UNITED STATES POSTAL SERVICE

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Good Afternoon Chairman Meadows, Ranking Member Connolly, and members of the Subcommittee. My name is Randy S. Miskanic, I am Acting Chief Information Officer and Executive Vice President of the United States Postal Service. In this role, I am responsible for the advancement of new mail intelligence, engineering systems, information technology systems, payment technology and corporate information security. I previously represented the Postal Service at the Universal Postal Union (UPU) in Berne, Switzerland, for approximately three years. I was responsible for developing supply chain strategies for the global postal sector. Additionally, I was a member of the U.S. Delegation for the last UPU Congress in Doha in 2012. I also served on other U.S. Delegations for UPU council meetings for approximately five years. I am pleased to be here today to discuss the UPU terminal dues system.

UPU Background

The UPU is a specialized agency of the United Nations that sets the terms for how the world's postal operators exchange international mail under a universal service obligation. Established in 1874 and headquartered in Berne, Switzerland, the UPU helps to facilitate international mail exchanges and makes recommendations to stimulate growth in volume and improve services for customers. With 192 member countries, the organization establishes terminal dues rates and is the primary forum for cooperation among postal sector players, fulfilling an advisory, mediating and liaison role, and providing technical assistance where needed.

The United States is a member of the UPU and exchanges mail, in accordance with its Acts, with other foreign postal operators designated by their governments to provide universal service throughout their territories. The U.S. Department of State, the Postal Service, the U.S. Postal Regulatory Commission (PRC) and representatives of the broader postal industry are all key UPU stakeholders.

Stakeholder Roles

In addressing international postal arrangements, the 2006 *Postal Accountability and Enhancement Act* (PAEA) noted "it is the policy of the United States to promote and encourage communications between peoples by efficient operation of international postal services and other international delivery services for cultural, social and economic purposes." That law established that the Secretary of State would be responsible for formulation, coordination and oversight of foreign policy related to international postal services and have the power to conclude postal treaties, conventions and amendments.

As such, the Department of State is the lead representative of the United States Government to the UPU. In accordance with the *Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999,* the Postal Service makes an annual payment to the Department of State for its fulfillment of UPU responsibilities. The fiscal year 2015 Interagency Agreement between the Postal Service and the Department of State allocates a total of $150,000 for this purpose.

The Postal Service is the operator designated by the United States Government to fulfill the obligations of the UPU Acts, which include dispatching international mail— a segment that accounts for 4 percent of the Postal Service's revenue and 1 percent of its annual total mail volume—to more than 200 countries and territories and receiving and delivering foreign origin mail. The Postal Service also furnishes quality basic postal services throughout the United States, thereby fulfilling the Acts' universal service obligation. It should be noted that private companies that ship international letters and parcels from the United States are not encumbered by this universal service obligation, and can freely develop and select their markets.

Industry representatives can, and do share their views and make recommendations on UPU policy matters by way of two vehicles. They participate in the UPU's Consultative Committee, a body which plays a key role in developing a more global vision of the issues affecting the sector, and the Advisory Committee on International Postal and Delivery Services (IPoDS).

Established by requirement of the PAEA, within the meaning of the Federal Advisory Committee Act (FACA), IPoDS provides the Department of State advice with respect to U.S. foreign policy related to international postal services and U.S. policy toward the UPU and other international postal and delivery services. Private industry actively provides input into committee deliberations, and its members include representatives of FedEx, United Parcel Service and DHL Global Mail, as well as other government agencies, business interests and associations. When proposals are made by committee members, an interagency meeting is convened to review such proposals and the Department of State makes a final determination on U.S. positions and policy formation.

Notably, as it is a subject of such importance, the IPoDS Advisory Committee will be forming a sub-committee to facilitate a more detailed examination of terminal dues. This subcommittee will be an appropriate and effective venue for greater stakeholder engagement in our goals to improve cost coverage for terminal dues.

Both the PRC and Postal Service are active contributors to UPU working groups, such as the Postal Operations Council's (POC's) Letter Post Remuneration Group. Before each Congress, the PRC submits a formal "view" to the State Department on international treaties or conventions that establish rates for market dominant products. The PRC's view is binding on the State Department, unless it determines to take a different approach in furtherance of U.S. national security or foreign policy interests.

UPU Organization

The UPU Congress, which convenes every four years, provides the forum for member countries and other major stakeholders to establish policies and regulations for the global postal sector for a four-year cycle. Each member country, including the United States, is entitled to one vote on proposals introduced to the Congress, which must be approved by a majority or super-majority of the member countries. The last Congress in Doha in 2012 set policy and established terminal dues rates for letter post mail for the 2014 – 2017 cycle. The next Congress will be held in 2016, and will establish terminal dues rates that go into effect in 2018.

The United States government is currently a member of two key UPU bodies: the Council of Administration (CA) and the POC. The CA ensures the continuity of work between Congresses, supervises activities and studies regulatory, administrative, legislative and legal issues. The POC sets rules and standards for the interoperability of postal services worldwide. Both the POC and the CA are involved in the development of a terminal dues system for the 2018-2021 cycle.

UPU Terminal Dues

Terminal dues are paid and received for the delivery of letters, flats and small packages (weighing up to 4.4 pounds, or 2 kilograms) among more than 200 postal operators. The rates,

which are set by the UPU and assessed against the originating post, are intended to cover processing and delivery costs for inbound international mail.

Not all countries are at the same stage of development and there are significant variations in their mail volumes, postal rates and costs. Since the 1999 Beijing Congress, terminal dues rates have been based on whether a country is a target (previously called industrialized) or transition (previously called developing) country. UPU countries and territories are classified into five major groups. Currently, there are 41 Group 1.1 target countries and territories that joined the system prior to 2010, and these are the most developed countries. There were 36 target countries that joined the system in 2010 (Group 1.2) and 2012 (Group 2), and 40 countries in Group 3 will join the target system next year in 2016. There are 104 transition countries and territories (Groups 4 and 5). The UPU has established detailed and complex criteria, including factors such as Gross National Income per capita, to determine a country's classification as target or transition. Its aim is to progressively incorporate all countries into the target system.

For mail flows from transitioning economies, terminal dues rates are based primarily on world-wide average costs and are typically lower than target countries. For mail flows from target countries, terminal dues are based on country-specific postage rates (currently 70 percent of domestic postage rates.)

The UPU has also established floor and cap rates for terminal dues for mail exchanged between target countries. Floor rates were applied to countries with low domestic postage rates, such as the United States, and cap rates to countries with high domestic postage rates, such as Denmark.

Prior to the 2012 Congress, the UPU based its formula for setting international terminal dues on the domestic postage rate for a 20 gram letter, a product for which the U.S. had one of the lowest postage rates among all target countries, currently $0.49. Comparatively, the 20-gram domestic rate in Denmark equates to $1.51. As a result, the U.S. is one of the least expensive countries for foreign target countries to mail to, and the financial performance of inbound international mail for the Postal Service suffers.

At the 2012 Doha Congress, UPU member countries established a new formula to produce terminal dues that are closer to actual costs. The revised formula, which went into effect January 1, 2014, is based on domestic postage rates for both 20 gram and 175 gram letters, the latter of which has a relatively high domestic postage rate in the U.S. Rates for both target and transition countries will increase through 2017 as a result of the new Convention adopted at the Doha Congress. Inbound terminal dues rates paid to the Postal Service by target countries are increasing by an average of 13 percent each year from 2014 through 2017. Inbound terminal dues rates for new target and transition countries are also increasing by an average of 6 percent and 2.8 percent respectively. The United States' terminal dues rates will move from a floor to a cap system over the 4-year period. While this is a favorable development, the changes will take 4 years to be fully implemented and cost coverage may remain under 100 percent for this market dominant mail stream.

Postal Service representatives on U.S. delegations have long made the argument that inbound letter post coverage for a low cost country like the United States must be improved. However, these concerns also need to be balanced against the need to ensure that through the dynamics of reciprocity, U.S. domestic mailers are not subject to excessively high postage rate increases in order to cover the cost of increased terminal dues for U.S. origin letters delivered abroad. This requires a need for balancing so that competing concerns can be adequately addressed within the framework of the UPU system.

It is also important to emphasize that the terminal dues system is not created solely to further economic goals, but is designed to serve multiple competing objectives, including support for economies in development. As such, it is not a system suitable for participation by both public

and private operators. In this regard, it's important to keep in mind that private operators differ in several ways from universal service providers like the Postal Service.

First, unlike postal operators who have a universal service obligation, private operators are unencumbered by such obligations or other domestic legislative mandates, and are free to target only the most lucrative markets.

Second, designated operators must offer reciprocity to their counterparts in the UPU in order to fulfill the Convention's aim of creating a single postal territory. Private operators do not routinely offer reciprocity to other postal administrations, but can offer unidirectional service to or from a country without having to carry reverse traffic at a loss.

Third, designated operators must maintain very different network structures to support universal service. For example, they must maintain large post office networks throughout their territories and usually offer universal delivery service to all delivery points according to a fixed schedule. Private operators, however, are not structured to serve individual (single-piece) customers or offer network delivery services. Therefore, they operate with much different infrastructure costs. In sum, the obligations, burdens, purposes, and economic opportunities for postal operators versus private operators differ substantially.

Going forward, as a co-lead of the POC's Letter Post Remuneration Group, the Postal Service is advocating proposals for format separated pricing to better achieve cost coverage. Currently, there is one rate for all shapes—letters, flats and small packages weighing up to 4.4 pounds—and parties are in agreement that the status quo is unsustainable. At the time of the Doha Congress, most countries did not separate their international mail dispatches by shape. It was decided that the regulations should first be changed to make operational format separation mandatory before different rates could be applied to different formats. The regulations adopted for this cycle now require mandatory format separation, and it is anticipated that the 2016 Istanbul Congress will adopt a terminal dues structure that is more closely related to the costs of processing and delivering different shapes of mail pieces, with a different rate for small packages.

Bilateral Agreements

As an alternative to UPU terminal dues, the Postal Service can enter into bilateral agreements with foreign postal operators that include negotiated rates for some or all inbound letter post items. Negotiated rates are designed to improve the overall cost coverage for inbound letter post items compared with cost coverage at default UPU terminal dues. These agreements can increase revenue and foster collaboration between postal operators to provide additional products and services to meet customers' needs. Bilateral agreements also allow the Postal Service to introduce work-share requirements, improved billing and invoicing terms and performance based incentives.

Proposed inbound bilateral agreements must be filed at the PRC for review and approval. When negotiating such agreements, the Postal Service intends that it will improve cost coverage over the default UPU terminal dues, so as to satisfy the statutory condition that a market dominant negotiated service agreement either improve the net financial position of the Postal Service or enhance the performance of certain operations. The PRC has 45 days to perform an advance review of the financials of each inbound international bilateral agreement, and the Postal Service cannot move forward to enact any such agreement without the PRC's approval.

While the Postal Service may be better served by negotiating terms independently with certain countries, it would be impractical to negotiate, sign, and file at the PRC a separate bilateral agreement with each UPU designated operator. Considerations that go into entering these agreements include the willingness of the foreign postal operator to negotiate and sign a bilateral agreement, the mail streams and mail flows between the countries, and the rates currently in effect.

Some countries are willing to enter a bilateral negotiation, because, like the United States, they want to improve cost coverage and receive enhanced services, such as product tracking. In many cases, however, foreign postal operators are not willing to negotiate bilateral agreements, as doing so would require paying the Postal Service at a rate higher than UPU terminal dues. For these postal operators, there is no inherent value to abandon the default UPU terminal dues structure. It is also important to note that even when the Postal Service negotiates with willing foreign postal operators, in some cases, there is little bargaining room available to significantly increase cost coverage given that the current UPU terminal dues structure provides the base of the negotiating position.

Conclusion

The Postal Service supports the United States' objective to improve remuneration systems between postal operators as we continue to meet the universal service obligation mandated by UPU Acts. While we are able to help improve efficient processes and standardized international mail exchanges as part of the U.S. delegation to the UPU, there remains a critical need to improve cost coverage for inbound international mail. The Postal Service will continue to encourage the UPU and State Department to support the principle of cost-based, country-specific terminal dues, and advocate for positions that move towards better cost coverage for all inbound UPU mail flows.

Thank you, Mr. Chairman, for the opportunity to submit this testimony. I welcome any questions that you and Committee Members may have.

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