



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

Competition in the International Outbound Mail Market

May 18, 2012

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May 18, 2012

MEMORANDUM FOR: GISELLE E. VALERA
VICE PRESIDENT AND
MANAGING DIRECTOR, GLOBAL BUSINESS

E-Signed by Darrell E. Benjamin, Jr. 
VERIFY authenticity with e-Sign

FROM: Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Revenue & Systems

SUBJECT: Competition in the International Outbound Mail Market
(Report Number EN-WP-12-001)

Attached are the results of our review, initiated at your request, regarding competition in the International Outbound Mail Market (Project Number 12RO001EN000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Sean D. Balduff, director, Retail, Business, and International, or me at 703-248-2100.

Attachments

cc: Paul E. Vogel
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Competition in the International Outbound Mail Market

Executive Summary

Prior to 1986, the U.S. Postal Service had a monopoly delivering outbound international mail¹ to foreign destinations. In 1986 – at the urging of American businesses and in response to a direct request from President Reagan – the Postal Service exempted international remailing from the postal monopoly in support of a U.S. policy designed to permit and promote competition in the international mail marketplace.

Today, the Postal Service faces increased competition from various sources for the delivery of outbound international mail. It competes with foreign postal administrations and private commercial entities that operate outside of the legislative regulations the Postal Service is required to follow.² For example, the Postal Service must follow specific laws regarding labor agreements with employees,³ transportation contracting and pricing restrictions while commercial entities are able to operate free of these encumbrances. This competition, combined with the extreme financial challenges it currently faces, has led the Postal Service to reassess its position in the marketplace and determine whether it is attaining optimal market share and maximizing international mail revenue.

At the request of the Postal Service, we initiated a review of entities in the U.S. that provide outbound international shipping and delivery services. Specifically, Postal Service management posed the following questions:

- How many entities operating in the U.S. market provide international outbound services?
- How much revenue is the Postal Service losing to these entities?
- Can the Postal Service compete with these entities?

In this paper, we discuss the types of entities the Postal Service competes with in the outbound international letter mail market and some of the advantages these entities have. We also discuss the availability of related data in the international letter mail market and what could make the Postal Service more competitive in this area.

¹ Outbound international mail is generally considered to be mail traveling from within the boundaries of the U.S. to an ultimate destination outside of the U.S.

² Title 39 U.S.C.– Postal Service.

³ Title 39 U.S.C. §1201 through 1209.

Number of Entities Operating in the U.S. Market

The Postal Service faces competition from two general types of entities: Extraterritorial Offices of Exchange (ETOE)s⁴ and private mail service providers. ETOEs are businesses operated by, or in connection with, a postal operator outside of its national territory within the borders of another country.⁵

An ETOE collects mailings and payments from customers in the country where it is established. The ETOE then consolidates the mailings received and ships them to a designated country where the mail will be delivered to the recipient.

For example, Deutsche Post operates ETOEs in Chicago, IL, Newark, NJ, Los Angeles, CA, and Miami, FL; and provides mail service from the U.S. to Germany and destinations worldwide. Customers deliver their mailpieces to Deutsche Post's ETOE and pay fees directly to the ETOE. The ETOE then consolidates mailings from all of its customers and provides shipments directly to their logistics partner, DHL. DHL then transports these shipments on their aircraft to their overseas destinations where they are delivered to either another mail consolidator or a local Post for delivery to the recipient in the foreign country. This entire process bypasses the Postal Service.

Worldwide there are 141 ETOEs with 28 operating in the U.S. As commercial entities, ETOEs often have the option to use either traditional mail channels under Universal Postal Union (UPU) regulations (such as postal operator delivery) or commercial channels (such as cargo or freight companies), whichever provides the greatest financial advantage.

Private mail service providers not owned by foreign postal operators also provide a wide variety of mailing services, from mail preparation to consolidation and delivery. Some of these providers operate independently from ETOEs, and some are associated with and operate in conjunction with ETOEs. Like ETOEs, these providers collect mail from their customers, collect fees for shipping the mail, and consolidate shipments of mail for transport to foreign countries. These entities then contract with air carriers offering the lowest rates to facilitate transportation to destination countries. Some of these entities conduct operations in the destination country where they receive the shipment from the air carrier and deliver the mail directly to a Post and into the domestic mail stream in that country. Others may rely on a partner in the foreign country to process the shipment when received.

⁴ The U.S. allows establishment of ETOEs on U.S. territory for letter-post, parcels, and express delivery services. Letter-post and parcel are further defined in the [glossary](#). For the purpose of this paper, the terms "letter-post" and "letter mail" are synonymous.

⁵ U.S. Government policy regarding the establishment of ETOEs on U.S. territory can be found on the State Department website at: <http://www.state.gov/p/io/ipp/65178.htm>.

We identified over 200 private mail service providers positioned in the cities where the five Postal Service international service centers (ISCs) are located.⁶ These private operators (PROs) follow general U.S. business laws, which allow them to negotiate business transactions to their advantage. This gives them the flexibility to offer volume discount rates, without Postal Regulatory Commission oversight, by using commercial carriers to ship mailings overseas. Private mail service providers are not required to identify their mail volume or revenue to the public; however, they must follow required customs laws.

Market Share of These Entities

We determined that letter-post, parcels, and express volume and revenue data for ETOEs and private mail service providers was generally unavailable from public sources due to proprietary concerns, or was combined with other operational data. In cases where ETOEs or PROs reported financial data to larger parent companies, we identified consolidated operating statements without sufficient detail for the subsidiary company.

Limited market data for international outbound mail from the U.S. was available only through sources provided by the Postal Service. A specialized market survey published quarterly by the International Post Corporation (IPC) provided results on only six respondent countries volunteering their own mailing information. This data, provided by the Postal Service, includes [REDACTED] the accuracy of the survey responses depended on the integrity of the respondents and could not be verified. [REDACTED]

We also identified CYs 2009 and 2010 market data for international parcels under 70 pounds and express envelopes. This data was previously supplied to the Postal Service through an existing contract with The Colography Group. [REDACTED]

⁶ Information compiled for the cities of Los Angeles, San Francisco, Chicago, New York, and Miami using data from the Better Business Bureau's [website](#).

⁷ The IPC report also includes single piece First-Class Mail International®. However, ETOEs and private mail service providers do not process this type of mail. Therefore, we did not include this data in our analysis.

⁸ The Colography Group is an established provider of market data to the Postal Service. They categorized volume by number of shipments and not by number of mailpieces.

Competitive Position of the Postal Service

There are no statutes to prohibit the Postal Service from competing with ETOEs or other entities that provide international shipping and delivery services. However, the Postal Service is required to comply with U.S. regulations, which provide little flexibility regarding pricing and labor costs. This has resulted in various opinions, described below, about actions the Postal Service should take to improve its position in this market and to compete effectively with ETOEs and private mail service providers that operate with flexible pricing and no government-mandated transportation contracts or labor agreements.

Postal Service management believes it has difficulty competing with ETOEs and other entities because of the high costs associated with its large infrastructure, its collective bargaining agreements, and the universal service mandate.⁹ Both ETOEs and PROs can also offer products that are sold for less than cost for the purpose of bringing in customers. In addition, management asserts they are unable to develop flexible pricing alternatives when opportunities surface and cannot negotiate favorable transportation contracts with all international air carriers due to legislative mandates.¹⁰ We agree that these issues present a challenge to the Postal Service when competing with ETOEs and PROs that do not operate under these constraints.

Certain pundits believe that ETOEs and PROs providing similar services should not be constrained because restrictions stifle competition. They believe the UPU terminal dues rate system¹¹ is discriminatory because it gives preferential rates to developing countries and their associated ETOEs and, rather than focusing on restrictions, the UPU should reform the system to become more cost-based. One suggested alternative is to adjust postage rates based on the cost of production (prevailing domestic delivery rates).

Additional factors contribute to the challenges facing the Postal Service when competing with ETOEs and PROs for international shipping and delivery services. Many of these factors are beyond the direct control of the Postal Service. For example:

- The business environment has changed dramatically in recent years and continues to evolve. The number of ETOEs and PROs participating in the market is continually changing and, like domestic mail, international letter mail volume continues to decrease.
- The global economy continues to grow, making the business relationship between countries more complex and interconnected.

⁹ Title 39 U.S.C. §101(a).

¹⁰ Title 39 U.S.C. §5402.

¹¹ Since 1969, the designated operator that sends a letter-post item to another country remunerates the destination Post for processing and delivering that item. This system of remuneration is known as terminal dues.

- Entities take advantage of weak controls and benefit from the existing UPU terminal dues system.

Conclusion

Based on our research, we determined that international mail market data is currently available only through IPC reports provided by the Postal Service. The IPC information is limited in breadth since it only documents the voluntary input of six designated operators. We also identified The Colography Group as a resource that is currently providing the Postal Service with market data on international outbound parcels and express items weighing less than 70 pounds. [REDACTED]

We attempted to obtain letter mail market data from The Colography Group, to include in this report; however, the time they needed to gather and summarize this data was prohibitive to the timeliness of this paper.

There are challenges associated with the Postal Service's ability to offer competitive rates for international shipping and delivery services. While the Postal Service can influence some of these challenges, it has no control over many of them. Additionally, we determined any new proposal that limits competition would conflict with the intent of current laws and regulations. For example, some pundits suggest one way the Postal Service could effectively compete in the international mail market would be to operate a subsidiary free from current legal and oversight restrictions. However, significant changes in current law would need to take place before the Postal Service could operate in such a manner.

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Competition in the International Outbound Market

Background

In September 1986, at the urging of American businesses and the U.S. government, the Postal Service exempted private express statutes and subsequently suspended its monopoly on delivery of international mail. U.S. policy during this time was to encourage free enterprise and permit and promote competition in the international, or cross-border, mail marketplace. Since that time, a variety of alternative mail service providers have entered the marketplace to compete with the Postal Service to provide international delivery services.

The Postal Service faces competition from various types of commercial entities, foreign and domestic. Extraterritorial Offices of Exchanges (ETOE) are businesses operated by, or in connection with, foreign postal operators conducting business in U.S. territory. Private international service providers are commercial business enterprises operating independently, or in conjunction with an established ETOE in U.S. territory under U.S. laws. In both cases, these entities are legally entitled to conduct business in the U.S. and nothing prevents them from performing remail¹² functions.

Postal Service management has expressed concern that ETOEs and private international mail service providers maintain unfair competitive advantages. Specifically, these entities are free to negotiate rates and contracts under the U.S. free enterprise system and are not bound by U.S. statutes and regulations placed on the Postal Service. They are also not required to bear costs associated with the universal service mandate. ETOEs have the additional benefit of using the terminal dues system to their advantage.¹³

We initiated this project at the request of Postal Service management to assess foreign postal operators and other commercial entities providing outbound international shipping and delivery services from the U.S. Our objective was to address the following three questions posed by Postal Service management:

- How many entities operating in the U.S. market provide international outbound services?
- How much revenue is the Postal Service losing to these entities?
- Can the Postal Service compete with these entities?

¹² The practice of non-Postal Service entities bypassing the Postal Service for delivery of outbound international mail service is known as remail. See [Appendix A](#) for types of remail.

¹³ Under UPU regulations, ETOEs established by transition system countries or paying those countries for use of their indicia, are able to exploit differences in terminal dues rates.

Entities Operating in the United States

Universal Postal Union

The Universal Postal Union (UPU) was established in 1874 and is the second oldest international organization worldwide. The UPU is made up of four bodies¹⁴ and has 192 member countries¹⁵ which use this forum to increase cooperation between postal sector players. The UPU fulfills an advisory, mediating, and liaison role; and provides technical assistance where needed. It sets the rules for international mail exchanges and makes recommendations to stimulate growth in mail, parcel, and financial services volumes and improve the quality of service for customers.

One of the many functions of the UPU is to oversee the rules governing terminal dues, or funds paid from one country to another to cover their cost, or portion thereof, of getting an international mailpiece to its destination. As part of its standard and regulation making function, the UPU is also looking at ETOEs and attempting to identify and solve their various regulatory and operational problems.

Extraterritorial Offices of Exchange

The trend to increase economic development in postal markets has led many postal operators to develop ETOE operations outside their national boundaries to provide remail services. For example, Deutsche Post operates ETOEs in various cities across the U.S. and provides mail service to Germany and destinations worldwide. Once mail is consolidated they ship directly to their logistics partner, DHL, bypassing the Postal Service.

The establishment of ETOEs has been a controversial issue. Some countries have declared policies refusing acceptance of inbound items from ETOEs under the rates, terms, and conditions of the UPU acts, because ETOEs are strictly commercial entities that do not fulfill all the reciprocal obligations of the UPU acts. The U.S. announced in September 2001 that it would only accept items from ETOEs at domestic First-Class Mail[®] rates.¹⁶

ETOE benefit from the policies established for the members in the UPU system, including access to postal rates intended for official designated postal operators (DPO). In the past, the UPU categorized countries as least developed, developing, and industrialized, depending on the country's stage of economic development. The UPU developed a "target system" of terminal dues for industrialized countries, and a "transition system" of terminal dues for developing and least developed countries. Target system and transition system countries' terminal dues vary in accordance with that country's classification according to the mail volume, postal tariffs, cost, and so

¹⁴ See [Appendix B](#) for a list of UPU bodies.

¹⁵ Data as of January 2012.

¹⁶ See [Appendix D](#) for a timeline of key ETOE developments.

forth. In some cases, the two systems of terminal dues allows ETOEs or private mail service providers to take advantage of opportunities in price differences charged for delivery of cross-border mail. For example, an ETOE may “purchase” the use of the indicia from a transition system country. In doing so, they will pay lower terminal dues rates for the mail they process and can, in turn, pass those savings on to customers who are interested in using the provider with the lowest rate.

Each country is allowed to create its own policy concerning the establishment of ETOEs within its territory, as well as the acceptance of ETOE items. ETOEs operate in the U.S. as permitted by international agreements intended to foster cooperation in the international mail market. As of October 2011, there were 141 ETOEs worldwide, with 28 in the U.S.¹⁷

Private International Mail Service Providers

Private international mail service providers are similar to ETOEs but are generally private companies not owned by a foreign postal operator.¹⁸ We identified over 200 of these private service providers positioned in the five cities with Postal Service ISCs. These entities provide mailing services directly to U.S. companies and bypass the Postal Service. They generally ship material as freight and are free to negotiate advantageous rates with carriers. For example, some private mail service providers offer delivery service to China for \$7 for the first pound and \$3 per additional pound. In comparison, the Postal Service offers a First-Class Mail rate of approximately \$10 for the first pound and \$6 for each additional pound.¹⁹ Some also offer door-to-door delivery service in 5 working days and free pick-up for commercial customers. Studies have reported that PROs may also oppose ETOEs since ETOEs can charge less than PROs for mail delivered under the UPU terminal dues rates system.

Competition Issues

Postal Service officials have stated that ETOEs and PROs have unfair competitive advantages because they do not bear universal service obligations or their associated costs.²⁰ In addition, both ETOEs and private international mail service providers can offer products that are “loss-leaders,” or products that are sold for less than cost for the purpose of bringing in customers. The Postal Service is prohibited from enticing customers in this manner. These service providers also have the freedom to negotiate favorable transportation contracts with international air carriers in contrast to the Postal Service, which is required to seek certified U.S. flag air carriers before being allowed to negotiate rates on the open market.

¹⁷ See [Appendix E](#) for a list of the 28 ETOEs.

¹⁸ See [Appendix C](#) for types of postal operators.

¹⁹ Based on rates provided on USPS.com. Priority Mail® and Express Mail® rates are higher.

²⁰ Universal service obligation is a legal requirement that sets specific minimum levels of attainment for service elements of a Postal Service (or a set of Postal Services) that serves substantially all persons in the nation.

Officials also cited other situations arising from competitive service provider practices that were detrimental to the Postal Service. For example, additional costs can be incurred when misdirected shipments or returned mail originating from ETOEs or PROs are charged to the Postal Service because foreign postal administrations assume the mail originated from the Postal Service. These situations may occur inadvertently or deliberately since ETOEs and PROs have been known to misdirect items to circumvent certain weight thresholds or mislabel products to confuse foreign posts. In these instances, there is some responsibility of internal controls by the foreign post to identify these misguided shipments and return them to the originator. However, the root cause of these issues lie in the inadvertent or deliberate process instituted by the ETOE or private mailer.

Additional costs can also be incurred by the Postal Service due to the manner in which the UPU has set up the International Mail Processing Centre codes. These five character codes are assigned by the UPU to identify any mail processing facility that either generates or receives dispatches, or acts as an international mail transit center. In the U.S., ETOE's are assigned a code that begins with the letters "US." As a result, some foreign posts, especially those without electronic data interchange capability, invoice the Postal Service by default when they process mail with any code beginning with the letters "US."

Another competitive advantage practiced by ETOEs is the use of "arbitrage."²¹ The potential for arbitrage exists in the cross-border exchange of mail because the two-tiered terminal dues system allows transition system countries to pay lower rates to target system countries for the delivery of their mail. For example, a mail consolidator or an ETOE operator may contract with the DPO of a transition system country and pay them for the use of their indicia. When the mail consolidator or ETOE operator uses the transition system country's indicia, they can benefit by taking advantage of greatly reduced terminal dues rates available to the transition system country. Some believe aligning UPU rates and practices with domestic rates and practices for each country would mitigate these competitive issues.

Market Share

Competitive information to determine market share for ETOEs and PROs was compiled from various sources. We found public operational and financial data to be, in most cases, proprietary or undisclosed, or consolidated within parent company financials without the necessary detail. Therefore, we relied on data obtained from specialized market research firms contracted by the Postal Service to identify any available market revenues and trends.

²¹ Arbitrage occurs when the same product is priced differently in two or more markets and mailers take advantage of this imbalance for the purpose of making a profit.

International Post Corporation Market Report

One source of market share data is the International Postal Corporation (IPC)²² *Letters Market Report*.

[REDACTED]

Table 1: IPC Report Summary for U.S. Letters Market

Calendar Year	[REDACTED]							
	[REDACTED]				[REDACTED]			
	[REDACTED]							
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Postal Service Data

Postal Service revenue for delivery of outbound international letter mail has progressively declined, while income from package services has steadily increased during the previous 4 fiscal years. We reviewed revenue data from the Postal Service’s *International Product Report* to identify mail revenue trends for movement of international letter and package products.²⁵ The drop in demand for international letter mail delivery services is consistent with the overall decline in letter mail delivery

²² The IPC is a partner with the postal industry with a mission to provide leadership by encouraging increased quality and interoperability and “gives its members an authoritative, independent, and collective voice.”

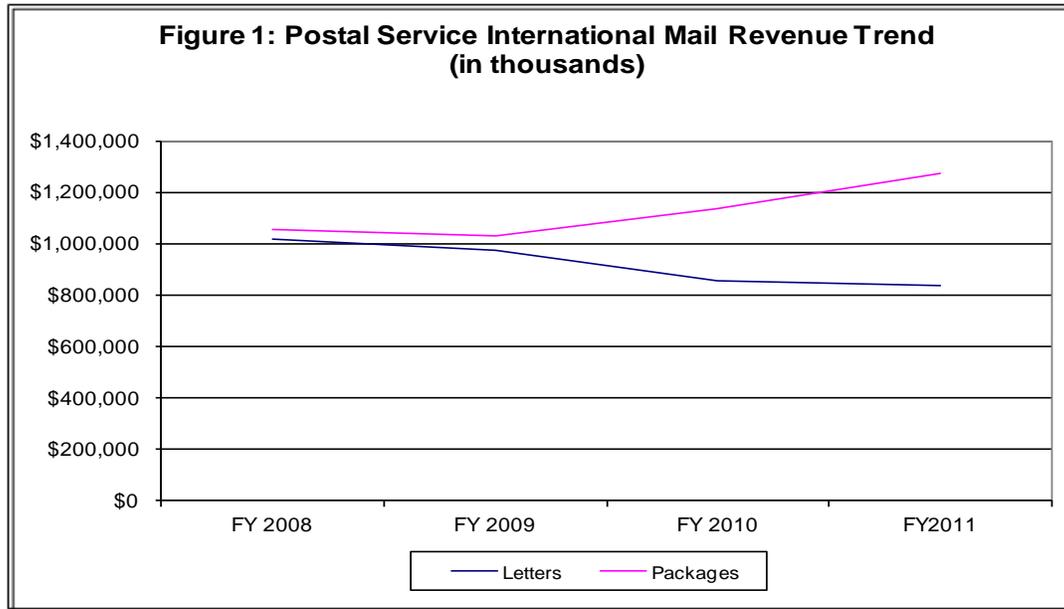
²³ [REDACTED]

²⁵ The IPC Letters Market audit is an ongoing project managed by Ci Research Ltd. on behalf of IPC.

[REDACTED]

services experienced by the Postal Service as consumers and businesses shift to electronic or alternative forms of communication and payment options.

Figure 1 shows the change in revenue for outbound international mail-related products from fiscal years 2008 through 2011.



Source: Postal Service *International Product Report*.

Market Data

Market share reports generated by The Colography Group through contracts with the Postal Service provided insights on volume and revenue information for international outbound parcels under 70 pounds and Express Mail envelopes. Table 2 summarizes the pertinent information available in these reports.

Table 2: Under 70-pound Parcel and Express Mail U.S. Air Exports

Calendar Year	Volume			Revenue	
	Postal Service Shipment (in thousands)	Total Market Shipment (in thousands)	Postal Service Shipment Share	Total Market Revenue (in billions)	Postal Service Revenue Share
2009	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2010	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: 2009 and 2010 reports compiled by The Colography Group for the Postal Service.²⁷

We requested market share for letter mail data from The Colography Group to identify the volume and revenue of U.S. originated mail sent outside of the U.S. by ETOEs and private mail service providers in this category. Specifically, we requested:

- Total market size of the U.S. international outgoing letter mail volume.
- Total market share of the leading mail service providers in the U.S. international outgoing letter mail market.
- Distribution of international letter mail volume by processing channels (Postal Service, ETOE, and other mail consolidators).
- Strategic partnerships²⁸ of letter mail service providers.

The Colography Group stated that they could obtain the information we requested; however, they would need to gather additional information which would take more time, thus be prohibitive to the timeliness of this paper. Therefore, we recommend the Postal Service [REDACTED] better understand the existing market.

²⁶ The Postal Service did not request CY 2010 revenue information from The Colography Group.

²⁷ CY 2011 data will be compiled and prepared for the Postal Service, but that data is not currently available.

²⁸ A strategic partnership exists when one mail service provider takes advantage of economies or efficiencies of another, such as the Postal Service using Federal Express for Express Mail items.

Competitive Position of the Postal Service

The Postal Service does not have the authority to operate outside of the laws prescribed in Title 39 of the U.S. Code which state that subsidiaries cannot exist outside of the oversight of the Postal Regulatory Commission (PRC) or the Board of Governors. Additionally, any attempts to modify current U.S. policies or regulations to benefit its position in the international marketplace could be inconsistent with current law to "promote and encourage unrestricted and undistorted competition" in providing international postal services.²⁹ ETOEs and private mail service providers do not have to consider these same legal issues when deciding how to compete in this market.

In agreement with the spirit of promoting competition expressed by U.S. policy, some pundits believe that ETOEs and PROs providing similar services should not be constrained because restrictions stifle competition. Instead, they believe the UPU should reform discriminatory UPU terminal dues rates to become more cost-based. For example, some believe a solution to resolve the competitive advantage ETOEs have on the international mail market is to align terminal dues with domestic postage rates.

Others believe allowing ETOE numbers to increase could improve international mail service and provide competitive alternatives to national post administrations that provide inefficient service. Conversely, if the number of competitive choices decrease, the UPU may provide larger mailers with incentives toward electronic diversion, not only for international mail but also for domestic mail which could result in declining mail volume.

Yet others believe ETOEs are merely a symptom of an economically inefficient and outdated terminal dues structure that has given rise to re-mail and arbitrage. As commercial operators with access to UPU documentation, ETOEs can choose to use either the mail or the commercial channel to deliver mail items. PROs use ETOEs or commercial channels and have the ability to negotiate lower rates to gain advantage. Whether the Postal Service can draw the business of customers currently using ETOEs and PROs by offering more competitive rates or promoting superior service may only be able to be answered after legislative changes occur that allow the Postal Service to compete with these entities effectively.

While Postal Service officials do not agree with all of these views, they have been working with State Department and PRC staff since 2008 to make the UPU terminal dues systems more cost-based.

²⁹ Title 39 U.S.C. §407(a)(2).

Conclusion

We began this work with three questions posed by Postal Service management:

- **Question:** How many entities operating in the U.S. market provide outbound services?

Response: There are 28 ETOEs operating in the U.S., with 141 ETOEs worldwide. Although private mail service providers operate in a proprietary and/or undisclosed fashion, our research identified at least 200 of these types of entities operating near the five cities with Postal Service ISCs positioned.

- **Question:** How much revenue is the Postal Service losing to these entities?

Response: The Colography Group has previously provided market share information to the Postal Service for parcels less than 70 pounds and Express Mail envelopes. They also stated they could obtain ETOE and private mail service provider market information for letter mail; however, they would need to gather additional information from private mail service providers. [REDACTED]

- **Question:** Should the Postal Service be allowed to compete against foreign-owned Posts within the U.S.?

Response: The operation of ETOEs and PROs has been controversial for some time. ETOEs are able to exploit their dual status as commercial operators and members of the UPU. Proponents of ETOEs assert that they promote competition, while critics argue they compete unfairly. Private mail service providers also function as commercial operators and are free to negotiate business under the free enterprise system.

To obtain answers on the first two questions the Postal Service must pursue ETOE and private mail service provider market share data [REDACTED]

[REDACTED] While this data will benefit overall business decisions related to outbound international mail, the Postal Service's ability to compete with these competitors remains limited by federal statutes and, therefore, encouraging unrestricted competition could be difficult and would require legislative change.

The rules surrounding international mail operation are complex and complicate the issue. UPU acts and regulations govern the exchange of mail between countries. The U.S. Department of State has the primary responsibility to represent the Postal Service at the UPU. Other international arrangements such as trade agreements may also play a role. Additionally, there are U.S. and Postal Service laws, regulations, and procedures. Addressing valid concerns about ETOEs and private providers may involve making changes at any of these levels. Additionally, the multiple perspectives involved

may be conflicting. The best interests of the Postal Service, the U.S. mail industry, and the global postal community may not all be the same. A solution that addresses one set of interests may cause additional problems for others.

Considering the complexities of the international marketplace, the Postal Service should promote a policy to best support its own interests. The Postal Service should continue to work to deregulate the rates it pays for the air transportation of outbound mail. In light of the Postal Service's ongoing cost-cutting measures and limited investment resources, the Postal Service could focus marketing efforts toward entities with the majority of the international market share. We believe the greatest potential for growing international revenue would be to target marketing efforts to gain a market share from the Postal Service's largest competitors in the international delivery services market.

[REDACTED]

Appendix A: Types of Remail

ABA Remail

ABA remail occurs when a customer resident in country “A” posts mail in country “B” (either directly or through an agent) for delivery back into country “A” (ABA remail).³⁰ ABA remail may take the form of:

- ABA physical remail – mail produced in the U.S., transported out of country, and re-entered as inbound international letter post under foreign (“B” country) indicia.
- ABA virtual remail – mail produced in the U.S. and entered into the Postal Service’s mailstream as inbound international mail.
- ABA electronic remail (also called non-physical remail) – mail not printed in the U.S., but instead possibly prepared (designed and stored in electronic format) in the U.S., printed in a foreign country, and posted to the U.S. as inbound foreign origin mail.

ABB Remail

ABB remail occurs when a customer who is a resident in country “A” posts mail in country “B” (either directly or through an agent) for delivery back into country “B” (ABB remail is also called direct entry).³⁰ ABB remail may take the form of:

- Outbound ABB – in the outbound mode, a remailer (or consolidator) transports U.S. origin mail to a foreign country and injects it into that country’s domestic delivery system. Such mail “bypasses” the Postal Service and, in general, would reduce the contribution made by outbound international mail (since outbound letter post more than covers its volume-variable costs).
- Inbound ABB – for inbound ABB, the remailer or foreign postal administration directly injects foreign origin mail into the U.S. delivery system. Since U.S. domestic rates are designed to cover costs, from the Postal Service perspective, ABB merely provides foreign mailers the same access to domestic rates that U.S. customers have.

³⁰ Joint study on Article 43 by the U.S. Department of State, the Postal Service, and the PRC, May 9, 2002.

ABC Remail

ABC remail occurs when a customer who is a resident in country “A” posts mail in country “B” (either directly or through an agent) for delivery in country “C” (ABC remail).³⁰ ABC remail may take the form of:

- ABC physical remail – mail produced in country “A” and transported abroad (to country “B”) and re-entered as international mail to the U.S. under country “B’s” indicia.
- ABC electronic remail (also called non-physical remail) – mail not printed in country “A” but, instead, possibly prepared (designed and stored in electronic format) in country “A”, then printed in country “B” and posted to the U.S. under country “B’s” indicia.
- ABC virtual remail:
 - Mail produced in country “A” with the international indicia of country “B” and routed from country “A” to country “C”.
 - Mail produced in country “C” with the international indicia of country “B”, but entered into country “C’s” international mailstream without ever crossing the border.

Appendix B: List of Universal Postal Union Bodies

The Congress	The Congress brings together representatives from the member countries every 4 years to define the world postal strategy, make changes to standards and regulations, and define the “road-map” for the UPU until Congress meets again.
The Council of Administration (CA)	The CA is made up of 41 member countries and meets annually to ensure the continuity of work between congresses and studies regulatory, administrative, legislative, and legal issues. The CA can also approve proposals by the Postal Operations Council (POC) to adopt proposals or new procedures until the meeting of the next Congress.
The Postal Operations Council (POC)	The POC is made up of 40 member countries which are elected during each Congress. The POC is the technical and operational arm of the UPU and assists Posts with modernization and upgrading of their postal products. The POC also meets annually at UPU headquarters.
The International Bureau (IB)	The headquarters of the UPU that provides technical and logistical support to the groups described above. The IB performs other duties including monitoring quality and service on a global scale.

Appendix C: Types of Postal Operators

Name	Definition	Example
Designated Postal Operator (DPO)	An operator, whether structured as a department of government, ministry, state company or private company, which has been assigned prime responsibility for fulfilling obligations under the UPU acts in the territory over which the government has jurisdiction.	Postal Service
ETOE	An office or facility operated by or in connection with a DPO outside its national territory, on the territory of another country. DPOs establish these offices for commercial purposes to draw business in markets outside of their territory.	Deutsche Post/DHL
Private Operator (PRO)	An operator without a license registered as a commercial company that operates in the postal sector and is actively involved in the conveyance, processing, and delivery of postal items. Such a company does not need to comply with the USO or the provision of a subsidy or levy to the government in order to maintain the universal services provided by a DPO.	AAE
Consolidator	A company which conducts postal-related activities (carries out preparatory work prior to postage). These activities are generally complementary to the core postal business, such as mail production (database management, printing, insertion, addressing, labeling), mail preparation (pre-sorting, bundling, containerizing) and transport of bulk mail to a DPO, ETOE, or PRO handover point at an operational facility, such as collecting or sorting centers.	Mailing house, such as MSI
High Volume Mailer	A wholesale customer who regularly mails high volumes (bulk), such as a direct mailer, publisher, financial institution, catalogue company, or utility company.	PDS Foreign Mailing Specialists

Appendix D: Timeline of Key Extraterritorial Offices of Exchanges Developments

8/20/1986	The Postal Service issues final rule suspending the Private Express Statute to permit international remailing (51 <i>Federal Register</i> 29636-29638).
10/21/1998	Public Law 105-277 gives the State Department primary responsibility for policy regarding U.S. participation in the UPU (Public Law 105-277).
9/3/2001	The U.S. allows establishment of ETOEs. However, items tendered by ETOEs cannot be accepted by the U.S. Postal Service on the basis of UPU documentation and for compensation at UPU terminal dues rates (UPU IB Circular 370). It is the policy of the U.S. government that UPU acts do not apply to ETOE commercial operations in the U.S.
9/23/2004	UPU decides items sent from ETOEs are considered commercial items not subject to the UPU Acts, unless the destination postal administration has announced a policy agreeing to apply those acts to the items it receives from ETOEs. In addition, ETOEs do not have universal service obligations under the UPU Acts (UPU Resolution C 44/2004).
4/11/2005	The U.S. announces that its offices of exchange will refuse to accept dispatches from ETOEs on the basis of UPU documentation (UPU IB Circular 127), but rather on full domestic rates, terms and conditions as any other commercial operator.
1/28/2009	Resolution C 63/2008 invites UPU member countries to review and notify the IB of their national policies on ETOEs.
4/14/2009	The U.S. announces the issue of return of mail dispatched by ETOEs and mail consolidators and urges postal operators to take measures necessary to ensure that items with no U.S. postage indicia are not inadvertently returned to the Postal Service (UPU IB Circular 84).

Appendix E: List of Extraterritorial Offices of Exchanges in the United States

	METRO AREA	ETOE OWNER
1	Chicago	Posten AB Sweden
2	Chicago	La Poste, France
3	Chicago	United Arab Emirates Post
4	Chicago	New Zealand Post
5	Chicago	Royal Mail Great Britain
6	Chicago	Swiss Post
7	Chicago	Deutsche Post AG
8	Chicago	New Zealand Post
9	Newark	Posten AB Sweden
10	Newark	Deutsche Post AG
11	Newark	New Zealand Post
12	New Jersey	United Arab Emirates Post
13	New York	Royal Mail Great Britain
14	New York	Swiss Post
15	New York	Royal Post
16	New York	New Zealand Post
17	Los Angeles	Swiss Post
18	Los Angeles	La Poste, France
19	Los Angeles	Deutsche Post AG
20	Los Angeles	New Zealand Post
21	Los Angeles	Posten AB Sweden
22	Miami	Deutsche Post AG
23	Miami	Posten AB Sweden
24	Miami	Royal Post
25	Miami	New Zealand Post
26	Philadelphia	La Poste, France
27	San Francisco	Posten AB Sweden
28	Washington, D.C.	La Poste - De Post Belgium

Appendix F: Glossary

Arbitrage: The practice of taking advantage of a price difference between two or more markets: striking a combination of matching deals that capitalize upon the imbalance, the profit being the difference between the market prices.

Letter-Post: In general, letter-post items are priority items and non-priority items up to 2 kilograms (such as letters, postcards, printed papers, and small packets).

Parcel: The UPU identifies several categories of parcels (such as Ordinary, Air, Surface Airlifted (S.A.L.), and Express). The maximum individual weight of parcels is 50 kilograms.

Postal Accountability and Enhancement Act: Legislation passed in 2006 which, among other things, removed the authority for negotiating international postal agreements from the Postal Service and passed it on to the State Department.³¹ Congressional intent was to remove institutional advantages the Postal Service may have had.

Remail: The practice of non-Postal Service entities bypassing the Postal Service for delivery of outbound international mail service is known as remail (see [Appendix A](#) for detailed descriptions of the types of remail).

Terminal Dues: Payments made by one postal administration to another for costs that the destination country incurs in delivering inbound international mail.

Universal Postal Union (UPU): With its 192 member countries, the UPU is the primary forum for cooperation between postal sector players. It helps to ensure a truly universal network of up-to-date products and services.

Universal Service Obligation (USO): A legal requirement that sets specific minimum levels of attainment for service elements of a postal service (or a set of postal services) that serves substantially all persons in the nation. A USO may be imposed upon one or more postal operators directly or upon a government agency with the authority to regulate postal operators

³¹ Title 39 U.S.C. § 407(b)(1).