



# Terminal Dues Newsletter – 3/2007

## Editorial

*I am pleased to send you this third issue of the Terminal Dues Newsletter. I hope you will find it as helpful as the preceding editions.*

*The Terminal Dues Project Group (TD PG) has made significant progress over the last six months. In particular, we organized a workshop during the 2006 CA, bringing together 150 representatives from 75 postal administrations and Restricted Unions to hear numerous presentations on the future terminal dues system and, more importantly, to freely express their views in discussion groups. As TD PG Chairman, I was most pleased by the amount of positive feedback from participants on the conduct of the workshop.*

*The many constructive comments we received made it clear how to proceed with our terminal dues work. From your remarks, we were able to adjust the system initial design presented last October and come up with a draft proposal to be presented to you at the 2007 POC. I am convinced that the solutions it presents will meet with your approval.*

*In order to stimulate further discussion, I cordially invite you to attend our second terminal dues workshop, to take place during the 2007 POC. It will not only deal with the solutions I referred to earlier, but also provide an opportunity for in-depth discussion of the future global system for measuring quality of service. The link between quality and terminal dues must – even more than now – form an integral part of the future terminal dues system, so that we can achieve the level of quality that postal customers are seeking. You will be receiving more information on this subject in due course.*

*In the meantime, enjoy the newsletter!*

*And one more thing... our job is not always easy, but it is exciting, thanks to all of you and the International Bureau team, with Jim Gunderson and George Gkoumas heading efforts in the lead-up to the fast approaching 2008 Congress.*

*Sincerely yours,*

*Paul Epiney  
Terminal Dues Project Group Chairman*

## I. Terminal Dues Workshop in October 2006

### *Organization of the workshop*

The terminal dues workshop, which took place on 10 and 11 October 2006 at UPU headquarters in Berne, assembled some 150 participants from more than 75 postal administrations and Restricted Unions. In the morning of the first day, participants listened to four presentations entitled Our mandate, Key elements and Conditions for the future terminal dues system, as well as an extensive presentation on the System Initial Design. This design had been prepared for discussion by the TD PG's Terminal Dues Model Project Team.

The presentations were followed by a brief discussion in plenary before the lunch break. In the afternoon, four break-out groups were set up, with each participating country assigned to a particular group depending on language. The break-out groups were led by specialists from the TD PG and assisted by experts made available by the APPU, PostEurop, the PAPU and the PUASP from their respective regions. On the following day, each break-out group reported its conclusions to plenary. The workshop moderator, Mr. Raman, then gave an overall summary of the four reports, which was followed by a final plenary discussion.

### *Outcome of the workshop discussions*

Each break-out group was asked to discuss a number of core issues from the presentations given earlier that day.

First of all, the conditions of the future terminal dues system were discussed and ranked by each break-out group. The ranking of the four groups taken together constituted the overall ranking of the workshop participants, which was as follows:

Rank	Condition	Points
1	Support successful achievement of the universal service obligation (USO) with universality of affordable, quality and efficient letter-post services	162
2	Maintain the competitiveness of letter-post services in order to grow the business	152.5
3	Country-specific cost-based terminal dues rates, on the understanding that countries need adequate cost data	119
4	Establish transition measures that mitigate to the greatest extent possible the negative effects of moving to the «end state» terminal dues system, safeguarding revenues	84
5	The UPU quality of service link to the end state UPU terminal dues system to provide a cost-effective measurement system taking into account the differing circumstances of the UPU postal administrations	78
6	Be simple and easy to implement, while making appropriate use of modern management tools	61
7	Maintain the integrity of the postal network	55
8	Establish non-discriminatory competitive access to all destination letter-post markets	43.5

The conditions were approved by the TD GP at its meeting on 12 October 2006, and later endorsed by the 2006 CA. They will be submitted to the 2007 POC for endorsement.

Break-out group participants were then asked to take a position on some of the constituent elements of the system initial design. The conclusions for each question are as follows:

- On the issue of a future terminal dues system with two levels of sophistication (Group 1/Group 2), workshop participants were in agreement. The allocation of countries to one of the two levels would be based on postal development indicators. It was mentioned that sub-divisions within a group was an option and that the number of mail items per inhabitant should not be viewed as the sole indicator.
- On the issue of a future terminal dues system based on domestic tariffs, owing to the lack of solid cost data, workshop participants agreed to retain domestic tariffs as the basis for calculating terminal dues. It was emphasized, however, that appropriate solutions would have to be found for cases where tariffs did not cover costs.
- On the issue of a future terminal dues system with different levels of remuneration for two different services based on speed, there was no consensus among workshop participants. While some were in favour of introducing two levels, in the interest of their customers, others voiced concerns about a possible loss of revenue as a result of introducing a second service level. Countries which offered only the priority service in the domestic market expressed their unwillingness to provide both services for inward international mail.
- On the issue of a future terminal dues system with format-separated mail, the transition countries felt that segregation should not be compulsory, but optional. The possibility of introducing two formats (instead of three) was also raised.
- On the issue of a future terminal dues system with country-specific, per item/per kg remuneration, workshop participants expressed their support, provided that a threshold, under which sampling (determination of the number of items per kg) would not be required, was introduced.

The break-out groups were further asked to discuss wider issues, such as the QSF, access, transition and the quality of service link. The conclusions from the discussion of these issues were as follows:

- On the issue of the quality of service link to terminal dues, workshop participants maintained that participation in the quality of service measurement system should remain optional for transitional countries. It was also suggested that only incentives, not penalties, should be used during the implementation phase and that transitional measures would be necessary.
- On the issue of transitional pricing (transition managed by floor rates or by phased-in increases), there was no agreement between workshop participants. As regards transitional planning, all participants agreed to a pro-

grammed transition, though they stressed the difficulties in implementing such a transition.

- On the issue of the Quality of Service Fund, participants were in favour of retaining the Fund, but introducing more flexibility so that funds could be used faster and more efficiently. It was further suggested that the Fund should be used to implement and improve the quality of service measurement system.
- On the issue of access to UPU terminal dues by private operators, participants were not in favour of opening up of the terminal dues system to parties other than designated operators.
- On the issue of direct access, participants felt that such access should be optional for transitional countries.

For more information on the workshop discussions, please consult the Terminal Dues Workshop Report sent with letters 4296(DER.EAP)1031 and 4296(DER.EAP)1032 of 13 February 2007.

## II. Decisions taken and directions given by the TD PG at the 2006 CA

The Terminal Dues Project Group met in plenary on 12 October 2006, with the following results:

### **Project Team 1 (PT 1): Terminal Dues Model**

#### *Studies*

There was a high response rate for the tariff study (139 replies). The data compiled from the questionnaire were combined with the tariff data gathered from postal administration websites to constitute an International Bureau tariff database. The TD PG decided that postal administrations which had not yet provided tariff information would be asked again to do so.

The results of the two questionnaires on flows (one on volumes, the other on flow profiles and the number of items per kilogramme, including 95,000 samples) provided figures considered to be representative. These results will now serve to determine a flow-weighted number of items per kilogramme (IPK).

The situation of the cost study gave rise to some concern. Of the 49 replies received, nine were from industrialized countries, a majority of which had refrained from communicating this type of data. The remaining 40 replies were from developing countries, several of which did not have such information available. The TD PG decided that a second simplified cost questionnaire would be sent out and that the support of the CA Terminal Dues Governance Issues Project Group would be sought for this effort.

The TD PG decided that proposals relating to the study on transit charges would be presented at the 2008 POC.

#### *Methodology*

According to the interim results of the work on methodologies for converting domestic tariffs or costs into terminal dues, the future system should allow for differentiation on the basis of speed (priority and non-priority). The determination of non-priority rates could be based on an evaluation of priority and non-priority tariffs. Future terminal dues rates could be based on linearized domestic tariffs by format.

On the issue of the SDR exchange rate, the TD PG approved the recommendation to reduce from 12 to five months the period for calculation of the average exchange rate (1 January to 31 May).

The TD PG also approved the recommendation that value added tax (VAT) and other similar taxes, if it cannot be proved that they constitute costs, should be excluded from tariffs used for calculating terminal dues, through a gradual phasing-out during next Congress cycle.

The first conclusions regarding transit charges indicated that differences in terminal dues could be taken into account in transit charges for open transit mail. The TD PG asked the International Bureau to redraft, in cooperation with PT 1, articles RL 208 and RL 238 of the Letter Post Regulations.

#### *Policy issues*

The TD PG approved the list of conditions for the future terminal dues system, as endorsed and ranked by the workshop participants (see section I). The approved list of conditions was then submitted to the CA TD Governance Issues Project Group for endorsement.

The TD PG noted the progress of work on several other issues, including postal development indicators and the transitional period, as well as finalization of the report on market conditions and member requirements.

#### *Direct access*

The TD PG noted the results of a comprehensive study to identify needs and requirements in the area of direct access. Among the needs and requirements identified were promotional activities, presentations and case studies. Presentations will be given at various postal forums throughout 2007.

### **Project Team 2 (PT 2): Statistics and Accounting**

#### *Accounting aspects/timeline for quality of service linked terminal dues payments*

The TD PG asked the International Bureau to notify, by 1 July each year, provisional terminal dues rates (including quality incentives and penalties) for countries and territo-

ries in the IC-IC quality-linked terminal dues system. For all countries participating in the quality-linked system, the final quality-adjusted terminal dues for 2005 will be published in May 2007.

#### *Sampling threshold*

Work continues on a computer model to determine a threshold under which sampling may not be financially justified. A relevant recommendation will be presented to the 2007 POC.

### **Project Team 3 (PT 3): Quality of Service Link**

#### *Quality of service results for 2005: appeals by Great Britain and the United States of America*

Great Britain's appeal had been examined by PT 3 on the basis of the technical documentation provided by IPC and the Monitoring System Subgroup of the Quality of Service Project Group. Of the three arguments indicated in the appeal (non-optimal city coverage, exclusion of Great Britain's December results and small sample size for test items from New Zealand), the technical group's recommendation to PT 3 was to accept only the third. Great Britain challenged the examination, arguing that the assessment of the 2005 results should be based on the accuracy of the results and not simply on whether the design of the system was respected. After discussion by the TD PG failed to achieve a consensus, it decided to have PT 3 reconsider Great Britain's appeal, in the light of what was discussed and the suggestions made for clarification, and present a fully documented recommendation to the TD PG at its meeting in April 2007.

The claim made by the USPS regarding the insufficient validation of data was accepted. Provided that Committee 2 and the 2007 POC endorse the TD PG's recommendation, the USPS's quality of service performance result for 2005 should increase from 84.6% to 85.1%.

#### *Transitional system countries joining the IC-IC quality of service measurement system*

Brazil and Saudi Arabia gave notification of their commitment to join the system on 1 July 2007, as did Ukraine, scheduled to join on 1 January 2008. The Czech Republic withdrew its previously announced participation and Saudi Arabia withdrew its commitment after the 2006 CA session. New entrants for 2008 are expected to announce their commitment by 28 February 2007 at the latest. After that date, countries interested would need to join the global system, expected to be in place by January 2009.

#### *2007 POC decisions on the quality of service link*

The TD PG noted PT 3's intention to finalize the documents needed for the decisions that the POC would be asked to take on the IC-IC quality-linked system for 2008 and the global system from 2009.

### III. Terminal dues in the lead-up to the 2007 POC

The overall objective of the October 2006 terminal dues workshop was to gather input on the system initial design for the future terminal dues system developed by the TD PG.

#### *Refinement of the system initial design based on the workshop results*

As a follow-up to the October workshop and the results of the TD PG meeting held that same month, the Terminal Dues Model Project Team (PT 1) met in Rabat (Morocco) to carry out an initial assessment of the feedback from workshop participants and to refine the terminal dues solutions in the lead-up to the 2007 POC.

The main results of the Rabat meeting were as follows: In response to the feedback from workshop participants regarding the perceived complexity of the system initial design proposed in October 2006, particularly as regards the extent of format separation and related terminal dues rates, it was decided not to require format separation for non-priority mail. For format separation in the priority channel, it was decided to study two options in greater detail in advance of the upcoming Project Group Steering Committee meeting in January 2007. It was also decided that the non-priority service would be mandatory only for countries offering such a service in the domestic market.

#### *Formulating a draft proposal*

The TD PG's enlarged Steering Committee met in Kuala Lumpur (Malaysia) on 23-26 January to prepare for the TD PG sessions during the 2007 POC. Kuala Lumpur meeting participants spent a considerable amount of time discussing the refinement of the system initial design which had been presented at the October workshop. The draft terminal dues proposal emanating from the Group will be presented at the 2007 POC. The discussions enabled a recommendation to be made, whereby, in the absence of cost data, the terminal dues system should be based on domestic tariffs.

The recommendations on the use of postal development indicators for classification purposes are currently being finalized, as are those on the conversion of domestic tariffs into terminal dues and the development of transition mechanisms providing for floors and caps.

PT 2 agreed to study the cost savings associated with the use of trays and with other aspects of separation by format. The «cost-benefit» sampling model will be updated. This will involve establishing a new (recommended) threshold for the revision mechanism, as well as new thresholds for the target system.

The Kuala Lumpur meeting participants also heard a presentation on the UPU's global quality-of-service monitoring system, which will be proposed at the 2007 POC to replace the monitoring system currently used by the countries in the target system. The global monitoring system will be considered in detail during the second terminal dues workshop scheduled in April. PT 3 will propose a work plan for the development of this system, which will be implemented in early 2009.

### IV. Terminal dues at the 2007 POC: second terminal dues workshop and presentation of draft terminal dues proposal

During the 2007 POC, a second terminal dues workshop will take place on 24 and 25 April.

The main objectives of this workshop will be:

- 1 To present the draft proposal on the future terminal dues system and obtain feedback from the workshop participants.
- 2 To present and examine the proposal (first presented at the TD PG October 2006 plenary meeting) on the new global quality-of-service monitoring system.

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