United States Government Accountability Office

Report to Congressional Requesters

March 2024

INTERNATIONAL MAIL
Effects of Rate Increases and Other Factors on USPS and Domestic Stakeholders

Accessible Version

GAO-24-107383

GAO Highlights

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Highlights of GAO-24-107383, a report to congressional requesters.

March 2024

INTERNATIONAL MAIL

Effects of Rate Increases and Other Factors on USPS and Domestic Stakeholders

Why GAO Did This Study

USPS provides postal services to and from other countries through the Universal Postal Union, a specialized agency of the United Nations. This agency established a system for international mailing rates that reimburse postal operators for delivering international mail in their countries. In 2017, GAO reported that USPS lost money on delivering international mail from other countries because mailing rates on small packages did not cover USPS's costs.

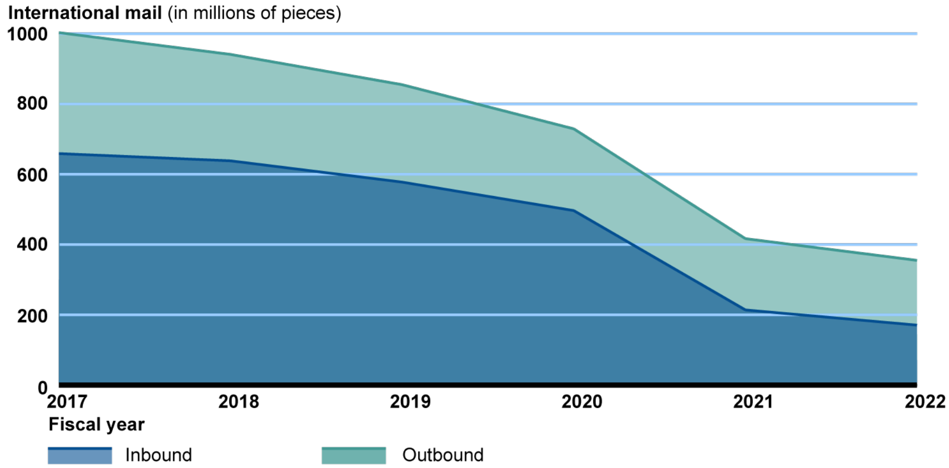
GAO was asked to review the effects of increased international mail rates on USPS's international mail business. This report describes: (1) how USPS's international mail business has changed in the past 6 years; (2) what factors domestic stakeholders identified that contributed to those changes; and (3) effects those stakeholders identified from increased international mail rates.

GAO analyzed USPS data from fiscal years 2017 through 2022 and reviewed reports on international mail from USPS, the Universal Postal Union, and others. GAO visited two USPS mail processing facilities and interviewed USPS officials and 12 industry stakeholders. These stakeholders were selected to represent a range of views, including express companies, U.S. companies that send international mail, U.S. companies that compete with foreign firms that use international mail, and independent experts on international mail. While not generalizable, the interviews provide illustrative examples of stakeholders' views. This is a public version of a sensitive report that was issued in February 2024. Information that USPS deemed sensitive has been omitted.

What GAO Found

The United States Postal Service's (USPS) international mail volume declined from about 1 billion pieces in fiscal year 2017 to about 355 million pieces in fiscal year 2022 (see figure). USPS officials stated that the drop was caused primarily by the implementation of substantially higher rates in 2020. These rates are called "self-declared" rates because the U.S. and other countries were allowed to set their own rates for certain inbound international mail items. USPS's inbound volume subject to self-declared rates fell substantially from fiscal year 2017 to fiscal year 2022. USPS's revenue from international mail also declined over this period but still covered or exceeded its costs.

U.S. Postal Service's (USPS) Inbound, Outbound, and Total International Mail Volume, Fiscal Years 2017-2022



Source: GAO analysis of USPS data. | GAO-24-107383

Fiscal year	Inbound (in millions of pieces)	Grand total - inbound and outbound (in millions of pieces)
2017	658.85	1003
2018	638.22	941
2019	577.63	854.81
2020	496.57	729.14
2021	213.83	416.62
2022	170.6	354.81

Accessible data table for U.S. Postal Service's (USPS) Inbound, Outbound, and Total International Mail Volume, Fiscal Years 2017-2022

Source: GAO analysis of USPS data. | GAO-24-107383

All domestic stakeholders GAO interviewed cited at least one of the following factors as contributing to the decline in USPS's international mail business since 2017.

- International mail rates increased.
- COVID-19 restricted options to get mail in and out of the U.S.
- New customs laws increased costs for sending international mail.

Several stakeholders GAO interviewed said increases in international mail rates likely benefited some businesses and hindered others. They said that express companies, such as FedEx and UPS, may have become more competitive as USPS and other national postal carriers raised their prices for their international mail products. USPS's increases were passed along to U.S. businesses that send mail out of the U.S., making them less competitive. These increases may have been passed on to U.S. consumers. However, stakeholders noted that the effect on consumers is difficult to estimate as mailing rates are not transparent to the consumer and are only one input to the cost of the item.

Contents

Abbreviations

UPS United Parcel Service
USPS United States Postal Service

441 G St. N.W.
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March 28, 2024

The Honorable Jamie Raskin
Ranking Member
Committee on Oversight and Accountability
House of Representatives
The Honorable Gerald E. Connolly
House of Representatives
The Honorable Stephen Lynch
House of Representatives

The United States Postal Service (USPS) provides postal services to and from other countries through the United States' membership in the Universal Postal Union, a specialized agency of the United Nations, consisting of over 190 countries.[1] Member countries generally agree to deliver international mail sent from another member country to an address in their own country. The Universal Postal Union established a system for rates called "terminal dues," which apply to letter-post items, such as letters and small packages.[2] Terminal dues are designed to reimburse each country's national postal operator, such as USPS, for their costs to deliver these letter-post items sent from other countries.[3]

[1]Per federal statute, USPS provides international postal services to promote and encourage communications between peoples for cultural, social, and economic purposes. 39 U.S.C. § 407(a).

[2]The Universal Postal Union defines small packets as letter-post items weighing up to 2 kilograms (kg) that contain a good, and bulky letters as certain-sized letter-post items that contain documents. In this report, we refer to both small packets and bulky letters as "small packages."

[3]National postal operators, also called designated postal operators by the Universal Postal Union, can also send and receive international mail under separate bilateral or multilateral agreements. According to USPS officials, USPS negotiates bilateral and multilateral agreements with a number of countries, wherein USPS and other designated postal operators both pay negotiated rates for different mail products (inbound and outbound) with desirable features not available for terminal dues mail, such as tracking. For example, according to USPS officials, USPS is party to several agreements which provide services such as end-to-end tracking and signature confirmation on final delivery. Additionally, USPS officials said these agreements offer performance bonuses (paid in addition to terminal dues) to USPS and other national postal operators for meeting key performance indicators and service standards. Unless otherwise specified, we define "international mail" as including international letter-post items, parcels (generally packages larger than 2 kg), and express mail items.

In 2017, we reported that USPS lost money on delivering inbound international mail (i.e., mail sent to U.S. addresses from foreign mailers) as the terminal dues for this mail, mainly the terminal dues on small packages, did not cover USPS's costs.[4] We have long reported that USPS's business model is unsustainable as it cannot fund its current level of services and financial obligations from its revenues. As a result, USPS's financial viability has been on GAO's High Risk List since 2009.[5] In addition, USPS recognizes the importance of its package delivery services in its current 10-year strategic plan to achieve financial sustainability.[6] While international mail represents less than 1 percent of USPS's mail volume and 2 percent of USPS's total revenue, it is important that USPS take every opportunity to maximize its revenue and reduce its costs to help it achieve financial sustainability.

In 2019, the Universal Postal Union agreed to allow the U.S. and certain other countries to set their own terminal dues for small packages, starting in 2020.[7] These rates are referred to as "self-declared" terminal dues.

You requested we review how changes to the terminal dues system have affected USPS's international mail business and domestic stakeholders, such as U.S. businesses that send mail to other countries. This report describes: (1) how USPS's international mail business has changed since 2017, (2) the factors domestic stakeholders identified as contributing to changes in USPS's international mail business, and (3) the effects those stakeholders identified from changes in international mail rates. This is a public version of an issued sensitive report.[8] USPS deemed some of the

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[4]GAO, *International Mail: Information on Changes and Alternatives to the Terminal Dues System*, GAO-18-112 (Washington, D.C.: Oct. 12, 2017). GAO-18-112 is the public version of a sensitive but unclassified report issued in August 2017 (GAO-17-571SU). Information related to USPS's revenues, costs, and volumes for international mail that USPS deemed proprietary were omitted from the public version of the report. Information on obtaining restricted reports may be found on our website.

[5]GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, GAO-23-106203 (Washington, D.C.: April 20, 2023).

[6]U.S. Postal Service, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence* (Washington, D.C.: Mar. 2021).

[7]Countries were allowed to self-declare their own terminal dues if the annual tonnage of mail they received exceeded a specified threshold or if they were responding to the implementation of another country's self-declared rates. These changes also allowed other countries to self-declare rates between each other beginning in 2021, with some conditions.

[8]GAO, *International Mail: Effects of Rate Increases and Other Factors on USPS and Domestic Stakeholders,* GAO-24-106557SU (Washington D.C.: Feb. 2024).

information to be sensitive, which must be protected from public disclosure. Therefore, this report omits sensitive information about (1) USPS's revenue, cost, and volume for international mail and (2) specific countries that have had self-declared rates for mail to or from the U.S. Although the information provided in this report is more limited, this report addresses the same objectives as the sensitive report and uses the same methodology.

To address all objectives, we reviewed reports on international mail and on changes to the terminal dues system from USPS, the USPS Office of the Inspector General, the Universal Postal Union, the Postal Regulatory Commission, and other organizations.[9] We visited two USPS mail processing facilities, one focused on international mail processing and one focused on domestic mail processing, to understand how USPS handles international and domestic mail.

We interviewed officials from USPS, the Department of State (State), and the Postal Regulatory Commission. We also interviewed representatives from 12 domestic stakeholders:

- Two express consignment operators like FedEx and United Parcel Service (UPS) (referred to as express companies in this report);
- Two associations representing businesses that send international mail;
- An association representing U.S. businesses and business growth;
- A U.S. company that sells products domestically and internationally and therefore competes with firms in countries with relatively low terminal dues;
- A U.S. company that assists U.S. mailers in determining correct foreign mail addressees;
- Three U.S. companies, including an e-commerce company, that use USPS and foreign postal operators (such as China Post) to send goods internationally and domestically; and

[9]The Postal Regulatory Commission, formerly the Postal Rate Commission, is an independent establishment of the executive branch responsible for regulating USPS. The Postal Regulatory Commission is required to make annual determinations of USPS's compliance with regards to rates and service standards. If the Postal Regulatory Commission finds noncompliance, it is required to order USPS to take such actions as the Commission considers appropriate to achieve compliance and remedy the effects of any noncompliance. 39 U.S.C. § 3653.

- Two independent experts on international mail and the terminal dues system.

We selected these stakeholders based on published reports on international mail and terminal dues, comments they submitted to the Postal Regulatory Commission on international mail or terminal dues, recommendations from other stakeholders we interviewed, and from our prior report on international mail.[10] These interviews are not generalizable, but provide illustrative examples of the views of the stakeholder groups we identified.

To determine how USPS's international mail business has changed since 2017, we analyzed USPS data on inbound and outbound international mail volume, revenue, and costs from fiscal years 2017-2022. We selected this period as it covers the time from our last international mail report to the most recent available USPS data. We also analyzed USPS data on which countries had self-declared terminal dues with the U.S. for inbound or outbound international mail and the mail volume subject to those self-declared rates. We compared mail volume for 48 countries that had self-declared rates to similar types of mail from countries that did not have self-declared rates.

To identify the factors stakeholders identified as contributing to changes in USPS's international mail business since 2017, we interviewed officials from USPS, the Postal Regulatory Commission, and State as well as representatives from the domestic stakeholder groups listed above.

To describe the effects of changes in international mail rates, we interviewed the same interviewees listed above on how the changes affected four domestic stakeholder groups: (1) outbound international mailers; (2) express companies; (3) U.S. businesses with competitors in countries with low terminal dues; and (4) consumers. These were the same groups that we reported on in our 2017 report.[11] We also applied standard economic principles to describe effects on domestic stakeholders.

We conducted this performance audit from January 2023 to March 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that

[10] GAO-18-112 and GAO-17-571SU.

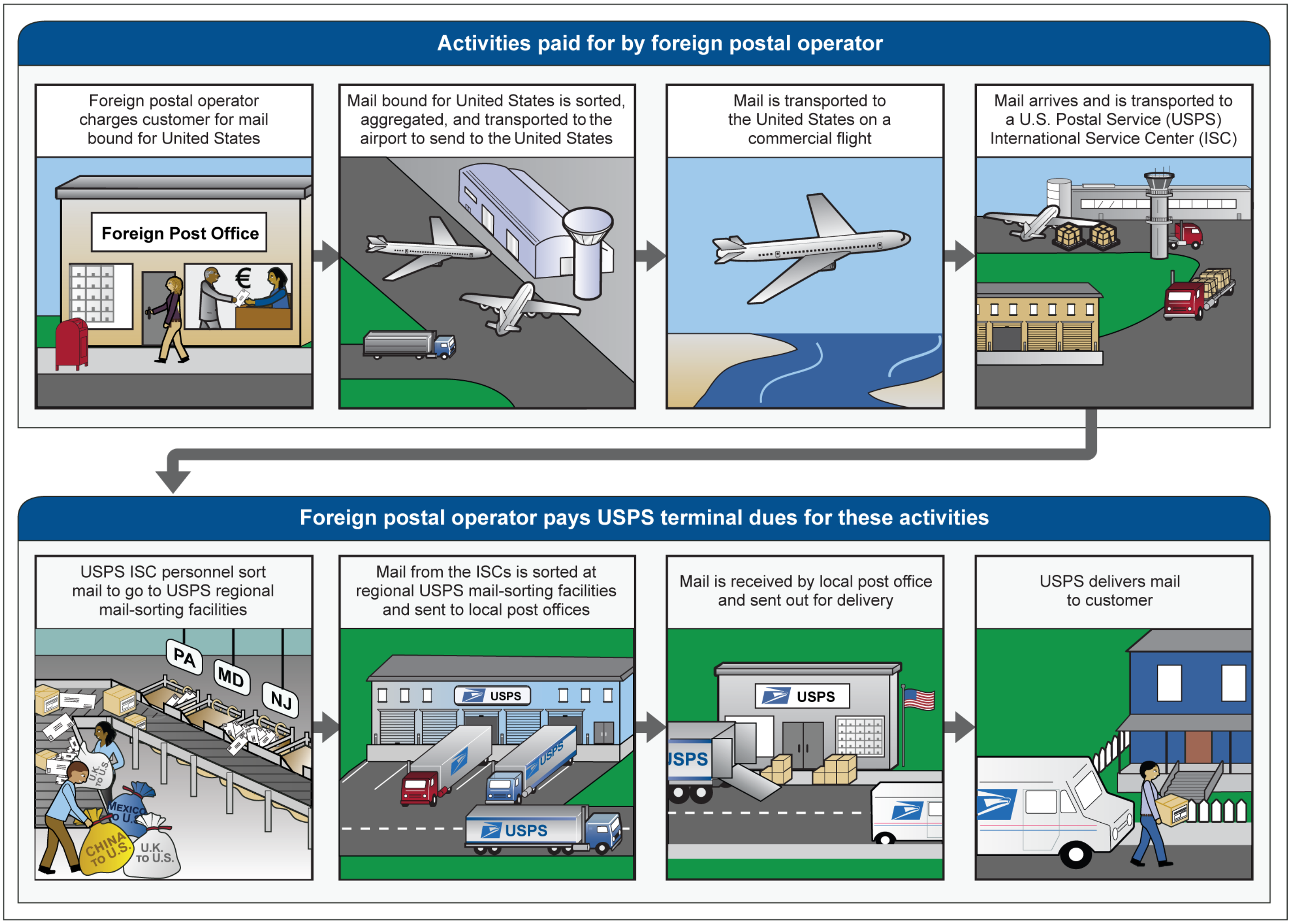
[11] GAO-18-112.

the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Postal operators in other countries, such as China Post, Canada Post, or Royal Mail Group in the United Kingdom, send mail to USPS and pay USPS for the final delivery of that mail to U.S. addresses. See figure 1 for an example of the movement of international mail to delivery addresses in the U.S. (called “inbound international mail”). The process is reversed for outbound international mail collected by USPS for delivery to foreign addresses (called “outbound international mail”).

Figure 1: Example of Movement of International Mail to Delivery Addresses in the United States



Source: GAO illustration and analysis of USPS information. | GAO-24-107383

Accessible text of Figure 1: Example of Movement of International Mail to Delivery Addresses in the United States

1) Activities paid for by foreign postal operator

   a) Foreign postal operator ——— charges customer for mail ——— bound for United States

b) Mail bound for United States is sorted, aggregated, and transported to the airport to send to the United States

c) Mail is transported to the United States on a commercial flight

d) Mail arrives and is transported to a U.S. Postal Service (USPS) International Service Center (ISC)

2) Foreign postal operator pays USPS terminal dues for these activities

a) USPS ISC personnel sort mail to go to USPS regional mail-sorting facilities

b) Mail from the ISCs is sorted at regional USPS mail-sorting facilities and sent to local post offices

c) Mail is received by local post office and sent out for delivery

Source: GAO illustration and analysis of USPS information. | GAO-24-107383USPS delivers mail to customer

As noted earlier, the Universal Postal Union's terminal dues system is designed to reimburse a country's postal operator for the cost of delivering mail that originated in another country. Terminal dues are applied to letter-post items, which include letters and small packages.[12]

The Universal Postal Union divides its member countries into four groups based on gross national income per capita and the cost to deliver a letter in the destination country (see appendix I for a list of countries by group). Postal operators from developing or transitional countries (Universal Postal Union Group 4) generally pay a lower rate for their mail to be delivered by postal operators in industrialized or target countries (Universal Postal Union Groups 1, 2, and 3). The United States is in Universal Postal Union Group 1.

The U.S. government plays a role in the terminal dues system. The Department of State (State) represents the U.S. to the Universal Postal Union, and State officials participate in the negotiations that determine terminal dues. State also solicits input on terminal dues and other international postal issues through a Federal Advisory Committee on

[12]The Universal Postal Union defines small packets, which we refer to in this report as a subset of "small packages", as letter-post items weighing up to 2 kilograms (kg) that contain a commercial item. Certain items from 0 kg to 30 kg that are handled differently are defined by the Universal Postal Union as parcels, which are covered under different rates.

international mail. That committee consists of USPS and Postal Regulatory Commission officials, other federal agencies with jurisdiction over related issues (e.g., the U.S. Department of Commerce), and representatives from affected businesses.

State is required by statute to request the Postal Regulatory Commission's views before any proposal establishing a rate or classification for a market-dominant product is adopted at Universal Postal Union congresses.[13] This request is to ensure that such rates or classifications are consistent with Postal Regulatory Commission standards and criteria for regulating rates for market-dominant products.[14] State is required to ensure that such rates or classifications (including the terminal dues for market-dominant mail) are consistent with the Postal Regulatory Commission's views unless State determines in writing that doing so is not in the foreign policy or national security interest of the United States. The Postal Regulatory Commission also is required by federal statute to review USPS proposals for international mail products to ensure compliance with legal requirements, such as requirements relating to cost coverage.[15]

Congress designed USPS to be a self-sustaining, business-like entity that would cover its operating costs primarily with revenues generated through the sales of postage and postal-related products and services. USPS can set the price for outbound international mail to cover its costs. These costs can include the terminal dues that USPS pays to other national postal operators for final delivery in their country. However, USPS does

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[13]Market-dominant mail products are those USPS products for which USPS "exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products." 39 U.S.C. § 3642(b)(1). Products that are not market-dominant mail products are considered competitive products. Market-dominant mail products include some international mail to which terminal dues apply, but terminal dues also apply to some competitive products. Terminal dues for competitive products are beyond the scope of these Postal Regulatory Commission views submitted to State.

[14]Under 39 U.S.C. § 407(c)(1), before concluding any treaty, convention, or amendment that establishes a rate or classification for market-dominant products, the Secretary of State is required to request Postal Regulatory Commission views on whether such rate or classification is consistent with the Postal Regulatory Commission's standards and criteria for regulating rates and classes for market-dominant products under 39 U.S.C. § 3622.

[15]The Postal Regulatory Commission reviews rates for international products as part of its review of proposed rate adjustments for market-dominant and competitive products and as part of its annual determinations of compliance. *See* 39 U.S.C. §§ 3622, 3633, 3653; *see also* 39 C.F.R. Parts 3030 & 3035.

not set the price for the foreign mailer for inbound international mail to the U.S.

In our 2017 report, we found that the terminal dues system caused USPS to lose money on delivering inbound international mail.[16] We reported that USPS's losses from inbound international mail doubled from $66 million in fiscal year 2012 to $135 million in fiscal year 2016. These losses were due to terminal dues from some countries (mainly China) not covering USPS's costs to deliver small packages. The small packages were primarily irregularly sized e-commerce packages from countries designated as "transitional" by the Universal Postal Union (Groups 3 and 4 at the time, which included China). We also reported that the financial effects of the terminal dues system on other domestic stakeholders were mixed: U.S. businesses and U.S. consumers benefitted from this system while express companies and businesses competing with foreign businesses in countries with relatively lower terminal dues were put at a competitive disadvantage by the terminal dues system.

In 2018, the U.S. government stated that it would withdraw from the Universal Postal Union unless the U.S. could unilaterally increase the terminal dues, specifically for small packages, to cover USPS's costs to deliver those items. In 2019, the Universal Postal Union met to address the issue and voted to allow the U.S. and certain other countries to "self-declare" terminal dues based on their domestic costs to deliver small packages (subject to certain limitations based on a combination of tonnage of mail sent and Universal Postal Union country group) to take effect on July 1, 2020.[17]

Effective July 1, 2020, USPS implemented self-declared terminal dues on inbound small packages from certain countries. Also in 2020, some countries implemented self-declared rates for small packages coming from the U.S. into their countries.

USPS's 2020 self-declared terminal dues were substantially higher than non-self-declared (or "regular") terminal dues. While USPS's self-declared rates grew more slowly than regular terminal dues in 2021 and 2022, the 2022 self-declared rates were still higher than regular terminal dues due to the large increase in 2020. For example, according to USPS data, self-declared terminal dues for a 10-ounce package in 2022 had increased at

[16]GAO-18-112.

[17]Self-declared terminal dues are not applicable to other types of international mail, such as packages weighing more than 2kg (4.4 pounds).

a higher rate than USPS's regular terminal dues over 2019's regular terminal dues.

International Mail Revenue Covered Its Costs, While Its Revenue, Cost, and Volume Have Substantially Declined Since 2017

USPS's Revenue from International Mail Covered Its Costs

As a result of several recent changes, USPS's revenue from total inbound and outbound international mail consistently covered its costs each year from fiscal year 2017 to 2022. Under Universal Postal Union agreements, USPS is generally required to accept and deliver mail tendered to it from other countries' designated postal operators, including mail sent under the terminal dues adopted by the Universal Postal Union. As we reported in 2017, terminal dues were one reason USPS had lost money on inbound international mail.[18] The Universal Postal Union implemented planned increases to terminal dues starting on January 1, 2018 and allowed more types of mail to be classified as small packages, which had higher terminal dues.[19] USPS reported in 2018 that it covered its costs for inbound international mail in fiscal year 2018 as its revenue increased from (1) price increases, (2) higher terminal dues for small packages, and (3) new bilateral agreements for mail to and from several countries.[20]

As stated above, USPS implemented self-declared terminal dues for small packages in 2020, leading to even higher revenue per piece of inbound international mail. USPS has consistently covered its costs for international mail from 2017-2022 (see table 1). However, USPS's total revenue and costs for both have decreased since 2017.

[18] GAO-18-112.

[19] The Universal Postal Union agreed to these changes, among others, at its 2016 Congress held in Istanbul, Turkey.

[20] U.S. Postal Service, *2018 Report on Form 10-K* (Washington, D.C.: Nov. 14, 2018).

Table 1: Percentage of U.S Postal Service's (USPS) Costs Covered by Revenue for International Mail, Fiscal Years 2017-2022[a]

	2017	2018	2019	2020	2021	2022
International mail	134%	129%	121%	124%	140%	132%

Source: GAO analysis of USPS data. | GAO-24-107383

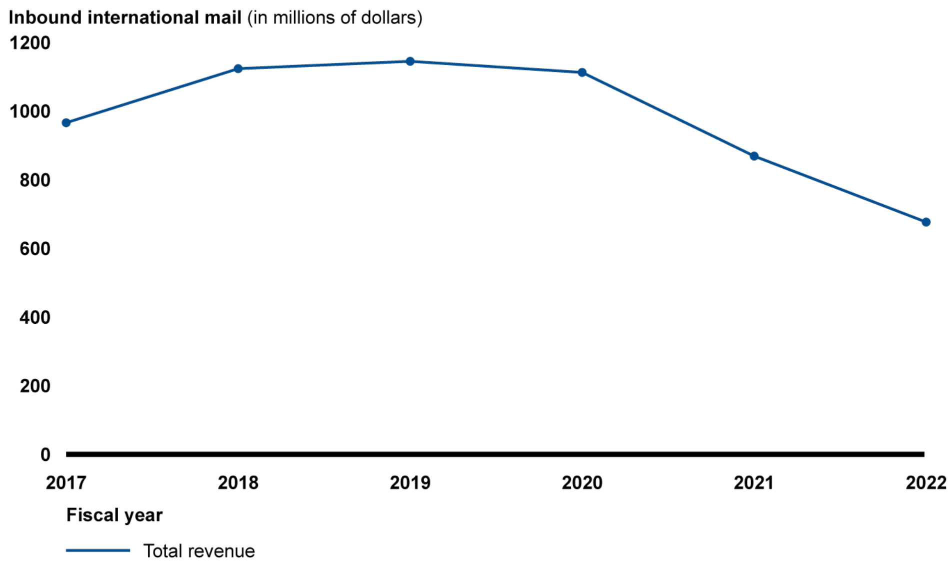
[a]The figures in the table are calculated by dividing total revenue by total costs, expressed as a percentage. A percentage equal to or over 100% means that USPS's revenue was the same as or higher than USPS's costs, respectively.

USPS Revenue and Costs Have Declined Since 2017

Inbound International Mail

USPS's revenue from inbound international mail decreased by about 30 percent from fiscal year 2017 to fiscal year 2022. For example, USPS's revenue declined by about $244 million (see fig. 2). USPS's costs for this mail also decreased during this time.

Figure 2: U.S Postal Service's (USPS) Revenue for Inbound International Mail, Fiscal Years 2017-2022



Source: GAO analysis of USPS data. | GAO-24-107383

Accessible data table for Figure 2: U.S Postal Service's (USPS) Revenue for Inbound International Mail, Fiscal Years 2017-2022

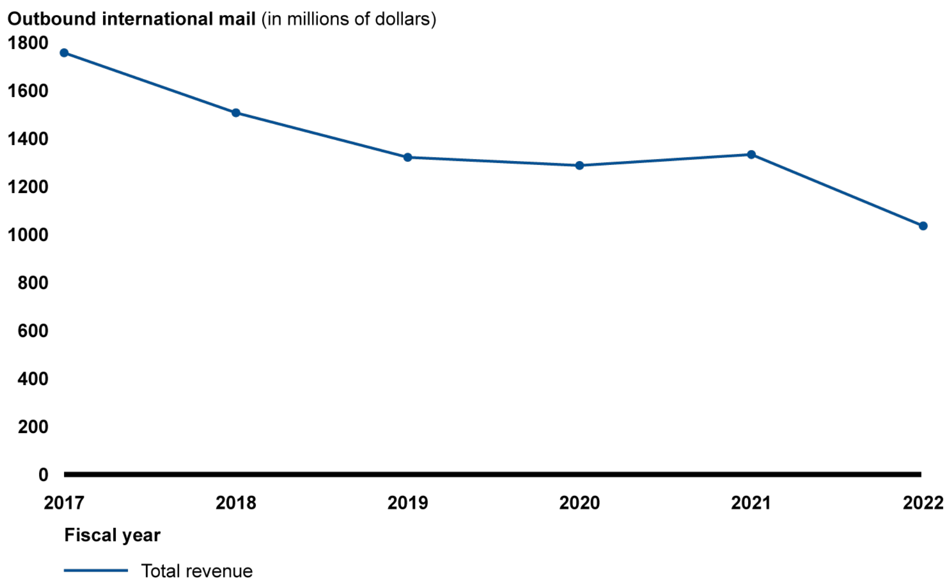
Fiscal Year	Inbound-total revenue (in millions of dollars)
2017	966.14
2018	1123.67
2019	1145.12
2020	1112.72
2021	868.97
2022	676.68

Source: GAO analysis of USPS data. | GAO-24-107383

Outbound International Mail

While USPS's revenue exceeded its costs for outbound international mail from fiscal year 2017 through fiscal year 2022, both its revenue and costs fell during this period. For example, USPS's revenue fell by 41 percent (see fig. 3).

Figure 3: U.S Postal Service's (USPS) Revenue for Outbound International Mail, Fiscal Years 2017-2022



Source: GAO analysis of USPS data. | GAO-24-107383

Accessible data table for Figure 3: U.S Postal Service's (USPS) Revenue for Outbound International Mail, Fiscal Years 2017-2022

Fiscal year	Outbound-total revenue (in millions of dollars)
2017	1756.87
2018	1506.96
2019	1321.37
2020	1287.41
2021	1333.02
2022	1035.58

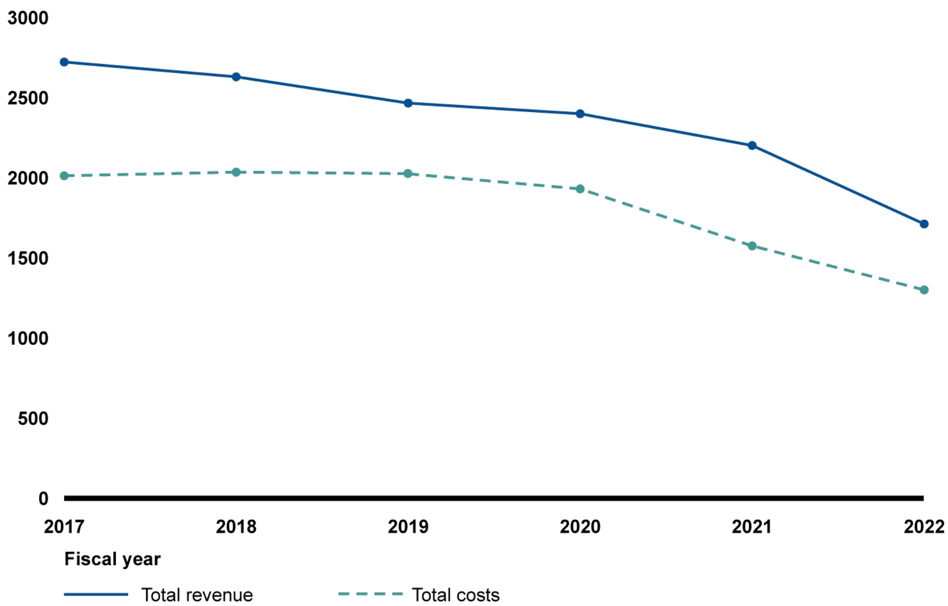
Source: GAO analysis of USPS data. | GAO-24-107383

USPS's revenue for outbound international mail has been consistently higher than its costs, as USPS can determine the price charged to the mailer. Therefore, USPS can set that price higher than its costs, subject to USPS's pricing authority under federal statute and Postal Regulatory Commission regulations.

Total International Mail

While USPS's revenue from inbound and outbound international mail were more than its costs, USPS's total international mail revenue and costs both decreased from fiscal year 2017 through fiscal year 2022. USPS's revenue from all international mail fell from about $2.7 billion in fiscal year 2017 to about $1.7 billion in fiscal year 2022 (37 percent). USPS's costs for all international mail decreased from about $2 billion to about $1.3 billion (36 percent) during the same period (see fig. 4).

Figure 4: U.S Postal Service's (USPS) Revenue and Costs for Total Inbound and Outbound International Mail, Fiscal Years 2017-2022



Source: GAO analysis of USPS data. | GAO-24-107383

Accessible data table for Figure 4: U.S Postal Service's (USPS) Revenue and Costs for Total Inbound and Outbound International Mail, Fiscal Years 2017-2022

Fiscal year	In-n-Outbound-total revenue (in millions of dollars)	In-n-Outbound-total costs (in millions of dollars)
2017	2723	2013.15
2018	2630.63	2035.57
2019	2466.49	2034.13
2020	2400.13	1931.12
2021	2201.99	1575.33
2022	1712.26	1300.91

Source: GAO analysis of USPS data. | GAO-24-107383

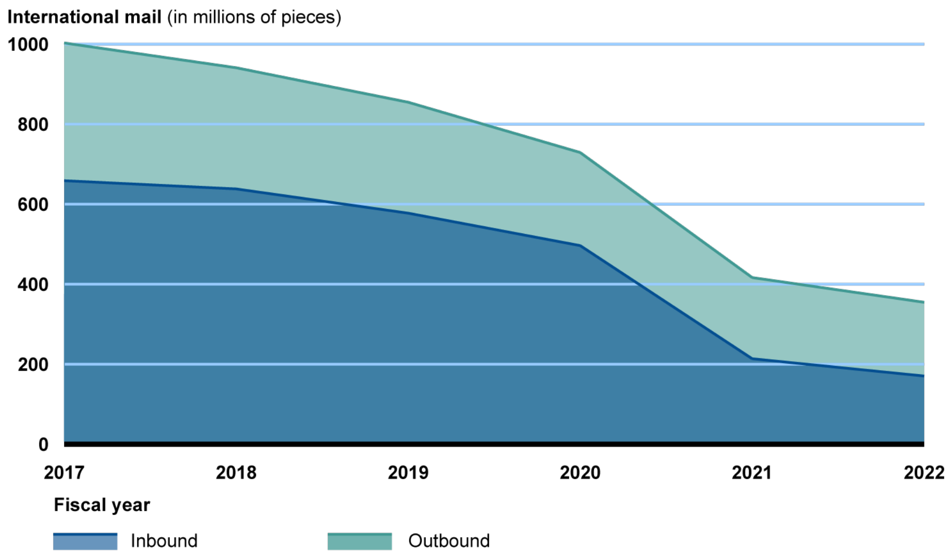
USPS officials attributed the decrease in revenue to the decline in both inbound and outbound volume, further discussed below. USPS officials also stated that while revenue from international mail decreased, it would have declined further if not for the self-declared terminal dues implemented in July 2020. The Postal Regulatory Commission also approved USPS's request to change the classification of several international mail products from market-dominant to competitive products during this period.[21] This reclassification allowed USPS greater pricing authority to increase prices for those products to better cover their costs.

Volume Decrease in International Mail Driven by Rapid Decline in Inbound Mail

During fiscal years 2017-2022, USPS's total international mail volume (inbound and outbound) declined substantially, with a sharp decline in inbound international mail contributing more to that decline than decreases in outbound international mail. USPS's total international mail volume peaked at about 1 billion pieces in fiscal year 2017 then decreased to about 355 million pieces in fiscal year 2022 (about a 65 percent decline, see fig.5).

[21]As noted earlier, market-dominant products, such as First-Class Mail, are those for which USPS "exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products." 39 U.S.C. § 3642(b)(1). All other USPS products are competitive products. Under federal statute and regulations, USPS is authorized to raise rates of market-dominant products up to a defined annual cap based on the consumer price index, decrease in mail density, and USPS's retirement obligations, with some exceptions. 39 U.S.C. § 3622; *see also* 39 C.F.R. Part 3030. USPS has more flexibility in setting prices for its competitive products, subject to certain minimum requirements. *See* 39 U.S.C. § 3633; *see also* 39 C.F.R. Part 3035.

Figure 5: U.S Postal Service's (USPS) Inbound, Outbound, and Total International Mail Volume, Fiscal Years 2017-2022



Source: GAO analysis of USPS data. | GAO-24-107383

Accessible data table for Figure 5: U.S Postal Service's (USPS) Inbound, Outbound, and Total International Mail Volume, Fiscal Years 2017-2022

Fiscal year	Inbound (in millions of pieces)	Grand total - inbound and outbound (in millions of pieces)
2017	658.85	1003
2018	638.22	941
2019	577.63	854.81
2020	496.57	729.14
2021	213.83	416.62
2022	170.6	354.81

Source: GAO analysis of USPS data. | GAO-24-107383

USPS officials stated that changes in the market for international mail were driven by several factors, such as COVID-19 and self-declared terminal dues. USPS officials stated that the start of self-declared rates for small packages in 2020 was the primary contributor to dramatic decreases in inbound volume.

USPS officials also stated that many U.S.-based outbound mailers stopped using USPS to mail items to other countries due to the self-declared rate price increases, instead turning to express companies or other mailing alternatives. Outbound small package volume also has declined substantially since fiscal year 2020, to countries both with and without self-declared rates.

Stakeholders Identified Multiple Factors that Contributed to Changes in USPS's International Mail Business

All 12 domestic stakeholders we interviewed cited at least one of three main factors that contributed to changes in USPS's international mail business since 2017: (1) increased international mail rates; (2) COVID-19 travel restrictions; and (3) new customs laws.[22] Several stakeholders stated that most of the changes have occurred since 2020. However, some stakeholders also stated that it was difficult to quantify the specific effect of each individual factor, especially since many of the factors were occurring at the same time, such as the increases in international mail rates and COVID-19 travel restrictions in 2020.

Stakeholders Said Increased International Mail Rates Led to Decreased Volume

Several domestic stakeholders we interviewed, including outbound mailers, express companies, and experts, stated that the introduction of self-declared rates for small packages, as well as the higher rates implemented in January 2018, contributed to the substantial decrease in USPS's international mail volume since 2018. Some stakeholders—such as an independent expert and a company that has foreign competitors—

[22]In recent reports, the USPS Office of Inspector General and the Universal Postal Union found similar factors for the reduction in small packages sent via international mail. The USPS Office of Inspector General found that new supply chain models (including international cargo and simpler commercial customs clearance processes); increased international mailing rates; and new data, security and customs requirements all contributed to the decrease in international packages sent between other national postal operators and USPS. See USPS Office of Inspector General, *The International Package Market-Trends and Opportunities for the Postal Service*, RISC-WP-23-006 (Arlington, VA: May 15, 2023). The Universal Postal Union used an econometric model to attempt to estimate the effect of several factors on different types of international mail. The factors included COVID-19 travel restrictions, increased international mail rates, new customs, taxes and security laws in the European Union and the U.S., and the Ukrainian conflict. The report stated that each of these factors had different effects on letter-post, parcels, express service, and international cargo volumes. See, Universal Postal Union, *State of the Postal Sector 2023* (Berne, Switzerland: October 2023).

stated that mailers of lower-value items in small packages found that increased mailing costs, due to self-declared terminal dues, were too expensive. As a result, those mailers sought alternatives to using national postal operators (see below for more on alternatives to the terminal dues system).

Stakeholders Said COVID-19 Travel Restrictions Reduced Capacity to Transport International Mail

Some domestic stakeholders said that COVID-19 travel restrictions limiting international air travel affected USPS, which, according to USPS officials, uses space on commercial airline flights to send and receive most of its inbound and outbound international mail. These restrictions led to delays and logistical challenges for international mail services, forcing USPS to look for alternatives. In 2020, USPS shipped outbound mail by sea to Europe, Asia, and Latin America due to the reduction in commercial air service. USPS officials stated that this added 2 to 4 weeks to delivery times and did not replace the volume lost due to limited air travel.

USPS officials also stated that national postal operators in other countries experienced prolonged delays and temporary suspensions in sending and delivering international mail because of COVID-19 restrictions affecting international commercial flights or restrictions in their own countries, leading to continued disruptions worldwide. For example, as of October 2023, USPS stated that it had not been able to guarantee express delivery for certain international mail products to 15 countries since October 2021 due to travel restrictions and cancellations.

Generally, COVID-19 travel restrictions were invoked only 4 to 5 months before the introduction of self-declared terminal dues in July 2020, making it difficult to distinguish how much of an effect each change independently had on USPS's international mail business.[23] One express company stated that, prior to the pandemic, USPS had lost market share of the international small package market as a result of terminal dues increases in 2018 and the implementation of new customs laws (discussed below). According to the express company representative, the COVID-19 pandemic exacerbated USPS's volume decline due to the reduction of international commercial flights, resulting in further market

[23]For example, in February 2020, the Department of Homeland Security limited the airports at which incoming international flights could land if they were carrying persons who were recently in the People's Republic of China. *See* 85 Fed. Reg. 6044 (Feb. 4, 2020).

share losses for USPS, while the express company increased the amount of international packages it could move on its own planes. Another stakeholder stated that several national postal operators closed during the pandemic, so USPS could not send or receive mail from those countries.

Stakeholders Said New Customs Laws Increased Costs for International Mailers

Several domestic stakeholders stated that the federal requirement for USPS to provide the U.S. Customs and Border Protection agency with electronic data reduced USPS's international mail volume. This information, such as the mailer's and recipient's name and address, is required on certain individual inbound international mail pieces before the item's arrival in the U.S.[24] This requirement for "advance electronic data" was introduced under the Synthetics Trafficking and Overdose Prevention Act of 2018 and related regulations.[25] A representative from an international mailing company mentioned that this advance electronic data requirement slows down international e-commerce and makes sending items internationally more difficult. Two stakeholders mentioned that a European Union 2021 requirement to collect advance electronic data and a 2021 tax increase on mailed goods entering European Union countries from non-European Union countries have contributed to a reduction in USPS's outbound international mail to those countries.[26]

24Subject to some exclusions, advance electronic data is required for inbound international mail shipments containing goods classified as Express Mail Service, Parcel post, or Letter class mail—goods. 19 C.F.R. § 145.74(b).

25Pub. L. No. 115-271, tit. VIII, § 8003(a)(1), 132 Stat. 4073, 4074–76 (2018); 19 C.F.R. §145.74. For more information on advance electronic information and international mail security, see GAO, *International Mail Security: Costs and Benefits of Using Electronic Data to Screen Mail Need to Be Assessed,* GAO-17-606 (Washington, D.C.: Aug. 2, 2017) and GAO, *International Mail: Progress Made in Using Electronic Data to Detect Illegal Opioid Shipments, but Additional Steps Remain,* GAO-20-229R (Washington, D.C.: Dec. 18, 2019).

26According to a European Commission press release, as of July 2021, the European Union applied its value-added tax to all goods entering the European Union. As explained in the press release, items valued at less than €22 ($26 at 2021 dollars) were previously exempt from the European Union's value-added tax. European Commission, "VAT: New e-commerce rules in the EU will simplify life for traders and introduce more transparency for consumers," press release IP/21/3098, June 28, 2021, https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3098.

Stakeholders Said Changes in International Mail Rates Likely Benefited Some Businesses but Not Others and Led to Greater Use of Mail Alternatives

Increased International Mail Rates Had Varied Effects on U.S. Businesses and Consumers

Several domestic stakeholders we interviewed told us that express companies and U.S. companies with foreign competitors likely benefited from increased international mail rates. They further noted that U.S. outbound international mailers did not benefit and the effects on U.S. consumers were difficult to quantify.

- **Express companies.** Several stakeholders said these companies, such as FedEx and UPS, likely benefited from higher mail rates for small packages into and out of the U.S. because they could be more competitive with national postal operators, such as USPS or China Post. According to USPS data, small packages are often e-commerce items and are the most prevalent type of international mail. However, a representative from an express company stated that while there have been some items diverted from USPS to express companies, most were diverted to other, non-express company importers (see below). In addition, the representative said the company does not consider USPS to be a competitor for international items as much as other national postal operators that still have lower international mail rates into or out of the U.S.
- **U.S. businesses with competitors in countries with relatively low terminal dues.** Several stakeholders said these businesses likely benefited from higher international mail rates that increased the cost of inbound small packages sent by their competitors through international mail. For example, two stakeholders said increased rates for small packages also may have reduced the number of lower-value (under $10) and counterfeit goods that the U.S. businesses had to compete against. A representative from a U.S. business stated that after self-declared terminal dues were implemented, the difference between an original product priced at $20 and a foreign counterfeit product priced at $15 is not enough to make the consumer choose the counterfeit product, which takes longer to arrive and does not have tracking.

- **U.S. outbound international mailers.** Stakeholders said that these mailers did not benefit from higher international mail rates because they reduced their mail volume to countries that implemented self-declared rates for outbound international mail from the U.S. A representative from an international mailer association said that several countries took advantage of the move to self-declared rates to raise the rates for outbound mail from the U.S. The representative said that this in turn, forced USPS to pass along this increased cost by raising prices charged to U.S. outbound mailers. According to the representative, as international mail is a competitive market and price increases have a large impact, outbound mail volume sent through USPS to those countries dropped off sharply, just when the COVID-19 pandemic was also having an effect on international mail volumes. A representative of a U.S. company that had mailed internationally also stated that they stopped mailing items outside of the U.S. for this reason, as a product that costs the consumer $20 might now cost more than $60 after mailing costs are applied.
- **Consumers.** Stakeholders said the effects of higher mail rates on consumers were unclear. While consumers may have to pay more for items mailed internationally, some stakeholders mentioned that consumers might not be affected for various reasons. For example, one stakeholder said that consumers are now paying more for inbound international mail after the implementation of self-declared rates for small packages. However, another stakeholder stated that it is difficult to determine the effect on consumers as the foreign mailer could pass some, most, or all of the rate increase on to the consumer. According to this stakeholder, it is also difficult to estimate the effect on the consumer since these rates are reimbursements between national postal operators. In addition, the stakeholder noted that rates are only one input to the cost of an item mailed internationally. A different stakeholder stated that other national postal operators had been paying USPS artificially low rates for delivery of inbound small packages via international mail under the terminal dues system in effect before self-declared rates were implemented in 2020. According to this stakeholder, self-declared rates eliminated the higher domestic postage USPS had to charge to make up for USPS's inability to cover its costs on inbound small packages.

These stakeholder statements are generally consistent with what we reported in 2017, that increases in international mail rates would negatively affect U.S. outbound mailers and U.S. consumers to the extent that USPS passed on any rate increases to them.[27] We also reported that express companies and U.S. businesses with foreign competitors who ship their products to the U.S. would benefit from higher terminal dues because an increase in mailing costs would make their products more cost- and price-competitive.

Use of International Mail Alternatives Rose as International Mail Rates Increased

According to USPS officials and stakeholders, the increases of both self-declared and regular terminal dues have contributed to the reduction in USPS's international mail volume, and to increases in mailers using alternative methods. USPS officials and stakeholders we interviewed mentioned four alternatives used by mailers to send items internationally, described below.

- **Multilateral or bilateral agreements.** According to USPS officials, USPS uses bilateral and multilateral agreements with other countries' postal operators to exchange certain types of international mail outside of the regular terminal dues system. USPS officials stated USPS uses these agreements to develop more market-based pricing, which has shifted some volume from the regular terminal dues system. Since self-declared rates have been implemented, USPS has carried more items under these agreements.
- **International cargo.** Inbound mailers send items as international cargo to a U.S. port of entry. When the cargo arrives in the U.S., a third-party logistics company will transport the items to USPS for final delivery as a domestic mail item, after the items have cleared U.S. customs. USPS's Global Direct Entry program facilitates this process and has seen volume increases between fiscal years 2020 and 2022, according to USPS officials. A representative from an international e-commerce company stated that they use this alternative over using national postal operators for most of their international items to control delivery speed and reliability as consumers now value fast and reliable delivery over price.
- **Express companies.** Private express companies, such as FedEx and UPS, collect, transport, and deliver items using their own networks, which include retail and sorting facilities, planes, trucks, and workforce. According to representatives for these companies, they can provide faster delivery times for international items than USPS but

[27] GAO-18-112.

generally at higher prices. As a result, their services are used mainly for higher-value and time-sensitive items.

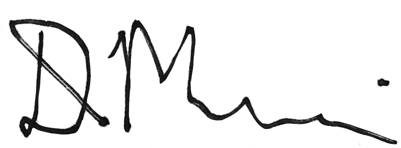
- **Extra-territorial offices of exchange.** As recognized by a Universal Postal Union resolution, some postal operators can provide postal services in foreign countries. Several foreign postal operators, such as Germany's Deutsche Post and France's LaPoste, have facilities in the U.S. These operators can charge mailers lower rates than USPS as they can take advantage of the lower, regular terminal dues of their foreign postal operator for mail going to countries that have higher self-declared terminal dues with USPS.

Agency Comments and Our Evaluation

We provided a draft of this report to USPS, State, and the Postal Regulatory Commission for their review and comment. USPS provided technical comments, which we incorporated as appropriate. State did not comment. The Postal Regulatory Commission provided written comments that are in appendix II.

We are sending copies of this report to appropriate congressional committees, the Postmaster General, and other interested parties. In addition, this report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-2834 or marronid@gao.gov. GAO staff making key contributions to this report are listed in appendix III.



David Marroni
Acting Director, Physical Infrastructure Issues

Appendix I: List of Countries by Universal Postal Union Group

Table 2: List of Countries by Universal Postal Union Group

Group I
Countries and territories
Australia
– Norfolk Island
Austria
Belgium
Canada
Denmark
– Faroe Islands
– Greenland
Finland (including the Åland Islands)
France
French Overseas Territories
– French Polynesia (including Clipperton Island)
– New Caledonia
– Wallis and Futuna Islands
Germany
Greece
Iceland
Ireland
Israel
Italy
Japan
Liechtenstein
Luxembourg
Monaco
Netherlands
New Zealand (including the Ross Dependency)

Norway
Portugal
San Marino
Spain
Sweden
Switzerland
United Kingdom of Great Britain and Northern Ireland
– Guernsey
– Isle of Man
– Jersey
Overseas Territories, United Kingdom of Great Britain and Northern Ireland:
– Falkland Islands (Malvinas)
– Gibraltar
– Pitcairn, Henderson, Ducie, and Oeno Islands
– Tristan da Cunha
United States of America
Vatican
Group II
Countries and territories
Antigua and Barbuda
Aruba, Cura?ao, and Sint Maarten
Bahamas
Bahrain (Kingdom)
Barbados
Brunei Darussalam
Croatia
Cyprus
Czech Republic
Dominica
Estonia
Grenada
Hong Kong, China
Hungary
Korea (Republic)
Kuwait
Latvia
Macao, China

Malta
Territory under the Netherlands:
– Dutch Caribbean (Bonaire, Saba, and Sint Eustatius)
Territory under New Zealand:
– Cook Islands
Poland
Qatar
Saint Christopher (St. Kitts) and Nevis
Saudi Arabia
Singapore
Slovakia
Slovenia
Trinidad and Tobago
Overseas Territories (United Kingdom of Great Britain and Northern Ireland):
– Anguilla
– Bermuda
– British Virgin Islands
– Cayman Islands
– Montserrat
– Turks and Caicos Islands

Group III
Countries and territories
Argentina
Belarus
Bosnia and Herzegovina
Botswana
Brazil
Bulgaria (Republic)
Chile
China (People’s Republic)
Costa Rica
Cuba
Fiji
Gabon
Jamaica
Kazakhstan
Lebanon

Lithuania
Malaysia
Mauritius
Mexico
Montenegro
Nauru
Territory under New Zealand:
– Niue
North Macedonia
Oman
Panama (Republic)
Romania
Russian Federation
Saint Lucia
Saint Vincent and the Grenadines
Serbia
Seychelles
South Africa
Suriname
Thailand
Turkey
Ukraine
United Arab Emirates
Uruguay
Venezuela (Bolivarian Republic)

Group IV
Countries and territories
Afghanistan
Albania
Algeria
Angola
Armenia
Azerbaijan
Bangladesh
Belize
Benin
Bhutan

Bolivia
Burkina Faso
Burundi
Cambodia
Cameroon
Cape Verde
Central African Republic
Chad
Colombia
Comoros
Congo (Republic)
C?te d’Ivoire (Republic)
Dem People’s Republic of Korea
Dem. Republic of the Congo
Djibouti
Dominican Republic
Ecuador
Egypt
El Salvador
Equatorial Guinea
Eritrea
Eswatini (Swaziland until 2018)
Ethiopia
Gambia
Georgia
Ghana
Guatemala
Guinea
Guinea-Bissau
Guyana
Haiti
Honduras (Republic)
India
Indonesia
Iran (Islamic Republic)
Iraq
Jordan
Kenya

Kiribati
Kyrgyzstan
Lao People’s Dem. Republic
Lesotho
Liberia
Madagascar
Malawi
Maldives
Mali
Mauritania
Moldova
Mongolia
Morocco
Mozambique
Myanmar
Namibia
Nepal
Territory under New Zealand:
– Tokelau
Nicaragua
Niger
Nigeria
Pakistan
Palestine
Papua New Guinea
Paraguay
Peru
Philippines
Rwanda
Samoa
Sao Tome and Principe
Senegal
Sierra Leone
Solomon Islands
Somalia
South Sudan
Sri Lanka
State of Libya

Sudan
Syrian Arab Republic
Tajikistan
Tanzania (United Republic)
Timor-Leste (Dem. Republic)
Togo
Tonga (including Niuafo'ou)
Tunisia
Turkmenistan
Tuvalu
Uganda
Overseas Territories, United Kingdom of Great Britain and Northern Ireland:
– Ascension
Uzbekistan
Territory under the United States of America:
– Samoa
Vanuatu
Viet Nam
Yemen
Zambia
Zimbabwe

Source: GAO analysis of Universal Postal Union information. | GAO-24-107383

Appendix II: Comments from the Postal Regulatory Commission

POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Office of the Chairman

January 12, 2024

Mr. David Marroni
Acting Director, Physical Infrastructure
General Accountability Office
411 G Street NW
Washington, DC 20226

Dear Mr. Marroni:

Thank you for the opportunity to review the U.S. General Accountability Office's (GAO) draft report, *International Mail*: *Effects of Rate Increases and Other Factors on USPS and Domestic Stakeholders.*[1] The Postal Regulatory Commission (Commission) appreciates GAO giving us the opportunity to provide both input during the process of its review as well as feedback on this draft report. The Commission takes an ongoing interest in international mail trends, in general, and rates, in particular, given their impact on the Postal Service's finances for international products. GAO's most recent analysis of the impacts of several key changes in the international postal market since its last report in 2017 provides useful insight into the different effects on the many stakeholders. The Commission does have some comments that we would like to share.

First, the table *Inbound International Mail Volumes Subject to U.S. Postal Service (USPS) Self-Declared Rates, Fiscal Years 2017-2022* shows a volume decline in inbound small packets that would be subject to these rates during this time period. GAO Report. As the Postal Service did not implement self-declared rates until July 1, 2020, it is unclear which country-specific volumes GAO included from FY 2017 through

[1] United States General Accountability Office, Report No. GAO-24-106557SU, Draft Report, International Mail: Effects of Rate Increases and Other Factors on USPS and Domestic Stakeholders, January 2024 (GAO-24-106557SU) (GAO Report).

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Mr. David Marroni
January 12, 2024
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June 30, 2020,[2] and whether GAO included volumes that were part of bilateral or multilateral agreements from FY 2017 to FY 2022.

As part of its FY 2022 Annual Compliance Report, the Postal Service filed public cost, volume, and revenue data on Inbound Letter Post from FY 2017 through FY 2022 that may be helpful to the reader.[3] A Commission analysis of similar data that the Postal Service filed as part of its FY 2019 Annual Compliance Report showed increases in inbound small packet (format E) volume subject to Universal Postal Union (UPU) rates from FY 2017 to FY 2019 before the implementation of self-declared rates.[4] This volume increase for small packets and corresponding, ongoing negative contribution to the Postal Service were key factors that drove the U.S. to seek UPU adoption of self-declared rates at the 2019 UPU Extraordinary Congress in Geneva. From FY 2017 to FY 2019, for example, the Postal Service reported $382.67 million in negative contribution for the Inbound Letter Post product, which then included letters, flats, and small packets.[5] From FY 2014 to FY 2019, the negative contribution for Inbound Letter Post was $690.74 million.[6]

In addition, the Commission evaluates each Postal Service product separately as defined in the Mail Classification Schedule.[7] Each product must cover its costs to

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[2] Data on inbound UPU small packets was no longer publicly available as of January 1, 2020, because they became a separate competitive Inbound Letter Post Small Packets and Bulky Letters product.

[3] Docket No. ACR2022, USPS-FY22-41-International Market Dominant Billing Determinants, folder "Inbound Letter Shape_Group," file "FY22 IB LP Shape by UPU Country Group.xlsx," December 29, 2022. This public data for Inbound Letter Post included volume, cost, and revenue data for letters, flats, and small packets through December 31, 2019, and for letters and flats through FY 2022.

[4] Docket No. ACR2019, Library Reference PRC-LR-ACR2019-12, tab "Date for Presentation," cells E4+E7+E10+E13, F4+F7+F10+F13, and G4+G7+G10+G13.

[5] *Id.* tab "Figure 3," cells E7:G7.

[6] *Id.* tab "Figure 3," cells B7:G7.

[7] Postal Regulatory Commission, Mail Classification Schedule (MCS), available at *https://www.prc.gov/mail-classification-schedule.*

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comply with U.S. postal laws. GAO's draft report mainly focuses on the revenues, costs, and volume of total outbound and inbound international mail combined, as well as all inbound international mail and all outbound international mail separately. GAO states that "[b]ecause of the sensitive nature of the information contained in this product, we are only providing copies to the appropriate congressional committees with a need-to-know, and the Postmaster General, the Chairman of the Postal Regulatory Commission, and the Secretary of State. On request, this product will also be made available to others with the appropriate need-to-know." GAO Report.

If this report is not going to be made public, the Commission finds that it would be useful to include non-public cost, revenue, contribution, and cost coverage data on inbound small packets from FY 2017 to FY 2022 to provide a more refined picture of the financial performance of inbound small packets before and after the implementation of higher terminal dues in 2018 and self-declared rates in 2020. However, the Commission understands that GAO may have aggregated data in the event that the report becomes a public document.

As an additional comment, the contributions of various stakeholders to this report add valuable insight and provide a balanced view of the many effects of increases in terminal dues for small packets during the period FY 2017 to FY 2022. Of note, GAO cites in its report that several stakeholders interviewed said that express companies and U.S. companies with foreign competitors likely benefitted from increased international mail rates, that U.S. outbound international mailers did not benefit, and that the effects on U.S. consumers were difficult to quantify. *Id.* In particular, according to the report, several stakeholders said that these express "companies, such as FedEx and UPS, likely benefited from higher mail rates for small packages into and out of the U.S. because they could be more competitive with national postal operators, such as USPS or China Post." *Id.* To this point, the Commission would like to highlight that this higher level of competition in the small packet market underscores the fact that UPU terminal dues, particularly those that did not cover the costs of the inbound postal operator before the implementation of self-declared rates, were artificially suppressed to allow the origin postal operator to offer lower prices to its customers, often at the expense of the destination postal operator such as the Postal Service. Therefore, the Commission reiterates that self-declared rates provide fairer competition between the U.S. Postal Service and its competitors.

Lastly, GAO notes that all stakeholders cited increased international mail rates, COVID-19 restrictions on mail transport, or new customs laws as of one of the three main factors that contributed to the decline of the Postal Service's international mail business since 2017 in addition to other factors. *Id.* The Commission would like to stress that it is extremely difficult, if not impossible, to quantify or rank the impact of any one factor on international mail volumes. Therefore, the volume decline cannot be attributed to a single factor or factors. According to the report, several stakeholders also said that most of the changes have occurred since 2020. *Id.* The Commission notes that factors such as bilateral/multilateral agreements, the transition to international cargo, increases in terminal dues for small packets, and changes in customs laws were taking place before 2020.

GAO describes a business model referred to in the UPU as the B2B2C model, which the Commission believes is another factor that contributed to the decline of the Postal Service's international mail business. Rather than going through the traditional UPU end-to-end network from an origin postal operator to a destination postal operator, mail is being consolidated and sent to the destination country as cargo, thereby bypassing the origin postal operator. *Id.* As GAO points out, after commercial customs clearance, at least some international mail arriving as cargo is entered into the Postal Service's domestic network through the Postal Service's Global Direct Entry Program. *Id.* While these volumes are not reflected as the Postal Service's inbound international mail volumes, at least some are still going into the Postal Service's domestic network at domestic rates.

It is difficult to quantify how much mail has transitioned to this model. However, GAO cites in its report that the Postal Service's Global Direct Entry program, which facilitates this process, has seen volume increases between FY 2020 and FY 2022, according to Postal Service officials. *Id.* This seems to reflect a transition from the traditional UPU postal end-to-end model to domestic networks that benefits the Postal Service financially. Payment of domestic rates to the Postal Service instead of terminal dues ensures fair competition as all mailers can access the Postal Service's network at the same prices for meeting the same conditions. Therefore, besides the three factors identified by GAO as contributing to the decline in the Postal Service's international mail business since 2017,[8] this shift from the traditional UPU postal end-to-end model to the B2B2C model that injects cross-border mail as domestic mail may have contributed, even more significantly than the three main items identified in the draft report, to the decline in the Postal Service's inbound international mail volumes but benefited its domestic mail volumes and revenue.

This transition to cargo appears to be more cost-effective and responsive to customers and may also reduce the carbon footprint of individual packets and parcels that are sent to the destination country as a consolidated cargo shipment. Of important note, the B2B2C model does not exclude the Postal Service from the international mail market. Rather, the Postal Service is well positioned to provide effective and efficient last-mile delivery. Even the UPU recognizes the value of this model and has created a working group to help postal operators be a player in the B2B2C market.

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[8] GAO Report, "What GAO Found." These three factors are increased international mail rates, COVID-19 that restricted options to get mail in and out of the U.S., and new customs laws that increased costs for sending international mail.

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January 12, 2024
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As a final editorial comment, the Commission appreciates that all feedback provided by the Commission on October 6, 2023, has been incorporated by GAO such that the changes satisfactorily convey the essence of the Commission's feedback.

In conclusion, the Commission again thanks GAO for your work in informing ongoing discussions on international mail among stakeholders. The Commission hopes that our comments will shed additional perspective, information, and emphasis on the important and timely issues raised in the report.

Sincerely,

Michael Kubayanda

Michael Kubayanda
Chairman

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Accessible text for Appendix II: Comments from the Postal Regulatory Commission

January 12, 2024

Mr. David Marroni

Acting Director, Physical Infrastructure General Accountability Office

411 G Street NW Washington, DC 20226

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As part of its FY 2022 Annual Compliance Report, the Postal Service filed public cost, volume, and revenue data on Inbound Letter Post from FY 2017 through FY 2022 that may be helpful to the reader.[3] A Commission analysis of similar data that the Postal Service filed as part of its FY 2019 Annual Compliance Report showed increases in inbound small packet (format E) volume subject to Universal Postal Union (UPU) rates from FY 2017 to FY 2019 before the implementation of self-declared rates.[4] This volume increase for small packets and corresponding, ongoing negative contribution to the Postal Service were key factors that drove the U.S. to seek UPU adoption of self- declared rates at the 2019 UPU Extraordinary Congress in Geneva. From FY 2017 to FY 2019, for example, the Postal Service reported $382.67 million in negative contribution for the Inbound Letter Post product, which then included letters, flats, and small packets.[5] From FY 2014 to FY 2019, the negative contribution for Inbound Letter Post was $690.74 million.[6]

In addition, the Commission evaluates each Postal Service product separately as defined in the Mail Classification Schedule.[7] Each product must cover its costs to comply with U.S. postal laws. GAO's draft report mainly focuses on the revenues, costs, and volume of total outbound and inbound international mail combined, as well as all inbound international mail and all outbound international mail separately. GAO states that "[b]ecause of the sensitive nature of the information contained in this product, we are only providing copies to the appropriate congressional committees with a need-to-know, and the Postmaster General, the Chairman of the Postal Regulatory Commission, and the Secretary of State. On request, this product will also be made available to others with the appropriate need-to-know." GAO Report.

If this report is not going to be made public, the Commission finds that it would be useful to include non-public cost, revenue, contribution, and cost coverage data on inbound small packets from FY 2017 to FY 2022 to provide a more refined picture of the financial performance of inbound small packets before and after the implementation of higher terminal dues in 2018 and self-declared rates in 2020.

[3] Docket No. ACR2022, USPS-FY22-41-International Market Dominant Billing Determinants, folder "Inbound Letter Shape_Group," file "FY22 IB LP Shape by UPU Country Group.xlsx," December 29, 2022. This public data for Inbound Letter Post included volume, cost, and revenue data for letters, flats, and small packets through December 31, 2019, and for letters and flats through FY 2022.

[4] Docket No. ACR2019, Library Reference PRC-LR-ACR2019-12, tab "Date for Presentation," cells E4+E7+E10+E13, F4+F7+F10+F13, and G4+G7+G10+G13.

[5] Id. tab "Figure 3," cells E7:G7.

[6] Id. tab "Figure 3," cells B7:G7.

[7] Postal Regulatory Commission, Mail Classification Schedule (MCS}, available at https:llwww.prc.gov/mail-classification-schedule.

However, the Commission understands that GAO may have aggregated data in the event that the report becomes a public document.

As an additional comment, the contributions of various stakeholders to this report add valuable insight and provide a balanced view of the many effects of increases in terminal dues for small packets during the period FY 2017 to FY 2022. Of note, GAO cites in its report that several stakeholders interviewed said that express companies and

U.S. companies with foreign competitors likely benefitted from increased international mail rates, that U.S. outbound international mailers did not benefit, and that the effects on U.S. consumers were difficult to quantify. Id. In particular, according to the report, several stakeholders said that these express "companies, such as FedEx and UPS, likely benefited from higher mail rates for small packages into and out of the U.S. because they could be more competitive with national postal operators, such as USPS or China Post." Id. To this point, the Commission would like to highlight that this higher level of competition in the small packet market underscores the fact that UPU terminal dues, particularly those that did not cover the costs of the inbound postal operator before the implementation of self-declared rates, were artificially suppressed to allow the origin postal operator to offer lower prices to its customers, often at the expense of the destination postal operator such as the Postal Service. Therefore, the Commission reiterates that self-declared rates provide fairer competition between the U.S. Postal Service and its competitors.

Lastly, GAO notes that all stakeholders cited increased international mail rates, COVID-19 restrictions on mail transport, or new customs laws as of one of the three main factors that contributed to the decline of the Postal Service's international mail business since 2017 in addition to other factors. Id. The Commission would like to stress that it is extremely difficult, if not impossible, to quantify or rank the impact of any one factor on international mail volumes. Therefore, the volume decline cannot be attributed to a single factor or factors. According to the report, several stakeholders also said that most of the changes have occurred since 2020. Id.The Commission notes that factors such as bilateral/multilateral agreements, the transition to international cargo, increases in terminal dues for small packets, and changes in customs laws were taking place before 2020.

GAO describes a business model referred to in the UPU as the B282C model, which the Commission believes is another factor that contributed to the decline of the Postal Service's international mail business. Rather than going through the traditional UPU end-to-end network from an origin postal operator to a destination postal operator, mail is being consolidated and sent to the destination country as cargo, thereby bypassing the origin postal operator. Id. As GAO points out, after commercial customs clearance, at least some international mail arriving as cargo is entered into the Postal Service's domestic network through the Postal Service's Global Direct Entry Program. Id. While these volumes are not reflected as the Postal Service's inbound international mail volumes, at least some are still going into the Postal Service's domestic network at domestic rates.

It is difficult to quantify how much mail has transitioned to this model. However, GAO cites in its report that the Postal Service's Global Direct Entry program, which facilitates this process, has seen volume increases between FY 2020 and FY 2022, according to Postal Service officials. Id. This seems to reflect a transition from the traditional UPU postal end-to-end model to domestic networks that benefits the Postal Service financially. Payment of domestic rates to the Postal Service instead of terminal dues ensures fair competition as all mailers can access the Postal Service's network at the same prices for meeting the same conditions. Therefore, besides the three factors identified by GAO as contributing to the decline in the Postal Service's international mail business since 2017,[8] this shift from the traditional UPU postal end-to-end model to the B2B2C model that injects cross-border mail as domestic mail may have contributed, even more significantly than the three main items identified in the draft report, to the decline in the Postal Service's inbound international mail volumes but benefited its domestic mail volumes and revenue.

This transition to cargo appears to be more cost-effective and responsive to customers and may also reduce the carbon footprint of individual packets and parcels that are sent to the destination country as a consolidated cargo shipment. Of important note, the B2B2C model does not exclude the Postal Service from the international mail market. Rather, the Postal Service is well positioned to provide effective and efficient last-mile delivery. Even the UPU recognizes the value of this model and has created a working group to help postal operators be a player in the B2B2C market.

As a final editorial comment, the Commission appreciates that all feedback provided by the Commission on October 6, 2023, has been incorporated by GAO such that the changes satisfactorily convey the essence of the Commission's feedback.

In conclusion, the Commission again thanks GAO for your work in informing ongoing discussions on international mail among stakeholders. The Commission hopes that our comments will shed additional perspective, information, and emphasis on the important and timely issues raised in the report.

[8] GAO Report, "What GAO Found." These three factors are increased international mail rates, COVID-19 that restricted options to get mail in and out of the U.S., and new customs laws that increased costs for sending international mail.

Sincerely,

Michael Kubayanda Chairman

Appendix III: GAO Contact and Staff Acknowledgments

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In addition to the individual named above, John W. Shumann (Assistant Director); Greg Hanna (Analyst-in-Charge); Melissa Bodeau; Melanie Diemel; Thanh Lu; Angela Marler; Silda Nikaj; Michael Soressi; Brennan Williams; and Elizabeth Wood made key contributions to this report.

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