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Order 98-2-13



UNITED STATES OF AMERICA  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C.

**SERVED** FEB 23 1998

Issued by the Department of Transportation  
on the 17th day of February, 1998

TRANSATLANTIC, TRANSPACIFIC  
AND LATIN AMERICAN SERVICE  
MAIL RATES INVESTIGATION

Docket OST-96-1629

(Docket 37392)

**ORDER ESTABLISHING FINAL SERVICE MAIL RATES**

**Summary**

By this order the Department is setting final international service mail rates for the period January 1 through June 30, 1998. The final rates shall also apply as temporary rates beginning July 1, 1998, until further order of the Department.

**Background**

By Order to Show Cause 97-12-25, served December 24, 1997, the Department proposed final international service mail rates to be effective from January 1 through June 30, 1998. The proposed rates reflected decreases of 9.7, 2.4, and 5.1 percent in the Atlantic, Pacific, and Transborder rate areas, respectively, and an increase of 2.5 percent in the Latin American rate area compared to those in effect for the last half of 1997.

American Airlines, Inc., and United Air Lines, Inc., filed Notices of Objection to Order 97-12-25 on January 5, 1998. American filed an Answer on January 23, 1998. United did not file an Answer.

American argues that Delta's decline in depreciation expense in the Atlantic entity from \$423 million for the year ended September 30, 1996, to \$97 million for the year ended September 30, 1997, is the primary driver of the reduction in Atlantic rates and that it is inappropriate for the financial and accounting decisions of one carrier to affect rates for all carriers. American also raises issues that go to the basic mail rate methodology.

**Decision**

We have decided to make final the rates proposed in Order 97-12-25 without any adjustment.

We agree that a change of the magnitude that American cited concerning Delta's depreciation expense should require special treatment. For that reason, when we previously ascertained that for the first and second quarters of 1996 Delta had reported as operating expenses a substantial amount of non-recurring restructuring charges under the line item of depreciation, we instructed Delta to re-file its Form 41 reports to exclude those charges from its depreciation expense for ratemaking purposes, and Delta did so. For the 12 months ended September 1996 Delta's revised amount for depreciation expense was \$105 million rather than the \$423 million that American cited. Thus, all related international mail rate calculations, including those contained in our pending show-cause action, Order 97-12-25, are based on the revised figures, which we find valid and appropriate.

American's broader concern that changes to the mail rate methodology may be appropriate is an issue, along with other possible changes to the mail ratemaking structure, such as possible legislation to transfer the international mail ratemaking function to the U.S. Postal Service, that we are open to discussing with all parties as we have done previously. For example, the Department recently concluded a comprehensive review of its mail ratemaking procedures and methodology for Alaskan carriers, and we have implemented a number of important changes there. It would not be appropriate to effect such changes here without giving all parties a full opportunity to develop analyses, options and positions. Also, it would not be in the parties' interests to defer finalization of the pending rates for the extensive period of time such a process would entail. However, if the Postal Service and the air carriers want to explore possible revisions in the international mail ratemaking system, we would be willing to pursue the matter.

**ACCORDINGLY,**

1. We make final the tentative findings and conclusions specified in Order 97-12-25;
2. The fair and reasonable final rates of compensation to be paid in their entirety by the Postmaster General pursuant to the provisions of 49 U.S.C. section 41901, for the transportation of mail by aircraft, the facilities used and useful therefor, and the services connected therewith, by each holder of a certificate authorizing the transportation of mail by aircraft in the Atlantic, Pacific, Latin America and Transborder rate areas, for the period January 1 through June 30, 1998, are those specified in the attached Appendices A-1 and A-2;
3. Ordering paragraph 3 (g) of Order 79-7-16, incorporated by reference, is amended by adding the following:

	<u>Standard Container</u>	<u>Daylight Container</u>
January 1 through June 30, 1998	4.784 cents	4.745 cents

4. The fair and reasonable temporary rates of compensation for the transportation of mail by aircraft in international services for the period beginning July 1, 1998, until further order of the Department, shall be the final rates established for the period January 1 through June 30, 1998;
5. The terms and conditions applicable to the transportation of each class of mail at the rates established here are those set forth in Civil Aeronautics Board Orders 79-7-17 and 79-7-16;
6. Because all interested persons have had an opportunity to comment on our Order to Show Cause (97-12-25), we shall not entertain petitions for reconsideration of this order;
7. This docket shall remain open until further order of the Department; and
8. We shall serve this order upon all parties on the Service List for this Docket.

By:

**CHARLES A. HUNNICUTT**  
Assistant Secretary for Aviation  
and International Affairs

(SEAL)

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