations to present both dutiable and non-dutiable items to Customs, particularly in today's environment of heightened security and the objective in Section 3622 of enhancing mail security and deterring terrorism, the Commission supports this proposal if, in accordance with national legislation, non-dutiable items must presented to Customs.

Proposal 20.27.3, Posting abroad of letter-post items

Under Article 27 of the UPU Convention, a UPU member is not required to forward or deliver to the addressee letter-post items that a sender residing in its country posts or causes to be posted in a foreign country with the object of profiting from more favorable rate conditions. This practice is also known as ABA remail. In such instances, the destination postal administration is entitled to charge domestic postage rates for such mail, return the items to the sender or handle it in accordance with its national legislation. These provisions apply both to mail that is physically carried across a border to be mailed as international mail and to mail that is sent electronically and printed in another country for delivery as international mail. These provisions are in place to protect postal administrations from revenue loss that may result from terminal dues rates that are below domestic postage rates.

This proposal from Great Britain would provide for an exemption from these provisions for "business-origin mails that have been centralized on a permanent basis by business-origin customers in one or a limited number of UPU member countries, with the objective of securing lower print production costs driven by the available economies of scale and scope". In such instances, this mail could then be sent as international mail subject to terminal dues versus higher domestic postage rates.

As a matter of overall policy, the Commission urges the Department of State to pursue terminal dues methodologies in the UPU that would close the gap between domestic rates and terminal dues rates and ensure a single terminal dues rate into each country in order to eliminate arbitrage incentives for ABA remail and the related practice of ABC remail. Article 27 would then no longer be necessary. At the current time, however, the gap between U.S. domestic postage rates and terminal dues rates creates an incentive for mailers in the U.S. to potentially engage in ABA remailing practices, which would deprive the Postal Service of domestic revenue that covers costs and exacerbate the current significant negative contribution for inbound international mail. This proposal is therefore inconsistent with Section 3622 of the PAEA.

Furthermore, as a practical matter, a postal administration would be unable to determine whether a business-origin customer centralized its mailing abroad to engage in lower print production costs or if the decision was made for another reason. Therefore, the Commission does not support this proposal under the current and proposed terminal dues regime that provides insufficient cost coverage to the Postal Service for the delivery of inbound international mail and in light of the practical difficulties inherent in its implementation. The U.S. should seek to improve cost coverage for inbound international mail such that these provisions may not be needed in the future.

Proposal 20.28.3, Terminal Dues, General Provisions

This proposal from Great Britain specifies that quality of service targets set by the UPU's Postal Operations Council (POC) must be based on domestic delivery standards and must fully reflect any independently verifiable exemptions (measurements) and latest posting times. The Commission views this proposal as consistent with Section 3622 of the PAEA.

Great Britain seeks to ensure that any exemptions in a national service standard are considered in service measurement for purposes of the terminal dues quality of service bonus and penalty. The Commission supports this proposal as it preserves the sovereignty of each UPU member to set its own domestic delivery standards, which may or may not include exemptions for particular time periods, and for these domestic standards to serve as a basis for terminal dues remuneration.

Proposals 20.29.2Rev1 and 20.30.3Rev1, Terminal Dues: Provisions applicable between countries in the target system and Provisions applicable between countries in the transition system

These proposals from Sweden and Switzerland call for additional remuneration of .55 SDR (approximately $ .89) for registered items in 2010 and 2011 and .6 SDR (approximately $.97) in 2012 and 2013. These proposals also call for additional remuneration of 1.1 SDR (approximately $1.77) for insured items in 2010 and 2011 and 1.2 SDR (approximately $1.93) in 2012 and 2013. (Currently the rates are .5 SDR for registered items and 1 SDR for insured items.) These proposals are the same as the proposal from the Postal Operations Council in 20.28.2Rev1, paragraph 7. However, they also call for additional remuneration of .5 SDR (approximately $.80) for registered and insured items in the event that tracking information is provided and transmitted according to UPU standards. This Commission views these proposals as consistent with Section 3622 of the PAEA. We believe it is appropriate to charge for additional features for supplementary services. We recognize, however, that further work may need to be done to determine whether .5 SDR is an appropriate level of remuneration for the provision of tracking information for registered items and note that proposal 28.

Proposals 20.29.3 and 20.30.4, Terminal Dues: Provisions applicable between countries in the target system and Provisions applicable between countries in the transition system

These proposals from Sweden would provide an additional payment of 1 SDR (approximately $1.60) for registered and insured items that do not have a barcoded identifier that is compliant with UPU standards. These proposals would provide greater cost coverage for the Postal Service for the handling, transport and delivery of inbound registered and insured items than under the current system and would not prevent the Postal Service from limiting price increases to the rate cap. The Commission therefore views these proposals as consistent with Section 3622 of the PAEA and supports their adoption.

Proposal 20.31.2, Quality of Service Fund

This proposal from the Netherlands would exclude International Business Reply Service (IBRS) items as part of the basis for payments to the Quality of Service Fund. If adopted, this proposal would reduce the Postal Service's payments for outbound international mail, although the impact may not be significant given that mail flows to developing countries represent a small percentage of the Postal Service's outbound mail traffic and IBRS is a very small portion of that traffic. The Commission views this proposal as consistent with Section 3622 of the PAEA.

Proposal 20.32.2., Transit charges, and 20.33.2, Basic rates and provision concerning air conveyance dues

These proposals from the Netherlands would require that transit charges and air conveyance dues apply to missent or misrouted mail. The Commission views these proposals as consistent with the PAEA as they would help ensure cost recovery for such mail. The Commission therefore supports these proposals, though recognizes that their adoption may require additional work to implement operational and accounting procedures.

Proposal 25.106.2, Special Charges

This proposal from Pakistan would allow postal administrations to collect special charges for small packets at the time of delivery to the addressee in cases where "exceptional security measures are required to protect small packets". This proposal is consistent with Section 3622 of the Section 3622 of the PAEA, particularly as it supports the objective in Section 3622 of enhancing mail security and deterring terrorism. Clarification may be needed, however, of what constitutes "exceptional security measures", under what conditions such measures might be necessary and potential maximum charges that may apply.

Proposal 25.171.1, Transit à decouvert (Open Transit)

This proposal from the Czech Republic clarifies that à decouvert (open transit) airmail items are subject to air conveyance dues plus 5% as Article 171 of the Letter Regulations only specifies charges for Surface Airlift (SAL) and surface open transit items. This proposal is consistent with Section 3622 of the PAEA. The Commission supports this proposal as it ensures that charges for all transportation types of open transit letter mail are addressed in one place in the Letter Post Regulations and will provide for easier access and a better understanding of open transit charges.

Proposals 20.21.4Rev1, 25.155.1Rev1, 25.155.2 and 35.148.1

These proposals from Poland would establish classifications for mail subject to liability or reimbursement of postage charges by postal administrations. The Commission views these proposals as consistent with Section 3622 of the PAEA.

Proposal 20.21Rev4 and 25.155.1Rev1 would require postal administrations in the country of destination to pay the postal administration in the country of origin postage charges for registered or insured items for which the destination postal administration did not provide a reason for non-delivery. A similar provision for parcels was adopted by the 2004 Bucharest Congress. However, the U.S. took a reservation to require the original wrapping or a mailing container as proof that no reason for non-delivery was provided. As the Postal Service does not refund postage to customers that send registered or insured items that are returned without a reason for non-delivery, either domestically or internationally, the Commission believes that this proposal may require more careful study.

Proposals 25.155.2 and 35.148.1

These proposals establish maximum indemnity limits for parcels and registered items that are partially rifled or damaged to equal existing indemnity limits for parcels and registered items that are totally rifled or damaged. They are consistent with Section 3622 of the PAEA. While the Convention establishes an indemnity for parcels and registered items that are partially and totally rifled or damaged, the Regulations only set out indemnity limits for items that are totally rifled or damaged. The Commission supports these proposals as they promote consistency between the UPU Convention and the Regulations.

POSTAL REGULATORY COMMISSION

DAN G. BLAIR
CHAIRMAN

July 14, 2008

Gerald C. Anderson
Deputy Assistant Secretary
for Economic and Global Issues
Bureau of International Organization Affairs
U.S. Department of State
Washington, DC 20520

Dear Deputy Assistant Secretary Anderson:

This is to follow up on the Postal Regulatory Commission's (Commission) letter of June 30, 2008, in which the Commission provided its view on proposals to amend the Acts of the Universal Postal Union (UPU) that will be considered at the upcoming 24th UPU Congress in Geneva. In that letter, we expressed our commitment to providing the Department of State with our view promptly on all proposals establishing rates or classifications and their consistency with 39 U.S.C. Section 3622. As the UPU has distributed additional proposals since our letter of June 30, this is to provide the Commission's view on more recent proposals that establish a rate or classification.

The relevant proposals that the Commission has identified are as follows: 20.12.4, 20.21.7, 20.21.8, 20.27.5, 20.28.5, 20.28.6, 20.29.5., 20.29.6, 20.29.8. 20.30.6, 20.30.8, 20.31.3 and 20.31.4. Attached is the Commission's view on each of these proposals. The Commission has found proposals 20.12.4, 20.28.6, 20.29.6, and 20.30.6 to be inconsistent with Section 3622 of the PAEA, along with sections of proposals 20.29.9, 20.30.8 and 20.31.4 that halt indefinitely the transition of developing countries into the country-specific, more cost-based terminal dues system. We have found all other proposals to be consistent with Section 3622 of the PAEA.

As we understand that additional proposals may emerge in advance of and during the Congress, we will continue to provide our view to you as expeditiously as possible. We will also provide you with our view on proposals to amend the Letter and Parcels Regulations that will be considered at the meetings of the Postal Operations Council in October and November of this year.

I would be happy to discuss our view on any of these proposals with you.

Sincerely,

Dan G. Blair

Dan G. Blair
Chairman

ATTACHMENT

Proposal 20.12.4 Basic services

This proposal from Pakistan would require that letter post items containing articles having a value of more than 5 Special Drawing Rights (SDR), or approximately $ 8.00, be sent as registered mail. As a result, mailers would no longer be able to send items valued over 5 SDR at lower First-Class Mail International rates. When examined on its own as an individual proposal to amend the UPU Convention, the Commission views this proposal as inconsistent with Section 3622 of the PAEA. The Commission does not support adoption of this proposal in the UPU as it would require mailers to pay higher rates for Registered Mail depending on the value of their mailing. In addition, UPU supplementary rates for registered services currently do not cover costs. Adoption of this proposal would require that additional inbound letter mail be handled as registered items with compensation that provides insufficient cost coverage.

Proposals 20.21.7 and 20.21.8 Liability of Postal Administrations. Indemnities

Proposal 20.21.7 from Belarus and the Russian Federation would establish a classification for mail subject to liability or reimbursement of postage charges by postal administrations. More specifically, it would require postal administrations in the country of destination to reimburse the postal administration in the country of origin postage charges for parcels, registered or insured items for which a reason for non-delivery is not given or is given erroneously. Article 21 of the UPU Convention currently only establishes liability in the case of parcels returned without a reason for non-delivery. This proposal would extend that classification to include registered and insured items returned with an erroneous reason. While the Commission views this proposal as consistent with Section 3622, it may require more careful study, particularly as it may be very difficult to prove that a reason for non-delivery was provided erroneously.

Similar to proposal 20.21.7, proposal 20.21.8 from Belarus would establish a classification for mail subject to liability for which the sender is entitled to reimbursement of postage charges to include registered or insured items for which no reason of non-delivery was provided or provided erroneously. Currently, postal administrations are only liable for parcels for which no reason for non-delivery is provided. The Commission also views this proposal as consistent with Section 3622. However, this proposal may also require more careful study.

Proposal 20.27.5, Posting abroad of letter-post items

This proposal by Egypt would minimally increase the amount that may be collected by postal administrations in the country of destination for letter post items which the sender posted in large quantities in a country other than the country where they reside, a practice also known as ABC remail. Currently, the UPU Convention does not require a postal administration to deliver such items at terminal dues rates if such rates are less than the terminal dues rates the postal administration would have received from the country where the sender resides. The Commission views this proposal as consistent with Section 3622 as it provides a higher rate to be paid for delivery of ABC remail. However, as these rates for ABC remail have historically reflected the same rates as in the main terminal dues provisions of the Convention, the Commission would recommend that these rates be increased even further to align with the new rates being proposed as part of the new terminal dues system.

Proposal 20.28.5, Terminal Dues, General Provisions

This proposal from Saudi Arabia calls for additional remuneration of .50 SDR (approximately $.81) for registered items and 1.1 SDR (approximately $1.77) for insured items in 2010 and 2011 and 1.2 SDR (approximately $1.93) in 2012 and 2013. Currently, the rates are .5 SDR for registered items and 1 SDR for insured items. While this proposal would increase the rates for insured items to the same rate in proposal 20.28.Rev1, it would keep the registered rate at status quo. Although this proposal is consistent with Section 3622 because it increases the rate for insured items, the Commission supports proposal 20.28.2Rev1, which increases the rates for both registered and insured items.

Proposal 20.29.6, Terminal Dues: Provisions applicable between countries in the target system; Proposal 20.30.6, Terminal Dues: Provisions applicable between countries in the transition system; and Proposal 20.31.3, Quality of Service Fund

These proposals from the United Arab Emirates are amendments to the main terminal dues proposals 20.29.1Rev1, 20.30.2 and 20.31.1, which emanated from the Terminal Dues Working Group of the Postal Operations Council (POC). Proposals 20.29.6 and 20.30.6 remove all references to countries entering the more cost-based target terminal dues system after 2010 as well as references to the gradual transition of Groups 1 and 2 into the country-specific, more cost-based target terminal system over the next Congress cycle (2010-2013). Under the current proposal, 12 countries, including the UAE, would transition to the target system in 2010 and 22 in 2012. These proposals would delay the transition of developing countries, including the UAE, into the more cost-based target terminal dues system of per item/per kilogram rates and keep them at less cost-based per kilogram rates. Proposal 20.29.6 would also depart from the principle of more cost-based rates by eliminating the proposed increases for registered and insured items.

When examined on their own as individual proposals to amend the UPU Convention, the Commission views proposals 20.29.6 and 20.30.6 as inconsistent with Section 3622. The Commission does not support adoption of any of these proposals as they would delay progress towards a more cost-based terminal dues system for all UPU member countries.

Proposal 20.31.3 would amend the proposed payments to the Quality of Service Fund to decrease the payments from some developing countries to others. This proposal would not impact the U.S. Postal Service. The Commission therefore views it as consistent with Section 3622 of the PAEA.

Proposal 20.29.5, Terminal Dues: Provisions applicable to exchanges between countries in the target system

This proposal was co-sponsored by the United States and several other members of the Postal Union of the Americas, Spain and Portugal. It would allow new participants in the more cost-based terminal dues target system, also known as new target countries, to voluntarily forego optional transition measures, including more gradual rate increases and implementation of the quality of service link to terminal dues. The Commission views this proposal as consistent with

Section 3622 and supports its adoption as facilitating the movement towards a country-specific, more cost-based terminal dues system for all UPU members.

Proposal 20.28.6, Terminal Dues. General provisions; Proposal 20.29.8, Terminal Dues: Provisions applicable between countries in the target system; Proposal 20.30.8 Terminal Dues: Provisions applicable between countries in the transition system; and Proposal 20.31.4, Quality of Service Fund

These proposals from France would delay indefinitely the transition of developing countries into the country-specific, more cost-based target terminal dues system. Proposals 20.29.8 and 20.30.8 would:

- Eliminate proposed caps on rates for industrialized countries in the target system;
- Increase the cost-tariff ratio which forms the basis for terminal dues in the target system from the proposed 70% to 75%;
- Increase the proposed rates paid by industrialized countries to developing countries.

When examined on its own as an individual proposal to amend the UPU Convention, the Commission views proposal 20.28.6, along with related sections of proposals 20.29.8, 20.30.8 and 20.31.4 that stop indefinitely the transition of developing countries into the country-specific, more cost-based terminal dues system, as inconsistent with Section 3622.

Although the proposals to eliminate caps on rates paid between industrialized countries, increase the cost-tariff ratio to 75% and increase rates paid to developing countries could be viewed as consistent with Section 3622, the Commission does not support their adoption as they would provide no additional revenue for the Postal Service while leading to increases on outbound payments. While a cost-tariff ratio of 75% does provide better cost coverage for some countries, it is still based on an artificial methodology based on only one domestic rate. The Commission views a methodology based on multiple domestic rates as more reflective of costs and providing better cost coverage.

DAN G. BLAIR
CHAIRMAN

July 18, 2008

Gerald C. Anderson
Deputy Assistant Secretary
For Economic and Global Issues
Bureau of International Organization Affairs
U.S. Department of State
Washington, DC 20520

Dear Deputy Assistant Secretary Anderson:

This is to follow up on the Postal Regulatory Commission's (Commission) letters of June 30, 2008, and July 14, 2008, in which the Commission provided its view on proposals to amend the Acts of the Universal Postal Union (UPU) that will be considered at the upcoming 24th UPU Congress in Geneva. This letter provides the Commission's view on proposals 20.29.9 and 20.31.5 from Qatar that were recently published.

Proposal 20.29.9 is similar to proposal 20.29.6 from the United Arab Emirates (UAE) with respect to the terminal dues provisions in the target system. Like the UAE proposal, it would maintain current rates for M-bags and registered and insured items, and would exclude value-added tax from terminal dues calculations. Unlike the UAE proposal, it would not stop the transition of developing countries into the target terminal dues system. When examined as an individual proposal to amend the UPU Convention, we view 20.29.9 as inconsistent with Section 3622. We do not support its adoption as it would deter progress towards a more cost-based terminal dues system.

Proposal 20.31.5 would amend the proposed payments to the Quality of Service Fund between the proposed five country groups. We view this proposal as consistent with Section 3622. However, the Commission does not support its adoption as it would increase payments to the Quality of Service Fund beyond the rates in proposal 20.31.1, which are a product of four years of work within the UPU and represent a consensus among the membership.

Thank you for consideration of our view on these latest proposals.

Sincerely,

Dan G. Blair

Dan G. Blair
Chairman

POSTAL REGULATORY COMMISSION

DAN G. BLAIR
CHAIRMAN

October 22, 2008

Gerald C. Anderson
Deputy Assistant Secretary for Economic and Global Issues
Bureau of International Organization Affairs
U.S. Department of State
Washington, DC 20520

Dear Deputy Assistant ~~Secretary~~ Anderson: Gerry

In accordance with 39 U.S.C. § 407(c)(1), as established by the Postal Accountability and Enhancement Act (PAEA), Public L. 435-109, 120 stat. 3198 (2006), the Postal Regulatory Commission (Commission) offers the Department of State its view on proposals to amend the Letter Post and Parcel Post Regulations of the Acts of the Universal Postal Union (UPU) that establish rates and classifications. Section 407(c)(1) requires the Secretary of State, before concluding any treaty, convention or amendment that establishes a rate or classification for a product, to request that the Commission's views on whether such rate or classification is consistent with the standards and criteria established by the Commission under 39 U.S.C. § 3622. These proposals will be considered by the UPU's Postal Operations Council during its upcoming session from October 29 to November 11, 2008.

The Commission is providing its views on the following proposals that establish rates or classifications: 25.109.1, 25.171.3, 25.195.1, 25.203.1, 25.203.2, 25.217.1, and 35.198.1. The Commission finds that all of these proposals are consistent with 39 U.S.C. § 3622. In the attachment, please find the Commission's position on each of these proposals.

We are also in the process of analyzing the following proposals regarding the International Business Reply Service: 25.140.4, 25.140.5, 25.140.6, 25.140.7, 25.140.9, 25.140.10, and a proposal from New Zealand in document 3, annex 6 for the upcoming meeting of Postal Operations Council Committee 1, Letter Post. We are working with the Postal Service to identify cost data that will enable us to make an appropriate determination of whether these proposals are consistent with 39 USC 3622, which we will provide to you shortly.

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Thank you in advance for consideration of our view and for promoting consistency between our view and the new UPU Acts that will take effect on January 1, 2010.

Sincerely,

Dan G. Blair

Dan G. Blair

enclosure

Attachment

Missent or misrouted items

25.171.3, 25.109.1, 25.195.1

Proposal 25.171.3 from the Netherlands requires that items sent as open transit without consultation or notification of the transiting country shall be considered as missent or misrouted items and charged as open transit mail. Proposal 25.209.1 from the Netherlands further establishes the rate for missent or misrouted mail at 10 Special Drawing Rights (SDR) (approximately $16.00) per kilogram.

The Commission finds these proposals to be consistent with 39 U.S.C. § 3622. In principle, the Commission supports establishing a charge for missent or misrouted items. However, the charge of 10 SDR per item may be excessive and may need to be examined further, provided that the rate covers cost.

25.203.2

Proposal 25.203.2 from Canada provides that missent items returned to origin will be exempt from terminal dues. The Commission finds this proposal to be consistent with 39 U.S.C. § 3622 and supports it since countries returning missent items to the country of origin should not, under those circumstances, have to pay terminal dues.

Transit charges

25.203.1

Proposal 25.203.1 from Austria provides that letter-post items exchanged between postal services, the Universal Postal Union, and restricted unions will be subject to transit charges. These items are currently exempt from both terminal dues and transit charges. The Commission finds this proposal consistent with 39 USC 3622 and supports this proposal as it would compensate the transiting administration for costs incurred.

Quality of service link to terminal dues

25.215.2

Proposal 25.215.2 is a result of the work of the UPU Postal Operations Council over the past four years. It ensures that no country in the target terminal dues system receives less than 97.5% of its terminal dues rates following application of potential penalties for not meeting quality of service targets. It also provides transitional arrangements for countries entering the target terminal dues system in 2010 and 2012 for implementation of the quality of service measurement system and potential bonuses and incentives based on service performance. The Commission finds this proposal consistent with 39 U.S.C. § 3622 and supports this proposal as it ensures a minimum level of terminal dues revenue for countries in the target system and encourages new countries in the target system to gradually transition to quality of service measurements that link to terminal dues.

Revision mechanism for terminal dues rates

25.217.1

Proposal 25.217.1 from the UPU Postal Operations Council amends the rates for mail to or from countries in the transition terminal dues system for which the revision mechanism is applied to the per item and per kilogram rates approved by the Beijing Congress.

The Commission finds this proposal consistent with 39 U.S.C. § 3622. The Commission supports this proposal as it updates rates approved by the Geneva Congress.

Returned or redirected items

35.198.1

Proposal 35.198.1 by the United States would set as the maximum charge for returning or redirecting parcels the returning or redirecting country's inward land rates for parcel delivery. It would also set a maximum rate of 3.27 SDR (approximately $5.00) for any miscellaneous fees as there are currently no limits on such rates or fees.

The Commission finds this proposal consistent with 39 U.S.C. § 3622. The Commission supports this proposal as it sets limits for such charges that are aligned with parcel delivery charges.