TERMINAL DUES

NEW FRONTIERS FOR A CHANGING WORLD



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UNIVERSAL
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UNION

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TERMINAL DUES

NEW FRONTIERS FOR A CHANGING WORLD



PREFACE

For just under 12 months in 2018 and 2019, we feared that the 50th anniversary of terminal dues might be remembered for all the wrong reasons: the departure of one of our founding members.

That decision by the United States of America in October 2018 brought our members together as only a family crisis can – and, with nearly 150 years of history behind it, the Universal Postal Union is a family like no other. Of course, we could not let a family member leave – especially over a trade issue. So we came together like never before to weather this storm, to reach an agreement and to come back stronger.

The UPU was established to ensure the transfer of mails between countries. For its first 95 years, mail was transferred without compensation, but the terminal dues system was finally decided upon at the Tokyo Congress in 1969, and implemented in 1971. It was not a perfect system, and imperfections have remained ever since, despite the UPU's attempts to improve it and make it fairer. However, the nature of a multilateral system is to create an alliance of equals founded on partnership and cooperation. Indeed, one only has to look in the history books at the pre-1874 postal world to understand the difficulties of a world without a global postal agreement.

As Director General of the Universal Postal Union, I am proud of the achievements of the International Bureau and the member countries in averting what would have been a sad and calamitous situation had the United States of America left our family. We came together at our third Extraordinary Congress, we debated our options, we considered the consequences, and we delivered a pragmatic solution that retained the integrity of the Union.

In moving forward, we did not rest on our laurels, and we continue to make the remuneration systems stronger. In August 2021, the Abidjan Congress adopted by consensus the package of proposals that will give effect to the integrated remuneration system (IRS) from 2022 to 2025. The Abidjan Congress also adopted the Integrated Remuneration Plan (IRP) that will guide the work during the Abidjan work cycle on the continued development and modernization of the UPU remuneration systems. In accordance with the IRP, the studies and work in the coming cycle should result in proposals that aim for full integration of the UPU remuneration systems by 2026.

But, for now, let us celebrate 50 years of terminal dues and the individuals from our 192 member countries who have worked so hard on this system's development for half a century, and look forward to developing it further over the next 50 years and beyond.



Bishar A. Hussein, Director General of the International Bureau of the Universal Postal Union

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EXECUTIVE SUMMARY





Adopted by the 1969 Congress in Tokyo, the system of terminal dues came into being in July 1971, with the sending country paying the receiving country for handling and delivering the excess of international surface mail. This was a landmark decision, marking the global postal system's entry into a new era – with all the associated ramifications and complexities that we examine in this study.

The Tokyo Congress was not the first Congress to consider the idea of compensation; however, such proposals had always previously been rejected out of respect for one of the basic principles of the Union: the non-sharing of charges. From the outset in 1874, the UPU had operated under the principle that the country of origin should not pay the country of destination for delivering mail because a letter generated a reply and the number of letters sent and received would tend to cancel each other out. But, over the course of the Union's first 95 years, various countries called for a change because they received far more international mail than they dispatched, and argued that they should be compensated for the increased handling costs. By the late 1960s, the principle of the non-sharing of charges, which had been upheld since the foundation of the Union, no longer corresponded to the realities of the modern world.

Since the first terminal dues rates came into effect in 1971, the postal market and global socio-economic landscape have changed considerably. This study considers the evolution of the terminal dues system from its origin to the present day, and analyzes the important policy and market factors that shaped UPU remuneration. It revisits the changes to the terminal dues system adopted at each Congress, as a reflection of the balance struck between competing political and economic interests. The terminal dues system continuously evolves in a changing socio-economic and political context, adapting to the dynamics and developments in the market. This study considers and analyzes at least eight main policy issues and drivers behind the evolution of the terminal dues system.

The **global postal network** is the first driver that is analyzed. The UPU provides for a single postal territory in which the reciprocal exchange of letter-post items is underpinned by the concept of universality, whereby member countries are obliged to accept, handle and deliver postal items. Terminal dues compensate the designated operator in the destination country for carrying out this obligation, i.e. the handling, transporting and delivery of the letter-post items it receives. It is important to bear in mind that none of the postal operators, nor any member countries, exclusively control the terminal dues system. It is the strength of the system that no country has the discretion to design its own remuneration system unilaterally. However, trends towards more flexibility and market-orientation in rate setting have been front and centre at recent Congresses. Global reality, of course, requires cooperation between the many UPU member countries, and each country may ultimately deem it necessary to accept some reasonable compromises in order to further the goals of the single postal territory that the UPU provides.

As part of the **universal postal service**, each member country commits itself to providing a universal basic postal service which is accessible to the population and is provided at reasonable prices. The manner of service provision addresses issues such as accessibility, affordability, and acceptable quality. One of the overarching goals of the UPU is to provide universal, affordable service for sending and receiving letter post to and from every citizen of every country, including developing countries, and unprofitable, hard-to-service locations. Because of this commitment of service to every citizen, the UPU has designed delivery policies, compensation agreements and corrective mechanisms to bolster the ability of postal operators to provide universal service at affordable prices.

The policy aspects around universal service are relevant to terminal dues in two specific ways. First, the global universal postal service lies at the heart of the UPU, and terminal dues is a means by which countries compensate each other for providing that global service. For example, the terminal dues provisions concerning the application of minimum and maximum rates have a direct bearing on the universality, cost coverage and affordability of the global universal postal service. Secondly, the implementation of the universal postal service at the domestic level has a direct impact on the implementation of the terminal dues system, since domestic tariffs, regulated by the competent national authority, are used as a reference to calculate terminal dues (TD) remuneration. Overall, from both an inbound and outbound perspective, it is important that the different objectives – in particular those around cost-covering, competitive and affordable remuneration rates – be balanced, as they are critically important to the sustainability and development of the universal service.

Market development, defined by competition, market demand and changing customer behaviour, has been a key driver of changes in the terminal dues system. The rise of e-commerce, coupled with the pervasive liberalization of postal markets, has eased the entry of new postal operators, providing the customers of international postal services with more alternatives to the global postal network. As a result of technical development and changing consumer behaviour, the traditional engines driving the growth of international trade and cross-border investment have been weakening, while cross-border e-commerce, especially B2C, has maintained strong growth and become a new engine for global economic growth. The global postal network and the postal operators are important players, promoters and beneficiaries of cross-border e-commerce.

Cross-border letter mail shows a relatively important price sensitivity due to the existence of alternative physical and electronic dispatch channels and a changing composition of international letter-post flows away from correspondence mail in favour of small packet items containing goods, which are susceptible to rate increases, particularly as competing service providers fight for market space. In this context, concerns about competitive pressure have always been an important aspect of negotiations on the terminal dues system. Higher TD rates could increase the burden on users of the postal system, and consequently weaken the competitive position of postal services vis-à-vis private carriers. The terminal dues system has been adapting to the new market conditions ever since it was introduced in 1971, but the required pace of change has never been as fast as it is now.

In the new economic order that is emerging from multilateral trade agreements, such as the WTO rules, the idea of a world without frontiers has increasingly become a reality. In recognition of the increasingly important role that the postal channel plays in facilitating international trade, particularly e-commerce, the relation between the UPU's remuneration systems (and their underlying policy principles) and international trade flows is increasingly being scrutinized from all angles. The tensions and synergies of the policy principles governing the UPU's remuneration systems affect sustainable trade development, as well as the relevance of existing and future **trade policy** frameworks – such as those of the WTO and various free trade agreements.



Adolf Schärf, Federal President of the Republic of Austria, at the opening ceremony of the 15th Universal Postal Congress in Vienna. The Vienna Congress decided in favour of examining a more equitable procedure for sharing the charges between sending and receiving country

The growing body of multilateral trade agreements in the 1990s resulted in increasing incompatibility between the obligations under those agreements and the preferential treatments that existed for developing countries in the terminal dues system. In combination with the fixed rate principle that was applied during the first decades of the terminal dues system, this arrangement provided a fertile ground for the growth of remailing, i.e. the rerouting through commercial or postal networks of postal items to financially benefit from loopholes in the TD system. It is important to note that this preferential treatment of countries in the transitional system has been progressively reduced since the 1989 Washington Congress introduced a two-tier rate system, which was followed by a progressive closing of the gaps between the different rates applied between industrialized and developing countries. In fact, even the least developed countries will apply all of the main target system requirements by 2022, in particular the application of country-specific rates for all letter-post formats.

Policymakers must weigh up many – sometimes competing – factors when shaping economic relationships with other countries around the world. Terminal dues are one among many instruments in developing multilateral trade relationships, though they can occasionally form the core of international trade dialogue. In fact, in recognition of the increasingly important role that the postal channel came to play in facilitating international trade, particularly e-commerce, questions emerged as to how the UPU member countries fulfil their mandate to ensure universal access to affordable international postal services in an increasingly competitive cross-border delivery market. In this context, the evolution of the terminal dues system is increasingly driven by the broader economic relationships between countries, as well as by efforts to reconcile the remuneration agreements with the various trade agendas.

The competition between postal operators and private carriers has raised policy issues that could not have been anticipated in 1969 when the terminal dues system was first adopted. In the late 1980s and in the 1990s, the environment surrounding the international and national postal services throughout the world underwent rapid and dramatic changes in terms of regulatory policy, legal status and competition. The fundamental objective of **competition policy** is to prevent distortion of competition. This is not a goal in itself, but rather a condition for achieving a competitive market in which consumers and commercial senders have choice. As such, competition rules are one of several instruments promoting general economic welfare.

In the 1980s and 1990s, there were increasing calls for a terminal dues system that met the requirements of the developing European competition policy framework. The main demand was for terminal dues to become more closely related to the costs of handling and delivery incurred by the destination operator. In this context, an agreement by the European Conference of Postal and Telecommunications Administrations in the late 1980s and the REIMS agreements in the 1990s, along with other processes, have brought greater commercial discipline to the terminal dues negotiating table, with growing recognition of the need to reform the system, moving it towards an increasingly country-specific, cost- and market-oriented remuneration system that incentivizes the quality of service of international mail. Those agreements were the blueprint for the important changes to the terminal dues system, such as the use of country-specific rates that take into account the weight, number of items and tariffs applicable in the domestic service, as a closer approximation of cost- and market-oriented principles.

Despite the significant progress that was made in the 1990s and 2000s in terms of providing a more level playing field between postal operators and private carriers, in the 2010s certain stakeholders and policy-makers maintained that the terminal dues system was still unfair and led to market distortions. In a rapidly changing market environment driven by accelerated growth in cross-border e-commerce small packet volumes, consumers and exporting businesses benefited from the system, as TD rates, prior to the implementation of the reforms of the 2016 Istanbul and 2019 Geneva Congresses, facilitated international trade and access to international markets, as well as lower shipping prices for items purchased online, in particular merchandise items from Asia. The substantial revision of the terminal dues system, with the introduction of self-declared small packet item rates in 2020, has significantly reduced the market distortions that existed previously. However, as mandated by Congress resolution C 13/2021 on the Integrated Remuneration Plan, the impacts of the terminal dues system on different stakeholders and market players will need to be reassessed again in the Abidjan cycle (2022 to 2025) as part of the continued development of terminal dues and other remuneration systems.

Through the terminal dues system, the postal sector plays an important role in promoting **socio-economic development**, as affordable, efficient and universal postal services substantially reduce transaction costs between postal operators, granting citizens in every country access to a vast communications and infrastructure network with delivery services in the fine-mesh postal network of any other country in the world. In many countries, and particularly low-income developing countries and the least developed countries, terminal dues remuneration is an important source of revenue which finances mail operations. In addition, through the Quality of Service Fund, derived from terminal dues remuneration, developing countries have access to financial resources that have supported the laudable efforts of UPU member countries to strengthen the quality, reliability and durability of the global postal network and improve the letter-post service.

Different Congresses supported the move to a more equitable terminal dues system among countries with different levels of postal economic development while taking special account of the interests of developing countries, which need assistance and time to develop proper cost accounting systems, and optimize their operations and postage pricing in order to reach the ultimate goal of country-specific cost-based rates.

Meetings at which terminal dues are discussed, negotiated and decided draw a lot of interest and active involvement from the different stakeholders that are active in the global postal network. Although stakeholders all pursue their own agendas and interests, the objective is to balance the different interests and seek, in a spirit of compromise, convergence and consensus, a terminal dues system that is fit for the next four-year Congress cycle. These negotiations recognize a wide range of different **stakeholder interests** such as: the social, economic and cultural interests of users of the postal network; the need for cost-covering, affordable remuneration for importing and exporting postal operators; the economic interests of private carriers or other wider postal sector players; the needs of low-income developing countries in terms of affordable access to the global postal network and financial dependency on terminal dues for the maintenance and development of their domestic infrastructure; and the national and international regulating authorities that represent a plurality of different interests and policy objectives.

In the second half of the 1980s, the terminal dues system had to face up to the challenge of more competition and increasingly high standards demanded by customers in terms of **quality of service improvement**. Since then, several Congresses have introduced significant quality-oriented aspects into the terminal dues system, where rate increases became contingent on quality of service improvements and (optional) electronic data exchanges that drive improved customer and operational visibility of mail items moving through the network.

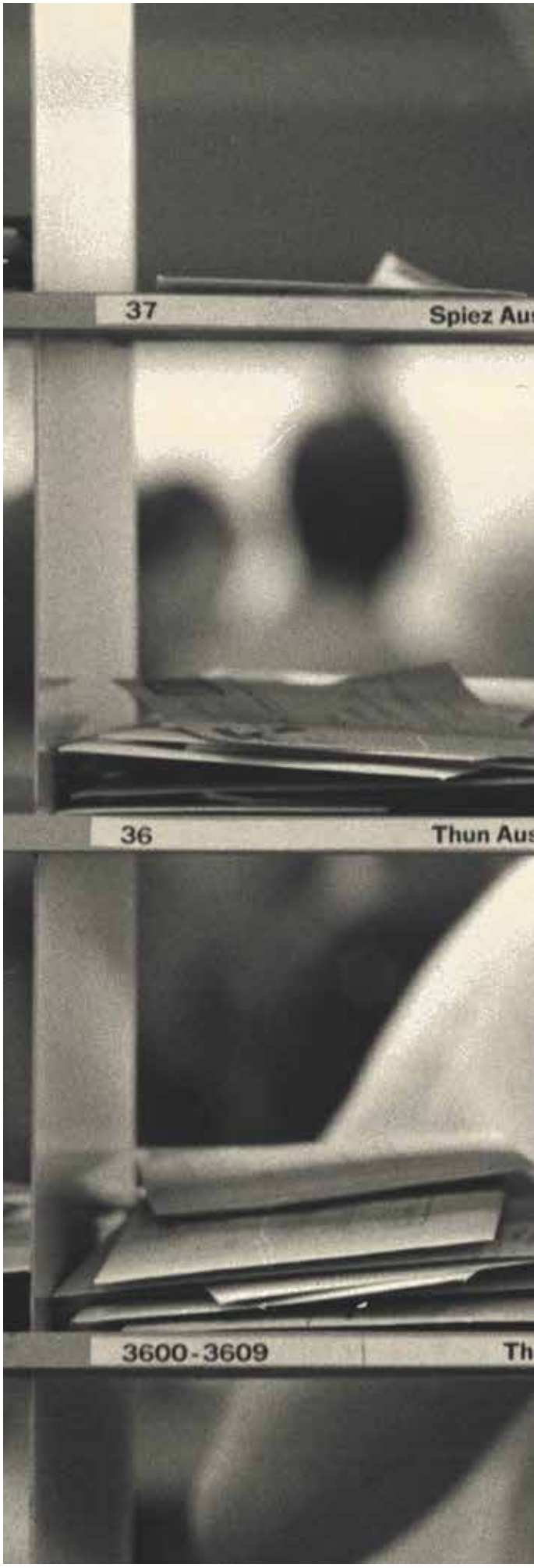
It is important to understand that most changes to the terminal dues system were made as the result of the interplay between different drivers and policy objectives. Many of the challenges, opportunities and policy objectives outlined in this study will shape the discussions and work on future TD systems. In fact, the work on the future terminal dues system has already started, with the adoption by the 2021 Abidjan Congress of the Integrated Remuneration Plan. The IRP lays out the framework through which the terminal dues system will be remodelled into a remuneration system reflective of a new reality in which postal operators are increasingly handling and delivering e-commerce–generated small packet items.

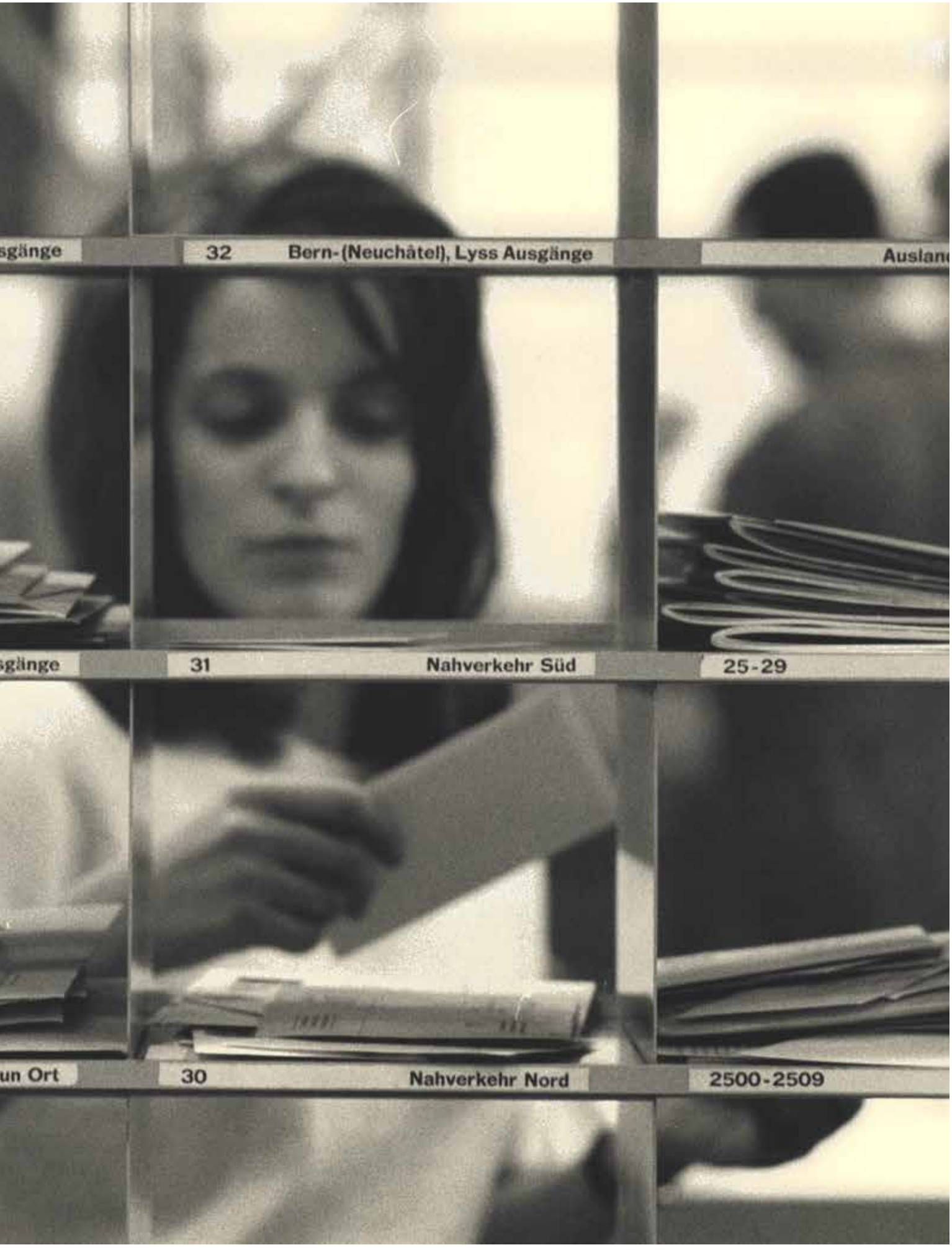
The future remuneration system will need to recognize that mail – both domestic and international – is an increasingly commercial industry, and all predictions point towards a future where e-commerce and commercially-driven postal services become even more significant. Since the international delivery of small packets and items containing goods operates in a more competitive market segment than traditional letters and documents, it presents new issues for national governments and regulators.

In a rapidly changing market space, the competitiveness of the global postal network in terms of price and performance, including quality of service, reliability and the provision of market-oriented services, is set to be more critical than ever. This study shows how, over the past 50 years, the terminal dues system has progressively moved towards a country-specific, cost- and market-oriented remuneration system that incentivizes the quality of service of international mail. In the near future, the terminal dues system is expected to see further improvements on the basis of the Integrated Remuneration Plan, which should result in the continued development, integration and modernization of the future remuneration systems.

In the half-century-long history of terminal dues, the system has come up against many difficulties and obstacles. From the outset, at the Tokyo Congress, delegates faced the difficult question of breaking with the very fundamental principle of reciprocity that had governed the global postal system for nearly a hundred years. Since then, market developments and technological advancements, as well as emerging and competing policy objectives and stakeholder interests, have shaped the global postal network and the terminal dues system into their current state. There is no doubt that the TD system today looks very different from the one the international postal community knew when it was introduced in 1971. And the system of the future will again look different from the one in force today. As the terminal dues system moves into the future, the international postal community may find that lessons from the past provide important guidance in meeting the future challenges.

INTRODUCTION




sgänge
32 Bern-(Neuchâtel), Lyss Ausgänge
Auslan
sgänge
31 Nahverkehr Süd
25-29
un Ort
30 Nahverkehr Nord
2500-2509

The very existence of the Universal Postal Union owes itself to the aim of creating a single postal territory for the reciprocal exchange of letter-post items. Prior to 1874, there existed a complex system of bilateral agreements that involved payment of several fees for the carriage of an item from one territory to another. This all changed on 9 October 1874, when 22 countries came together and signed the Treaty of Berne. Under that treaty, the member countries formed a single postal territory operating under the principle that the country of origin should not pay the country of destination for delivering mail because a letter generated a reply and the number of letters sent and received would tend to balance themselves out.

This principle of reciprocity reigned for almost 100 years, with no payments made between countries for the exchange of mail. In this period, the principle of reciprocity was a fundamental aspect of the global postal network, until the proportions of imbalances in mail flows were such that a fundamental change could no longer be avoided. Postal administrations found themselves facing serious difficulties as a result of the growing imbalance between inward and outward mail, which prevented them from fulfilling their normal obligations to users as a result of the heavy expenses they incurred, without receiving any compensation, in the routeing, sorting and delivering of mail that they received from abroad. After years of intense studies and debate, the 1969 Tokyo Congress decided to introduce the terminal dues system.

In the 50 years since it came into effect in 1971, the terminal dues system has undergone profound change, with the remuneration system constantly reviewed and updated in line with market conditions and other important principles, such as those of ensuring cost coverage and non-discriminatory access by the world's citizens to an affordable universal postal service.

This publication considers the evolution of the terminal dues system from its origin to its present day, and analyzes the important policy and market factors that shaped the remuneration system. As one can imagine, the very nature of creating a remuneration system that matches the requirements of 192 member countries is no easy challenge. The terminal dues system adopted at each Congress is a reflection of the balance struck between competing political and economic interests. As such, it continuously evolves in a changing socio-economic and political context, adapting to the dynamics and developments in the market. Each Congress decision on terminal dues is therefore a snapshot of its time. In consideration of these important aspects, **section I** analyzes the **main policy issues** and drivers behind the evolution of the terminal dues system.

UPU member countries are responsible for negotiating, approving and implementing the treaty rules governing the UPU remuneration systems. Each of those member countries has its own universal service definition, and each represents its own public and economic interests, driven by a wide variety of political, geographical, social, economic and operational issues that have a subsequent impact on the costs of doing business. Indeed, while in some regions an increasing number of national postal operators are corporatized (i.e. public institutions with a profit motive but wholly owned by government) or privatized (institutions fully or partially owned by private shareholders), there are still many national postal operators that do not consider themselves to be businesses, but rather as agencies that are there to perform a service on behalf of government. These and many other factors are the context in which the terminal dues system has taken shape over many years.

Section II provides an extensive **chronology of the terminal dues system**, starting from the period before terminal dues, through the 1969 Tokyo Congress which introduced the system, and all the main decisions taken at the subsequent Congresses up to the Abidjan Congress in 2021. It details how the system evolved from its early years (1971–1991), in which the terminal dues system was a uniform rate system that did not recognize the different levels of postal economic development and was not based on the actual costs of processing and delivering mail in the country of destination. Since then, the terminal dues system has grown increasingly geared towards costs, with an increasing number of mail flows between UPU member countries subject to country-specific rates for which domestic tariffs are used as a proxy for the costs of delivery. Its ensuing evolution has also been based on political and economic principles, as well as recognition of the different levels of economic development between countries.

No less importantly, the publication then focuses, in **section III**, on the next steps, which are already in progress, towards further developing the **future terminal dues system** that is part of an integrated remuneration system linking letters, parcels and EMS rates in a transparent, logical, customer and market-focused manner. This section revisits the main objectives of the Integrated Remuneration Plan, which lays out the framework through which the terminal dues system will be remodelled from a system that was more reflective of a time in which postal exchanges were predominantly composed of letter items, i.e. documents, to a new reality in which postal operators are increasingly handling and delivering e-commerce–generated small packet items.

In 2021, 50 years on from the implementation, on 1 July 1971, of the decisions of the Tokyo Congress, it seems appropriate to look back at the challenges faced and the progress that was made at every consecutive Congress, and look forward to see how the lessons of the past may help to guide the development of a terminal dues system that is more future-proof and responsive to the wide variety of policy objectives.

THE VERY EXISTENCE OF THE UNIVERSAL POSTAL UNION OWES ITSELF TO THE AIM OF CREATING A SINGLE POSTAL TERRITORY FOR THE RECIPROCAL EXCHANGE OF LETTER-POST ITEMS.

SECTION I

TERMINAL DUES: MAIN POLICY ISSUES





When it comes to "pricing" or "remuneration" of cross-border postal services, there are many misconceptions about what the UPU does and does not do. The UPU and the international agreements it oversees do not set the prices that a retailer or shopper, be it a private individual or a company, pays to a postal operator for the international delivery of postal items, including e-commerce items; this is a matter for the postal operator and its customer, and – where domestic postage prices are controlled by a government – the government concerned.

For example, the stamp price of a letter from Australia to Switzerland is determined by the postal operator of Australia, Australia Post. The postage that a customer pays for sending a small packet or a parcel from Italy to Argentina is determined by the postal operator of Italy, Poste Italiane.

The relationship between UPU remuneration agreements and postage is indirect, and is only one of many cost components that need to be taken into consideration by the sending postal operator (Australia Post) when it receives, processes and dispatches a letter to an addressee residing in another country (Switzerland). A simple breakdown of the international postal processes into three stages (or legs) may be helpful to better understand this relationship:

Leg 1 takes the item from posting to dispatch, when it reaches the origin office of exchange (OE);

Leg 2 is the international transport stage, from origin to destination OE; and

Leg 3 takes the letter to its destination, i.e. the addressee, and includes passage through customs.

In terms of remuneration, the UPU is concerned only with the setting and settlement of the costs of delivery between the postal operator of a sending country and the postal operator of the destination country (i.e. Leg 3). These costs represent a carefully negotiated outcome between the governments of the UPU's 192 member countries, and seek to strike a balance between market-based evidence and varying political economy interests such as affordability, cost coverage and levels of economic and postal development.

Each postal operator that receives mail from a postal operator in another country has the right to collect payment from the originating postal operator to compensate for costs incurred in delivering that mail.

For letter mail, these charges are called "terminal dues". The system is based on a methodology that includes, as key elements, the domestic charges of the universal service in the destination country, statistics on the average composition of the mail in terms of content, format and weights, and various measures that aim to ensure that key policy objectives are achieved.

PRICING VERSUS REMUNERATION

The UPU no longer fixes the prices that a customer pays a postal operator for the international delivery of postal items. For many years, this has been a matter for the designated operator in the country of origin and the authority responsible for setting tariffs. The purpose of the UPU remuneration system is to compensate designated operators of destination countries for the cost of delivering postal items. All UPU member countries are responsible for negotiating, approving and implementing that remuneration system.

Figure 1: **International postal processes (simplified)**

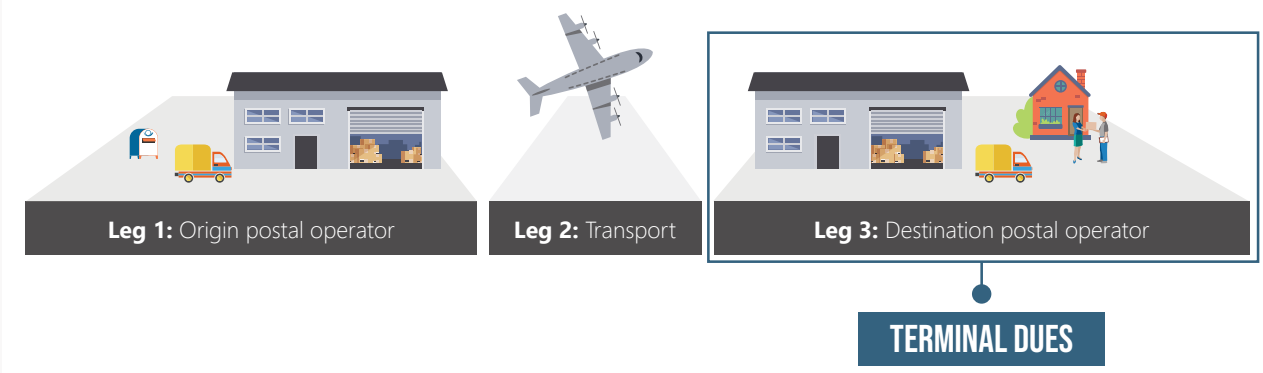


Figure 2: **Main policy issues and drivers behind the evolution of the terminal dues system**

Global postal network
Terminal dues ensure the integrity of the single postal territory, which in practical terms could not exist on the basis of more than 35,000 bilateral agreements

Universal service obligation
TDs ensure non-discriminatory access to international postal services and the provision of an affordable and viable universal postal service

Market development
The terminal dues system evolves over time in response to changing market needs and customer behaviour

Trade policy
Existing and future trade policy frameworks present tensions and opportunity for synergies with the policy principles governing the TD system

TERMINAL DUES SYSTEM

Competition policy
TDs are applied by designated operators operating in an increasingly liberalized cross-border mail market

Economic development
The TD system recognizes the different levels of postal economic development among UPU member countries and promotes inclusive growth

Stakeholder interests
Stakeholders pursue their economic interests in terminal dues negotiations which aim to balance the interests of net importers and net exporters of mail

Quality improvement
Terminal dues support capacity-building among developing countries and incentivize operational and quality improvements to strengthen the entire global postal network

1.1

GLOBAL POSTAL NETWORK

The UPU is a symbol of international cooperation; since its foundation, its aim has been to create a single postal territory with freedom of transit between all member countries. Indeed, the UPU Constitution provides for that single postal territory and for the reciprocal exchange of letter-post items, which is underpinned by the concept of universality, with member countries obliged to accept, handle and deliver both letter-post and parcel-post items in accordance with the conditions outlined in the UPU Convention. Terminal dues compensate the designated operator (DO) in the destination country for carrying out this obligation, i.e. the handling, transporting and delivery of the letter-post items it receives.

The single postal territory is at the very heart of the Universal Postal Union; if it no longer existed, the postal world would have to revert to pre-1874 practices. Without a terminal dues agreement, a chaotic situation would arise in which each postal operator needed to negotiate bilateral agreements with each of the other 220 postal operators from 192 countries, creating an enormous amount of uncertainty in the international postal service. It would also, according to many economists, lead to a sub-optimal solution for most members, because the cost of negotiating bilateral agreements would be higher than the benefits that would be accrued.

ARTICLE 1 OF THE UPU CONSTITUTION

The countries adopting this Constitution shall form, under the intergovernmental organization entitled the Universal Postal Union, a single postal territory for the reciprocal exchange of postal items. Freedom of transit shall be guaranteed throughout the entire territory of the Union, subject to the conditions specified in the Acts of the Union.

POLICY ISSUES AND ECONOMIC FACTORS

Since its introduction in 1971, the terminal dues system has not evolved in a vacuum. It has had to take into account many internal and external issues impacting the postal sector. A major external factor was the issues around trade, with the World Trade Organization (WTO) questioning the validity of the terminal dues system. A major internal factor was the liberalization of the postal sector, which was leading to increased competition and more commercially-focused national operators. Another factor that always has to be considered in the context of terminal dues is the need to find a system that works for 192 countries in very different economic situations. Finally, the terminal dues system must always take into account the reason the UPU exists, which is to support the concept of the single postal territory.

This section explores a number of policy issues and economic factors that drive the development of the terminal dues system. A high-level overview of these factors is provided in Figure 2.

The eight policy areas demonstrate the scale of complexity in finding a remuneration solution that meets the needs of 192 members. Each policy area presents a profusion of competing pressures that make contrary demands on the terminal dues system. For example, it is interesting to note from the country classification (section 1.6) that more than half of members are classified at the lowest economic development level, i.e. the transitional system. It is important that, while the more prosperous nations seek commercially-focused remuneration solutions, those countries' interests are also taken into account in the deliberations.

The UPU's strength can be summed up as follows: one need only point to any location in the world, and the postal network takes care of the rest. The rules and procedures defined by the UPU, including the payment of terminal dues between postal operators, allow for the forwarding and transit of mail, and finally the delivery of all mail pieces worldwide.

In the new economic order that is emerging from multilateral trade agreements, such as the WTO rules, the idea of a world without frontiers has increasingly become a reality. The concept of the economic interdependence of member states has given way to that of economic interlinkage. In that new scenario, the UPU is ever closer to its mission of forming a "single postal territory" and the spirit of cooperation shown by its members in guaranteeing "freedom of transit" has never been more relevant than in this new world economic order.

The continued provision of the global postal network should not be taken for granted, as evidenced by the threat of the United States to withdraw from the Union in October 2018, in large part caused by the belief that the terminal dues system was unfair and led to market distortions. The withdrawal of any member country would endanger the fundamental concept of the single postal territory and risk serious damage to the integrity of the entire international postal network. Ultimately, the third Extraordinary Congress was able to keep the Union intact and maintain the single postal territory through significant reforms to the remuneration of small packet items delivered through the global postal network.

The progress made in developing the system of terminal dues in the direction of the market while reflecting diverse interests among UPU members has thus far been made possible by the spirit of compromise in the UPU. This respect for the interests of a diverse membership recognizes that an equitable terminal dues system is one of the key factors in maintaining the single postal territory.

On the occasion of the 145th anniversary of the Universal Postal Union, Frank Appel, CEO of Deutsche Post DHL Group, commented on the importance of multilateralism and the third Extraordinary Congress decision on the landmark terminal dues agreement

"Listening attentively, being open to change and working together on sustainable solutions. If structures and cost allocations are no longer in keeping with the times, they should be adjusted and aligned. However, this should happen with a sense of proportion, both with cost coverage and prices in line with the market in mind."

"[The Universal Postal Convention] is a multilateral agreement which, in today's times of increasing protectionism and newly emerging borders, would likely be hard to achieve."[1]

MULTILATERALISM

The tremendous evolution in the means of transport, with the concomitant influence on the exchange of ideas and communication, created the need to extend the organization of the postal service beyond national frontiers. It was with this object in view that the representatives of 22 countries decided, in 1874, to create the Universal Postal Union. Since this bold leap forward towards unity on a world scale, a steady stream of member countries has joined the global postal system, and the organization now boasts a membership of 192 countries.

As a specialized agency of the United Nations, the UPU aims to "stimulate the lasting development of efficient and accessible universal postal services of quality in order to facilitate communication between the inhabitants of the world". It is a unique forum that builds consensus and convergence, bringing together governments, regulators and designated operators from 192 countries with a view to sharing experiences and identifying multilateral solutions to global and regional challenges.

1 www.linkedin.com/pulse/universal-postal-union-multilateralism-its-best-handle-frank-appel

The UPU regards the organization of the global postal service as its principal objective, and that in itself implies a considerable measure of international cooperation.

The UPU global network is the largest physical distribution network on the planet. To provide a worldwide universal postal service, postal operators use the domestic mail system as an integral part of the UPU international distribution network. Within any country, inbound and outbound letter mail is processed through the national transportation, sorting and delivery network. Under the international mail handling procedures, these items are separated from domestic mail and transported to the offices of exchange for international dispatch. Inbound international mail enters through the office of exchange, from where it is forwarded and subsequently commingles with domestic mail and is transported to sorting and mail processing centres, where the mail is sorted and prepared for delivery through the national delivery network.

Though remuneration is a sensitive topic which generates lively debate during each Congress, it is also a prime example of multilateralism and cooperation, as countries work together to find a compromise. The terminal dues system adopted at each Congress reflects a balance struck between competing political and economic interests. As such, the remuneration systems continuously evolve in a changing socio-economic and political context and adapt to the dynamics and developments in the market. It is important to bear in mind that none of the postal operators nor any member countries exclusively control the terminal dues system. It is the strength of the system that no country has the discretion to design its own remuneration system unilaterally. However, tendencies towards more flexibility and market-orientation in rate setting have been front and centre at recent Congresses, with the 2019 Congress giving the member countries the possibility of self-declaring their terminal dues rates within boundaries and in respect of specific rules that allow, to a certain extent, comparability with domestic tariffs. Global reality, of course, requires cooperation between the many UPU member countries, and each country may ultimately deem it necessary to accept some reasonable compromises in order to further the goals of the single postal territory that the UPU creates.

Box 1: **Multilateralism and terminal dues**

The mission of the UPU is stated in the Preamble to its Constitution:

"The mission of the Union is to stimulate the lasting development of efficient and accessible universal postal services of quality in order to facilitate communication between the inhabitants of the world by guaranteeing the free circulation of postal items over a single postal territory composed of interconnected networks".

Since July 1971, the postal operator of the destination country has been compensated for the costs it incurs in the handling and delivery of postal items it receives from abroad. The terminal dues system is a vital component in the fulfilment of the Union's mission. As became increasingly clear in the decade before the 1969 Tokyo Congress, without adequate levels of compensation, a viable universal postal service is unsustainable in the long term. And therefore, by extension, without adequate levels of terminal dues compensation, the Union's mission becomes unsustainable.

Any country and postal operator can (and many do) negotiate bilateral and multilateral agreements with other postal operators for rates, but it cannot compel any other operator to enter into such agreements. For this reason, DOs may find that they have limited ability to negotiate terminal dues upwards. This is because the Congress essentially sets the default terminal dues rates that apply in the absence of an alternative multilateral or bilateral agreement. In the absence of a negotiated agreement, the UPU's terminal dues rates apply as the default rates.

1.2

UNIVERSAL SERVICE OBLIGATION

In any country, a postal service is held to certain obligations to fulfil the social and economic objectives of the government. Service obligations usually require the provision of a universal basic postal service which is accessible to the population and is provided at reasonable prices. Legislation specifies the extent of the obligation, which takes into consideration alternative provision available to the population. The manner of service provision addresses issues such as accessibility, affordability and acceptable quality.

These very same concepts also apply at the international level. One of the overarching goals of the UPU is to provide an affordable universal service for the sending and receipt of letter post to and from every citizen of every country, including, to and from hard-to-service locations. Because of this commitment of service to every citizen, the UPU has designed delivery policies, compensation agreements and corrective mechanisms to bolster the ability of postal operators to provide universal service at affordable prices.

Each member of the UPU is obliged to provide a universal basic postal service which is accessible to the population and is provided at reasonable prices. The exact scope of universal service varies according to each member, but article 3 of the Universal Postal Convention specifies the international obligations:

Box 2: **Article 3 of the UPU Convention**

Universal postal service

1. In order to support the concept of the single postal territory of the Union, member countries shall ensure that all users/customers enjoy the right to a universal postal service involving the permanent provision of quality basic postal services at all points in their territory, at affordable prices.

2. With this aim in view, member countries shall set forth, within the framework of their national postal legislation or by other customary means, the scope of the postal services offered and the requirement for quality and affordable prices, taking into account both the needs of the population and their national conditions.

3. Member countries shall ensure that the offers of postal services and quality standards will be achieved by the operators responsible for providing the universal postal service.

4. Member countries shall ensure that the universal postal service is provided on a viable basis, thus guaranteeing its sustainability.

Article 3 sets forth the commitment of member countries to ensure permanent provision of quality, affordable basic postal services at all points in their territory. Global universal service is at the heart of the UPU, and terminal dues is a means by which countries compensate each other for providing that global service. The same article states that the universal service must be defined at country level, according to the specific needs of that country. The definition of universal service varies widely according to many different factors, and the cost of its provision also varies significantly depending on numerous factors. Figure 3 below considers some of the elements that impact the definition and cost of universal service.

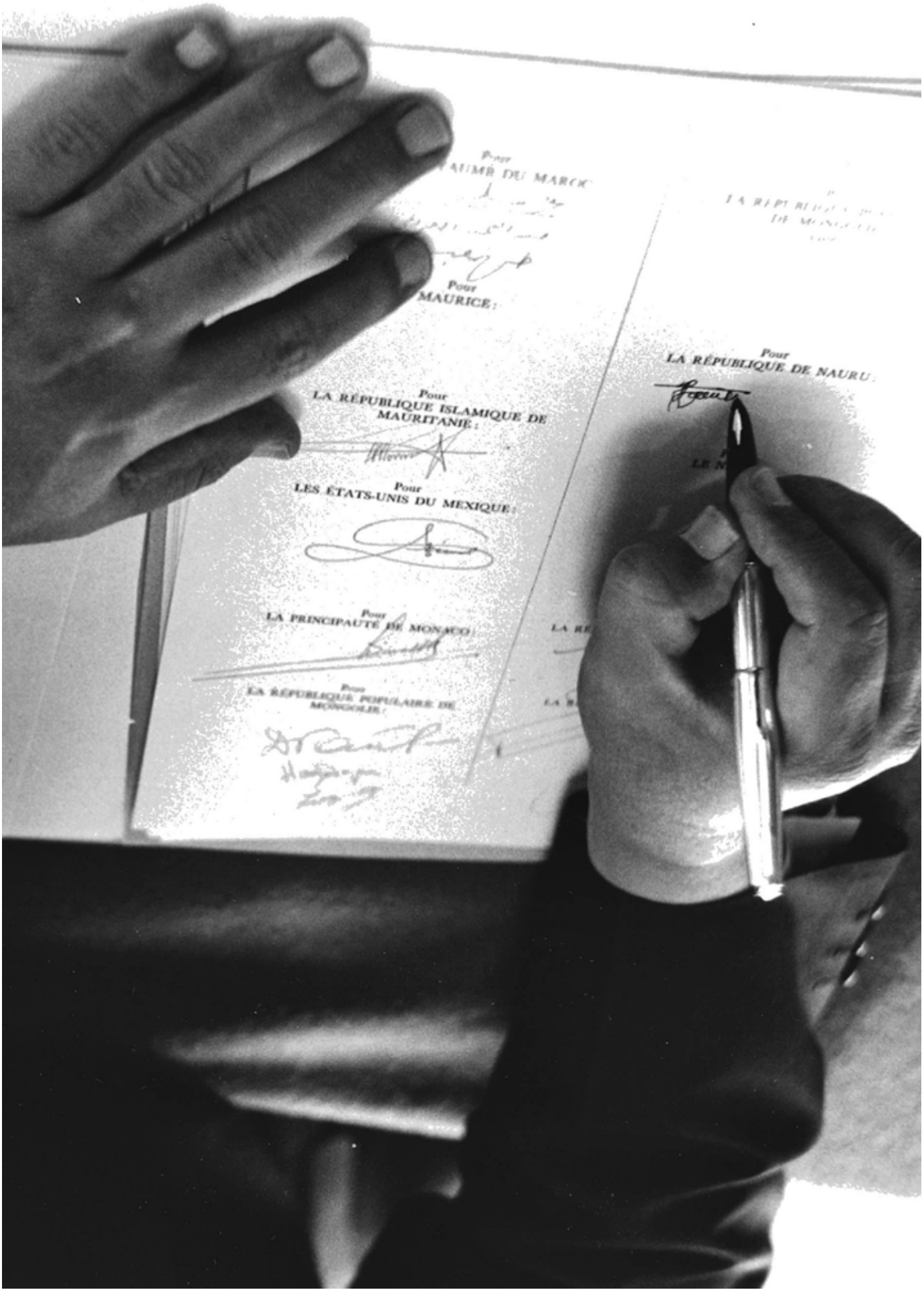

Pour
MAURICE:
Pour
LA RÉPUBLIQUE ISLAMIQUE DE
MAURITANIE:
Pour
LES ÉTATS-UNIS DU MEXIQUE:
Pour
LA PRINCIPAUTÉ DE MONACO:
Pour
LA RÉPUBLIQUE POPULAIRE DE
MONGOLIE:
Pour
LA RÉPUBLIQUE DE NAURU:

Figure 3: **Different aspects and cost drivers of the universal service obligation (USO)**

GEOGRAPHY
Country size, geographical conditions (islands, mountains, distances, etc.)

DEMOGRAPHICS
Population density and the cost and operational complexity of providing universal service

ECONOMY
Population density and the cost and operational complexity of providing universal service

SCOPE OF USO
The scope of universal service varies significantly from country to country

MODE OF DELIVERY
Home delivery, PO box delivery or post office pickup impact on the costs of the delivery service

SPEED OF DELIVERY
Users have an interest in speed of delivery of letters and parcels

DELIVERY FREQUENCY
The frequency of clearance and delivery of mail

QUALITY OF SERVICE
Postal operators are required to meet target delivery times for all mail across their territory

ACCESSIBILITY
The operation of a nationwide network of post offices and postal agencies

TARIFFS
Consumers have access to uniform, affordable, transparent and non-discriminatory postal tariffs

RESERVED AREA
Some postal operators have certain exclusive rights to provide letter-post services

NET COSTS
Possible unfair financial burden on postal operators as the USO prevents them from optimizing operations

COMPETITION
Country size, geographical conditions (islands, mountains, distances, etc.)

STATUS OF OPERATOR
Postal operators are increasingly corporatized and operate in a business-like manner

SUBSIDIES
Some governments compensate postal operators to maintain postal services “affordable” to the public

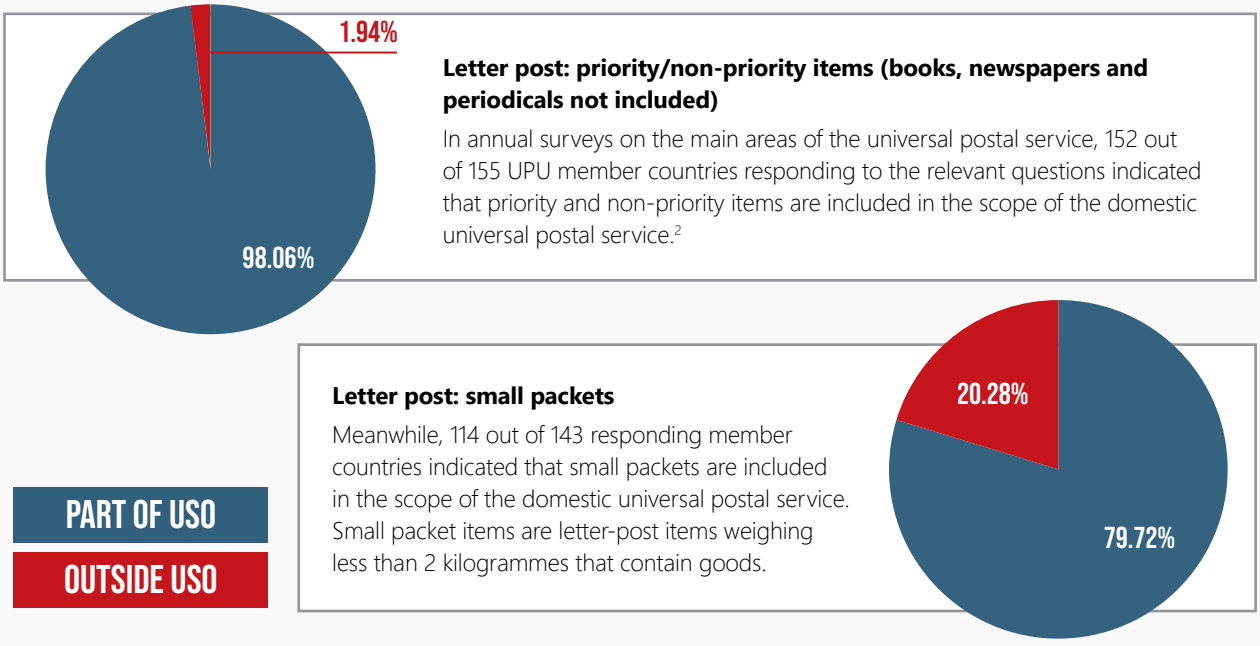
COST EFFICIENCIES
Postal operators are required to provide the universal service in a cost-efficient manner

MAIL VOLUMES
Mail volumes dictate the unit cost associated with delivery of mail

PROFILE OF MAIL
Composition of mail is changing, with fewer letters and more small packet items being delivered

The myriad of factors that must be considered when defining, costing and financing universal service have resulted in widely differing universal service provisions. Small countries with dense populations and high mail volumes could operate a universal service at a very different cost to large countries with difficult geographies, sparse populations and low per-capita mail volumes. Regardless, UPU members have a responsibility to provide universal service throughout their territory.

Figure 4: **Scope of universal postal service provision**



DOMESTIC TARIFF REGULATION: AFFORDABILITY AND COST-ORIENTATION

In the interests of social welfare, the revision of domestic postal tariffs has traditionally been subject to government approval. However, corporatization and privatization processes have given rise to commercial pricing strategies pursued by postal operators as a more commercial approach to postal management with a less intrusive, bureaucratic and politically-driven rate-making process in many countries. Over a number of years, postal operators have found that meeting the universal service obligations in their domestic service has placed a financial burden on them, as the costs associated with the USO have exceeded the associated revenues. The trend is exacerbated in the context of declining letter mail volumes. A 2019 UPU study revealed that 51% of designated operators cover the costs of their domestic small letter service through the revenue collected for that service (while 49% indicated that the price of their domestic service did not cover the costs).[3]

On the other hand, market-oriented postal services have given the issue of regulating postal tariffs significant relevance. Tariff regulation has been considered essential to prevent the potential abuse of market-dominant powers by the postal operator, in terms of both overcharging customers for its services cross-subsidizing services, and deterring entry into other market segments through predatory pricing.

In industrialized countries (ICs) in particular, tariff regulation policy has been developed in which the postal operator is given a certain degree of flexibility in its rate setting, albeit within certain limits, for example the rate of inflation as measured by the consumer price index. Such a price cap mechanism ensures an affordable, cost-oriented postal service, and also incentivizes the postal operator to introduce efficiencies into its operational processes and pursue cost reductions where possible.

2 UPU 2018, Publication of member replies to survey on main aspects of universal postal service, CA C 2 2018.1–Doc 7

3 UPU 2019, results of the domestic tariff study, POC C 2 2019.1–Doc 4c

Although operating in a highly competitive market segment, small packet items remain subject to domestic tariff regulations. A UPU study in 2019 showed that the domestic prices for small packet (or equivalent) services of 72 postal operators are subject to regulation; 18 indicated that this is not the case, while 18 others did not respond. In comparison, for small letters (P), large letters (G), bulky letters (E) and parcels respectively, 91, 83, 72 and 56 DOs indicated that their prices for equivalent services in their domestic service are subject to regulation. Box 3 provides a number of examples of tariff regulation applied in member countries.

There is wide variety in the rate-setting methodologies applied by regulating authorities and ministries around the world. A number of countries apply an inflation-based price cap formula, often complemented by adjustment factors that incentivize productivity or quality of service improvements, or share volume-driven risks between the postal operator and customers.

In many other countries, the supervisory ministry takes final decisions on pricing for the reserved letter and universal service areas. In practice, a joint process is normally involved, with the postal operator proposing rate changes, the regulator acting in an advisory capacity, and the supervisory ministry deciding on the proposed rates. In these countries, the rate-setting procedure for letters is often very different from competitive products, such as the setting of parcel prices, which are generally left to the postal operator, in particular where there is competition in the parcels market.

Box 3: **Examples of tariff regulation**

Example 1: Tariff regulation in Latvia

In Latvia, the universal postal service provider, Latvijas Past, submits its proposals to set its postal tariffs to the national regulating authority, the Public Utilities Commission (PUC) for *ex ante* approval. The rates proposed by Latvijas Post need to be compliant with the detailed cost accounting methodology set out in Decision 1/28 of the PUC.

A new tariff system for Latvia's universal postal service was approved by the PUC, coming into force on 1 January 2020. According to Latvijas Past, the new tariff model provides for a transition from the previous 240 different basic tariffs to a simplified system where only three factors affect the tariff of any item to be sent: the item weight; whether the item is ordinary, registered or insured; and the geographical zone to which the item is to be delivered.[4]

The new rate structure applies to a new classification of items, moving away from the hitherto usual division into letters, postcards, items in wrappers, small packets and parcels. Instead, customers are offered a clear terminology, dividing all items into two large groups: letter-post items, including LC/AO and therefore small packet items; and parcels.[5] This means that an ordinary untracked small packet is remunerated at the same level as untracked and unregistered documents.

Example 2: Tariff regulation in the United States

The Postal Accountability and Enhancement Act of 2006 divided postal products into market-dominant and competitive categories and established rate-setting policies and procedures for both these categories. Rate increases for market-dominant products must meet certain statutory and regulatory requirements, the most prominent of which is that such increases be no greater than the rate of inflation, as determined by the Consumer Price Index for All Urban Consumers.

4 Latvijas Post website: pasts.lv/en/footer/Useful_Information/News/5422-from-the-1st-of-january-2020-new-universal-postal-service-tariffs-come-into-force-rates-can-be-easily-calculated-in-the-pastslv-service-calculator (retrieved on 1 April 2021)

5 LC mail (letters and cards) or AO mail (other objects, typically small packets)

Competitive products are defined as a category of postal products and services for which similar products and services are offered by private sector carriers. The United States Postal Service (USPS) has more flexibility in setting rates for competitive products as long as these prices cover their attributable costs, do not result in cross-subsidy from the market-dominant products, and make an appropriate contribution to the institutional costs.

The regulatory structure grants the Postal Regulatory Commission (PRC) enhanced review and oversight responsibilities for market-dominant products while streamlining the rate-making procedure for those products to allow a more rapid postal service response to changes in market conditions.

On 16 November 2018, USPS filed a request seeking modification of the market dominant and competitive product lists to transfer inbound small packet (E) and bulky (E) letter-post items, including the inbound registered letter-post service, from the market dominant product list to the competitive product list.[6] The PRC approved this transfer request, together with a range of self-declared prices.[7]

Example 3: Tariff regulation in South Africa

The South African Post Office (SAPO) is the universal postal service provider in South Africa, fully owned by the South African Government. Domestic mail services are defined as reserved services, are provided by SAPO under statutory monopoly conditions and are subject to universal service obligations, while the provision of courier services in South Africa has been fully liberalized.

South Africa's postal sector is regulated by the Independent Communications Authority of South Africa (ICASA) and the Postal Services Act (PSA) of 1998. The objective of the PSA is to provide for the regulation and control of postal services in the public interest and, for that purpose, to promote the universal and affordable provision of postal services, it details the scope of the reserved services and sets out a broadly-defined policy regarding pricing, regulatory oversight and the fulfilment of the universal service obligation. Under the PSA, ICASA has the mandate to determine fees and charges for reserved postal services.

From 2013, in accordance with the Price Cap Regulations for Reserved Postal Services, the prices for reserved postal services were determined on the basis of a general price control formula. The formula was based on the consumer price index, and made provision for a productivity factor which acted as a constraint to annual revenue growth (and therefore price increases), that SAPO could pursue in the provision of reserved postal services.

Following a regulatory impact assessment, ICASA concluded that "whilst the current CPI-based price cap formula provides strong incentives to cut costs in the pursuit of increasing efficiency, it is silent on the matter of cost recovery and financial sustainability."[8] In fact, the regulating authority concluded that the price control mechanism no longer met the requirements of being effective and proportionate in ensuring that SAPO can recover the costs to maintain a long-term financially sustainable provision of reserved postal services.

With effect from March 2021, ICASA decided to replace the price cap regulation entirely with another form of regulation, i.e. the rate of return methodology. In accordance with guidelines set by the authority, the prices charged for reserved postal services will recover reasonable operational and maintenance expenses incurred in bringing services to bear, as well as recovering capital investment and allowing the postal operator to make profit that is based on an allowed rate of return. The new rate-setting mechanism includes accommodations for volume adjustments to compensate SAPO and its customers for differences between the budgeted and forecast volumes when the tariff is approved, and the actual volumes experienced during the tariff period.

6 Postal Regulatory Commission (PRC), Docket No. MC 2019-17, United States Postal Service Request to Transfer Inbound Letter Post Small Packets and Bulky Letters, and Inbound Registered Service Associated with Such Items, to the Competitive Product List, 16 November 2018

7 Postal Regulatory Commission (PRC), Order No. 4980, 5152 and 5372

8 ICASA, Draft Price Cap Amendment Regulations for Reserved Postal Services 2021, Government Gazette, 26 March 2021, volume 669, No. 44332

In several member countries, operators are bound by a formal obligation to set tariffs for basic postal services and certain other services at a unitary rate for delivery throughout the national territory, rather than having tariffs related to distance or the location of the addressee. This principle, known as rate equalization, is another aspect of universal service requirements that apply to universal service providers and not to private carriers. The same requirements apply in the terminal dues system, where country-specific terminal dues rates, taking account of weight, number of items and tariffs applicable in the domestic service, apply throughout the destination territory. In other words, in terms of terminal dues remuneration, there is no difference between an international letter-post item delivered to Toronto, Canada or Yellowknife, Canada.

As explained in other sections of this report, a number of the abovementioned features of domestic rate-setting, such as regulatory oversight, limitations to annual rate increases through a price cap, or maximum revenue increase limits, quality of service adjustments and other features, have over time come to apply, in a similar or modified way, to the terminal dues system as well.

INTERNATIONAL TARIFF REGULATION: AFFORDABILITY AND COST-ORIENTATION

Domestic tariff regulation is directly relevant for terminal dues, as domestic tariffs are used as a reference to calculate TD rates. Domestic tariffs usually distinguish between different weight steps: for example, the domestic tariffs at the weight steps of 20 and 175 grammes for letters are used for the calculation of terminal dues rates. These different tariffs are then converted, on the basis of a standard structure, into so-called linear tariffs for the purpose of calculating terminal dues. In this process, the domestic tariffs are reduced by a certain percentage to reflect the avoided costs from collection, outward sorting and other mail processes, as the mail arrives in large quantities at centralized locations of the offices of exchange in the country of destination.

In the 1990s, there was a growing feeling that the method for calculating terminal dues should be fully cost-based, or at least involve a more accurate approximation of these costs, for example by calculating terminal dues as a percentage of domestic tariffs in the country of destination.

Yet a system based on domestic tariffs presents challenges for many developing countries, where domestic postal services are often under-priced because of their social, and hence political, sensitivity, and because cost data is not developed by product segment, meaning that service-specific cost levels are unknown. Minimum terminal dues rates, also referred to as floor rates, provide those postal operators with revenues that are higher than their domestic tariffs, and are important to ensure the financial sustainability of their inbound mail operations.

The motivation behind regulating affordability is to ensure access to universal postal services, and this is relevant to both domestic and international services. Over time, the terminal dues system has increasingly become a country-specific rate system, as the regulated domestic tariffs are used as a reference for terminal dues. Other mechanisms to ensure affordable terminal rates are provided through the cost-to-tariff ratio, the maximum rates and the maximum annual increases. In terms of cost coverage, the transition of all UPU member countries towards a single country-specific remuneration system, negotiated increases to the maximum rates and surcharges are examples of mechanisms that are applied to balance the objectives around affordability with those of a sustainable, cost-covering international postal service.

COUNTRY-SPECIFIC TERMINAL DUES RATES

In the first 30 years of the system, from 1971 to 2000, terminal dues consisted of a fixed rate per kilogramme that was the same for all postal operators concerned. This system was unsatisfactory as it did not properly reflect the cost structures of the individual postal operators. Furthermore, the system failed to take account of the fact that it is cheaper to deliver one item weighing one kilogramme than 50 items weighing one kilogramme in total.

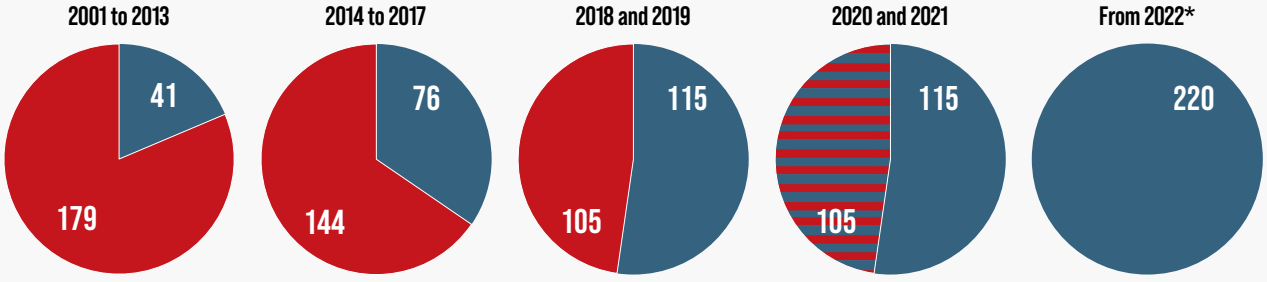
To respond to these inadequacies, the 1999 Beijing Congress decided to link the terminal dues system to domestic tariffs and use a per-item and per-kilogramme rate for flows between industrialized countries. That Congress drew a distinction between countries in the target system and countries in the transitional system, with the former group applying terminal dues rates based on domestic tariffs.

Up until 2010, the target system comprised industrialized countries, while developing countries made up the transitional system. And until 2020, different terminal dues applied in each of these systems: target system countries paid each other country-specific rates linked to domestic postal charges, while countries in the transitional system paid each other a total rate per kilogramme based on world average costs.

The road from the first introduction of this new system to its full implementation has been a long one. Developing countries were given a transitional period to prepare for full integration into the new system. At the time of the 2004 Congress, it was expected that the transitional period would be completed by the end of 2013, when all exchanges would have been based on country-specific levels of compensation. However, in reality it was not until 2020 (E format) or 2022 (P and G format) that all countries paid and received country-specific terminal dues rates based on their domestic tariffs.

Terminal dues rates for E format items that are self-declared in accordance with the decisions of the 2019 third Extraordinary Congress are also considered as country-specific rates. That Congress also decided that countries in group IV would apply country-specific rates for E format items from 2020, between themselves and with countries in the target system (groups I to III). As a result of those decisions, countries in group IV applied a mix of country-specific E format terminal dues rates and P and G format terminal dues rates as fixed in the Convention.

Figure 5: **Number of designated operators applying country-specific terminal dues rates**



2001	Industrialized countries (group I) apply country-specific rates (subject to minimum and maximum rates)
2010	Countries in former group 1.2 join the target system but do not apply country-specific rates until 2014
2012	Countries in group II join the target system but do not apply country-specific rates until 2014
2016	Countries in group III join the target system but do not apply country-specific rates until 2018
2020	Country-specific E format terminal dues for all flows, including countries in group IV (PG format: Convention rates)
2022	All flows and all formats apply country-specific terminal dues rates (except flows below 100 tonnes from and between countries in the transitional system)

* From 2022: All mail flows to apply country-specific rates except flows from group IV countries below 100 tonnes

RATE PROTECTION: MINIMUM AND MAXIMUM RATES

To achieve a single terminal dues system, countries were classified in different groups according to their postal economic development (see section 1.6). By group, countries moved from the transitional system towards the target system, in which country-specific terminal dues rates are applied. In the target system, terminal dues are subject to universal minimum and maximum rates. The minimum rates (or floor rates) apply to countries with low domestic postage rates, and the maximum rates (or cap rates) limit countries with high domestic postage rates to moderate the impact on terminal dues. Without the floor and cap mechanism, terminal dues rates would be less equitable.

Lower cap rates were initially set for mail flows between countries classified in group II (former groups 1.2 and 2) and between these countries and countries in group I (former industrialized countries) than those applied between countries in group I. The mail flows between countries in group III, which include the Russian Federation and the People's Republic of China, and between these countries and countries in groups I and II, were subject to maximum rates that were lower than any of the other mail flows previously mentioned. However, to achieve a single terminal dues system, the terminal dues rates paid by the postal operators of China or the Russian Federation to Canada increased faster than the terminal dues rates that were paid between Norway and Canada, both of which were classified in group I.

For E format, full harmonization of cap rates was achieved in 2020, while the cap rates applicable to P and G formats are still differentiated according to the mail flows between the different classification groups, but will be fully harmonized by 2025.

TERMINAL DUES AND PRICE INCREASES OF INTERNATIONAL POSTAL SERVICES

The role of the UPU is to interconnect postal operators with universal service mandates established by national authorities in a standardized global postal delivery network. From both an inbound and outbound perspective, it is important that the different objectives, in particular those around cost-covering, competitive and affordable remuneration rates, be balanced, as they are critically important to the sustainability and development of the universal service.

It should not be overlooked that, from the perspective of the sending postal operator, terminal dues constitute the most important cost factor for international mail. To ensure cost coverage, in particular in case of significant rate changes, such as those adopted by the 2016 Istanbul Congress or the 2019 Extraordinary Congress, postal operators need time to absorb the rate increases to avoid market shocks and negative impacts on citizens, as well as international mailers, whether they be large mailers or small or medium-sized businesses. From a regulatory perspective, increases that a sending operator needs to make to its international tariffs to ensure cost-coverage often require review and approval by the national regulating authorities.

As described above in Box 3, the tariffs for universal postal services, including international postal services, in Latvia are subject to a review and approval procedure by the national regulating authority, the PUC. In response to the terminal dues rate increases adopted by the 2019 Extraordinary Congress, the Latvian designated operator applied increases to its international tariffs for items with the United States as destination. Within 45 days, following an intervention by the PUC, which ruled that tariff increases were not compliant with Latvian postal law regarding tariff setting for the universal postal service and imposed a fine on Latvijas Past, the tariff change had to be reversed[9]. This case underlines the importance of international rate setting and its impacts on the universal postal provision, including the role of oversight by regulating authorities to protect the general public interest.

9 Latvian Public Utilities Commission (PUC), SPRK piemēro AS "Latvijas Pasts" naudas sodu 9300 EUR apmērā par veikto pārkāpumu: www.sprk.gov.lv/en/node/6300

Figure 6: **Average 20 g domestic tariffs and terminal dues remuneration for P and G format documents**

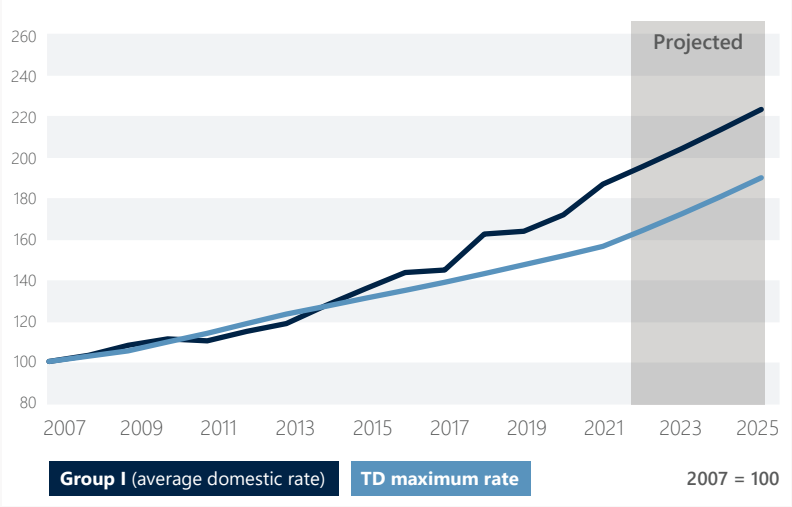
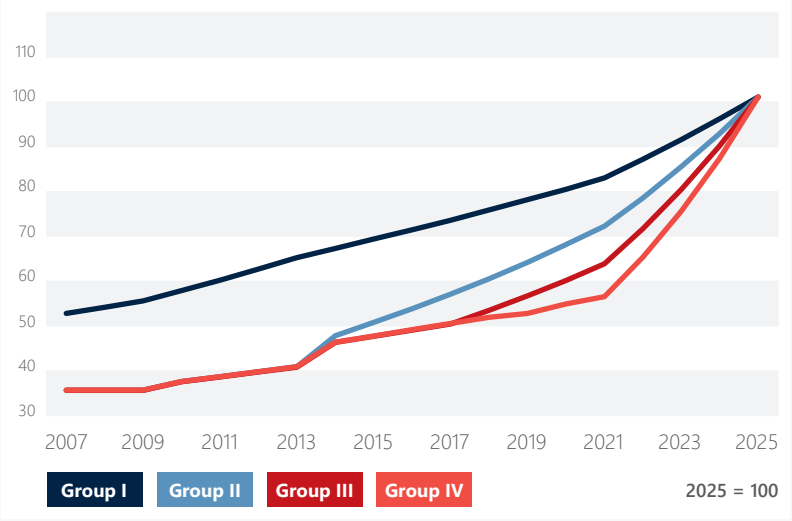


Figure 6 shows that the increases in terminal dues follow the annual rate increases that consumers of postal services pay in the domestic service, although the domestic price increases, especially in more recent years, were on average higher than the terminal dues increases. For this reason, the 27th Congress decided that the maximum rate increases for P and G format documents in the period 2022 to 2025 would be higher for flows between countries in group I than in the period 2018 to 2021.

These average domestic tariff increases are calculated on the basis of domestic tariff information from designated operators of countries in group I, and only those that have not shifted between domestic reference services used for terminal dues purposes.

Figure 7: **P and G format documents: annual increases in terminal dues rates**

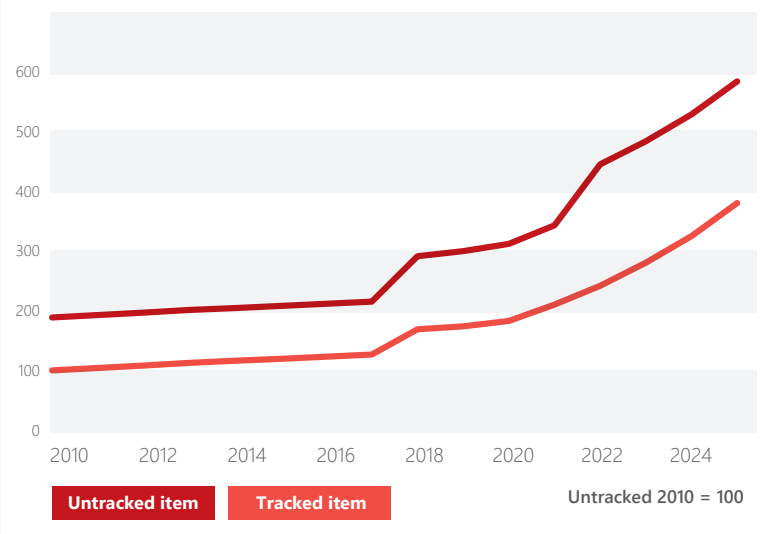


The annual increases in the maximum rates (cap rates) for P and G format documents were steeper for mail flows from other countries than those classified in group I (Figure 6 above).

The maximum rates applicable to mail flows of countries classified in group II increase faster than those applicable to mail flows between countries in group I, in order to achieve harmonization by 2025.

The maximum rates applicable to mail flows to, from and between countries in group III, set lower than those of group II in 2021, need to increase even faster to ensure that they are aligned with those of groups I and II by 2025. The Abidjan Congress therefore decided that the maximum rates in the transitional system would increase by 15.5% annually to achieve harmonization with the target system.

Figure 8: **Annual increases in tracked and untracked small packets (E)**



P and G format documents are core to the universal service provision, and are typically protected by USO rate-setting provisions and ceilings in the domestic service.

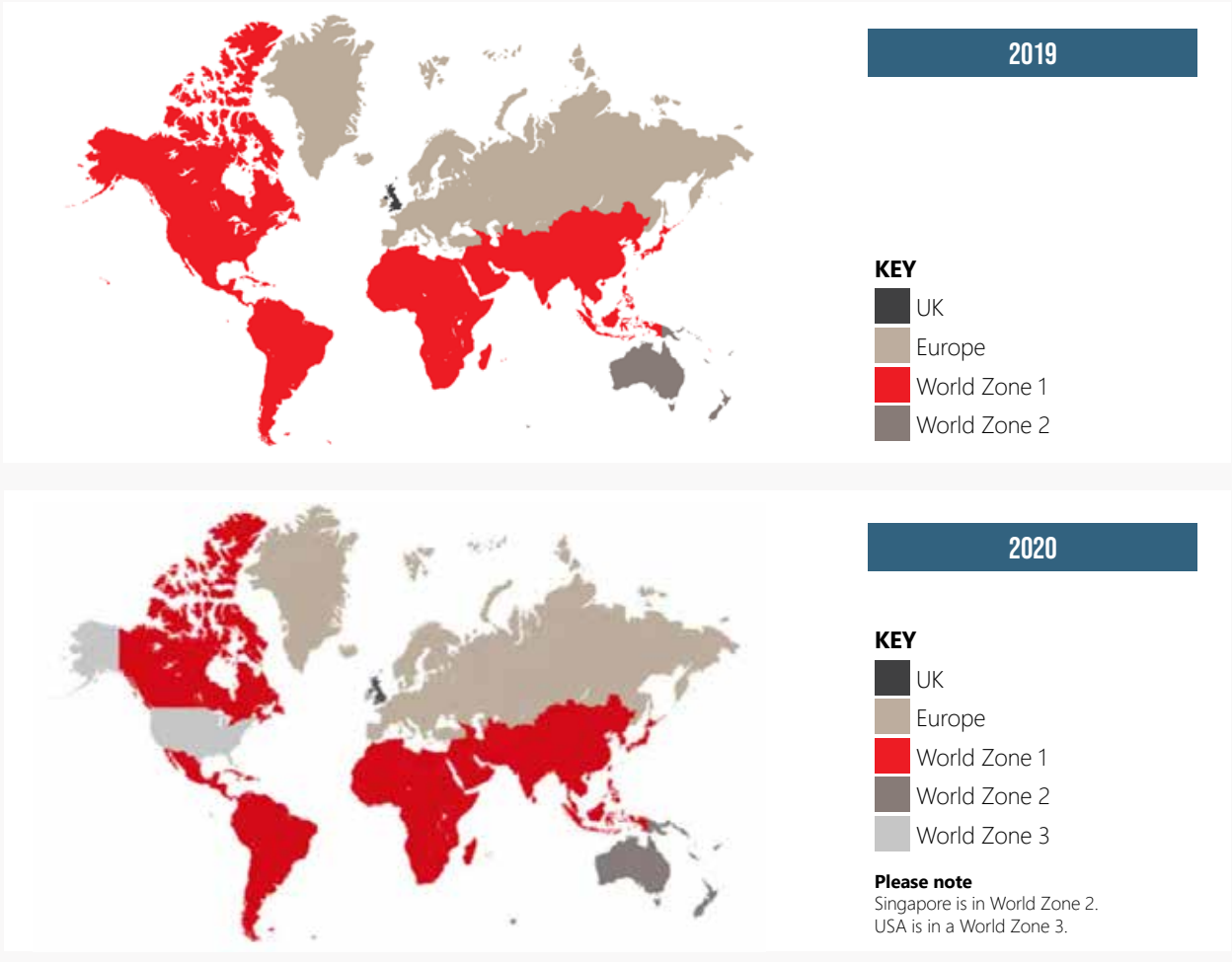
Meanwhile, terminal dues rates for small packets have seen strong increases since 2010. Most of these changes are due to the introduction of separate E format rates from 2018 and the subsequent changes by the 2019 Extraordinary Congress to reform the remuneration of E format. In addition to these increases to the basic rates of small packets, where items are tracked, further increases to the supplementary rates have been made since this remuneration was first introduced in 2010. Figure 8 illustrates the maximum revenue for an E format item at the worldwide average weight of 158 grammes paid to a designated operator classified in group I. From 2021, the revenue is based on the self-declaration of E format terminal dues rates that are subject to the maximum annual revenue increases laid down in the Universal Postal Convention.

Many postal operators saw a significant increase of over 100% in the remuneration they pay for last-mile delivery in the United States from 1 July 2020. In a number of cases, these costs were, to some extent, passed on to the customer to ensure the sustainability of the international postal services that these operators offer to their customers.

For example, the designated operator of Singapore obtained regulatory approval to increase international postage rates with effect from 2 December 2019 to help mitigate the increase in terminal dues payable by foreign postal operators as a result of the decisions of the 2019 Extraordinary Congress.[10] Singapore previously announced rate increases for international small packets from January 2018, when the new international rate structure for small packets decided by the 2016 Congress came into effect.[11]

In another example, the designated operator of the Isle of Man anticipated increases to its postal rates following changes to the terminal dues rates for E format items with effect from 1 July 2020.[12] For international postal items, following the 2019 terminal dues reform, the United Kingdom's designated operator, Royal Mail, created a new rate zone for deliveries to the United States. Previously part of World Zone 1, the US was moved to a new World Zone 3, in which it is the sole destination country. As a result, Royal Mail customers pay higher rates to send their mail from the UK to the US (as illustrated in Figure 9).[13]

Figure 9: **International deliveries from the United Kingdom to the United States**



10 SingPost, Paving the way for the future of post, SingPost annual report 2019/20, www.singpost.com/sites/default/files/publications_file/2020/06/SingPost%20FY2019-20%20Annual%20Report.pdf

11 SingPost, SingPost announces changes to its international small packets delivery services, www.singpost.com/about-us/news-releases/singpost-announces-changes-its-international-small-packets-delivery-services

12 IOMPO, Postal Prices Set to Increase While Remaining Value for Money, www.iompost.com/our-news/press-releases/isle-of-man-post-office-announces-2020-price-updates/

13 Royal Mail, World zones, www.royalmail.com/international-zones

1.3

MARKET DEVELOPMENT

Competition, market demand and changing customer behaviour have been key drivers of changes in the terminal dues system. The rise of e-commerce, coupled with the pervasive liberalization of postal markets, has eased the entry of new postal operators, providing the customers of international postal services with more alternatives to the global postal network.

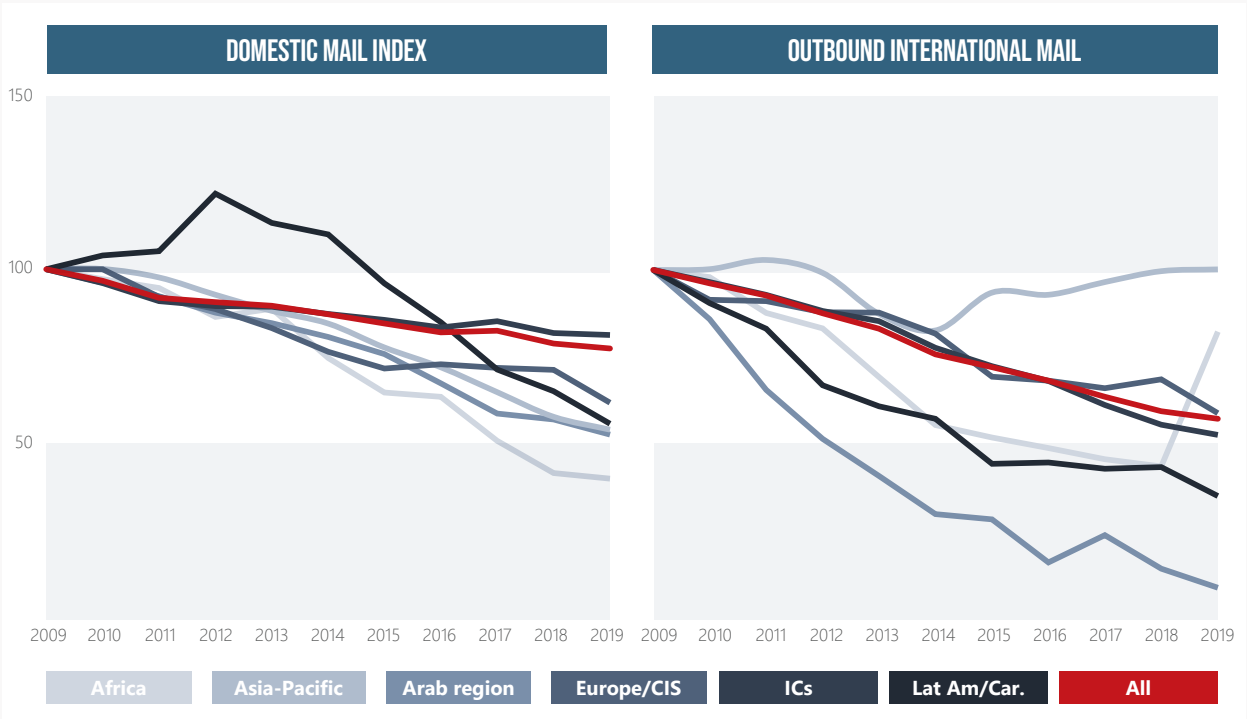
THE CHANGING POSTAL MARKET

The postal market has evolved dramatically in recent years with the decline of traditional mail volumes, paired with the growth of e-commerce. The dynamics of the postal sector are changing from one in which mail was "pushed" through the postal system by the sender to one in which it is "pulled" through the system by the recipient. In a sector once focused on protecting reserved areas, competition now prevails. The terminal dues system has been adapting to the new market conditions ever since it was introduced in 1971, but the required pace of change has never been as fast as it is now.

In most UPU member countries, changes in technology and consumer behaviour are driving a sharp decline in demand for letter services, in particular transactional mail (bills, statements, payments), personal and business correspondence, periodicals and advertising mail. While e substitution and other factors are driving down the usage of transactional mail and correspondence, the development of e-commerce is fostering the growth of small packets and parcel delivery.

In the industrialized countries, letter-post volumes per capita grew at almost the same pace as GDP per capita until the 2000s; since then, there has been a clear decoupling of the two trends. In the developing countries, GDP per capita was already growing faster in the early 1980s than the number of letters per capita. This divergence increased throughout the 1990s and even accelerated in the 2000s.[14] In 2017, the number of domestic letter-post items handled by designated operators worldwide was estimated at 309.9 billion compared to 420.5 billion in 2007, reflecting a compound growth rate of domestic letter post of -3.1% annually over this 10-year period.[15]

Figure 10: **Letter-post traffic by region (number of items)**



Source: UPU[16]

14 UPU 2014, Development strategies for the postal sector: an economic perspective

15 UPU 2019, Postal economic outlook 2019 – latest trends in an evolving sector

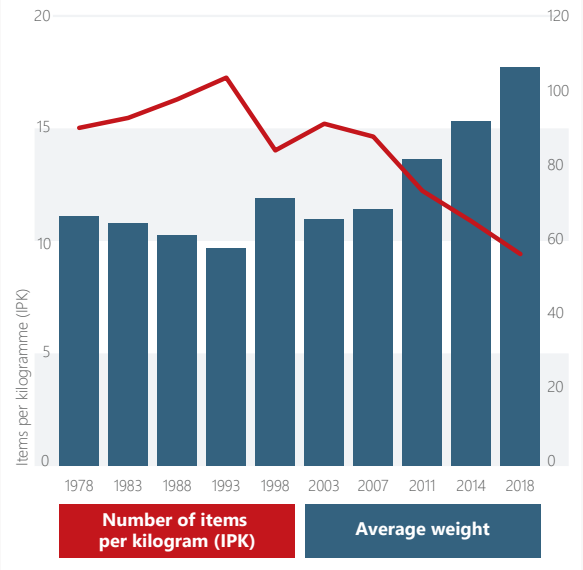
16 UPU Postal Statistics, https://www.upu.int/en/Universal-Postal-Union/Activities/Research-Publications/Postal-Statistics

In the last 10 years, domestic mail volumes have decreased in every region of the world, in some cases by up to 60% or more. The decline in international outbound mail is even greater, with some volumes falling by as much as 80%, except from the Asia-Pacific region, which during this period became the global frontrunner in cross-border e-commerce driving growth in the volumes of international small packets.

Comparing the worldwide average number of items in a kilogramme of mail (IPK) between two periods provides important indications of developments in the international postal market. A lower value for this indicator means that there are more higher-weight letter-post items, such as direct mail items, brochures or small packet items, whereas a higher IPK (and thus a lower average weight of postal items) would indicate a stronger presence of correspondence items, in particular transactional and consumer mail items.

For example, Figure 11 shows a decrease in IPK from 17.26 derived from sampling in 1993 to 14.03 in 1998, indicating an average weight increase of 22%, i.e. from 58 g to 71 g. This change is explained by market developments, in particular technological advancements in which fax and e mail replaced lightweight business correspondence; increased volumes of direct marketing catalogues; a diminishment of extremely lightweight "arbitrage" bulk mail because of the 1994 Seoul Congress bulk mail provisions; and the effects of the increase in the maximum weight for printed matter from 2 kg to 5 kg decided by the Seoul Congress.

Figure 11: **Average weight of international letter-post items**



Source: UPU

Between 1998 and 2007, the average weight of international letter-post items more or less stabilized around an IPK of between 14 and 15. However, from 2008, structural changes in the international postal market led to a further decrease in the worldwide average IPK from 14.64 in 2007 to 9.42 in 2018. While there are different explanations for the changed mail profile, two processes stand out.

First, the global financial crisis that started in 2007 exacerbated the decline in letter-post items that was already underway as a result of e-substitution (i.e. the shift away from letters, for example towards the use of e-mail or the Internet for banking services), and cost-saving measures were implemented by businesses and governments that required these entities to operate in a more price-sensitive manner, especially in relation to transactional mail, such as statements and invoices, and direct marketing mail. This resulted in a strong decline in the overall letter-post volumes, and in particular the lighter-weight LC items (documents, letters, etc.) in the mail mix.

Secondly, large volumes of small packet items in the mail profile further contribute to lower IPK values, and hence higher average weights of letter-post items. While international mail volumes, expressed in number of items, continue to decline, the international postal exchanges expressed by transported tonnage are displaying double-digit growth rates (over 13.6% in 2016).[17] An important factor that drives the increased volumes is the high number of small packets generated by e-commerce that are processed as letter-post items through the international postal network. A clear example is China, with its strong manufacturing base, which significantly increased its exports of low-value, lightweight e-commerce goods through the international postal network.

As illustrated in Table 1, the profile of mail changed dramatically between 1983 and 2018. Although a like-for-like comparison is not possible between the two years, owing to changes in the letter-post categories, the differences concerning the makeup of the mail clearly indicate that on average fewer documents and more goods, in particular small packet items, are included in the international letter-post stream, on top of which registered and tracked delivery services are also often used to convey goods.

17 UPU 2018, Postal economic outlook 2018

Table 1: **Profile of mail according to subclass category and/ or format[18]**

1983	*Weight*	*Items*
LC items:	**25.6%**	**71.6%**
AO items (total)	**74.4%**	**28.4%**
AO/printed papers	26.7%	14.1%
AO/special printed papers[18]	41.8%	11.8%
AO/small packets	5.9%	0.9%
Total letter post	**100.0%**	**100.0%**

2018	*Weight*	*Items*
Documents:	**24.8%**	**50.1%**
Small letters (P)	5.8%	34.4%
Large letters (G)	8.2%	7.7%
Bulky letters (E)*	10.8%	7.9%
Goods (small packets*):	**32.7%**	**34.0%**
Supplementary services:	**42.5%**	**16.0%**
Registered items*	17.7%	6.5%
Tracked delivery items*	24.8%	9.5%
Total letter post	**100.0%**	**100.0%**

* Items considered as E format since 2018

In calculating terminal dues remuneration, the composition of mail is very important. The worldwide average composition of one kilogramme of mail in 2018, expressed in terms of both number of items and weight, is 4.97 small (P) and large (G) letter-post items containing documents weighing 14%, and 5.45 E format letter-post items weighing 86%. E format items include bulky letters containing documents, small packets (all items containing goods irrespective of their actual format) and all supplementary services (registered and tracked delivery items).

The changing composition of mail has had a significant impact on terminal dues, because the cost of handling small packets is very different to that of handling traditional letters. Responding to a 2018 UPU survey on the costs of handling, transporting and delivering small packet items, 80% of member countries agreed that letter-post items containing goods should be remunerated at the small packet (E) rate, irrespective of their actual format or weight, for a number of reasons:

The (partial) use of the higher-cost parcel network for the sorting, transport and delivery of letter-post items containing goods;

The higher cost of delivery related to size, extra handling and in many cases failed delivery, and subsequent need for items to be collected;

The additional costs of handling for customs, security and management of returns;

The fact that delivery of goods takes more time and care than delivery of documents;

The inability to process irregular shapes through automation.

18 1983 data, see: 1984 Hamburg Congress, Congress–Doc 10/Annex 2; for 2018 data see: POC C 2 2019.1–Doc 4a.

19 Special printed papers comprised books, newspapers, periodicals, musical scores and geographical maps, provided that reduced rates are granted for these items


FRANCE
FRANCE
URSS

The 2016 Istanbul Congress agreed to treat all letter-post items containing goods as small packets (E), rather than on the basis of their weight and format, with effect from 1 January 2018. As a result, the E-format rates apply not only to bulky letters, but also to small packets with the subsequent impact on remuneration rates. The third Extraordinary Congress in 2019 revised the remuneration rates of E format items and accelerated the introduction of self-declared rates for E format items to keep pace with market development.

ELECTRONIC SUBSTITUTION AND E-COMMERCE

Recent decades have seen large increases in traded goods and services, in information flows thanks to better communications, and in movements of knowledge, people and capital. The result has been a closer integration of the world economy, with predominantly beneficial effects. Global economic integration has involved globalization, trade liberalization, deregulation and competition, as well as changes in technology, particularly information technology and telecommunications. The freer movement of people, knowledge and capital is also seen as integral to global integration.

Not least among the environmental change factors is technology. This is particularly true in the case of communications technology, with progressive innovations such as the development of fax, electronic data interchange (EDI), the Internet and e-mail and mobile phones impacting on international postal services. Since the time of the Tokyo Congress, the pace of developments in information and communication technologies has been staggering, triggering profound changes in the nature and location of work and leading to dramatic improvements in efficiency. And the convergence of these new technologies and communications has fostered the development of e-commerce, leading to the availability of new postal products and services.

Starting in the 1980s and picking up steam ever since, new technological developments, especially telecommunications technologies such as fax, mobile phones, e-mail and the Internet, have eroded the core business of incumbent postal operators. Without reform and changes to the Post's operations and network, these developments had, and to some extent still have, the potential to threaten the ability of postal operators to continue to finance their social obligations, in particular universal service provision.

In recent years, the traditional engines driving the growth of international trade and cross-border investment have been weakening, while cross-border e-commerce, especially cross-border B2C (business to consumer), has maintained strong growth and become a new engine for global economic growth. The global postal network and the postal operators are important players, promoters and beneficiaries of cross-border e-commerce. As the traditional letter business has been shrinking for more than a decade, postal operators in many countries have embarked on a transformation journey and started to diversify their business with parcels as the core. Small packages and express delivery services for the international market have made remarkable headway and returned to the fast-growth track. This is mainly due to the development of cross-border e-commerce. According to research, in 2018 Posts delivered 71% of global cross-border parcels, and 72% of cross-border parcels and small packets were lighter than one kilogramme, which is highly compatible with the strength of Posts in the delivery of high-value, lightweight and small packets.[20]

20 International Post Corporation, Cross-border e-commerce shopper survey 2017, www.ipc.be/-/media/documents/public/markets/2018/ipc-cross-border-e-commerce-shopper-survey2017.pdf

These market developments have a tremendous impact on the terminal dues system. In the negotiations on the terminal dues agreements, stakeholders are aware of the potential of the growing cross-border market segment of postal services; exporting and importing postal operators stand to benefit from finding an equilibrium that allows for continued development of traffic in international small packet items and cost-covering remuneration that supports the long-term viability of these and other postal services around the globe.

China's rise as a global leader in e-commerce has been nothing less than impressive. There are many facets of this development, including marketplace development in China, retail innovation and changing consumer behaviour, but from an international postal perspective, perhaps most interesting is the country's rapid rise as the global frontrunner in cross-border e-commerce and its leadership in driving growth in this market segment. China's share in global e-commerce retail transaction value has grown from less than 1% in 2005 to more than 40% in 2016.[21] With an estimated B2C e-commerce transaction value of 1.53 billion USD in 2020 and a 41% share of cross-border e-commerce transactions, China has indeed become a driver of small packet volume growth in the global postal network.[22] Beyond China, a diverse set of Asian economies, including Japan, India, Korea (Rep.) and countries from the South East Asia region, also have a robust and dynamic e-commerce sector.

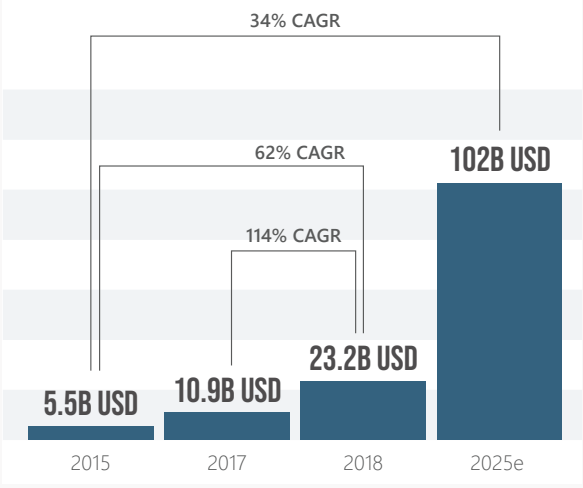
The growth of the global cross-border B2C e-commerce market is uncertain, although there are many projections of double-digit growth rates continuing up to and possibly beyond 2025, providing opportunities for postal operators as they build their capacities to participate in the continuous growth of international small packets and parcels.

E-retailers undertaking cross-border e-commerce have multiple shipping options available to them, although the direct-to-consumer option through postal or courier services is critically important for companies operating in that market to service customers worldwide.

Box 4: **E-commerce doubles up in South East Asia**

In the South East Asia region, the digital economy is firing on all cylinders, and many of those e-commerce items originate from this region. The ASEAN (Association of Southeast Asian Nations) region has experienced rapid growth in e-commerce activity in the past five years. In 2015, e-commerce was worth only 5.5 billion USD. By 2017, e-commerce was generating close to 11 billion USD in gross merchandise value and in 2018, more than doubled the previous year's value to exceed 23 billion USD. The quadrupling of e-commerce in ASEAN represents a 62% compound annual growth rate over the four-year period.[23] By 2025, e-commerce is predicted to be worth 102 USD billion in the region – making up more than 40% of the total value of South East Asia's internet economy.[24]

Figure 12: **South East Asia e-commerce market size**



21 Woetzel, Jonathan, Jeongmin Seong, Kevin Wei Wang, James Manyika, Michael Chui, and Wendy Wong, 2017, "China's Digital Economy: A Leading Global Force," McKinsey Global Institute Discussion Paper

22 Accenture, Cross Border: The Disruptive Frontier (Accenture Post and Parcel Industry Research 2019), www.accenture.com/us-en/insights/public-service/postal-cross-border

23 Asean, Asean Integration Report 2019, asean.org/storage/2019/11/ASEAN-integration-report-2019.pdf

24 Google/Temasek, e-Conomy SEA 2018, Southeast Asia's internet economy hits an inflection point, November 2018, www.thinkwithgoogle.com/intl/en-apac/future-of-marketing/digital-transformation/e-conomy-sea-2018-southeast-asias-internet-economy-hits-inflection-point/

Box 5: **Cross-border e-commerce**

Cross-border online purchases can be an indicator of the smooth functioning of the global market for e commerce, including the cross-border market for the delivery of those e-commerce items. In the European Union, a large majority (90%) of consumers who shopped online in the past three months had made at least one purchase from a seller in their own country, against 30% purchasing from another EU country, and 21% from sellers outside the EU. A breakdown among different age groups shows that the younger generation, between 16 and 24 years old, is most comfortable making online purchases in another country, whereas older generations are keener to buy goods online from national sellers. In terms of frequency of online purchases, the highest proportion (35%) of respondents (online consumers) made three to five purchases in the three-month period, while 34% did so once or twice.[25]

The global postal network plays an important role in helping online merchants expand into new markets and deliver their products to customers around the world. The Internet knows no boundaries, so customers do not expect e-commerce to have boundaries either. Consumer expectations for smooth and simple cross-border transactions are growing, and online merchants are looking for solutions that will allow cross-border e-commerce to function as efficiently and seamlessly as in the domestic online market. To respond to cross-border challenges, the terminal dues agreements increasingly consider the needs of supply chain stakeholders and authorities, such as customs authorities. For example, in 2012 the Doha Congress adopted rules for the physical separation of letter-post items on the basis of their format as part of the terminal dues agreement. The 2016 Istanbul Congress took the system one step further and introduced rules for the separation of letter-post items on the basis of their content, i.e. whether those items contain documents or goods. The classification of items on the basis of their content is a critical aspect that determines how a letter-post item is remunerated. The 2021 Congress in Abidjan decided on a mandate to introduce remuneration for compliance with electronic advance data (EAD) requirements and penalties for small packet items not bearing the appropriate barcode. All of these adaptations and improvements to the terminal dues system support supply chain processes that aim to create channels dedicated to e-commerce shipments; the terminal dues provisions incentivize sending postal operators to prepare and dispatch their outbound mail in such a way as to comply with the regulatory requirements in the destination country, facilitate simplified customs clearance processes and improve interoperability, allowing the destination postal operator to swiftly process the mail upon its arrival.

So, at each Congress, UPU member countries have taken measures to more appropriately remunerate items on the basis of their nature (format, content) as well as their cost structure, in particular how these items are processed, transported and delivered in the postal network.

Besides seamless end-to-end logistics, customers are also increasingly expecting additional service features as part of their international deliveries, in particular access to real-time information on their items, electronic delivery notifications and track and trace. The 2008 Congress adopted a remuneration system – the UPU Supplementary Remuneration Programme – to incentivize postal operators to collect and exchange electronic event information for supplementary services such as tracked delivery items.

PRICE SENSITIVITY OF INTERNATIONAL LETTER-POST ITEMS

In general, cross-border border letter mail shows a relatively important price sensitivity due to the existence of alternative physical and electronic dispatch channels and a changing composition of international letter-post flows away from correspondence mail in favour of small packet items containing goods, which are susceptible to rate increases, particularly as competing service providers fight for market space. The growing share of small packets within the worldwide average composition of mail confirms this trend.

25 Eurostat, E-commerce statistics for individuals, ec.europa.eu/eurostat/statistics-explained/index.php?title=E-commerce_statistics_for_individuals#E-shopping_from_other_EU_countries

Figure 13: **E-commerce purchases from national sellers, EU and rest of world (% of individuals in EU-27)**

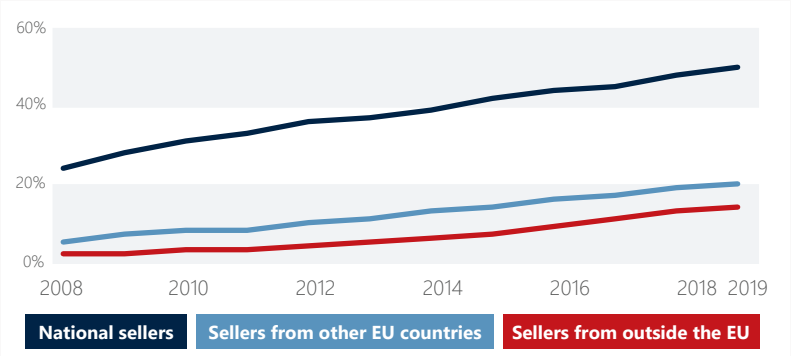


Figure 14: **Increases in proportion of consumers making online purchase from national sellers, EU and rest of world**

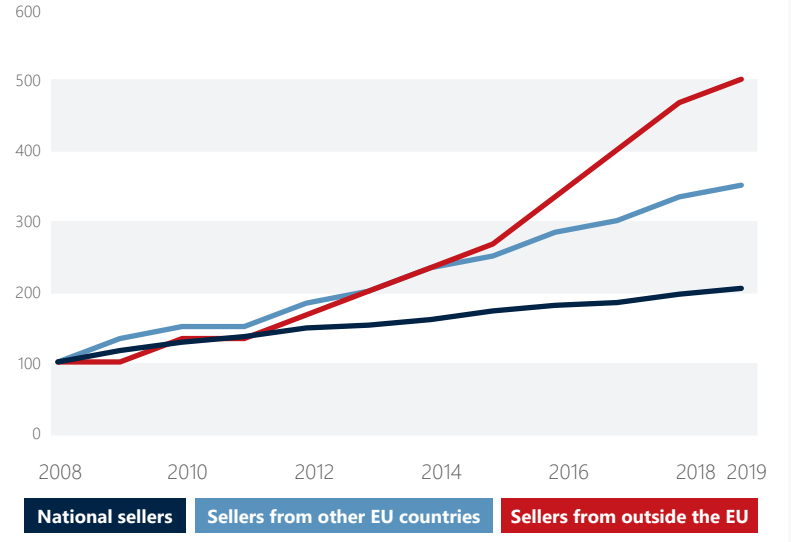


Figure 13 shows the percentage of EU consumers who made recent online purchases from national sellers, from sellers in the EU and from sellers outside the EU.

By 2019, 51% of EU consumers had made a recent online purchase with a domestic seller, compared to 25% in 2008. For online cross-border purchases, in 2019, 21% of EU consumers reported a recent purchase from an e-retailer located in another EU country (up from 6% in 2008) and 15% from e-retailers from outside the EU (3% in 2008). There are still significant differences among the EU countries: the proportion of EU consumers who made an online purchase from a domestic seller can be as high as 77% in the Netherlands or Sweden. In Luxembourg, 57% of individuals made an online purchase in another EU country in 2019, and in Malta and Estonia nearly 35% purchased items from a merchant located outside the EU.

Despite the variations between EU countries in terms of the proportion of the population making online purchases, whether from a domestic or a foreign merchant, in all EU countries more citizens are buying more items online.

Although citizens overall buy more items on average from domestic sellers than from foreign e-retailers, there is a visible trend of purchases from foreign online merchants catching up with their domestic counterparts. As illustrated in Figure 14, in 2019, five times more EU citizens made a purchase from an online merchant located outside the EU than in 2008. And in 2019, 26% of EU citizens made a recent purchase in another EU country or outside the EU. This trend is also visible in the UPU traffic of international postal services carrying merchandise items.

Price increases tend to promote substitution by other means of communications. For example, the combination of cost reduction objectives and alternative (physical and electronic) dispatching channels may intensify mailers' desire to either use low-cost alternatives (e.g. direct insert, remailing or commercial delivery agents), or to switch customers to electronic bill payment, and electronic bill and statement presentation. Mailers will continue to find cheaper alternatives and to optimize their processes and targeting in order to reduce their mail volumes while obtaining better results.

Concerning international delivery services of items containing goods, competition is particularly focused on high-volume senders such as larger e-retailers, which are able to negotiate prices with delivery operators based in the destination markets. Smaller businesses and individual consumers typically do not meet minimum volume requirements to qualify for individual negotiated rates. Consequently, they pay significantly higher tariffs for cross-border delivery and are served by fewer delivery agents. This is particularly the case in remote areas, where it may even be the case that only the universal service provider delivers without surcharge. The global postal network is facing increased competition in the international delivery market for items containing goods, but because of its extensive network, it appears to maintain a competitive advantage in last-mile delivery.

Price elasticities are generally higher when competitive alternatives are readily available. On the other hand, increasing electronic substitution and changing customer habits may *also* suggest that letter-post volumes are likely to continue declining, regardless of cross-border pricing. It is therefore difficult to establish whether there is any discernible trend toward higher elasticity values in recent years in respect of international postal services in general.

Today, technology is so diverse that customers are spoilt for choice. Postal operators had to continuously adapt to a changing technological and competitive environment by operating in an increasingly market-oriented manner that is responsive to public needs. The Internet and the online economy have revolutionized patterns of personal and business communication, so conventional personal correspondence and transactional mail have declined as a proportion of the international mail streams. However, the rate of substitution varies from one country to the next. The trend can also be attributed to the fact that authorities are gradually giving legal weight to electronic invoices and administrative documents. This factor, combined with higher bandwidth and more secure electronic document transmission, provides an incentive for businesses to move away from traditional physical mail.

COMPETITION IN THE POSTAL MARKET

As early as the 17th century, Posts throughout Europe were given monopoly status and were often run by private individuals, to great financial benefit. Gradually, these private Posts were brought under the control of the national governments, and by the time the UPU was established, all 22 member countries had national operators functioning as part of government. This remained the case for the best part of the 20th century, with Posts being arms of government, as either postal departments or government corporations. Two of the driving forces in maintaining postal monopolies were the need for universal service and the practice of uniform postage, which is maintained to this day in most countries, regardless of geographical size.

COMPETITION IS NOT NEW

The history of the early postal systems is effectively a history of competition between the state and private enterprise. Among the most notable examples is the Thurn and Taxis service, a postal enterprise that was run in Western Europe from the 16th century until 1867. Another example of competition with private carriers is provided by Wells Fargo and American Express, which in the 19th century transported goods throughout North America, at a time when the national operator did not provide such a service. In the early 20th century, UPS was established to deliver goods from department stores, and is now a global courier, express and logistics operator.

Competition in the letters business was by and large limited throughout most of the 20th century, apart from in some countries where the monopoly was not enforced. That changed principally with the European postal directive of 1997, which charted the liberalization of the European letters market. This process changed the postal landscape in Europe, with the introduction of national postal regulators alongside potential and real competition. Most national postal operators were opposed to market liberalization because they feared competitors would come and "cherry pick" the most lucrative routes, leaving the national operator with the least lucrative universal service routes.

Since the 1990s, market-oriented reforms have been undertaken in most UPU member countries, although to different degrees. Many postal operators have been corporatized, and in some cases even privatized. The scope of postal monopolies has been reduced, or sometimes even abolished altogether. In Europe, an important feature of the evolving postal regime was regulation, including the role of national regulating authorities in monitoring developments and acting to prevent barriers to competition.

Other countries allowed for partial opening up of their postal markets, for example Australia, where the principal services reserved for Australia Post concern the collection and delivery of all letters weighing no more than 250 grammes, letters carried for a fee of less than 1.80 AUD, and all inbound international letters. In Switzerland, the exclusive rights are limited to 50 grammes.

Outside the reserved area restricted to the collection and delivery of letters, postal operators are operating in other market segments that have seen an increase in competition. Historically, parcel mail and express and courier services are considered part of the postal sector; however, since the 1990s, this part of the market has become increasingly segmented and has seen a large number of market entrants.

Although the number of letter-post items has declined, the average weight has increased, mainly due to the rapid growth of small packet items, i.e. letter-post items containing goods, and the decline in correspondence and transactional mail, thereby reducing the number of items in an average kilogramme of mail and increasing its average weight. The cross-border lightweight segment is a highly competitive segment, and postal operators and courier and private delivery companies play an essential role in delivering lightweight e-commerce parcels and small packets to the customer.

The direct competition between these market players developed in an environment characterized by the globalization of exchanges promoting the establishment of worldwide networks, through a strategy of integration and alliances. The integrators in the express sector interconnected their networks with national carriers and airlines or set up their own cargo fleet and other necessary infrastructure to compete directly with postal operators in a growing international market segment. Private carriers or "integrators" like UPS, FedEx, DHL and TNT were able to provide full operational control over the logistics of parcel and express delivery from origin to destination, while the national postal operators own extensive domestic postal ground networks, which in some cases are present in international operations (in particular, Royal Mail (United Kingdom), through its subsidiary GLS, and La Poste (France), through its subsidiary DPD, qualify as international network operators).

Concerns about competitive pressure have been an important aspect in negotiations on the terminal dues system. For example, the deliberations at the 1984 Hamburg Congress recognized that the higher terminal dues rates were, the heavier the burden would be on postal users in the country of origin, and the more the competitive position of postal services vis-à-vis private carriers would be weakened.[26] Similar concerns were expressed in the lead up to the 2019 Congress, where increases to the terminal dues rates for E format items were adopted.

E-commerce growth has intensified competition for postal operators and private carriers in the marketplace for small packets. Because the cross-border market is *de facto* deregulated and intensely competitive, with strong participation by private sector and foreign public operators and intermediaries, international lightweight streams are often channelled outside the UPU's regulatory environment.

Meanwhile, large e-retailers like Amazon are entering the delivery market. This shows that the barriers to entry in the international postal delivery market for merchandise items (items containing goods such as small packets and parcels) are lower than at any point in the history of the terminal dues system.

In this context, the distinctions between market segments and products are becoming increasingly blurred as each firm participating in the industry expands its range of services up and down the postal value chain, and offers an expanding range of services, which may include address list management, data analysis, printing, pre-sorting, fulfilment, consolidation, distribution and delivery services. Box 6 below shows how competition is intensifying on all fronts, and in particular in the business-to-consumer space in the Netherlands, Chile and Poland.

26 Congress 1984, PV 2 of Committee 5 or page 410 of the Documents of the 1984 Hamburg Congress, Volume II

Box 6: **Competition and market evolution and competition in postal markets**

Example 1: Market development and competition in the Netherlands

The universal postal service provider of the Netherlands, PostNL, operates in a very competitive environment, facing competition across mail, parcels and international markets. The universal service obligation, including country-wide coverage with delivery against high quality standards, does not apply to other postal companies. Furthermore, the regulations require that other postal operators in the market have access to the delivery network of PostNL.

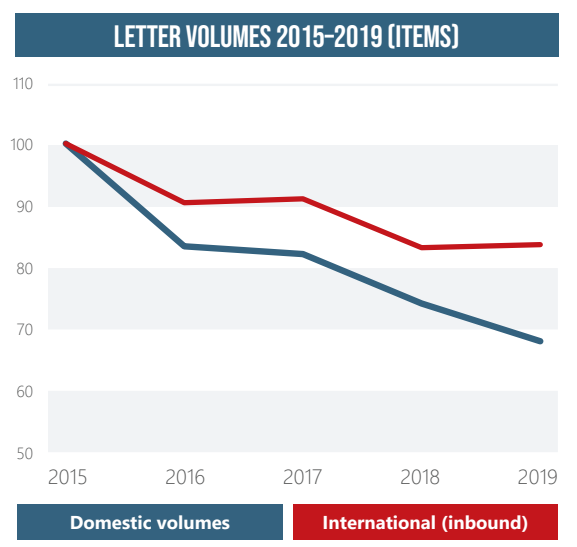
PostNL operates in a dynamic environment, marked by a declining mail market and opportunities from the growth of e-commerce. The Dutch postal market has changed fundamentally over the past few years, as mail volumes more than halved between 2005 and 2018 while unstoppable growth in the parcels and e-commerce market changed the overall delivery market significantly. Between 2015 and 2019, the revenue of the Dutch mail market fell from 44% to 26% of the total delivery market. Revenue from parcels and small packet delivery services increased from 56% to 74% in the same period[27].

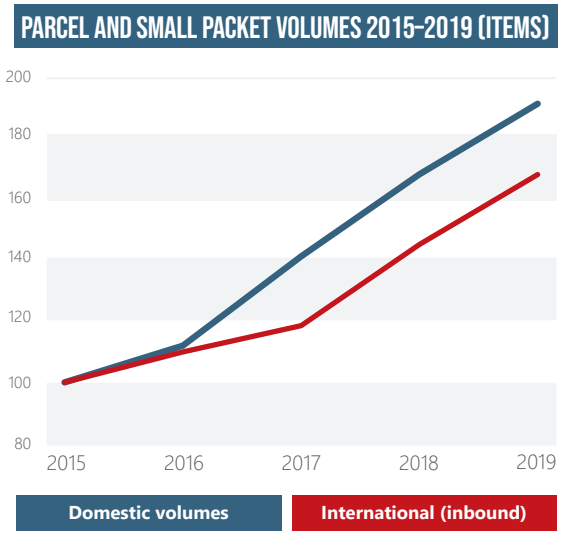
Figure 16 reflects the market situation in 2018. The following year, the acquisition by PostNL of its largest and only sizeable competitor in the letter mail segment, Sandd, was approved. The consolidation of the two networks was completed on 1 February 2020. Among the main reasons for the acquisition was the consideration of the public interest of ensuring a reliable, accessible and affordable postal service for the future that will be able to manage the decline in letter volumes in a social manner.

Ongoing market growth in the e-commerce markets continues to drive a great deal of interest from existing and new players, with industry competition remaining high. In 2019, the parcels market, combining both domestic and international services and also including small packet items, grew by 12.83% in volume (pieces) and 9.51% in revenue, with the revenue growth exceeding the decline in revenue from letters (documents). PostNL (between 60% and 65% of the market in terms of volume and revenue) and DHL (25% to 30%) were the largest players in the Dutch postal market in 2019. DPD and GLS both held a market share of less than 5%. In addition to the competition between the parcel delivery service providers, large (inter) national e-retailers are beginning to enter the delivery environment, choosing to fulfil part of the process themselves.

In the Dutch market for international services, UPS is the largest service provider with a market share between 25% and 30% in 2019, followed by DPD (20–25%), DHL Parcel (20–25%) and PostNL (15%–20%). GLS and TNT (the latter due to become FedEx) both had a market share of less than 10% based on their revenue in that year.

Figure 15: **Letter and parcel volumes in the Netherlands**

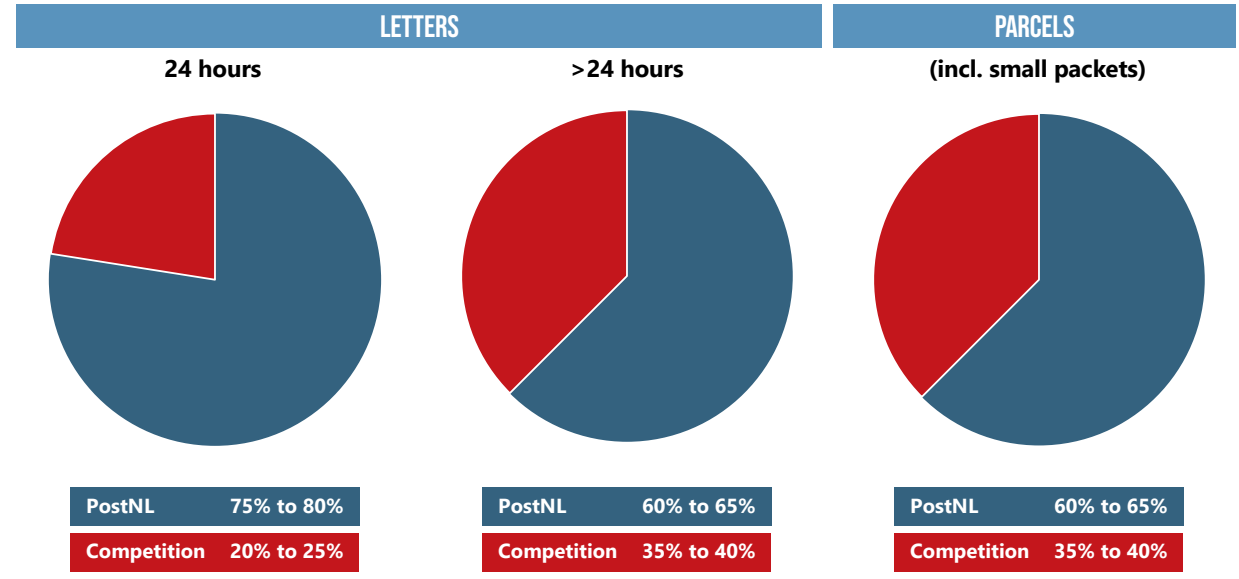




27 Autoriteit Consument & Markt (ACM), Post- en Pakkettenmonitor 2015 to 2019

28 Autoriteit Consument & Markt (ACM), Post- en Pakkettenmonitor 2019, www.acm.nl/nl/publicaties/post-en-pakkettenmonitor-2019

Figure 16: **Dutch market (domestic) revenue in 2018**[29]



Example 2: Market development and competition in Chile

The universal postal service provider of Chile, Correos de Chile, faces intense competition from a host of small local private postal companies as well as companies providing local, national and international shipping, warehousing, logistics and distribution services. The strongest areas of competition are in the courier, express and parcel (CEP) services, which are officially deregulated.

In the local market, Correos faces small but growing competition in the postal segment, such as WSP and ChilePost, and well established and growing competition in the express segment, such as Chilexpress and Starken (Turbus Cargo). Chilexpress is Correos de Chile's most important competitor in the parcels and small packet segment, with a large delivery network throughout Chile. In both segments, there is a strong demand for a reliable, high-quality services, and on-time delivery in particular. In Chile, competitors hold strong positions in their respective market segments, although they are increasingly trying to expand into contiguous market segments as shown in Figure 17.

The Chilean postal market is characterized as highly concentrated, with Correos de Chile holding a significant share. The market covers letters and documents up to 500 grammes. Other providers of these services include ChilePost, WSP, Envía and PostalChile. Growth drivers for the postal business are, however, limited because of electronic substitution.

In the CEP segment, for items up to 50 kilogrammes, services are offered nationally and internationally. The express and parcel market is more diversified than the postal market, with Correos de Chile being a secondary player. The CEP market is a fast-growing market which is seeing accelerated growth. The average annual growth rate between 2010 and 2016 was 9.1%, increasing to 16% in 2019.[30] The prospects remain strong, with more demanding customers seeking priority or express deliveries and tracking services as a result of greater Internet penetration in remote areas and the increase in mobile internet services.

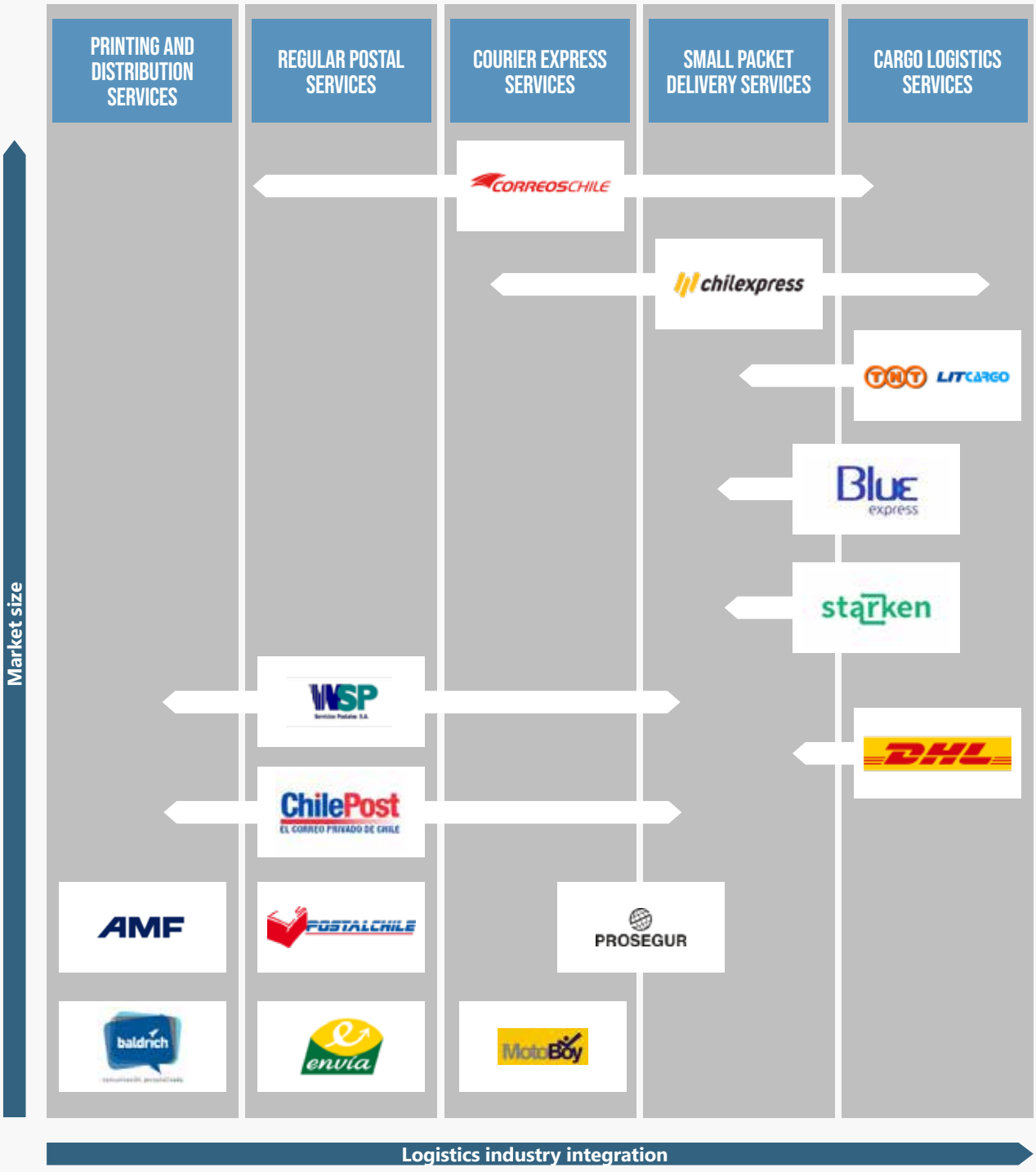
While in the early 2000s almost 90% of the revenue came from postal services and the remaining 10% from parcels and express activities, by 2016, the

29 30

29 Autoriteit Consument & Markt (ACM), Post- en Pakkettenmonitor 2018, www.acm.nl/nl/publicaties/post-en-pakkettenmonitor-2018

30 Correos de Chile, reporte integrado 2019, correostransparente.correos.cl/memorias.html

Figure 17: **Correos de Chile – main competitors in the domestic market**[31]



31 Visual adapted from Correos de Chile, 2017, Plan Estratégico: Correos de Chile – Correos Transparente, correostransparente.correos.cl/Contenidos/Prospecto-Comercial-Correos-de-Chile.pdf

Figure 18: **Correos de Chile – market share in 2016**

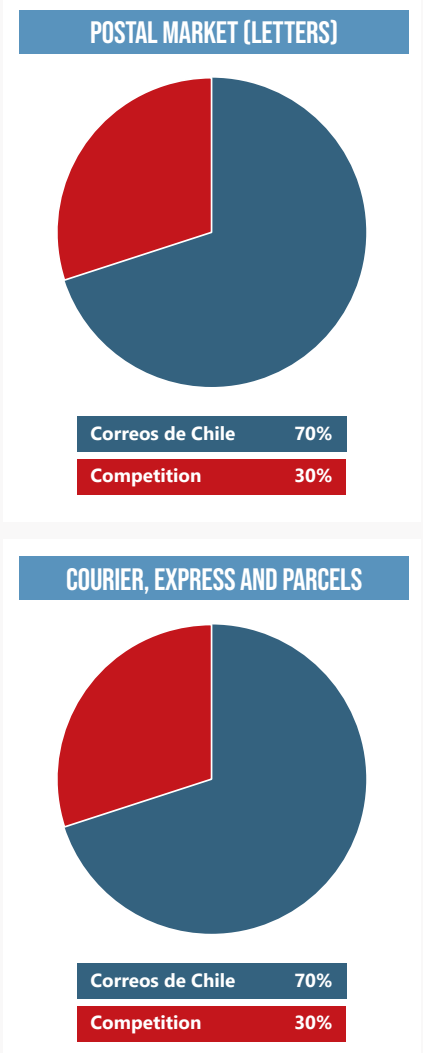


Figure 19: **Developments in the Polish postal market**

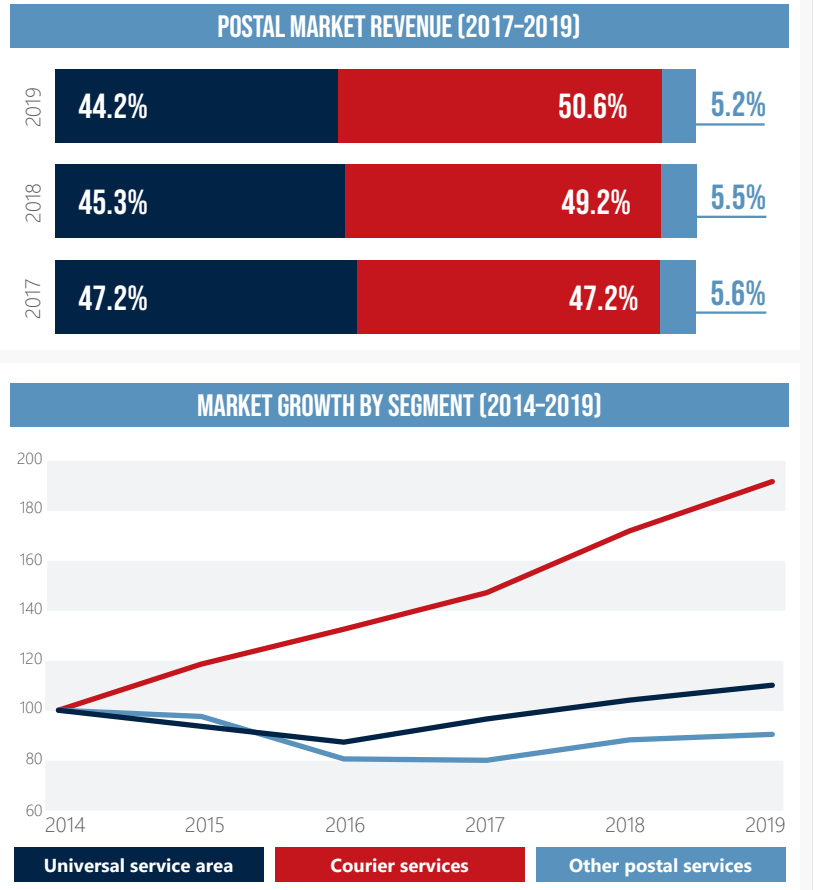


Figure 20: **Polish postal market: segments of alternative operators' activities in 2019**

COURIER SERVICES	SERVICES IN SCOPE OF USO	OTHER POSTAL SERVICES	ALTERNATIVE PROVIDERS
■			75
	■		41
		■	10
■	■		6
	■	■	5
■		■	4
■	■	■	1

gaps had grown considerably closer, with each segment corresponding to approximately 50% of revenue.[32] Although the Chilean postal market is seeing decreases in traditional mail, letters and documents remain important to Correos' long-term financial sustainability. Recently, the operator has been actively investing in the parcel business to acquire new and complementary capabilities and technology, in order to maintain a strong position in a highly completive market. The exponential growth in shipments from abroad, in particular small packet items originating from Asia, has been a key factor in the restructuring of operations and investments in technology, such as handheld scanners.

Example 3: Market development and competition in Poland

In Poland, the postal market has been growing dynamically in the past few years, and more than twice as fast as the Polish economy as a whole. The main driver of growth was the courier segment, which is consistently one of the fastest growing in Europe. Despite the higher prices for courier services, these services are preferred for e-commerce deliveries as they respond to customer needs, in particular because of tracking services and shorter delivery times than traditional postal services.

Among the 142 active postal operators in the Polish market, the universal service operator, Poczta Polska, is the most important service provider active in all three service areas. In fact, for all postal services combined, Poczta Polska was the most important market player in 2019, handling 77.9% of the total postal volumes (domestic and international), which represent 54.4% of total postal revenue.[33]

In Poland as elsewhere, strong competition in the e-commerce market has led to new consumer expectations and increased demand for reliable and accessible deliveries and convenient return options. In the competitive courier segment, i.e. the segment serving those e-commerce market needs, Poczta Polska is the third largest operator by volume and the fifth largest by revenue. The courier segment is the market segment with the biggest share of cross-border traffic: in 2019, international traffic accounted for 18.6% of total revenues in this segment, although only 5.8% of the volume of courier items was generated through cross-border activities. In the segment of services falling within the scope of universal service, approximately 7% of items were cross-border in 2019.

As seen in the examples above, e-commerce growth rates in the international market are strong, and competitive pressures are high, signalling the speed of the market's development. The harmonization of the terminal dues rates for E format items and the increased terminal dues remuneration payable, in particular the very noticeable increases in terminal dues rates, are showing some initial impacts in the international postal market, for example through reduced dependence on the Asian market and more balance between Asia and the industrialized countries.

1.4

TRADE POLICY

In recognition of the increasingly important role that the postal channel plays in facilitating international trade, particularly e-commerce, the relation between the UPU's remuneration systems (and their underlying policy principles) and international trade flows is increasingly being scrutinized from all angles. The tensions and synergies of the policy principles governing the UPU's remuneration systems affect sustainable trade development, as well as the relevance of existing and future trade policy frameworks – such as those of the WTO and various free trade agreements.

As seen in the previous section, studies on international mail flows confirm the decline of items containing documents and a significant increase in formats that are used to ship items containing goods. As a result, the average weight of letter-post items is rising as lighter-weight letters are increasingly replaced by small packet items.

Since the international delivery of small packets and items containing goods operates in a more competitive market segment than traditional letters and documents, it presents new issues for national governments and regulators. While the unprecedented surge of e-commerce shipments through the international postal network offers growth opportunities for all market participants, including designated operators, it also raises a wide range of trade-related policy issues, including international delivery rates, duty-free limits and VAT *de minimis* values for cross-border B2C e-commerce.

32 Correos de Chile, 2017, Plan Estratégico: Correos de Chile – Correos Transparente, correostransparente.correos.cl/Contenidos/Prospecto-Comercial-Correos-de-Chile.pdf

33 Office of Electronic Communications (UKE), Report on the state of the postal market in 2019, uke.gov.pl/download/gfx/uke/en/defaultaktualnosci/36/319/3/report_on_the_state_of_the_postal_market_in_2019_final.pdf

It was in the context of the accelerated growth of these small packet volumes in the last few years that the United States, in filing its notice of withdrawal from the UPU, expressed its concerns that the terminal dues system undermined the goal of unrestricted and undistorted competition in cross-border delivery services. The third Extraordinary Congress decided on changes that reviewed the terminal dues remuneration of small packet items in line with market conditions. Going forward, these issues must be taken into account when determining the future of the terminal dues system – potentially adding a further layer of complexity to what is already a very complex issue.

WTO RULES AND TERMINAL DUES

The World Trade Organization agreements are at the heart of the multilateral trading system. These agreements are negotiated and signed by a large majority of the world's trading economies. The main WTO agreement that affects the postal sector is the General Agreement on Trade in Services (GATS), which came into force in 1995. Within the framework of GATS, governments engage in a process of gradual liberalization, in other words opening up access to their market to foreign service suppliers. Governments are free to choose the services they want to open up to competition within the framework of the Agreement.

Article II of GATS covers most-favoured-nation (MFN) treatment. No party to the Agreement may grant suppliers of services in another country more favourable treatment than it is prepared to grant all members of the WTO. This was potentially a problematic issue for the terminal dues system since developing countries are, to some extent, given preferential treatment compared to industrialized countries. Fortunately, the provisions of GATS allow for a certain margin of tolerance with regard to developing countries, meaning that terminal dues can maintain some preferential treatment. Nevertheless, it demonstrates that terminal dues cannot be applied in isolation of wider international trade policies, and account must be taken of those policies to ensure that the TD system is compliant.

Another fundamental principle is that of national treatment: foreign service suppliers and customers must receive treatment identical to that offered to domestic service suppliers and customers. The principle of national treatment may mean that designated operators of GATS members have to offer foreign private postal operators the most favourable prices offered to their national customers for delivery of equivalent products.

PURPOSE OF GATS

To establish a multilateral framework of principles and rules for trade in services with a view to the expansion of such trade under conditions of transparency and progressive liberalization and as a means of promoting the economic growth of all trading partners and the development of developing countries

The principle of national treatment applies to a WTO member only to the extent that the latter has assumed commitments for a particular service. Moreover, the government of the state concerned may and must specify any restriction which is to be maintained with regard to national treatment. The MFN and national treatment clauses may be adapted on the basis of differences of treatment if such differences are based on objective criteria. However, biased standards that unfairly restrict market access must be eschewed.

For example, while the developing countries benefit from a certain margin of tolerance, and the existing provisions on terminal dues do not appear to cause any problems, it has to be admitted that, were these advantages to take on sizeable dimensions, they might easily cause some problems in terms of the application of the MFN principle.

Notwithstanding the above, countries in the transitional system are, to some extent, given preferential treatment compared to the industrialized countries, but this is partly due to the fact that the developing countries have more difficulty than industrialized countries in carrying out the necessary statistical operations, and in recognition of the social and economic impacts of the significant rate increases that have been introduced in the terminal dues system since the 2016 and 2019 Congresses. It is also important to note that this preferential treatment of countries in the transitional system has been progressively reduced since the 1989 Washington Congress introduced a two-tier rate system, and the closing of the gaps between the target system and the transitional system has sped up significantly since the 2016 Istanbul Congress: countries in group IV became subject to the payment of country-specific rates in 2020, in particular E format terminal dues rates at the same level as any other country in the TD system, and, following the decisions of the 27th Congress, will also start paying country-specific terminal dues rates for P and G format document items from 2022, which will be harmonized with the group I rates by 2025. Meanwhile, countries in group IV are also required to undertake certain commitments, such

as participation in the quality-linked remuneration system, through which they have started paying quality-linked terminal dues rates on all of their outbound flows.

DIRECT ACCESS

To encourage competition, regulators have introduced new concepts to the postal market, such as licensing, postal work-sharing or downstream access. Downstream access allows competitors to utilize the delivery network of the national operator for a fee. This downstream access fee is significantly lower than the standard tariffs offered to the general public. Work-sharing occurs when mailers qualify for reduced postage rates that correspond to the costs that the postal operator is estimated to avoid as a result of performing work-sharing activities. This practice includes collaboration between the postal operator and private sector companies that work in partnership to prepare, barcode, sort, transport and provide other complementary services to improve the value of the postal services or to achieve cost benefits. The level at which discounts and work-sharing rates are set impacts directly on competition, as well as the activities performed by the wider mailing industry. In the context of the terminal dues system, the Beijing Congress adopted the principle whereby postal operators make available to their partner postal operators the rates, terms and conditions offered in their domestic service, on conditions identical to those offered to their domestic customers.

The UPU Convention, the European Postal Directive, national legislation and, to a lesser extent, the provisions of the WTO oblige UPU member countries to guarantee direct access to postal services. Under the direct access system, dispatches are prepared under the supervision of the designated operator of origin to comply with the specific product specifications of the destination operator. Among other things, these specifications can include the weight, size and format dimensions of items; type of franking marks and their location; addressing standards and requirements around sortation; and volume, packaging and overall presentation of the items. The pricing offered to the sending postal operator corresponds to that offered to domestic customers, including discounts for presentation in volume (bulk mail), machine-readability, pre-sortation, work-sharing and other price incentives.

The direct access provisions finally adopted by the Bucharest Congress in 2004 complemented the existing terminal dues mechanisms for remunerating intra-operator letter-post flows.

REMAILING

Remailing is the activity of transmitting bulk international mail using a combination of express and postal services. The practice of remailing grew considerably in the 1980s and essentially involved private carriers, i.e. private express companies, tendering bulk mailings to a postal operator other than that of the country in which the mailer resides.

Remailing involves the shipment of mail items from one country (Country A) to the postal operator of another country (Country B), where it is either posted back to Country A, or delivered in Country B, or forwarded to destinations in a third country (Country C). Remailing is often viewed as a malicious practice in the postal world, yet it is a natural response of a market taking advantage of market failures. There are typically three types of remailing as shown in Figure 21.

In all three examples the sender of mail takes advantage of the differences in tariffs for their own financial benefit. In each example, the differences in tariffs must be sufficient to fund the cost of transporting the mail from country A to country B and still ensure a large margin for the sender. The introduction of terminal dues has, in many ways, encouraged remailing, and when amendments to the system were made to counteract remailing activities, the market would simply find another loophole.

The fixed rate principle that was applied during the first 20 years of terminal dues provided a fertile ground for the growth of remailing. One kilogramme of mail can contain 100+ letters and postcards (LC), or it might contain just a single book or commercial item (AO), and yet the remuneration received under that system was exactly the same, despite the delivery costs for a hundred 10-gramme items being significantly higher than those for the delivery of a single item. This led to two distortions. The first was that lightweight items were effectively undercompensated and heavyweight items were overcompensated, with customers taking advantage of both. Major senders of heavy items would find alternative carriers, meaning the items would be lost to the postal service, while major senders of lightweight items would find a country where international rates were lower.

Figure 21: **Different types of remailing**



This system resulted in higher international postage for heavy items such as books, which subsequently led to some major customers finding alternative carriers to designated operators. In other cases, DOs actually encouraged customers to post heavy items in a neighbouring country, so that they could benefit from terminal dues

At the other end of the weight spectrum, lightweight items were, in certain flows, under-compensated under the terminal dues system, creating market-distortive effects, such as the practice of ABA remailing, where mail originating in Country A is transported by private companies to Country B and put into the postal system there in order to be sent via the traditional international postal system back to Country A at a more favourable price.

Remailing has different faces; in another example of remailing, foreign mailers circumvent the terminal dues system altogether and directly deposit international mail in the destination country (ABB remailing) to benefit from attractive postage rates that may be kept artificially low for socio-economic reasons and do not reflect actual costs. As a result, developing countries have experienced ABB remailing practices, creating financial burdens through


ÉGYP
ALLEMAGNE
SUISSE

increased use of subsidized rates by foreign commercial mailers engaging in direct deposit.

By the late 1980s, many designated operators were observing a marked increase in remailed items. The 1987 Executive Council performed a study on remailing which found that a large majority (85%) of responding postal operators agreed with the view that the then existing UPU terminal dues structure had played a key role in the emergence of the remailing practice.[34]

Since that study, the remailing issue has been discussed and analyzed on various occasions, and each time it was concluded that the mechanisms provided for under the UPU Acts were insufficient, as economic reality and opportunity in many situations proved stronger than good intentions. The Acts allow for interception and return of remailed items, or the imposition of a charge. However, remailed items are often difficult to spot, and the scope of the provisions in the Acts is not always understood.[35] As a general rule, bilateral negotiations were also unfruitful, as the postal operator involved did not feel impelled to resolve the issue. The 1989 Washington Congress, the 1994 Seoul Congress, the 1999 Beijing Congress and the third Extraordinary Congress in Geneva in 2019 all considered the remailing issue, and on each occasion they concluded that the only viable and reasonable solution was to change the terminal dues system. The solutions put forward reflected the fact that, in calculating terminal dues, account must be taken not only of the weight but also of the number of items to be delivered, in order to approximate the handling and delivery costs (Washington Congress). The adoption by later Congresses of a country-specific rate system, and in particular the process of harmonizing the system's parameters, especially the cap rates, across groups of countries in the terminal dues classification system, has reduced the viability of remailing.

Despite the progress made towards a cost-based, country-specific remuneration system, the practice of remailing has taken a different form in recent years. Whereas in the 1980s, LC and direct mail AO were the most commonly observed classes of remailed items appearing in inbound mail streams, by the mid-2010s, the remailing practice had come to target e-commerce–related items using the commercial freight supply chain through countries in group IV (A to B leg), where mail items switched to the postal supply chain to gain access to a pricing arrangement for delivery in target system countries that corresponds to the lower compensation rates for flows to and from countries in the transitional system. The explosive growth of worldwide cross-border e-commerce and the large differences in terminal dues received for lightweight small packets in particular, depending on the country from where the items are dispatched, provided a new breeding ground for remailing practices.

The significance of the remailing issue is such that it was flagged as an urgent postal matter at the third Extraordinary Congress in 2019, where it was decided to expand the definition of bulk mail to make it easier to identify large volumes of e-commerce items routed through a third country as remailed items and remunerate those items as small packet (E format) items.

INTERNATIONAL TRADE RELATIONS AND POLICIES

In recent years, e-commerce has fundamentally changed international trade: every day, millions of purchases are made online and delivered to home addresses. In fact, as seen in section 1.3, consumers are growing increasingly comfortable making these purchases from e-retailers located in another country. The cross-border parcel and express delivery market has been profoundly changed by this phenomenon.

34 A detailed summary of the replies to the questionnaire was published as CE 1988 C 4–Doc 9.Add 1

35 A task force of POC Committee 2 performed a detailed analysis of the various operational, financial and regulatory issues with remailing, see POC C 2 2019.1–Doc 7

Policymakers must weigh up many, sometimes competing, factors when shaping economic relationships with other countries around the world. Terminal dues are one among many instruments in developing multilateral trade relationships and, occasionally, form the core of international trade dialogue. In fact, in recognition of the increasingly important role that the postal channel came to play in facilitating international trade, particularly e-commerce, questions emerged on how the UPU member countries fulfil their mandate to ensure universal access to affordable international postal services in an increasingly competitive cross-border delivery market. Consideration of the broader economic relationships between countries provides a starting point to better understand the interplay between trade agendas and the remuneration system.

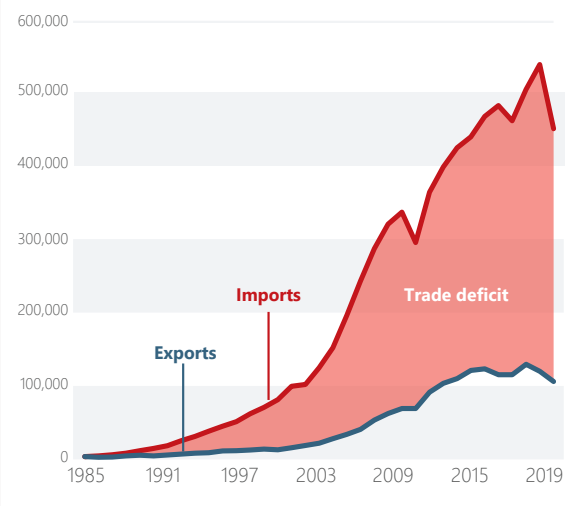
The situation described in Box 7 provides important context explaining the economic relationships between countries at a time when cross-border e-commerce is increasingly enabling access to overseas market opportunities. With the recent developments in the global e-commerce market, and in particular the increased volumes of e-commerce–generated small packets moving through the global postal network, economists and policymakers alike were putting the terminal dues system under increased scrutiny.

Among the different aspects that received increased attention as result of the growing imbalances in the cross-border e-commerce market were the financial sustainability of international postal services and the impacts on international trade relationships. The growing numbers of e-commerce small packet items in the global postal network also raised concerns of possible market-distortive effects, which are discussed separately in section 1.5 (competition policy).

Box 7: **US–China trade relationships**

The economic relationships between the United States and the People's Republic of China have expanded substantially since China began reforming its economy and liberalizing its trade regime in the late 1970s. China is currently the United States' biggest merchandise trading partner, its fourth-biggest export market (counting the European Union as a whole), and its biggest source of imports.

Figure 22: **US trade in goods with China (in millions of USD on a nominal basis)**



Data: US Census Bureau[36]

Trade between the United States and China is part of a complex economic relationship. The United States and China have several unresolved issues surrounding bilateral trade between the two countries. The trade balance between the two countries shifted significantly as imports from China grew much more rapidly than US exports to China. This large trade deficit, in combination with alleged unfair trade practices, has been an issue of concern for US policymakers. In this context, in 2017, the United States shifted to a new, more aggressive approach to its engagement with China, backed up by several tariff measures aimed at reducing the trade imbalance.[37]

36 United States Census Bureau, Trade in Goods with China, www.census.gov/foreign-trade/balance/c5700.html

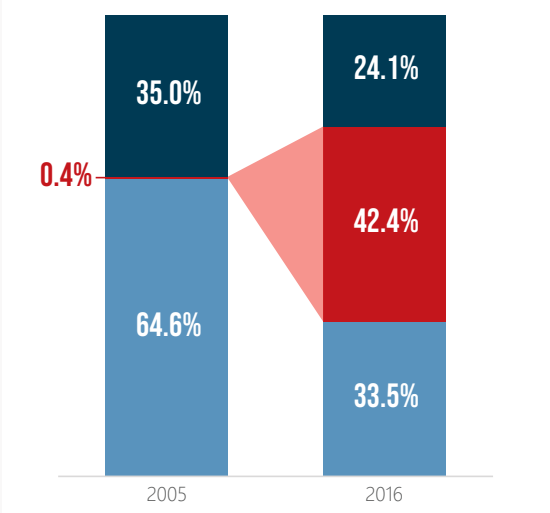
37 Office of the United States Trade Representative, ustr.gov/countries-regions/china-mongolia-taiwan

Trade policies have an impact on the e-commerce delivery market and, conversely, the growing e-commerce market has an impact on the economic relationships between countries, as well as their trade policies. This is because, in a broad sense, cross-border e-commerce is the digital equivalent of international trade. Cross-border e-commerce is the online import channel through which items are purchased over the Internet and exchanged as part of international trade flows. Cross-border e-commerce is, however, only one among many different channels of international trade, albeit an increasingly important one. For example, in 2020, China's total foreign trade volume increased by 1.9% to 32.16 trillion RMB (4.98 trillion USD) compared to the previous year. Total volumes of cross border e-commerce trade reached 1.69 trillion RMB (261.5 billion USD) in 2020, representing 31.1% year-on-year growth.[38]

The largest categories of US imports from China are typically computers, mobile phones, clothing, toys, games, and sporting goods.[39] While most of these items are sold through the traditional trade channels, these product categories are exactly those that are among the best-selling items on the Internet. Whether these items are sold through traditional or e-commerce export channels, China plays an important role in the global value chain of these types of products. Nevertheless, it can be observed that an increasing proportion of international trade is e-commerce–driven, and cross-border e-commerce is a double-digit growth market. According to China's General Administration of Customs, e-commerce exports were up 40.1% in 2020 alone. This is no accident; in the past 15 years, Chinese government agencies have introduced a number of policies in support of rapidly growing cross-border e-commerce to promote China's international trade (Figure 23).

Domestic as well as cross-border e-commerce has seen rapid growth in China since 2005, when developing electronic commerce became a national policy objective in China.[40] As illustrated in Figure 23, the strategy to develop the Chinese e-commerce market was a highly successful one: China's share in global e-commerce retail transaction value has grown from less than 1% in 2005 to more than 40% in 2016. In 2019, the Chinese

Figure 23: **Share of retail e-commerce transaction value**



Data: McKinsey 2017[41]

e-commerce market was the biggest in the world, valued at 1.94 trillion USD. In the United States, the Census Bureau of the Department of Commerce estimated e-commerce sales for 2020 at 791.7 billion USD, an increase of 32.4% from 2019. E-commerce sales in 2020 accounted for 14% of total sales (up from 11% in 2019).[42]

A growing share of e-commerce involves cross-border sales, meaning that it contributes to international trade. According to the United Nations Conference on Trade and Development (UNCTAD), the share of online shoppers worldwide who made cross-border purchases rose from 17% in 2016 to 23% in 2018.[43] According to data released by China's General Administration of Customs, in 2020, cross-border e-commerce imports and exports totalled 1.69 trillion RMB, with an increase of 40.1% in e-commerce–related exports compared to 2019, while e-commerce imports grew by 16.5%.

38 State Council Information Office, SCIO briefing on China's import and export performance of 2020, english.scio.gov.cn/m/pressroom/2021-01/16/content_77122063_9.htm

39 United States Census Bureau, US Imports from China by 5-digit End-Use Code 2011 – 2020, www.census.gov/foreign-trade/statistics/product/enduse/imports/c5700.html

40 Guidelines of the Eleventh Five-Year Plan for National Economic and Social Development, policy.asiapacificenergy.org/node/115

41 Woetzel, Jonathan, Jeongmin Seong, Kevin Wei Wang, James Manyika, Michael Chui, and Wendy Wong, 2017, "China's Digital Economy: A Leading Global Force," McKinsey Global Institute Discussion Paper

42 US Census Bureau, quarterly retail e-commerce sales 4th quarter 2020, www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

43 United Nations Conference on Trade and Development, The intricacies, impact and opportunities of e-commerce for trade and development, unctad.org/news/intricacies-impact-and-opportunities-e-commerce-trade-and-development

It is important to consider that, in the lead-up to the third Extraordinary Congress in Geneva in 2019, the terminal dues system still applied differential small packet rates between countries classified in different terminal dues groups. The transition to a single terminal dues system was scheduled to be completed in 2021, with the application of higher annual increases to the rates applicable in mail flows to, from and between countries classified in groups II and III. Some contended that the lower terminal dues rates – a vestige of the developing nation status of countries classified in groups II and III – contributed to the disparities between local single-piece retail prices for small packet items posted and delivered within the same country vis-à-vis the terminal dues remuneration that the destination postal operator receives for the processing and delivery of similar weight and type of items from abroad. By extension, these issues were considered to have distortive effects on the cross-border and national e-commerce market. For example, according to the USPS Office of the Inspector General, various commercial players contended that, for competitive small package products, there was no justification economically for having to pay more than foreign Posts to have their items delivered by postal operators under like conditions.[44]

The Sino-US trade relationship had a significant impact on the terminal dues system in the late 2010s. In the context of terminal dues, the importance of this bilateral relationship was underscored in 2015 when a US study found that, of all possible market disruptions, those in the Asia–United States corridor were the most acute: "in the lightweight, low-value package segment low terminal dues benefit China Post and Chinese online retailers at the expense of the Postal Service, other international carriers operating from China, and American retailers".[45] According to Dr Peter Navarro, the then Director of the Office of Trade and Manufacturing Policy, the terminal dues system created a distortion in international trade relationships between the United States and China in particular, as the system disadvantaged US sellers to the extent that they were priced out of the market by online vendors from other countries, notably from China. He argued that the unfair advantage given to Chinese companies in their shipping costs would furthermore exacerbate the US trade deficit.[46]

Among other policy objectives, a memorandum by the Trump administration issued on 23 August 2018 sought reform of the terminal dues system that would "avoid a preference for inbound foreign small packages containing goods that favours foreign mailers over domestic mailers".[47] In the memorandum, the White House articulated the view that the terminal dues system distorted the flow of small packages around the world by incentivizing the shipping of goods from foreign countries that benefit from low reimbursement rates.

The terminal dues rates had economic and competitive implications on a worldwide scale, especially as it was argued that, when postage costs for domestic small packet items exceeded those of incoming international mail, this put domestic vendors at a competitive disadvantage. However, a like-for-like comparison between domestic retail tariffs for single-piece items and terminal dues is flawed if no consideration is given to the fact that in the domestic service only a small percentage of items are posted as single-piece items at decentralized locations, for example at a post office, while international items arrive in bulk volumes at the offices of exchange for forward-sorting and entry into the delivery network. A 2017 study by the United States Government Accountability Office recognized that comparing the published domestic retail tariffs and terminal dues is complicated:

> *However, comparing these products is complicated, because they offer different features. According to USPS officials, packets sent under the terminal dues system do not include any tracking and have a delivery time of up to 3 weeks from some countries, while all USPS domestic mail products include tracking and have delivery times from as short as one day to an average of 2 to 3 days. In addition, 85% of USPS domestic mail receives discounted rates for mail that is entered in bulk and prepared in a way that reduces USPS's costs [...]*[48]

44 Office of Inspector General USPS, Terminal Dues in the Age of Ecommerce, RARC-WP-16-003, December 2015

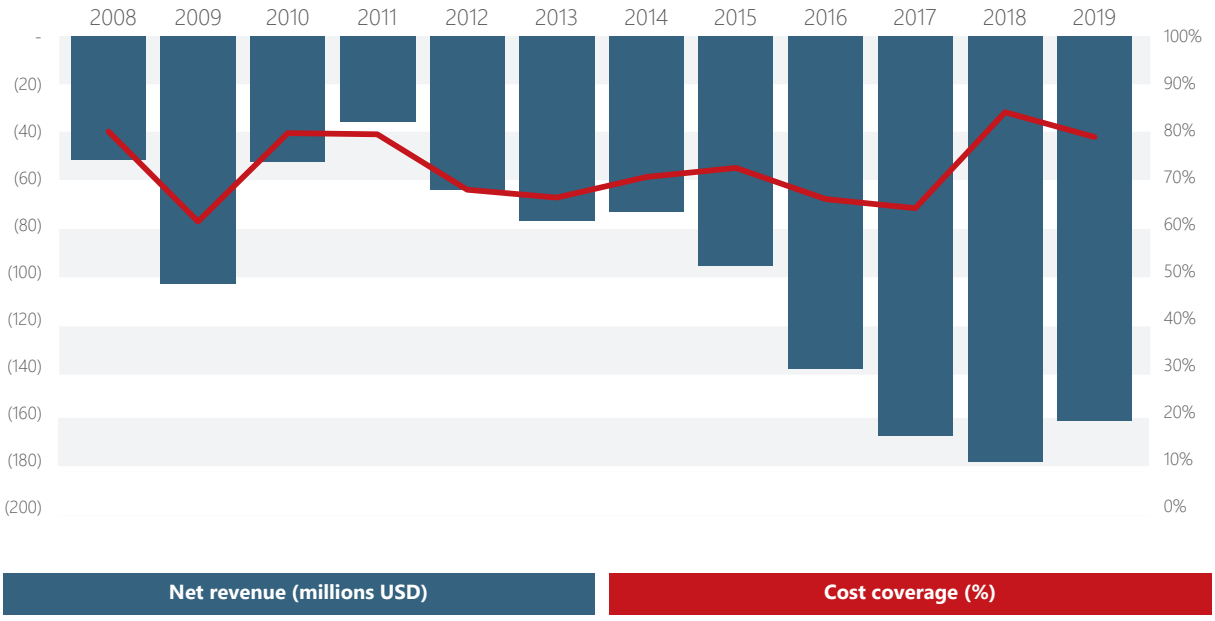
45 Idem

46 Navarro, Peter, 2018. "Global Postal Rates Give Chinese Companies an Unfair Advantage." Financial Times. www.ft.com/content/876bc3ec-aadb-11e8-8253-48106866cd8a

47 Memorandum on Modernizing the Monetary Reimbursement Model for the Delivery of Goods Through the International Postal System and Enhancing the Security and Safety of International Mail, 23 August 2018

48 US Government Accountability Office, International Mail: Information on Changes and Alternatives to the Terminal Dues System, www.gao.gov/products/gao-18-112

Figure 24: **Inbound international single-piece letter post: net revenue (losses) and cost coverage**



Data: USPS[49]

While the lower rates in the terminal dues system were intended to foster development in Asia and Africa, companies from these regions were the source of the majority of small packets that the United States received from abroad, taking advantage of the lower rates to ship clothing, household gadgets and consumer electronics. At the expense of American retailers, many websites offered free shipping on their shipments from Asia, and according to administration officials this was partially possible due to the lower terminal dues rates.[50] Similar views were reiterated in an article by the Council of Economic Advisors, according to which the terminal dues system "incentivize[d] the allocation of resources towards the production of goods eligible for shipping via terminal dues (e.g., goods that weigh less than two kilogrammes) rather than towards the entrepreneurial activities that generate returns based on the structure of the local economy's underlying factors of production instead of distortions from terminal dues".[51]

Another policy objective pursued was to ensure that USPS was fully reimbursed for costs, to the same extent as domestic rates for comparable services. Figure 24 illustrates some of the losses that USPS was making on inbound international single-piece letter-post items, with cost coverage fluctuating between 60 and 80%, although slightly improving from 2018 thanks to the entry into force of TD rates specific to small packet items, a major change to the UPU terminal dues system adopted by the 2016 Istanbul Congress. The additional separate rate for E format small packets was based on their different processing costs and improved cost coverage of these items under the terminal dues rates. Other aspects, such as the acceleration of the harmonization process of those E format rates with 13% annual increases for flows from group III and negotiated agreements, which are generally more compensatory than default terminal dues, provided for improved cost coverage.

The changes to the terminal dues system agreed in Doha in 2012 and Istanbul in 2016 did provide for significant increases in revenue; however, the costs also increased owing to the changed composition of the mail that USPS received and processed, in particular the increase of small packet items in the inbound mail profile, and the associated costs of handling and delivering such items, some of which are described in section 1.3. It should also be noted that, for each of those years, USPS's international service performance lagged behind its service standards for domestic mail and, as a result, it did not maximize its revenue under the terminal dues system, which could have been up to 10% higher if domestic delivery standards had been met.

49 USPS, Public cost and revenue analysis, about.usps.com/what/financials/

50 Trump Opens New Front in His Battle With China: International Shipping, New York Times, 17 October 2018, www.nytimes.com/2018/10/17/us/politics/trump-china-shipping.html

51 The Council of Economic Advisers, Executive Office of the President of the United States, The US, the International Postal System, and the UPU: An Economic Framework, April 2019

In October 2018, the United States of America – a member of the UPU since its founding in 1874 – submitted notice of its intention to withdraw from the organization. That notice was rescinded a little under one year later, when the third Extraordinary Congress in Geneva agreed significant increases in the inbound terminal dues rates for E format items, which include small packets, into the United States. Compared to the 2019 terminal dues rates for small packets applicable to mail flows from countries classified in group III, the revenue at the worldwide average weight of 158 grammes increased by more than 210% in 2020.[52] These increases are likely to have improved the cost coverage of inbound international mail services.

At the same time, in terms of cost coverage and affordability of outbound mail services from the United States, and hence the competitiveness of USPS and, indirectly and to an unknown but certain extent, American exports in international trade relationships, the harmonization of E format small packet rates and reciprocity in self-declaration of those rates against the United States translate into increases in the underlying costs of USPS's outbound service. In other words, without this reform, the costs of sending mail abroad from the United States would have increased at a significantly lower rate, i.e. flows from the United States to countries classified in groups I, II, III, and IV would have been subject to progressively lower terminal dues and not subject to the payment of self-declared E format rates that in many cases exceeded the cap rates previously in place. As a result, through possible tariff increases for outbound services, these higher TD-related costs may have been passed on to US-based consumers and businesses in order to maintain existing levels of cost coverage. On the other hand, postal operators operate in a competitive market, which has an impact on the tariffs they can offer to their domestic customers and businesses sending mail abroad as they compete for their volumes. For these reasons, it is important not to forget that international mail flows in two directions: inbound and outbound.

In negotiating the new terminal dues agreement, comparisons were drawn between TD rates and domestic postage. There are, however, real differences between the handling and processing of international items and those of items in the domestic service, and there are other aspects that also deserve careful consideration before a direct comparison is made between domestic retail prices and the inter-operator terminal dues rates. For example, only a small percentage of domestic mail is actually purchased at retail rates, as opposed to generally lower commercial rates. It can reasonably be assumed that commercial mail, applying lower rates, dominates, in particular considering the similarity in terms of the presentation of large volumes of mail, bundled, format separated and dropped off at a centralized location, which in the case of international mail would be the office of exchange in the destination country. As such, basing any comparison on retail tariffs to try to contrast terminal dues with domestic postage rates might result in a perceived difference that is larger than the reality.

Furthermore, the suitability of a system in which terminal dues rates can be lower than the domestic retail tariffs of the destination country may also be premised in part on the fact that an originating country performs certain parts of the overall service and bears upfront costs, such as retail acceptance or other forms of collection throughout its territory, as well as transportation to the destination locations, for which workshare or dropship discounts would apply in the domestic mail system. Destination postal operators do not bear those costs when they receive mail from abroad. These and other aspects would need to be factored in when making like-for-like comparisons.

Finally, it is equally important to consider that each postal operator not only receives mail from abroad, but also sends mail abroad. Policymakers should be mindful of any rate increases that may impact on outbound services and, in turn, on consumer welfare. It should be borne in mind that terminal dues rates are raised reciprocally, and therefore the universal service provider would need to pass these costs on mailers in its own market, as they would accordingly pay more for their mail delivered abroad.

52 UPU International Bureau circulars 76/2020 and 62/2021

It is important to consider these aspects in any review of the terminal dues system, just as much as cost coverage and the sustainability of the international postal service remains a key objective. Even so, there was a broad agreement that the reform and increases in the terminal dues rates achieved at the Geneva Extraordinary Congress were justified and ensured a fairer and more balanced remuneration system reflective of the important market transformations described in section 1.3.

FOREIGN EXCHANGE RATES

Foreign currency translation risk can arise from international mail transactions related to settlements of receivables and payables between postal operators. Today, the majority of international accounts are denominated in Special Drawing Rights: the SDR. The exchange rate of the domestic currency vis-à-vis the SDR fluctuates daily based on a group of currencies comprised of the euro, Japanese yen, Chinese renminbi, British pound sterling and US dollar. Changes in the relative value of these currencies will increase or decrease the value of the settlement accounts and result in a gain or loss that is included in the operating result. However, in the first 20 years of the terminal dues system, international postal accounts were settled through another monetary unit: the gold franc.

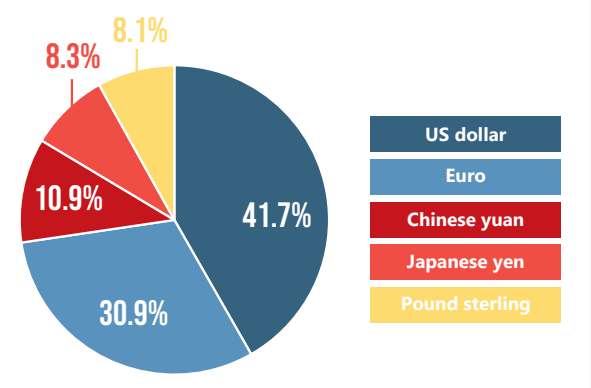
In the wake of the international monetary crisis in 1973, major industrial countries switched from a fixed-rate monetary system linked to gold to a system of floating exchange rates for their currencies. However, throughout the 1970s and 1980s, the gold franc was still used as the monetary standard in determining charges and settlements for international postal services involving large amounts. Differences between the relative values of currencies as determined through their official par value in terms of gold and as determined in the foreign exchange market caused problems in the gold-based accounting and settlement system used for terminal dues. The 1974 Congress recognized that changes in the international monetary system were causing UPU members problems in settling accounts, and that the continued use of the gold franc as the monetary standard for the settlement of terminal dues accounts was becoming increasingly unrealistic. The 1989 Congress decided in favour of using Special Drawing Rights, as they largely reduced the gains or losses in settling international postal accounts, the currency exchange rates set by this unit being close to market exchange rates. Nevertheless, the relative valuation of currencies against the SDR can still have an impact on the operating result and as such contribute, albeit in a relatively moderate way, to global postal trade imbalances.

Box 8: **The role of Special Drawing Rights**

The SDR was created as a supplementary international reserve asset in the context of the Bretton Woods fixed exchange rate system. Special Drawing Rights were originally created in 1969 to replace gold and silver in large international transactions and provide a cost-free alternative to member states for building reserves. Under the Bretton Woods system, the reserves of gold and US dollars proved too limited to support the growth of international trade and exchange. The collapse of the Bretton Woods system in 1973 and the shift of major currencies to floating exchange rate regimes lessened the reliance on the SDR as a global reserve asset. Although, to some extent, the SDR still serves its original purpose as a supplement to foreign currency reserves, today it is mainly used as a unit of account by the IMF and several other international organizations, including the UPU. In the context of terminal dues, holding this basket of major currencies helps the international postal system to manage the exchange rate volatility of any single currency.

The SDR is not a currency but it serves as the unit of account of the IMF and some other international organizations. The SDR was initially defined as equivalent to 0.888671 grammes of fine gold, which, at the time, was also equivalent to one US dollar. After the collapse of the Bretton Woods system, the SDR was redefined as a basket of currencies. During the last review in 2015, it was decided that the Chinese renminbi met the criteria for SDR basket inclusion.

Figure 25: **Currency weighting in the SDR basket**




Kenya Airways

1.5

COMPETITION POLICY

The competition between postal operators and private carriers has raised policy issues that could not have been anticipated in 1969 when the terminal dues system was first adopted. In the late 1980s and 1990s, the environment surrounding the international and national postal services throughout the world underwent rapid and dramatic changes in terms of regulatory policy, legal status and competition.

The fundamental objective of competition policy is to prevent distortion of competition. This is not a goal in itself, but rather a condition for achieving a competitive market in which consumers and commercial senders have choice. As such, competition rules are one among several instruments promoting general economic welfare.

Domestic and international mail is an increasingly commercial industry, and all predictions point to a future where e-commerce and commercially-driven postal services become even more significant. In fact, in their domestic services, many designated operators already took significant steps to meet their (new) customer requirements in a market-oriented and commercial manner many years ago.

CORPORATIZATION, DEREGULATION AND PRIVATIZATION

Starting in the late 1980s, a new era of competitive postal markets has led to a change in status for many of the national operators. Over the course of the past 30 years, an increasing number of countries have recognized the importance of commercializing their national postal operators by introducing the principles of financial self-sufficiency and market-orientation through corporatization and/or privatization. By explicitly separating ownership and management responsibilities, postal operators make themselves less susceptible to government control and better able to compete in an increasingly commercial market environment. The corporatization and privatization of postal operators has not, however, relieved those operators of the obligation to fulfil their basic mandate of providing a universal postal service at a uniform price.

An increasing number of countries have recognized the importance of commercializing their postal service by introducing market principles into the former postal administrations, based on principles of financial self-sufficiency and the adoption of a market-oriented outlook. Many countries have gone further and reformed the postal sector by giving the postal administrations an independent legal status and subjecting them to the same legal requirements as private firms, a process also referred to as corporatization.

By explicitly separating the ownership and management responsibilities, the postal service rendered itself less susceptible to government influence, and required a rapid commercial orientation and business realignment to be able to compete in an increasingly commercial market environment. For example, the United States Postal Service, an independent government agency, is chartered to operate "like a business" while fulfilling its basic mandate of providing a universal postal service at a uniform price. Other countries – for example, Belgium, Germany, the Netherlands and the United Kingdom – have already privatized their national postal service or are in the process of doing so.

By the early 1990s, postal markets in many countries were gradually opening up to increased competition. As previously mentioned, this process included a transformation of public postal administrations, enjoying wide-ranging national monopolies, into market-oriented companies, some of which operate under private company law. In addition, it included a gradual reduction of the reserved area of the postal services for which the postal operator enjoys exclusive rights. The reserved area is typically delineated at the national level within weight and/or price limits so as to compensate the postal operator for engaging in unprofitable or less lucrative activities that it is required to provide under the universal service obligation.

In December 1997, the European Union took an important step towards the creation of a single market for postal services by adopting the first European Postal Directive. The relevance of the EU competition policy framework took a leap forward with regard to intra-European postal services following the establishment of a Single European Market. This programme had significant effects on the legal and commercial position of postal operators in the EU countries.

Box 9: **Liberalization and competition in the postal markets**

The most significant liberalization effort, in terms of the extent of the changes made and the size of the postal market, not to mention the number of countries involved, is that of the European Union. It is, however, important to note that competition and liberalization are not restricted to the European continent. For example, in a number of South American countries, many private operators are licensed to provide postal services, and monopoly and competition co-exist within the universal service or even within reserved service areas.

Act which deregulated the postal market and opened it up to full competition. NZ Post had already been operating as a state-owned enterprise since 1987, which in hindsight was an important preparatory step in the process that led to the removal of the monopoly on the delivery of letter-post items. Despite the deregulation and liberalization of New Zealand's postal market, NZ Post is still required to deliver a universal postal service throughout New Zealand under the Deed of Understanding, a legal arrangement between the New Zealand Government and NZ Post.

At the global level, the organization and orientation of the UPU reflects the organization and orientation of its member countries. In the days when its members had a predominantly administrative status and orientation, so too did the UPU. In 1994, following trends at the national level, the Union itself moved away from an administrative approach to postal services to pay greater attention to customer needs, service improvement, and cost control issues. The new structure achieved this essentially by separating governmental and administrative issues from operational and commercial ones. The newly created Postal Operations Council (POC) was given responsibility for the operational and commercial aspects of all services, mandatory and optional, and became a decision-making body in its own right.

The new structure involved a transfer of responsibility of questions with major financial repercussions, including charges and terminal dues, from the Executive Council (the predecessor of the Council of Administration – CA) to the POC. However, the matter of terminal dues remained subject to oversight by the CA on matters of principle, for example, concerning government trade and competition policy, or assuring equity in meeting the terminal dues compensation needs of both developing and developed countries.

EUROPEAN COMPETITION POLICY FRAMEWORK AND TERMINAL DUES

In the second half of the 1980s, the terminal dues system had to face up to the challenge of more competition and increasingly high standards demanded by customers in terms of quality of service. UPU member countries began negotiating cost-based terminal dues agreements, in particular for large-volume mail flows. Initially, the use of the number of items in addition to the weight of the mail in the terminal dues agreements was considered by some private carriers to be anti-competitive, as it limited their margins in remailing activities, and it was argued that the TD rates were not cost-based.

In this context, the European Conference of Postal and Telecommunications Administrations (CEPT), a UPU subgrouping founded in 1959, was very active between the 1984 Hamburg Congress and the 1989 Washington Congress in seeking responses to the demands for a terminal dues system that met the requirements of the developing European competition policy framework.

The main demand was for terminal dues to become more closely related to the costs of handling and delivery incurred by the destination postal operator. This was achieved by basing payments not only on the weight of the mail imbalance, but also on the total number of items sent. The CEPT agreement introduced the new rate structure in 1987, and it became available to all postal operators in the wider UPU context following the adoption by the 1989 Washington Congress of the revision mechanism. Under that mechanism, the destination postal operator could activate the provisions to apply a per-item and per-kilogramme rate structure if the mail flows exceeded 150 tonnes and if the mail profile was significantly different from the worldwide average composition of mail.

Box 10: **The CEPT agreement**

The terminal dues system adopted by the 1969 Congress fixed universal compensation rates for the delivery of inbound mail. However, the economic value of the delivery service provided by the postal operators, their cost structures and the charges paid by the customers varied significantly from one country to another. Another inadequacy of the system was that it ignored the real cost of delivery, given that it is normally cheaper to deliver one item weighing one kilogramme than 50 letters weighing 20 grammes each. These inadequacies of the terminal dues system led postal operators of several European countries to work out a different terminal dues formula in the framework of the European Conference of Postal and Telecommunications Administrations.

The discussions in 1987 resulted in a method under which the remuneration to be paid consisted of two elements: a rate per item and a rate per kilogramme. Compared to the previous remuneration level of the worldwide UPU terminal dues system, the CEPT system resulted in sizeable increases for most of the mail concerned.

The 1987 CEPT agreement became a blueprint for the terminal dues system adopted at the 1989 Congress in Washington, which put in place a correction mechanism that would apply when the structure of the mail deviated from the world structure. The destination operator was allowed to activate this mechanism when the average number of items contained in one kilogramme of mail received was 15% higher for LC and 25% higher for AO than the world average (which comprised 48 items for LC and 5.6 items for AO as determined in a 1987 study).

On 13 December 1995, 14 postal operators from the United States, Canada and Europe signed a preliminary agreement on terminal dues to replace the 1987 CEPT agreement. Referred to as the REIMS agreement (System for the Remuneration of Exchanges of International Mails between Public Postal Operators with a Universal Service Obligation), this provided for a system whereby the receiving postal operator would charge the sending postal operator a fixed percentage of the former's domestic tariff for the mail received.

Through its green paper on postal services published in 1992, the European Commission announced its intention to gradually create a single market for postal services within the European Community, the forerunner of the European Union. It is, however, important to bear in mind that while the enforcement of the Community's competition rules in the postal sector was an important aspect of the European postal policy agenda, this was still secondary to the fundamental policy objective which, since the outset, was the preservation and reinforcement of the universal service:

> *It is agreed by everyone that the absolute policy fundamental is the need to ensure the continuation of the universal service, and thus to ensure that the postal administrations' public service mission is carried out in good economic and financial conditions. The main concrete meaning of this universal service requirement is that there should continue to be a postal service available throughout the Community, both for national services within a Member State and for cross-border services linking two Member States. This universal service must be provided at an affordable price, have good quality of service and be accessible to everyone. Then, provided that the universal service is secured, there should be as much freedom of choice as possible, as far as it respected, in accordance with the principle of subsidiarity, the pursuit of the public service mission.*[53]

Nevertheless, in the EU, undertakings entrusted with universal postal services in the "general economic interest" must still abide by the general competition rules that forbid cartel-like behaviour and the abuse of dominant market positions. Starting in the 1980s, case law built up interpreting how the competition articles should be applied to the postal sector.

53 Green paper on the development of the single market for postal Services, Commission Communication COM(91) 476, 11 June 1992

One important case concerned a complaint by an association representing several private operators, the International Express Carriers' Conference (IECC). In 1988, the IECC lodged a complaint in relation to a new system of terminal dues agreed between several postal operators, i.e. the CEPT agreement described above, which, in its view, was intended to impede its members' remailing activities, and therefore constituted an abuse of dominant position. The IECC held the view that remailing allowed large-scale senders of cross-border mail to select the national postal administration or administrations which offer the best service at the best price for the distribution of cross-border mail. It followed that, by using private operators, remailing would cause the publicly-owned postal operators to compete for the distribution of international mail.[54] The IECC further argued that the CEPT agreement distorted competition in this market by setting a uniform rate for the delivery of international mail. In other words, it prevented competition in the international mail market. The IECC said that the higher terminal dues rates through the CEPT agreement were meant to curtail remailing, following which the Commission decided to open formal proceedings under the competition rules. Whereas the UPU considered remailing an abuse of the terminal dues system, private carriers and express delivery companies saw it as fair game.

In 1993, the Commission issued a statement of objections in which it expressed the view that the CEPT agreement was contrary to the European Community Treaty, since it set a uniform rate for the delivery of international mail. It also expressed the view that the methodology for calculating TD rates would need to be cost-based, or at least involve a more accurate approximation of costs, for example by calculating terminal dues as a percentage of the tariffs applicable in the domestic service of the country of destination. Finally, although the European Commission found that the CEPT agreement was anticompetitive, and therefore inconsistent with the Treaty of Rome, it dismissed the complaint by the IECC as the European postal operators made progress in negotiating a new and improved terminal dues agreement.

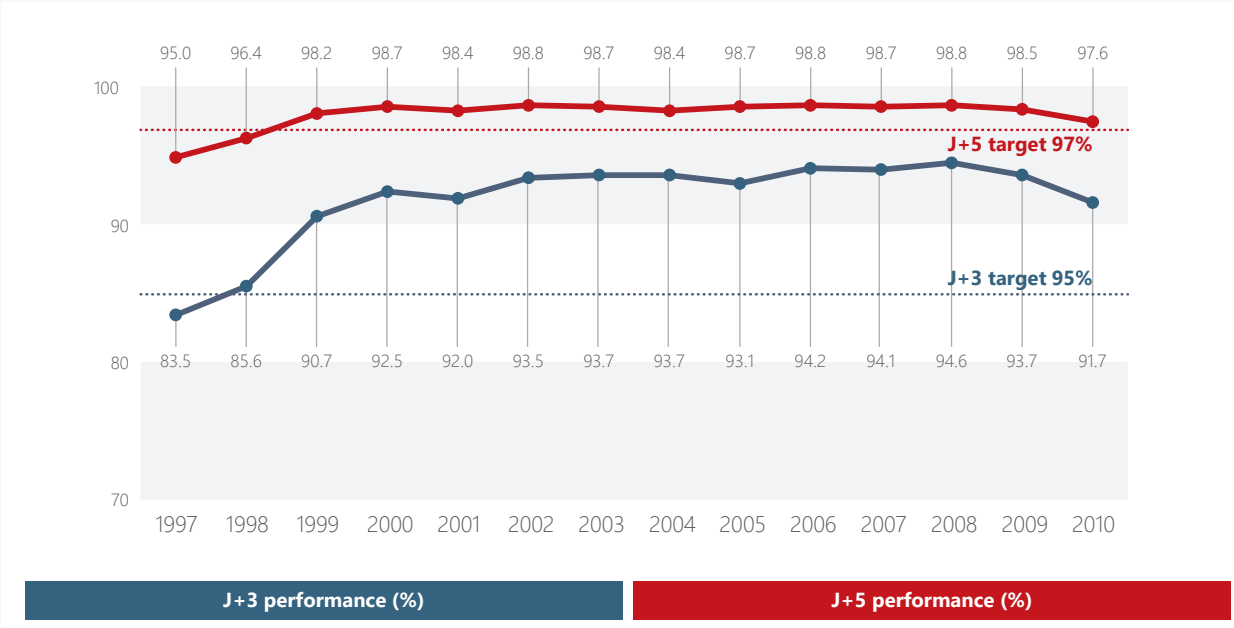
Similarly, in the United States, the Air Courier Conference of America (ACCA), a trade association of companies that competed for business with USPS, expressed concerns about the agreements that USPS was negotiating for cost-based remuneration. In the late 1980s, USPS started negotiating cost-based terminal dues agreements with countries with which it exchanged large volumes of mail. The purpose of these agreements was to reduce the terminal dues losses by making the remuneration system more consistent with operating and delivery costs. The ACCA argued that if the CEPT terminal dues were set above costs, they may drive remailers out of the international mail market and strengthen the position of universal postal service providers at the expense of private carriers.

The European Commission expressed the view that the method for calculating terminal dues should be cost-based, or at least involve a more accurate approximation of costs, for example by determining terminal dues rates as a percentage of domestic tariffs. The answer came in the form of the REIMS agreement, under which terminal dues remuneration was linked to domestic tariffs for the first time.[55] This remuneration system applied to the mail exchanges between 14 European postal operators, and just as the 1987 CEPT agreement was a blueprint for the terminal dues system adopted at the 1989 Washington Congress, the REIMS agreement was considered a blueprint for the 1999 Beijing Congress decisions, which introduced the European postal remuneration principles at a worldwide level. Under the REIMS agreement, terminal dues were to progressively increase to 80% of domestic tariffs. However, these increases were strictly linked to quality of service improvements; a postal operator that did not reach its target was not allowed to increase its terminal dues rates. The agreement responded to the main concerns laid out in the green paper, namely those of providing a fairer remuneration that was more closely related to the actual costs of processing and delivery of inbound postal items, while also improving the quality of the international mail service. The European Commission did acknowledge that the agreement was, to some extent, a price-fixing agreement with unusual characteristics. However, the agreement only fixed a percentage that was linked to the domestic tariffs set by the parties to the agreement. The Commission considered it inappropriate to regard this system as an elimination of competition since the establishment of a cost-based remuneration system would only restore normal competitive conditions.

54 See for example Case C-449/98 P, International Express Carriers (IECC) v Commission of the European Communities e.a., 17 May 2001

55 The first REIMS agreement (REIMS I) linked terminal dues rates to domestic tariffs. Further to the expiration of the REIMS I agreement on 30 September 1997, the same parties, except the postal operator of the Netherlands, decided to sign REIMS II. In the following text, reference is made to the REIMS II agreement.

Figure 26: **Terminal dues quality of service performance in Europe – 1997 to 2010**[56]



Source: IPC

The parties to the REIMS agreement ultimately obtained exemption from article 81(3) of the European Community Treaty. In its analysis, the European Commission noted that, as a consequence of the agreement, postal operators would be paying higher terminal dues remuneration on their outbound flows, and it was expected that, as a result, prices for cross-border mail would increase. One of the conditions set for clearing the agreement was that the timetable for implementation would be delayed by a year to avoid as far as possible any immediate, negative repercussions on tariffs. The Commission also decided on a maximum cost-to-tariff ratio of 70% instead of 80% to avoid further negative impacts on consumers and businesses. Finally, the Commission insisted that terminal dues could only be increased if the quality of service showed significant improvement. In other words, any increases in tariffs for cross-border mail would be accompanied by improvements in the cross-border mail service rendered.[57]

Review of the effects of the implementation of the agreement showed that the REIMS agreement had effectively brought about substantial improvements in the quality of cross-border postal services in Europe. For example, between 1998 and 2000, the percentage of cross-border mail delivered within one day of entering the country of destination had improved, on average, by 6%. In Italy, the improvements amounted to 50% and in Norway to 13%. The Commission believed that these improvements were mainly due to the application of the quality improvement mechanisms based on penalties. Figure 26 shows the overall performance in Europe against a three-day and five-day end-to-end delivery standard. These quality standards for intra-EU cross-border mail were formalized in the first postal directive of 1997, where it was defined that 85% of intra-EU cross-border mail had to be delivered to the addressee in the destination within three days from the posting of the item in the country of origin. The target for on-time delivery performance was set at 97% for delivery within five days from the date of posting.

56 International mail quality of service monitoring, International Post Corporation, www.ipc.be/services/operational-performance-services/unex/results

57 Commission Decision 1999/695/EC-REIMS II, OJ (1999) L-275/17

The CEPT agreement in the late 1980s and the REIMS agreements in the 1990s, along with other processes, have brought greater commercial discipline to the terminal dues negotiating table, with increased recognition of the need to reform the terminal dues system, moving it towards an increasingly country-specific, cost- and market-oriented remuneration system that incentivizes the quality of service of international mail.

DISTORTIONS IN THE INTERNATIONAL DELIVERY SERVICES MARKET

Questions have been raised about the effect of the terminal dues system on postal operators and stakeholders such as private carriers, e-retailers, businesses and consumers. These stakeholders can be divided into two groups: 1) private carriers that compete with postal operators in the international market; and 2) businesses that compete with foreign companies which send their products through international mail channels remunerated on the basis of terminal dues paid between designated operators.

The competitive disadvantages for the second group of stakeholders, i.e. businesses that operate in the domestic and international markets, whose business activities may be impacted by foreign companies sending TD-remunerated mail into their markets, were already discussed in section 1.4.

A 2017 study by the US Government Accountability Office showed that US consumers benefited from the terminal dues system, as the rates under the system, prior to the implementation of the reforms of the 2016 Istanbul and 2019 Geneva Congresses, contributed to lower shipping prices for items purchased online, in particular merchandise items from Asia.[58] Moreover, exporting businesses benefited from the terminal dues arrangements, as the agreement facilitated international trade and access to international markets – for example, US businesses that targeted the European market where the delivery costs are higher.

Conversely, businesses competing with foreign companies that benefited from lower processing and delivery service costs under the terminal dues system were disadvantaged by that system, in particular prior to the implementation of the TD reforms approved by the 2016 and 2019 Congresses. At that time, the lower terminal dues rates allowed foreign businesses to capitalize on lower shipping rates and gain a competitive advantage over domestic businesses that were subject to higher domestic postage.

A number of studies have defined as the main market distortion the discrepancy between terminal dues and single-piece retail tariffs in the domestic service. For example, a 2019 study commissioned by the European Commission reflects on economic distortions as follows: "The measure of the distortions is the difference between the amount that a designated operator charges for delivery of inbound mail and equivalent domestic postage, i.e., the postage that the designated operator charges for delivery of similar domestic mail."[59] Again, it should be borne in mind that a like-for-like comparison is complicated, for the following reasons:

Terminal dues rates do not include costs of collection, international transportation and other costs that still need to be recovered from the foreign mailer by the sending designated operator; in other words, terminal dues is not the only cost factor that drives international mail exchanges;

As mentioned previously in section 1.4, terminal dues are not analogous to domestic single-piece retail tariffs, as those items do not take account of the significant volumes in which inbound mail is presented at centralized locations, such as offices of exchange with optimized infrastructure for forward transportation and introduction of the mail into the domestic delivery network;

58 US Government Accountability Office, International Mail: Information on Changes and Alternatives to the Terminal Dues System, www.gao.gov/products/gao-18-112

59 International Postal Service, Remuneration and Regulation, final report; European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, op.europa.eu/en/publication-detail/-/publication/946318c8-604e-11eb-8146-01aa75ed71a1/language-en/format-PDF/source-189430505

Domestic businesses, in particular larger-sized businesses, have access to unpublished discounted tariffs and negotiated service agreements that offer delivery prices that are significantly lower than the single-piece retail tariffs published at the post office;

For operational and accounting purposes, there are very significant differences in the way international mail is received and handled compared to items posted in the domestic service. International mail exchanges are in bulk and volume-based. For larger flows, the mail profile is determined on the basis of sampling of items by weight, format and content, and the average numbers of items by format and content are used to calculate the inter-operator remuneration rates. In the domestic service, tariffs apply to the format and weight step, and are determined for each item received – in particular where domestic single-piece retail items are compared to international items;

Finally, terminal dues concern payments between postal operators to compensate the postal operator of destination for performing its statutory obligations under the UPU Convention concerning the delivery of inbound international postal items. Terminal dues rates are not available to foreign companies, and the prices those companies pay for international shipping and delivery services are, at best, indirectly influenced by terminal dues, but not directly determined by them.

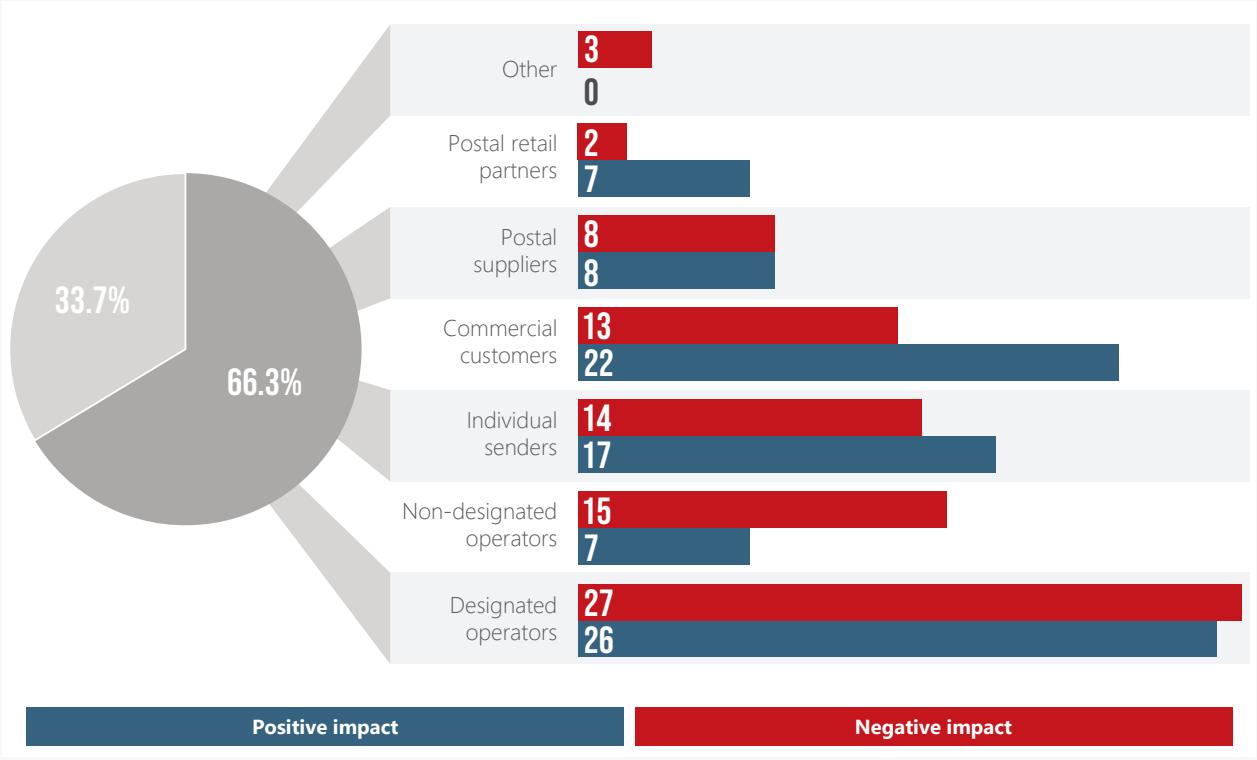
This is not to say that there is no relevancy at all in This is not to say that there is no relevancy at all in referencing single-piece retail tariffs in the domestic service for remuneration purposes. After all, the terminal dues system leans strongly on those domestic tariffs to calculate TD rates or to set a ceiling revenue for determining equivalency of self-declared rates with the domestic tariff system. However, it applies correction factors, such as the cost-to-tariff ratio, to consider the abovementioned aspects and to approximate a remuneration system that is more cost-based and responsive to the integrated remuneration principles.

Despite the differences between terminal dues and domestic single-piece retail tariffs, the terminal dues system is likely to have an impact on the ability of market players to offer lower international shipping costs for the delivery of items in foreign markets. As a result, some domestic businesses may have had a competitive disadvantage compared to foreign mailers and/or e-retailers. The reforms of the remuneration system agreed by the 2016 and 2019 Congresses addressed many of the issues, for example through the harmonization of the terminal dues rates for small packets, eliminating the competitive advantage from the previous terminal dues system which provided different rates for small packet items for the different groups of the TD classification system. More specifically, the substantial revision of the terminal dues system, with the introduction of self-declared small packet item rates in 2020, has significantly reduced the market distortions that existed previously.

Following the implementation of the Istanbul Congress decisions in 2018, but before the review of the remuneration for small packet items at the 2019 Congress, the Council of Administration surveyed the UPU member countries on the possible impacts of UPU remuneration systems on stakeholders active in the international and domestic postal market. A two-thirds majority of the 101 respondents stated that the TD system had significant impacts on stakeholders active in the international delivery services market. For a number of different stakeholders, there were, however, different views among UPU member countries as to whether the impacts were positive or negative.[60]

60 UPU, Results of the market impact survey, CA C 2 2019.1–Doc 7a

Figure 27: **Identified impacts of terminal dues on stakeholders in the market of international delivery services**[61]



Sixty-seven UPU member countries (66.3% of the respondents to the survey question) identified the impacts of the terminal dues system on stakeholders in the international delivery services market (inbound and outbound) as significant. The other 34 respondents (33.7%) did not identify the impacts of the terminal dues system as significant. Among the 67 respondents indicating that there was a significant impact on stakeholders, the relevant stakeholders were identified as shown above. Among the respondents indicating a significant impact of the terminal dues system on non-designated operators, i.e. private carriers, a majority believed the impact to be negative (15 against 7). Conversely, among the respondents indicating a significant impact of the terminal dues system on commercial customers and individual senders, a majority of the respondents believed that the impact was positive.

Terminal dues are available only to designated operators. Non-designated operators, such as private carriers, that provide international mailing services are not able to access the terminal dues rates for processing and delivery of international mail items in the destination country. A study commissioned by the European Commission says that economic distortions result from the discrepancy between inter-operator terminal dues remuneration and single-piece retail items in the domestic service. One of the effects of the discrepancy is in terms of the distortion of competition between designated operators and non-designated operators, i.e. private carriers, in the country of origin (collection and dispatch services), the international transportation market, and the destination country (delivery services).[62]

Similar complaints of market distortions were expressed in the 1980s when the terminal dues system was still a universal rate system that did not recognize the profile and composition of international mail exchanges. As seen above, in particular in the European cross-border market, private carriers argued that the TD system was anti-competitive and constituted a market allocation scheme. It should, however, not be forgotten that UPU designated operators fulfil statutory universal service obligations on an international level from which private carriers are completely exempt. The remuneration system responds to remuneration principles agreed between member countries at Congress that provide the governance framework for the system's development. For example, taking account of the special needs of small islands and low-volume developing countries in terms of affordable access to an international postal service is considered a key policy objective which member countries deem appropriate for the economic development of those countries.

61 UPU, Results of the market impact survey, CA C 2 2019.1–Doc 7a

62 International Postal Service, Remuneration and Regulation, final report, European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, op.europa.eu/en/publication-detail/-/publication/946318c8-604e-11eb-8146-01aa75ed71a1/language-en/format-PDF/source-189430505

Figure 28: **Market-oriented principles applied to the terminal dues system**

	PHASE I 1971 TO 1990	PHASE II 1991 TO 2000	PHASE III 2001 TO 2017	PHASE IV 2018 TO 2021	PHASE V 2022 AND BEYOND
Universal rates	All countries	All countries	Transition system only		
Flow-specific IPK		All countries	All countries	All countries	All countries
Country-specific rates*			Target system only	All countries***	All countries
Target system rules**		39 countries	39 to 115 countries	All countries***	All countries
Quality-linked rates			Target system only	All countries	All countries
Format-specific rates				All countries	All countries
Self-declared rates				All countries***	All countries (optional)
Threshold rules				Group IV outbound***	Group IV outbound

* Country-specific rates are based on the domestic tariffs in the default terminal dues system, further subject to minimum and maximum rates or self-declared terminal dues rates for small packet items, which are subject to the ceiling revenue calculated on the basis of tariffs for equivalent items in the domestic service.

** Target system rules include the payment of country-specific terminal dues rates, and the requirement to sample mail flows or to send mail in format or content-separated dispatches. The target system started with the 39 countries and territories classified in group I, after which group II joined in 2010 (former group 1.2) and 2012 (former group 2) and group III in 2016, growing to 115 countries and territories in 2016. Since 2018, all main aspects of the target system, in particular the payment of quality-linked and country-specific terminal dues rates, have also applied to countries in the transitional system.

*** Phase IV concerns the 2018–2021 transition Congress cycle, which started with various terminal dues provisions that were reviewed and amended by the 2019 Extraordinary Congress in Geneva. As a result of that Congress, all countries started to apply country-specific terminal dues rates on all flows in 2020, and the possibility of self-declaring small packet terminal dues rates against the United States started in the same year, and for all other mail flows in 2021. Threshold rate protection was introduced for mail flows below 100 tonnes sent by a country classified in the transitional system (and additionally, amendments to the provisions concerning bulk mail were approved to avoid remailing practices).

At different Congresses, member countries have decided to progressively reduce the economic distortions that resulted from the differentiation between terminal dues remuneration and equivalent domestic remuneration through linkage with domestic tariffs. Some countries, such as high-cost countries or net-importing countries, may have wished for higher terminal dues ceilings, in particular where TD remuneration is not (yet) fully covering all costs for inbound processing and delivery. On the other hand, member countries were equally mindful of other policy objectives, in particular that of minimizing the risk of market failure (in other words, a fully deregulated market failing to ensure the integrity of the global postal market and preventing large groups of small businesses and citizens in developing countries from accessing a worldwide postal service). There is clearly a tension between the different policy objectives, and it is the task of the member countries to take decisions that find the right equilibrium between the different policy objectives.

It should also be noted that, since the first complaints from the private carriers and express companies of economic distortions in the 1980s, the terminal dues system has undergone significant changes, with market-oriented principles progressively applied to a growing number of flows. For example, since 2020, all countries have applied country-specific terminal dues rates and, in principle, the mail flows are sampled, unless it is not cost-effective to do so (small mail flows are not sampled, as the benefits do not weigh up to the actual costs of sampling each and every

mail flow, no matter how small). Terminal dues remuneration reflects the format, content and weight of the mail flows and allows designated operators to self-declare their small packet TD rates subject to ceiling rates. The differences between the terminal dues rates paid by China and those paid by other large net-exporting countries from Asia no longer exist. And remuneration is now reflective of quality of service performance by the destination postal operator, allowing it to further increase its remuneration even if its performance falls up to 15 points short of its target. Each of these reforms has resulted in higher terminal dues remuneration. For example, between 2017 and 2021, the terminal dues payable for an untracked small packet item weighing 158 grammes sent by China's DO to the United States increased by more than 400%, and the same item sent to Denmark by more than 260% (with further phased increases for each year from 2022 and 2025). Figure 28 shows the main phases of terminal dues since the universal rate system launched in 1971, and how the most important market-oriented changes to the system were rolled out across the UPU membership.

1.6

ECONOMIC DEVELOPMENT

According to article 1 of the UPU Constitution, the aim of the Union shall be to secure the organization and improvement of the postal services and to promote in this sphere the development of international collaboration. The vision of the UPU, as defined in the Istanbul World Postal Strategy, is to see the postal sector as an enabler of inclusive development and an essential component of the global economy.

Considering the rapidly changing world, and building on our fundamental strengths, the UPU vision is more relevant today than it has ever been. Through its continued leadership in fast-tracking the development of the postal sector, the UPU's proactive efforts are contributing to the development of the global economy. The world is recognizing the global postal sector's significant potential in helping to strengthen the future of the global economy.

Through the terminal dues system, the postal sector plays an important role in promoting socio-economic development, as affordable, efficient and universal postal services substantially reduce transaction costs between postal operators, granting citizens in every country access to a vast communications and infrastructure network with delivery services in the fine-mesh postal network of any other country in the world.

As part of the United Nations family, the UPU has a responsibility to assist countries in wider developmental issues. Indeed article 1 of the UPU Constitution, drawn up in 1964, states that "The Union shall take part, as far as possible, in postal technical assistance sought by its member countries". In the 1990s, there was an increased awareness, in the context of terminal dues, of the structural differences between industrialized and developing countries. The different factors and country characteristics that drive postal markets at different stages of development determined the development of the terminal dues system for decades to come.

A DRIVER OF ECONOMIC GROWTH AND SOCIAL AND CULTURAL DEVELOPMENT

The global postal network plays an important role in extending social, financial and economic inclusion for citizens around the world. It is also a powerful driver of economic growth, inclusive trade and job creation across the developing world. This global network of interconnecting postal services worldwide offers a unique last-mile delivery network and supports the inclusion of micro, small and medium-sized enterprises by giving them a means of selling their products online, including for delivery to other countries. Although there are developing countries making advances in e-commerce, others have yet to catch up and seize the opportunities that are available. Accessibility to the global postal network and remuneration solutions that provide for interoperability between postal operators are essential to unlock the enormous potential of developing countries and encourage them to embrace the Internet's ability to enhance economic development.

The global postal network is a formidable infrastructure through which essential public services are provided to millions of citizens and businesses. This enables the postal sector to play a critical role in fuelling countries' social and economic development. Today, the world's postal services process and deliver some 303 billion letters and 9 billion parcels annually, using a worldwide network linked through state-of-the-art technology and processes. This infrastructure is staffed by 5.3 million employees in some 670,000 postal establishments, making it the world's largest physical network.

This global postal network is underpinned by treaty-based international postal services, and the terminal dues provisions have a key role in ensuring the continued existence of this global postal governance structure. We need only go back to the year before the UPU was formed, when countries were still exchanging mails on the basis of bilateral agreements, to understand the relevance and importance of the global postal network for the development of international trade and exchange of information. The terminal dues provisions are directly relevant, as the level at which the rates are set defines the affordability of, and accessibility to, the network by postal operators and users of the international postal service.

In many countries, and particularly low-income developing and least developed countries, terminal dues remuneration is an important source of revenue which finances mail operations. In addition, through the Quality of Service Fund (QSF) maintained by terminal dues remuneration, developing countries have access to financial resources that have supported the worthy efforts of UPU member countries to strengthen the quality, reliability and durability of the global postal network and improve the letter-post service. The primary purpose of the QSF is to help improve DOs' quality of service in terms of speed, reliability and security, particularly the quality of inbound letter-post flows subject to terminal dues.

International mail is an important means of furthering social, economic and cultural links between UPU member countries. The global postal network is an example in itself of international cooperation and mutual trust, as the sending postal operator depends completely on its partner operator in the destination country for the delivery of its mail items.

The mass expansion of postal services in the 19th and 20th centuries played a catalytic role in the growth of economic capacity. But even in the modern digital age, postal services continue to be essential to governments, businesses and society, as they provide access to information that helps to preserve democracy, foster economic and business relationships, including e-commerce and business transactions, and promote general welfare. And the global postal network provides those benefits at an international level. For example, it reduces obstacles to participating in overseas absentee voting, processes military mail, empowers small and medium-sized businesses to participate in cross-border e-commerce, and ensures that all consumers and citizens can receive information, documents, letters and goods from any location around the globe.





As we saw in section 1.1, a key objective of the terminal dues system is to ensure the integrity and sustainability of the operation of this global postal network. The United States' notice of its withdrawal from the UPU, which was rescinded just short of one year later, reminded policy makers and governments of UPU member countries of the social, economic and operational importance of a truly global postal network. The notice of withdrawal was motivated by the terminal dues rates for small packets applicable prior to the 2019 Geneva reforms; as such, it underlined the direct relationship between the global postal network and the terminal dues system, and showed that the former cannot exist without the latter. Moreover, long-term financial sustainability of the global postal network can only be achieved if terminal dues remuneration is both market- and cost-oriented. For example, in the context of growing e-commerce–driven small packet volumes, the terminal dues remuneration in place prior to 2020 did not maximize the welfare potential of the global postal network. This was due to the economic distortions of the system, in particular the lack of cost coverage that high-income net-importing postal operators faced in the years leading up to the 2019 Extraordinary Congress.

Social value is created where international postal services improve the lives of citizens and society. The free cross-border shipment of items for the blind is one example of a social benefit offered through the global postal network. Economic value is created when goods, transaction mail and correspondence result in market value. A clear example of economic value lies in the postal network helping businesses, in particular SMEs, whose access to affordable alternative international delivery services is limited, to enter foreign markets and grow to their economic potential.

The global postal network dramatically reduces transaction costs and facilitates business relationships around the world. The extensive network of international postal services results in significant business benefits, which accrue to small businesses, large businesses, non-profit organizations, and communities. International postal services are an intrinsic part of businesses conducting economic activities overseas. Factors such as affordable rates, which to a certain extent are driven by terminal dues, among other cost centres, and an extensive global delivery network, whose financial sustainability depends on terminal dues remuneration, are important for the global postal network to provide small, medium and large businesses with a value proposition that enables them to grow their overseas activities. The Post allows businesses to connect to consumers that they would not otherwise be able to reach, while enabling consumers and businesses to conclude transactions with a wide variety of businesses in diverse locales.

Besides being an agent of economic progress, the global postal network also enables the dissemination of information, including correspondence and personal statements, as well as cultural and educational materials, including books, prints and objects of cultural or personal importance. At a national level, the postal network is critical in implementing administrative programmes in fields such as social security, taxation and public information. Because of migration, increasing numbers of beneficiaries or subjects of these administrative programmes reside outside of their home country. The global postal network promotes cohesion and connection of those citizens with the public, financial and cultural institutions, as well as businesses, families and acquaintances, while they reside in another country.

THE NEEDS OF DEVELOPING COUNTRIES

The UPU membership includes a number of developing countries that are not able to provide full-scale postal facilities. The minimal postal services and infrastructure in these countries are largely dependent on terminal dues remuneration to finance their operations, which provide for the development of social and economic capital at the national level.

A UPU-commissioned study concluded that, in 2010, 4% of the global letter-post market comprised cross-border postal services. However, for some developing countries, especially the least developed, inbound international mail actually represents a very significant portion of the mail handled. Another study in 1996 confirmed that for 23% of all developing countries, international mail represented more than 40% of all mail handled, whilst for the majority of industrialized countries inbound international mail accounted for less than 5% of total mail handled. As the share of international mail in low-income countries' total traffic may be large, the compensation received for incoming international mail, i.e. terminal dues, may be significant for the sustainability and financing of the postal infrastructure.

Furthermore, the postage rates in some developing countries are kept artificially low for socio-economic as well as political reasons, and do not reflect actual costs. This means that a terminal dues system based on domestic tariffs is not an equitable solution for many developing countries, since local rates are invariably lower than the TD rates. To prevent developing countries from losing out financially, the floor rates are used as a protection mechanism to ensure a better level of cost coverage.

The terminal dues system provides an arrangement that gradually increases the number of flows and countries subject to country-specific and cost-based remuneration, regardless of the origin or sender of the items. The last group to enter the country-specific rate system is group IV of the transitional system. These countries started to apply domestic tariff referencing for the terminal dues remuneration of E format items, which includes small packet items, as of 1 January 2020.

To take account of the need to ensure affordable access to international postal services for those countries most in need, thresholds were established below which transitioning countries could access international postal services at floor rates on their outbound flows from 2021. The 2019 mail flow study revealed that, of 803 reported mail flows from countries classified in the transitional system, about 1.6% of the mail flows exceeded the 100 tonne rate protection threshold.

COUNTRY CLASSIFICATION SYSTEM FOR TERMINAL DUES PURPOSES

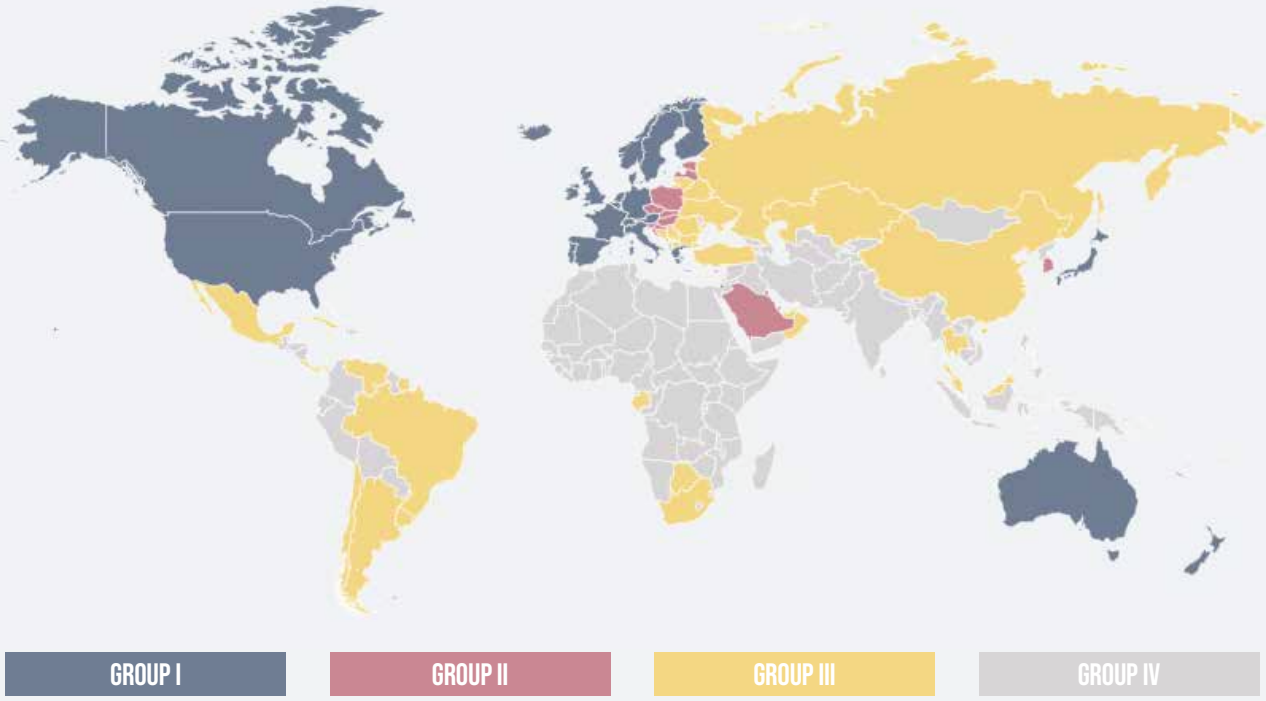
Different Congresses supported the move to a more equitable terminal dues system among countries with a relative high level of postal economic development, while taking special account of the interests of developing countries, which need assistance and time to develop proper cost accounting systems, and optimize their operations and postage pricing in order to reach the ultimate goal of country-specific cost-based rates.

The Beijing Congress decided that the provisions in the Convention concerning the payment of terminal dues to, from and between developing countries would be transitional arrangements, moving towards a country-specific payment system. The same Congress introduced a classification system that included industrialized countries and developing countries with different remuneration and operational requirements, according to whether the mail flows were between industrialized countries or included a developing country.

The Beijing Congress recognized that the dichotomy in which the world is divided between ICs and DCs did not reflect the differences among developing countries. Therefore, it instructed the CA to study a new classification of postal administrations on the basis of criteria reflecting the level of development of their postal services.

In the early 2000s, the International Bureau (IB) studied traffic data for most countries and territories and found a clear correlation between the GNI per capita and the number of postal items per capita, access to postal services, and level of postal mechanization. The distinction among the levels of postal development between developing countries was significant: the least developed countries (LDCs) had extremely low numbers of items per capita, while DCs with a GNI per capita above 4,700 USD per year had a significantly higher number of items per capita, significantly better postal coverage, and a much higher number of sorting machines per capita than LDCs.

Figure 29: **Classification of countries and territories for terminal dues and QSF purposes**



Driven by the need for integration into a single terminal dues system, and to meet the objective of moving the terminal dues system in a direction consistent with the WTO rules, Bucharest Congress resolution C 46/2004 instructed the CA to develop proposals for the next Congress that would provide for a gradual transition towards a country-specific terminal dues system, with the most advanced developing countries to be the first to join the cost-based system before 2012.

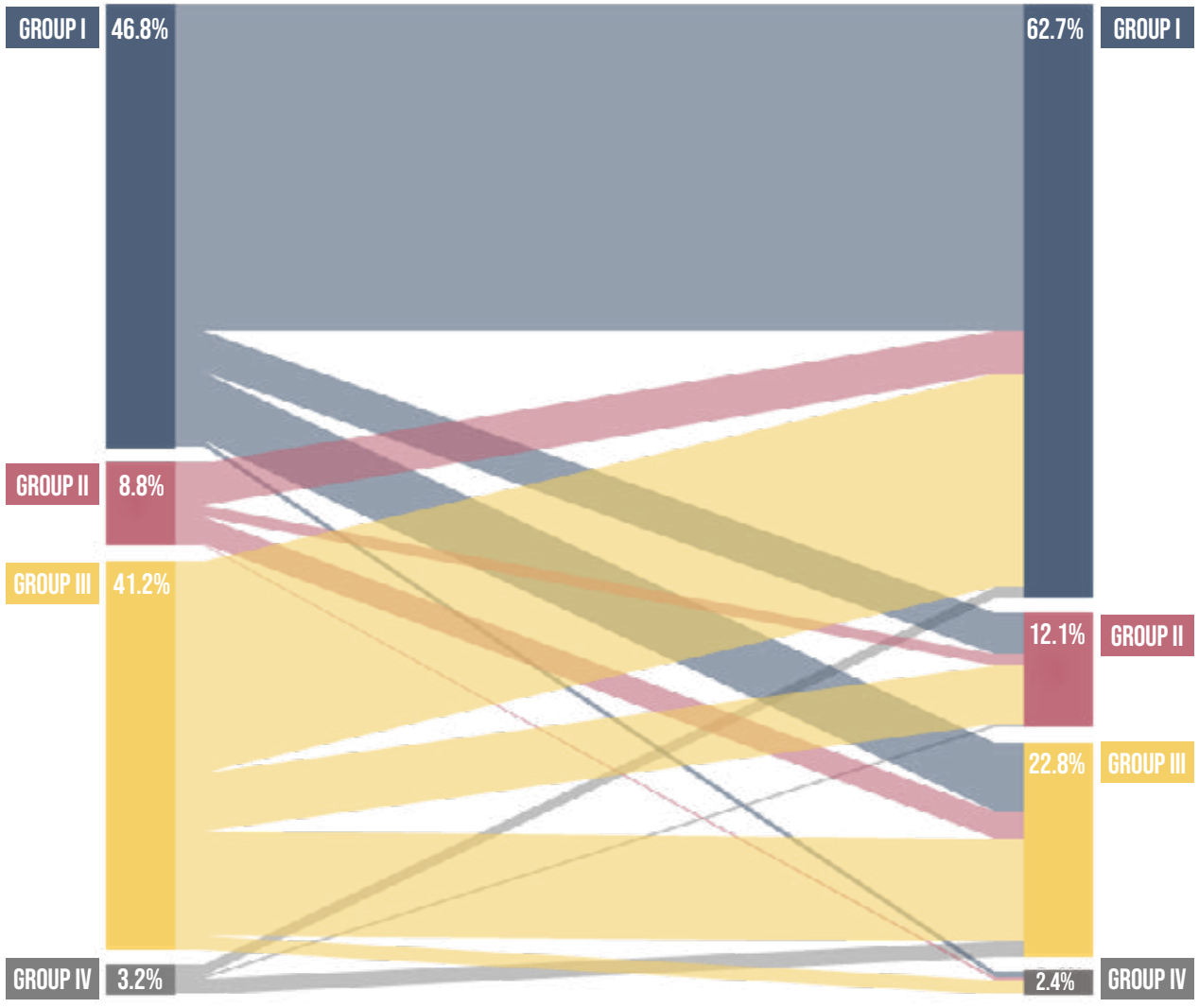
The methodology proposed to the 2008 Congress in Geneva was essentially based on the postal development indicator (PDI), which followed a hierarchical approach for the listing of countries in groups using as reference the industrialized countries, which were from then on referred to as "target countries", and the UN Economic and Social Council (ECOSOC) classification of LDCs.

These criteria established which designated operators of UPU member countries would join the target system, the pace at which they would join, and whether they would benefit from special treatment in terms of their level of direct remuneration for services, i.e. the level of terminal dues remuneration; participation in the quality of service link system; and receipts and contributions to the Quality of Service Fund.

Box 11: **Mail flow distribution in the terminal dues system**

According to the 2019 mail flow study, group I remains the largest sender and recipient of mail in the global postal network in 2018, followed by group III, then group II and, finally, group IV.

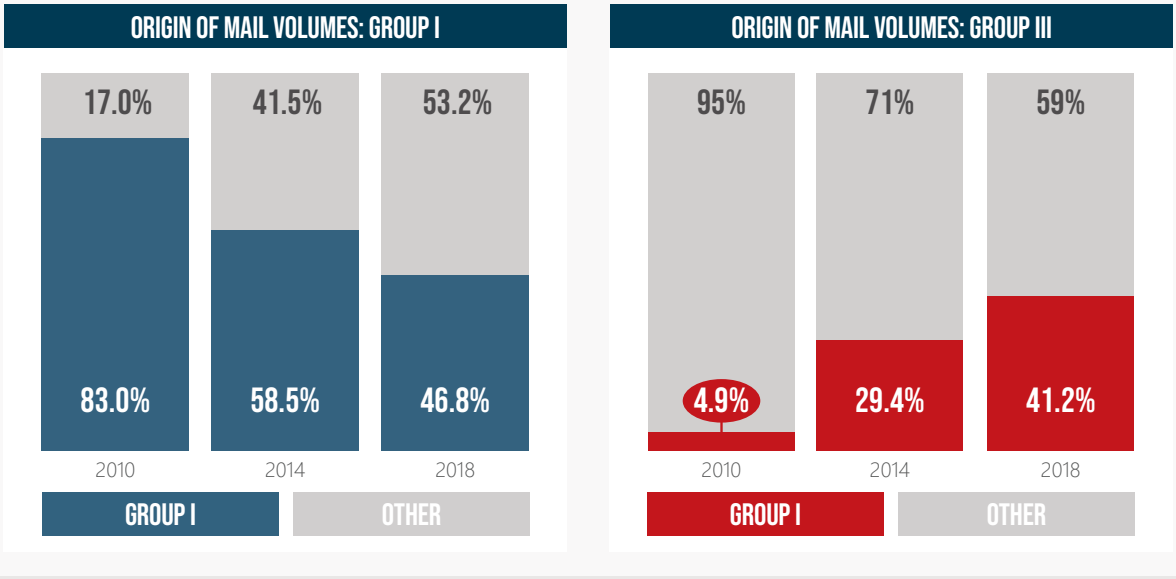
Figure 30: **Mail flow distribution in 2018**[63]



63 UPU, Results of the mail flow study, POC C 2 2019.2-Doc 4a

When comparing the information from mail flow studies in the last few years, the trends described in section 1.3 become visible.

Figure 31: **Mail volumes group I and III**



The importance of group I as sender of mail decreased from 83.0% in 2010 to 58.5% in 2014, and decreased further to 46.8% in 2018. As recipient of mail, group I also lost ground vis-à-vis the other groups: group I countries received 62.7% of the mail in 2018 compared to 73.9% in 2014 and 77.7% in 2010.

In the terminal dues system, countries classified in group III sent relatively more mail in 2018 (41.2% of all mail) than in 2014 (29.3%) or 2010 (4.9%). The strong increase in the importance of group III countries in the global postal network as sender of letter-post volumes is largely explained by the volumes generated as a result of e-commerce transactions.

Flows from and to countries classified in group IV more than doubled in 2018: outbound from 1.3% (2014) to 3.2% (2018) and inbound from 1.2% (2014) to 2.4% (2018).

1.7

STAKEHOLDER INTERESTS

Meetings at which terminal dues are discussed, negotiated and decided, whether they be meetings of the Postal Operations Council or Council of Administration in Berne, or the Congress every four years, draw a lot of interest and active involvement from the different stakeholders active in the global postal network. Although these stakeholders all pursue their own agendas and interests, the objective is to balance the different interests and seek, in a spirit of compromise, convergence and consensus, a terminal dues system fit for the next four-year Congress cycle.

Terminal dues proposals are typically submitted as a package covering the many different aspects of the remuneration system, and represent the work of both of the councils (the POC and CA) over the course of four years, taking into account the results of numerous policy surveys and economic studies on domestic postage rates, inbound mail processing and delivery costs, transit mail costs, mail volumes, mail flow composition (measured in terms of items per kilogramme), the impact of the remuneration system on target and transitional countries alike, the quality of service link, supplementary service costs, and improved methodologies to accurately convert domestic tariffs into terminal dues rates. The proposals represent a compromise package which needs to be approved for submission to the Congress by the 48 (previously 40) members of the POC and 41 members of the CA.

Every terminal dues agreement seeks a fair balance between creditor countries' needs and debtor countries' ability to pay; a system which is not detrimental to international traffic, with rates that the market can stand, but which at the same time allows the destination postal operator to provide a sustainable universal postal service. In addition to the interests of postal operators in terms of providing outbound and inbound international postal services, account needs to be taken of changes in customer needs, the impact of external factors on the volume of postal traffic, and the different economic and social policies of countries and stakeholders. There also needs to be due regard to the needs of those developing countries that rely on terminal dues revenue to maintain their postal infrastructure and improve their level of postal services; this is also essential in that it helps to foster the effectiveness of international postal services, economic development and international cooperation.

Public service requirements oblige postal operators to provide services that meet the social, economic and commercial needs of their population as efficiently and economically as is practicable. Postal services are undertaken in the national interest with special regard for the needs of rural populations, yet they must secure revenue covering their expenditure and, increasingly, seek commercial profits. Affordability and cost coverage – or, in the case of privatized postal operators, profitability – need to be balanced to ensure a sustainable postal service that responds to the needs in the market. The ability to respond to the demands of users has grown increasingly dependent on the competitiveness of the global postal network in terms of price and performance, including quality of service, reliability and the provision of market-oriented services.

The UPU needs to take account of the interests of each group of countries and find a balance that ensures the general advancement of the postal service throughout the world. The progress made in moving the system of terminal dues in the direction of the market, while taking account of destination postal operators' need to cover their costs, has thus far been made possible by the spirit of compromise in the UPU. This respect for the interests of a diverse membership recognizes that an equitable terminal dues system is one of the key factors in maintaining the single postal territory.

POSTAL OPERATORS

The Universal Postal Convention and its Regulations embody the rules applicable throughout the international postal service and the provisions concerning the letter-post and parcel-post services. These Acts are binding on all member countries, which must ensure that their designated operators fulfil the obligations arising from the Convention and its Regulations.

Designated operators that so wish may, through bilateral or multilateral agreements, apply other systems of payment instead of the system laid down in the UPU Acts. In general, the designated operator of the country of origin of the mail, which obviously wishes to pay as little as possible, normally has no option but to use its counterpart in the destination country to deliver its mail. The destination postal operator, which, for its part, wants to be paid as much as possible, has an obligation to deliver the mail received. Under these circumstances, the two postal operators may prefer to apply the terminal dues rates laid down in the UPU Acts rather than try to negotiate other rates. And, if the two cannot agree, the UPU rates apply in any event. It should also be stressed that the quantities of mail exchanged between many countries are too low to make it worth their while negotiating bilateral terminal dues rates. Consequently, although they are not mandatory, the TD rates laid down by the UPU are used in most exchanges.

IMPORTING AND EXPORTING POSTAL OPERATORS

The 1969 Congress decided to introduce the terminal dues system in order to compensate postal operators that were handling excess mail in bilateral exchanges. Excess mail was based purely on the weight difference between the inbound and outbound flows; as such, the original terminal dues system was a single rate system in which weight was the only factor in assessing TD payments. This situation continued until the 1989 Congress, when the revision mechanism was introduced, with the destination postal operator able to activate this mechanism when the average number of items contained in one kilogramme of mail received differed significantly from the world average.

By the late 1970s, studies were showing that a country that is a creditor under a terminal dues system based on weight could become a debtor country under a TD system based on numbers of items, and *vice versa*. Since then, many efforts have been made to develop a comprehensive formula aimed at reflecting the complexities of the composition of international mail exchanges. Such a formula must inevitably take account both of the weights of mail dispatches and the numbers of items handled. In fact, it must be realized that merely taking account of weight and items alone would still not be sufficient, since other factors too are involved. For example, on a bilateral link, it may be the debtor or net-exporting postal operator that has the larger distances to cover from the point of entry of the mail to its delivery, or which operates in a higher cost environment for other reasons. Debtor postal operators may make considerable payments of terminal dues because of heavy AO or E format items that they dispatch, whereas the mail they receive proportionally contains more lightweight LC or P/G format items. Over the past 50 years, the terminal dues system has moved towards an increasingly comprehensive rate system which, besides the weight and number of items, also takes account of the format and composition of mail, as well as the economic interests of developing countries and the rate increases that the market can absorb.

Although member countries adopt the terminal dues agreement, the technical and financial aspects of the agreement itself are negotiated in a context in which postal operators have a proactive role. The composition of mail, volumes in terms of weight and numbers of items and the operational cost structure, along with many other economic factors, determine the postal operators' positions towards the terminal dues system. The terminal dues negotiations often reflect the competing interests of net-importing and net-exporting DOs. In this context, net-exporting operators tend to gain more from a terminal dues agreement that undercharges for their inbound operations so long as it ensures access to a competitive postal network for the distribution of their outbound mail items. Net-importing operators, on the other hand, favour higher remuneration to achieve improved cost coverage and profitability of their overall international mail operations.

The examples in Box 12 show the complexities of the global postal network and how difficult it is to draw clear distinctions between net-importing and net-exporting postal operators, for different reasons. First, the total outbound volumes by weight of a postal operator may exceed the inbound volumes by weight it receives, while at the same time it may receive more items per kilogramme than it sends, i.e. on average, the average weight per items is lower on its inbound flow than on its outbound flows. Second, a postal operator, say postal operator A, may be a net importer in a bilateral relationship with postal operator B while at the same time being a net exporter on a bilateral relationship with postal operator C. Finally, a postal operator can be a net importer of certain services or mail formats while it is a net exporter of other categories of items.

It must be realized that, in order to reflect these complexities, merely taking account of weight and items alone would still not be sufficient, since other factors too are involved. Some creditor operators remarked that their inbound mail had to cover exceptionally large distances from the point of entry in the country (this comment was made by Colombia in support of its proposal at the 1964 Vienna Congress), but for as long as terminal dues were not based on costs or derived from domestic tariffs, the system made no allowance for exceptional internal conveyance compared to a small country with favourable demographics and geographies. Other debtor postal operators remarked that, in their mail exchanges with some countries, they made considerable payments of terminal dues because of the heavy weight of AO items or small packets and other special dispatches, but the mail that they received in the return direction could contain, for instance, a high proportion of lightweight LC items in the registered service, where the special handling required can make the processing costs for a kilogramme of mail very high.

These are just some of the factors illustrating the extremely complex nature of international mail exchanges. Differences of opinion and interests between member countries as well as imbalances of traffic existed when the Union was founded in 1874, and they will continue to exist, but when the occasion arose, Union members have never failed to reach compromises in a spirit of fairness and solidarity.

Box 12: **Net importer or net exporter: the importance of weight and number of items**

The 1979 Congress in Rio de Janeiro sought a terminal dues solution that ensured that postal operators were remunerated both fairly and justly for their excess mail (until 1994, TD remuneration applied to excess mail on bilateral flows). These factors included a system that was simple and convenient to implement, while taking due consideration of a detailed range of statistical information relating not only to the nature and content of international mail, but also to the methods, costs and general economic circumstances in which this mail is processed and conveyed.

The terminal dues rates were derived from the calculation of the worldwide average cost, as well as the principle that the average costs could not exceed the average revenues collected by the postal operator of origin, to prevent a situation where a origin postal operator collected less revenue from its customers than it paid to the postal operator in the destination country.

During the first 20 years of the terminal dues system, the average costs and revenues were calculated on the basis of weight (per kilogramme) of mail in order to facilitate comparison with the present system of charging for terminal dues, which is also based on a per-kilogramme rate. This system was chosen at the Tokyo Congress, and continued at Lausanne, Rio de Janeiro and Hamburg, because it was simple to operate, and because weight was the only satisfactory measurement of traffic levels available to postal operators for international accounting purposes at the time.

Nonetheless, ever since the 1974 Lausanne Congress, the Executive Council and working groups were tasked with also examining the significance of the numbers of items, since several postal operators had expressed the view that this was a major cost factor which should not be ignored.

Examination of data provided by postal operators via a sampling exercise in 1978 produced some most interesting results. It showed that, while an imbalance of weight between two countries often accompanies an imbalance in the number of items, it is by no means always in the same proportions. Indeed, the study found a significant number of instances where the contrary is true, with an imbalance of weight in one direction but an imbalance of items in the other. For instance, in 1978,

Colombia sent Venezuela 50% more mail by weight than Venezuela sent Colombia, and yet Venezuela sent Colombia 6% more mail in terms of items than Colombia sent Venezuela.

In the 1980s it became increasingly clear that it was no longer possible to consider weight as the only factor in any mathematical formula that might be devised for assessing terminal dues, since examples such as the one above showed that a country that is a creditor under the weight-based system could become a debtor country under a system based on numbers of items, and *vice versa*. For the same reasons, it would be equally impossible to consider numbers of items as the sole factor. Any comprehensive formula that truly reflects the complexities of the composition of international mail exchanges must inevitably take into account both the weights of mail dispatches and the numbers of items handled. Following the example of the CEPT agreement (see section 1.5), it was ultimately the 1989 Congress which adopted a new terminal dues methodology that considered both weight and number of items.

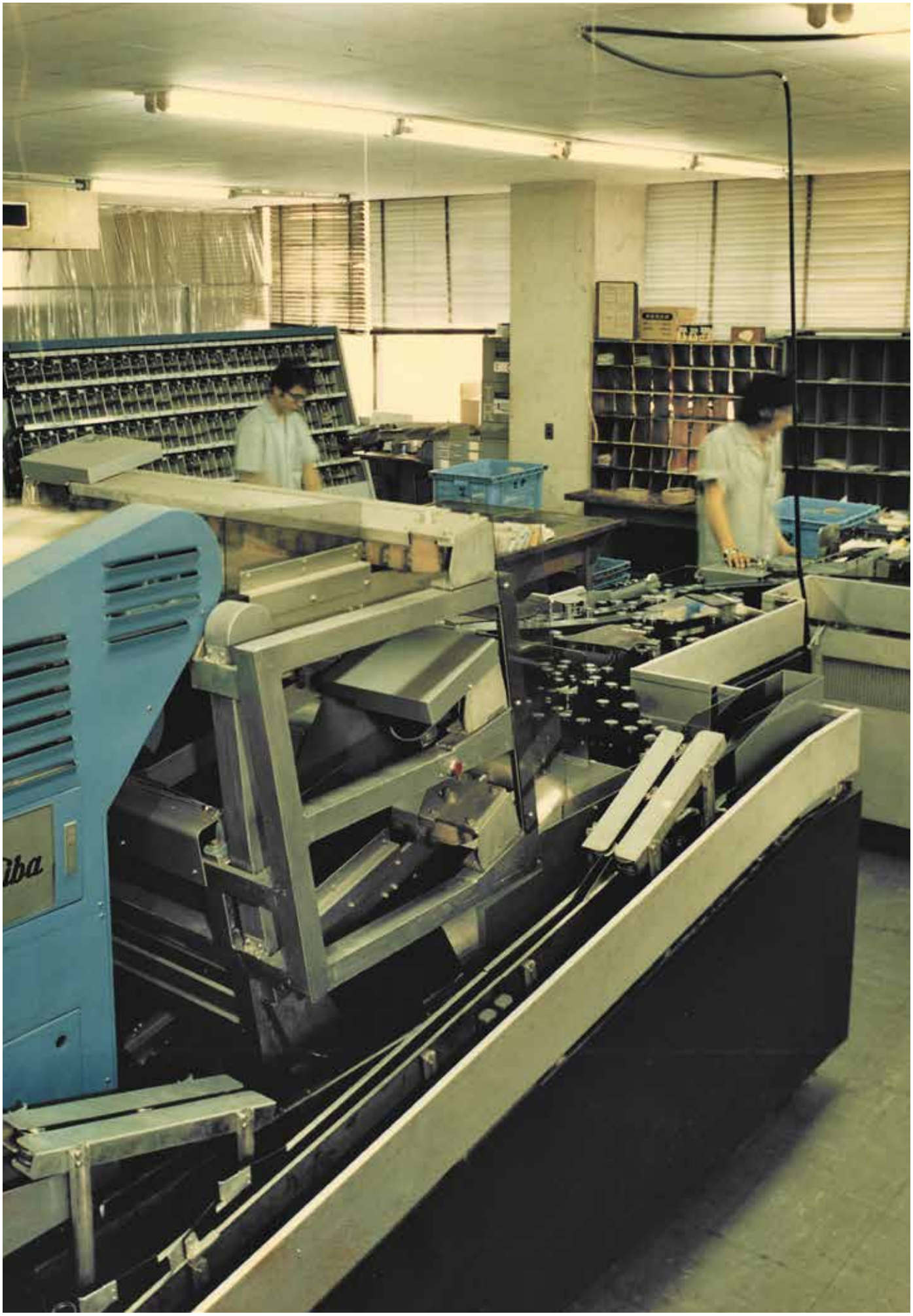
Until 1996, weight remained the basic measure of imbalances. The new rate structure made it necessary for the 1994 Seoul Congress to replace the system of imbalances through which excess volumes were remunerated with a new system where terminal dues remuneration was to be paid on the basis of gross flows.

NATIONAL AND INTERNATIONAL REGULATING AUTHORITIES

From a regulatory perspective, increases to terminal dues remuneration may affect the tariffs for international postal services that the sending postal operator charges to its customers. These tariff increases are necessary for the operator to operate a cost-covering international service, which, however, often requires review and approval by the competent national regulating authorities. These authorities are important stakeholders, and are often part of member country representations at meetings of the Council of Administration where terminal dues matters are discussed.

The tariffs applicable to domestic universal postal services are subject to regulatory oversight. In many countries, in particular in Europe and North America, an independent regulating authority is charged with ensuring that those tariffs are in line with the regulations and pricing rules administered by these authorities. These tariff regulations concerning domestic universal postal services impact on the operator's ability to receive higher terminal dues rates, since the TD system is linked to the tariffs applicable in the domestic service. In some countries, the regulating authority or responsible ministry has not allowed tariff increases, or only permits increases to a limited extent in order to meet social objectives.

At the international level, there are regulatory frameworks operating outside of the UPU that have a direct or indirect impact on the terminal dues system. The UPU's mission is to establish the technical and economic conditions to allow interoperability between member countries' postal networks. Technical conditions concern the establishment of operational standards and procedures in liaison with other relevant international organizations, such as ISO, WCO, ICAO, IATA and ITU. The economic conditions of interoperability mainly concern the modalities of remuneration of international postal services between operators. However, as mentioned previously, remuneration between postal operators is also a matter of interest to other international regulatory bodies, such as the World Trade Organization. Similarly, standards and requirements set by other international regulating bodies have an impact on the terminal dues system. For example, remuneration of items on the basis of their content (documents versus goods) over their format (size and weight dimensions) stemmed from changes to the definitions of postal services arising from the needs of supply chain stakeholders, which increasingly require separation of items based on content. Another example concerns electronic advance data requirements, which are a new remunerable aspect to be developed during the Abidjan Congress work cycle. As explained in section 1.5, quality-linked adjustments to terminal dues remuneration were an aspect that was furthered by the European Commission in the 1990s, in order to make acceptance of TD increases contingent upon quality of service improvement.



LOW-INCOME DEVELOPING COUNTRIES

As seen in section 1.6 on the economic development policy aspects of the terminal dues system, the interests of postal operators in developing countries and the economic relevancy of access to the global postal network take a central place in the remuneration agreement. One of the main policy goals of the terminal dues system is to provide delivery postal operators with compensation for handling and delivering international mail, while also supporting a single worldwide postal network that recognizes developing country participation in the international universal service.

Recognizing the different levels of economic development among developing countries, the terminal dues system introduced a classification system that moved away from the bifurcated IC/DC payment system to a system of six groups which, at different rates, progressed towards the target system, which initially, and until 2010, was exclusive to industrialized countries (see section 1.6). Such progression was necessary as, within the United Nations system, high-income countries like Singapore were classified as developing countries, meaning that until 2010 the terminal dues system applied the same conditions to them as low-income developing countries. Although prior to 2010 there was no distinction between low-income and high-income countries, the following text more specifically addresses the needs and interests of low-income developing countries, i.e. those that currently make up group IV of the TD classification system.

The needs of low-income developing countries can be considered from both an inbound and outbound perspective.

On the outbound side, affordability of international postal services is vital for many low-income developing countries, which is why those countries paid industrialized countries considerably less for delivery of mail than ICs paid each other. If the postal operator of a low-income developing country had to pay the same rates as those paid by industrialized countries, and had to incorporate these terminal dues rates into its tariffs, those tariffs would become prohibitive for a large proportion of their population. That is why it is hardly possible to collect the same terminal dues rate from a low-income developing country as from an industrialized country.

This bifurcated remuneration system presented a number of issues, however. For example, in 1999, certain policies applying to the transitional system were the subject of intense scrutiny and discussion. The different terminal dues rates and provisions applicable to flows between industrialized countries, and between those countries and developing countries, as well as the remailing provisions raised issues in terms of their compatibility with the most-favoured-nation principle. One of those concerns dealt with the application of the ABC remailing clause, which was designed to provide the destination postal operator with remuneration in proportion to the costs incurred – a perfectly legitimate aim. The problem was that the costs were not influenced by their origin, i.e. whether the items were sent by country B instead of country A. If items from a developing country were acceptable for a payment which did not cover costs, refusing them from an industrialized country for the same payment could be regarded as contrary to the MFN principle (article II, GATS).

In the end, the terminal dues provisions did not seem to cause significant problems in relation to the GATS, as it was agreed that the long-term goal of the terminal dues system was to move all UPU member countries into the target system so that terminal dues payments were based as closely as possible on costs. Harmonizing the terminal dues rates across all groups would eliminate arbitrage and other abuses, created by the inherent anomalies of a multi-tier terminal dues system under which postal operators from countries in group I paid higher rates among themselves than they would pay and receive in relation to the other groups. This was particularly an issue as industrialized countries paid more than developing countries for the delivery of lightweight letter-post items, but sometimes paid as little as half the rates paid by developing countries for heavy items. In 2020, the terminal dues rates applicable to E format items were harmonized across all groups, and the 27th Congress decided to further harmonize the rates for documents (P and G format items) by 2025. In principle, the same terminal dues rates would eventually apply to low-income developing countries, which will address issues of arbitrage and possible abuse of the system, as well as ensuring compliance with the MFN requirements. The drawback is that the terminal dues rates would be prohibitive for low-income developing countries and greatly reduce the accessibility of the international postal network.

While MFN compliance issues were resolved with a terminal dues system that progressively moved away from differential access to destination country postal service networks based on the identity of the origin country (its classification in the TD classification system or, prior to that classification system, whether it was defined as an industrialized or developing country), the issue of affordability and integrity of the network remained. Solutions were found to ensure that any new or outstanding differences of treatment were based on objective criteria, so that the remuneration system would not conflict with the GATS and its MFN principle.

The classification of countries into different terminal dues groups was based on such objective criteria, and was a fair and realistic solution, since it took into account the objectives and needs of developing countries. The transition to a single terminal dues system, in which the same methodology and the same minimum and maximum rates apply, was inevitable, but at least the phased transition time path allowed groups of developing countries to move into the target system according to their level of postal economic development. The last group to remain in the transitional system consists of the low-income developing countries, including the least developed countries, which typically have small mail exchange volumes. As mentioned above, these countries, though classified as transition countries, will apply the target system requirements by 2022, in particular the application of country-specific rates for all letter-post formats.

In terms of affordability in outbound flows from countries in the transitional system, again, volume-based approaches were deemed compatible with the GATS system. In a May 1999 letter from the WTO Secretariat to the UPU, the then WTO Director of Trade in Services stated that, while members of the UPU that are also WTO members may need to ensure that the terminal dues system would entail no discriminatory measures on their part, they must also ensure that any differential charges are be based on objective criteria, such as the volume of mail, rather than on the national origin of the service or the supplier.[64]

The 2019 Geneva Congress set that threshold at 100 tonnes, below which low-income countries and LDCs benefit from payment of generally lower terminal dues rates. The decision concerned a very small proportion of E format item volume dispatched by some of the world's least developed countries, and was an essential part of a compromise agreement that recognized the importance of ensuring accessibility to the global postal network for citizens of all countries, which was particularly relevant as the same Congress agreed on self-declaration and other general increases in the terminal dues rates.

It is also important to note that, given the small mail volumes sent by countries in the transitional system, the application of the Convention rates to mail flows that originate in those exception countries has a very limited impact on overall cost coverage and sustainability of inbound delivery services in high-income industrialized countries.[65]

On the inbound side, the minimum terminal dues rates are those that apply to most countries in the transitional system. In 2021, about 75% of the countries classified in the transitional system applied the minimum terminal dues rates of the Universal Postal Convention.[66] It should also be noted that 36 postal operators from group IV, or about 34% of the total UPU membership, did not submit domestic tariff information to the International Bureau for the purpose of the calculation of the 2020 and 2021 terminal dues rates; as a result, these countries apply the minimum rates by default.

From these statistics, it is clear that the level at which the minimum rates are set is very important to low-income developing and least developed countries. There are a number of concerns expressed in relation to the minimum rates. First, there is an interest in preventing the gap between minimum and maximum rates from growing too wide, as the balance of payments between a developing country and an industrialized country could be strongly impacted. Many low-income developing countries receive more mail from target system countries than they send to those countries. In spite of receiving more mail than they send, it is possible to arrive at a net revenue that is negative, owing to the payment of higher terminal dues for an average item in the outbound flow compared to the minimum terminal dues rates received for the same type of item in the inbound flow.

64 UPU, Obligations arising from the General Agreement on Trade in Services (GATS), Beijing Congress 1999, Congress–Doc72

65 See for example, Postal Regulatory Commission, Notice of the United States Postal Service of effective date and specific rates not of general applicability, for inbound E format letter post and application for non-public treatment, 29 October 2019, docket CP2019-155, www.prc.gov/docs/110/110855/Notice%2010-29-19%20CP2019-155.pdf

66 Based on the applicable terminal dues rates of countries classified in group IV in the default terminal dues system, i.e. self-declared E format rates were not considered in the analysis.

Another important aspect concerns the dependency of low-income developing and least developed countries on terminal dues revenue to finance their postal operations and to invest in infrastructure improvements. In terms of both volume and revenue, terminal dues are essential to the financial sustainability of all postal activities, both domestic and international. These countries need terminal dues that are higher than their domestic rates in order to support global interoperability and postal network development.

In this connection, it should be borne in mind that many postal operators of low-income developing and least developed countries do not have sufficient visibility of their costs and, in many of these countries, domestic tariffs are set according to social goals, and do not cover, or are not related to, costs. In some of these countries, domestic postal services are subsidized by the government because of the socio-economic importance of ensuring access to affordable postal services. As a consequence, these domestic tariffs, when used in the calculation of terminal dues rates, result in the application of the floor rates on their inbound flows.

For these reasons, at recent Congresses there was a broad agreement that the minimum rates, or floor rates, should not be removed. In fact, recent Congresses decided to increase the floor rates, in particular for E format (small packet) items. For example, in 2020, the minimum rates for E format items increased by 23.1% compared to 2019, and significant increases to the minimum rates for documents (P and G format items) were decided by the 2021 Abidjan Congress, to take effect from 2022.

Increases to the minimum rates have significant benefits for low-income developing countries. However, there are also a risks in creating an excessively large wedge between domestic tariffs and the minimum terminal dues rates, as this could incentivize remailing practices. ABB remailing did present major problems for developing countries in the past, in particular in the 1980s. For some postal operators of developing countries, the losses from remailing were difficult to bear, especially since international items formed a very high proportion of their mail. As seen above, revenue from terminal dues finances a large proportion of these countries' postal infrastructure, especially as their domestic postage rates are often fixed on the basis of social criteria at a level which does not cover the costs. When remailing firms posted their items in these countries for delivery, they deprived these countries' postal operators of the terminal dues they needed for maintaining and improving their infrastructure, and at the same time required them to deliver their items at rates which did not cover the related costs.

PRIVATE CARRIERS

The development of direct and indirect competition took place in an environment characterized by globalization of exchanges promoting the establishment of worldwide networks, based on strategies of integration and alliances. In particular, integrators in the express sector interconnected their networks with national carriers and airlines. They set up the necessary infrastructure, targeted the postal market and diversified by marketing less sophisticated and cheaper services. In the context of the Universal Postal Union and in other international fora, private carriers argue that they face significant barriers that limit their ability to provide services in foreign and cross-border markets.

Private carriers and courier services have diverted volumes, some of which would traditionally have been considered as postal traffic, away from the global postal network. Today, with international letter volume in decline, the postal network is carrying more and more e-commerce–driven small packet volumes. As illustrated in section 1.3 on the market development aspects of the terminal dues system, it is particularly lightweight items containing goods that are flowing through the terminal dues system. Lightweight e-commerce goods constitute a particularly competitive market segment in which postal operators compete with private carriers.

Besides private carriers and other competing delivery service providers, incumbent postal operators are also actively seeking business in the outbound postal markets in countries other than their own. Some of these postal operators offer price discounts or an expedited delivery service to some high-volume customers of the postal service.

On the other hand, while postal operators are subject to legal and regulatory constraints, such as the universal service obligation (see section 1.2), which hinder their ability to compete as effectively in the international mail market, private carriers argue that postal operators sending mail through the global postal network enjoy an unfair competitive advantage because of the terminal dues rate system, as well as the exclusive access that postal operators have to the networks of foreign postal operators. Private carriers are not encumbered by universal service obligations and are free to target only the most lucrative markets. Additionally, they are able to offer service to or from a country without having to carry reverse traffic at a loss. Private carriers have sought to eliminate certain TD provisions from the UPU Convention and advocated for the alignment of terminal dues with domestic postage.

In the UPU, the Global Express Association, previously known as the IECC (International Express Carriers Conference), represents the leading international private express companies – i.e. DHL Express, FedEx Express (currently integrating TNT) and UPS – and is a member of the Consultative Committee.

USERS OF THE GLOBAL POSTAL NETWORK

Customers need price and quality differentiation. Until 2018, there was one combined rate for all types of mail, despite the fact that postal operators treat mail differently. In the 2010s it became increasingly clear that the terminal dues system had to reflect the operational and commercial differences between traditional letters and items containing goods, i.e. small packets.

Customers need a level playing field with the domestic mailers or e-retailers. For this reason, as well as for improved cost orientation, the number of mail flows that used domestic tariffs as a reference for terminal dues payments increased until all mail flows applied domestic tariffs or self-declared rates limited by the domestic tariffs in the destination country. This is despite the fact that most postal operators offer large discounts for bulk postings, taking into consideration the preparatory work carried out by the customer, which reduces the costs for the delivery postal operator.

Customers also need operators to act in a commercially sensitive way, and customers need to be treated equally. From the customer's perspective, there can be no justification for the UPU creating artificial barriers to a competitive market, especially as national authorities have been removing barriers in their domestic markets.

Finally, customers need better quality of service achievement from postal operators. Many items are time-sensitive (though this does not always mean that they have to get to the addressee very quickly; rather, it means that they should be received within the agreed time period, and preferably on a given date). As explained in section 1.8, the terminal dues system places a great deal of importance on quality of service improvements. However, with more e-commerce–generated postal items moving through the global postal network, timely and relevant tracking information, along with quality of service measurement dedicated to small packet items, is critically important. Nevertheless, the achievements of the terminal dues system in driving quality of service improvements and remunerating postal operators on the basis of the quality of service are significant. And the evidence is clear in terms of how the remuneration system has driven improvements in interoperability, in particular the handover of postal items between the sending and destination postal operators, and postal operations (especially in terms of more efficient procedures at airmail units and offices of exchange, as well as addressing bottleneck problems in terms of the introduction of international mail into the domestic delivery network).

Trade associations advocate the abovementioned policy objectives at the international and domestic levels where international postal operations and remuneration are discussed. For example, the International Mailers Advisory Group (IMAG) represents a large community of users of the global postal network, including consolidators, marketers, vendors and international mailing houses. IMAG's mission is to address barriers to the efficient flow of information and goods across borders, and it expresses concerns about possible increases in export prices hurting American exporting companies.[67] Other trade associations, such as Ecommerce Europe, have argued in favour of a level playing field between postal operators, in particular where terminal dues rates and international mailing practices contributed to international trade disruptions due to the unfair competitive advantages enjoyed by Asian exporting companies under the TD arrangements in place until 2019. At the same time, it called for caution in raising terminal dues rates owing to the impacts on cross-border trade.[68]

As seen in section 1.6, a key concept of economic development through the international postal services is the empowerment of small and medium-sized enterprises (SMEs), which depend heavily on the global postal network to enter foreign markets and grow to their economic potential. The global postal network covers the most remote localities and ensures mail service to people throughout the world. At accessible rates determined by the postal operator in the country of origin, anyone can access an affordable postal service to any overseas location in the world. Private carriers offer different delivery services, including expedited services, that do not however match the scope and accessibility of the universal postal service. Many users of international postal services, citizens and businesses alike, depend on the global postal network for reliable, secure and affordable international postal services.

As e-commerce transactions increase globally, and an increasing share of those transactions are cross-border, the UPU, through its global postal network, is a key stakeholder in trade facilitation and e-commerce development efforts worldwide. This is not only because the global postal network provides the global universal postal service maintained by all designated operators of UPU member countries, but also and above all because a large share of e-commerce merchandise items are sent and delivered through the global postal network. Terminal dues remuneration forms an important aspect which determines the tariffs for international postal services set by the origin postal operator.

67 International Mailers' Advisory Group, www.internationalmailers.net/single-post/2018/10/19/imag-statement-on-administrations-decision-regarding-upu

68 Ecommerce Europe's contribution to the consultation on UPU remuneration systems, Ecommerce Europe

BALANCING STAKEHOLDERS' INTERESTS AND POLICY OBJECTIVES

International postal services provide for a unique setting where multiple, equally important strategic objectives exist. The role of the UPU member countries is to balance those multiple policy objectives as effectively as they can. This requires analysis and judgment in the face of necessarily uncertain forecasts, such as market developments and rapidly changing customer needs, and vital policy mandates such as the universal service obligations and socio-economic policy objectives to develop access to the global digital economy, or consideration of the needs of low-income countries and LDCs. Focusing on a single objective would lead to less satisfactory performance. This balancing exercise is carried out every four years in the lead up to the Congress, as the Council of Administration develops proposals for the Congress on the policy principles that need to be observed in developing the remuneration system. These principles, which have recently come to be referred to as the integrated remuneration system principles (see also section 3.1), set the framework and objectives of the future terminal dues system.

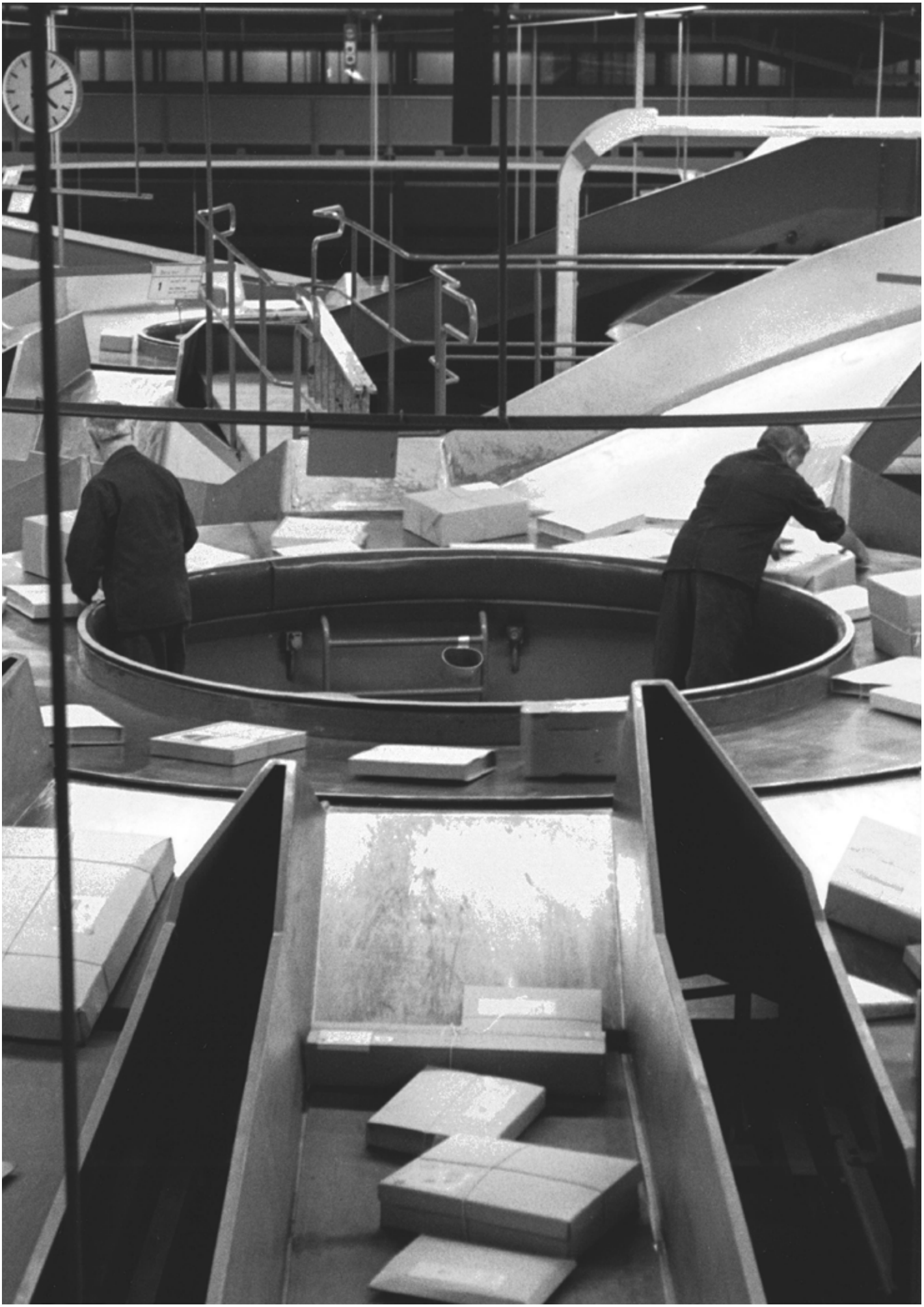
One example of how the different policy objectives and principles are weighted and balanced is the prioritization exercise that was conducted in 1997 by the CA policy analysis team, which developed a list against which any proposed change to the terminal dues system should be assessed. Many of the principles conflicted with each other, at least to a certain extent, although sometimes they could be considered as conflicting and complementary at the same time. For example, affordability of outbound postal services and sustainable remuneration revenue for inbound postal services may seem conflicting at first, but if affordability means the ability for the sending postal operator and/or sending customer to pay for the postal services, then cost-covering remuneration rates in the destination country may not always be mutually exclusive principles. All the same, both the ability to pay for international postal services and the levels of costs of providing inbound postal services differ significantly from one country to another.

The 1997 prioritization list was developed by representatives of 15 UPU member countries. This was the first time that principles of the terminal dues system were explicitly formulated and used as an instruction for the development of TD proposals. The members of the policy analysis team were invited to rank each principle in order of priority from 1 to 5, 5 being the most important.

ORDER OF IMPORTANCE	CRITERION	SCORE
1.	**Support universal service**	**63**
2.	**Cover costs**	**62**
3.	**Easy to implement**	**59**
4.	**Commercially viable**	**56**
5.	**Encourage improvement of service quality**	**49**
6.	**Maintain revenues for developing countries given constant volumes**	**48**
7.	**Reduce/eliminate ABA, ABB and ABC remailing**	**41**
8.	**Abide by rules, regulations and laws of government and regulatory bodies**	**41**
9.	**Provide funds for infrastructure development**	**41**
10.	**Encourage efficiency**	**40**
11.	**Make the international customer a winner**	**29**
12.	**Create a level marketplace**	**28**
13.	**Discourage substitution**	**27**
14.	**Make the domestic customer a winner**	**14**

It will be recognized that nearly all of the above principles have been analyzed and discussed in this study from both a historic and contemporary perspective. Although the principles and policy objectives underpinning the terminal dues system have evolved since 1997, most – if not all – of these principles remain relevant today, and are still reflected even in the latest set of integrated remuneration system principles adopted by the 2021 Abidjan Congress.[69] Logically, over time, given the rapid changes in the industry and in changing customer behaviour, the relative importance attributed to one principle may have changed compared to another.

69 Resolution C 13/2021, Integrated Remuneration Plan (2022–2025)



1.8

QUALITY IMPROVEMENT

Congresses have introduced important quality-oriented aspects into the terminal dues system where rate increases became contingent on quality of service improvements and (optional) electronic data exchanges drive improved customer and operational visibility of mail items moving through the network.

TERMINAL DUES AND EFFICIENT POSTAL OPERATIONS

The introduction of format-separated letter-post services as a requirement for larger mail flows in the terminal dues system represented one of the important factors in improving the overall quality of basic letter-post services, while also reducing overall operating, handling and sampling costs, and the delays associated with security and customs clearance requirements.

The terminal dues system requires postal operators in the target system to perform a physical separation of outbound letter-post items according to their format and content. The operational efficiency benefits and better service levels achieved through format separation should, however, be cost-effective as well. Among the many benefits of format separation, it is considered that such measures lead to faster end-to-end delivery of letters and small packets; lower end-to-end handling and sampling costs; reduced risk of damage to letters sent in trays rather than bags; fewer injuries to postal staff when handling trays rather than bags; and better segregation of product requiring customs inspection and/or security clearance.

Cross-border transportation security requirements clearly point to the need to segregate small packets from letters in order to ensure the speedy delivery of letters and prevent letters from being delayed in the network owing to the security requirements for inspection of small packets, and to ensure that customs, airline and security personnel are not overwhelmed by trying to inspect packages that are mixed with letters.

The current threshold of 50 tonnes in relation to format separation and sampling for mail flows to, from and between countries classified in groups II and III is mainly a threshold set for objective practical reasons to avoid work on special statistics that is not worthwhile for small flows. Country-specific terminal dues rates are applied against a worldwide average composition of one kilogramme of mail to determine the applicable remuneration for such flows. Format separation is optional for countries in group IV in recognition of their specific needs.

QUALITY OF SERVICE LINK TO TERMINAL DUES (QS LINK)

In the early 1990s, the delivery time for cross-border mail between the 17 member countries of the then European Community was three working days, with average on-time performance measured around 40%, and large variations between different postal operators.[70] At that time, according to the green paper on the development of the single market for postal services, the wide variability in performance for universal services was considered the main market distortion of international postal services: "divergences in the service levels of universal services in different regions can contribute to market distortions in other sectors which are reliant on postal services".[71]

These variations in quality of service performance had particular implications on European commercial and social life that are heavily reliant on postal services. In the 1990s, large senders of mail included the key sectors of publishing, financial services, mail order and advertising. By the 2010s, the large senders of mail included e-commerce retailers, which equally rely on a well-functioning international postal service as an enabler of economic growth in the EU.

70 Green paper on the development of the single market for postal Services, Commission Communication COM(91) 476, 11 June 1992

71 Idem

In the late 1990s, the UPU's Council of Administration, the European Commission and other regulatory bodies stressed the need to maintain an affordable universal service and improve quality of service. In the European context, the European Commission assessed the compatibility of a the REIMS II terminal dues agreement with EU competition law and, after review, approved the agreement, in which TD increases were contingent on quality of service improvements. The favourable opinion of the European Commission resulted from analysis of the impacts of this agreement, which had shown that the agreement had effectively brought about substantial improvements in the quality of the services concerned.

The importance of a terminal dues system that drives operational efficiencies and quality of service improvement was recognized in the UPU context when the Beijing Congress adopted a resolution providing for a link between quality of service and payments between countries for the processing and delivery of incoming letter post.

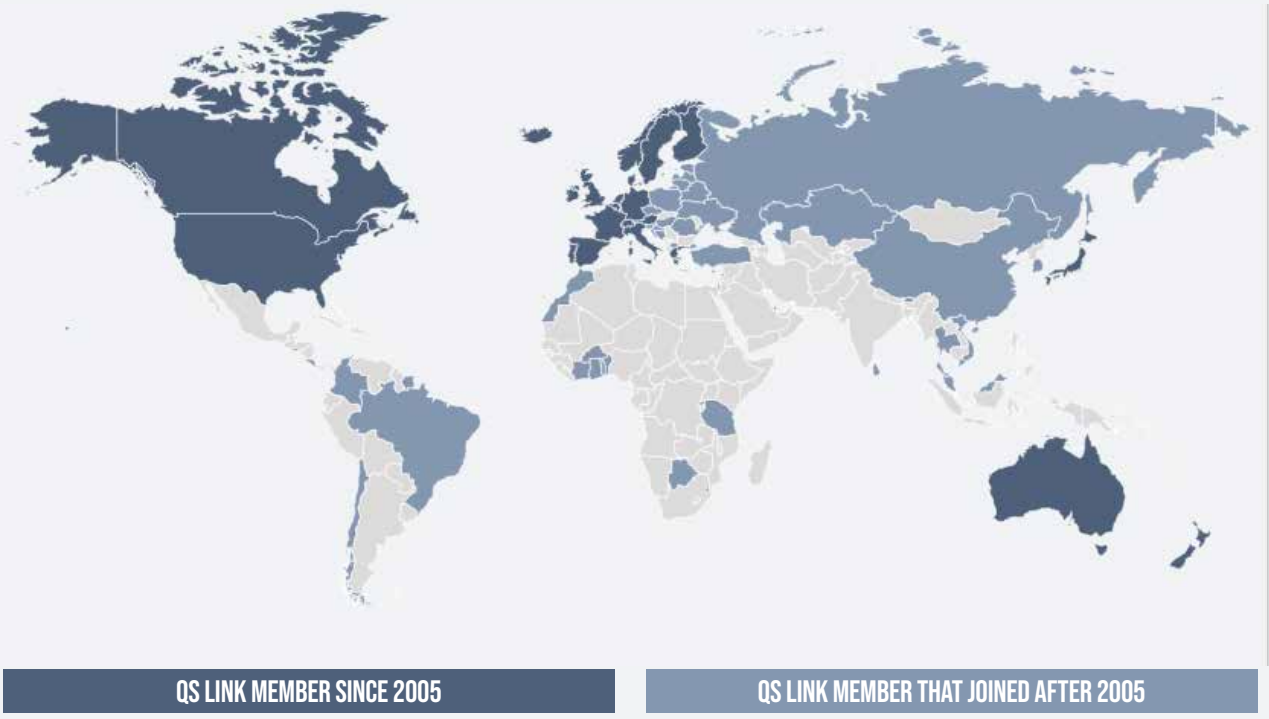
For industrialized countries, the new system was launched in 2005. Twenty-three postal operators of industrialized countries participated in the quality-linked terminal dues system from the start. In its first year, 19 of these 23 operators obtained a maximum quality adjustment to their terminal dues rates, as they achieved or exceeded the on-time target that applied to all participants in the system. Israel, Malta and Latvia were the first three countries to join the system on a voluntary basis in 2006. They were followed by Brazil and Jamaica, which also joined the system voluntarily from 2007.

The quality link factor that is used to determine the quality adjustment to the terminal dues rates works as follows: First, all countries in the system receive a participation bonus of 5%, meaning that the quality link factor starts at 105% for all countries measuring their quality of service. Then, from that 105%, a 0.33% penalty is deducted for each full point that a country's measured performance falls below its target, provided that this does not result in a quality link factor as low as 95%, i.e. 5% lower than the base rates. Countries applying the floor rates are protected and will never receive less than 100% adjustment to their terminal dues rates; their quality adjustment to the base rates will vary between 100 and 105%.

Shortly after the establishment of the quality of service link to terminal dues, the POC created the Quality Link User Group (QLUG). The purpose of the QLUG was to deal with all different aspects of operating a quality-linked terminal dues system and provide an independent governance mechanism to ensure the fair and neutral treatment of all questions of an operational nature that could impact on quality-linked remuneration. The membership of the QLUG has grown from 23 member countries in 2010 to 76 in 2021, and is expected to top 100 by the end of the Abidjan Congress cycle.[72]

72 The Quality Link User Group will be discontinued from 2022 and its work activities integrated into those of a POC standing group responsible for all pay-for-performance systems, including the quality link for parcel services.

Figure 32: **Countries linking quality of service to terminal dues**



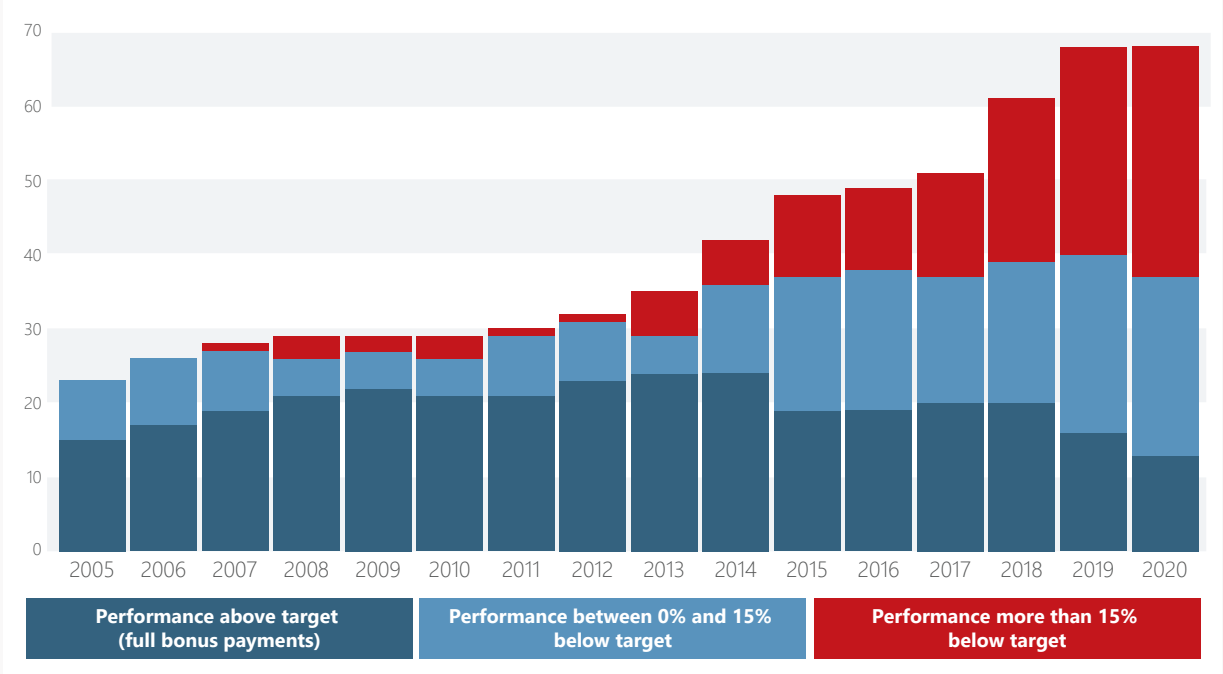
This increase results from the transition of countries into the target system, in which quality-linked remuneration is mandatory. Furthermore, the 2016 Istanbul Congress decided to make participation in the Quality of Service Link (QS Link) mandatory for all postal operators (with the exception of countries with a total annual inbound mail volume below 100 tonnes, for which it would not be cost-effective to implement a global measurement system). After a two-year grace period starting in 2018, the postal operators in the transitional system were required to put in place a quality of service measurement system from 1 January 2020 and use the quality of service performance results to adjust their inbound TD remuneration. As of 2021, a large number of those countries still have not implemented the quality of service measurement system, meaning that they receive no quality-linked adjustments to their inbound terminal dues rates, while they pay quality-linked TD remuneration on their outbound flows, but never less than 100% of the terminal dues base rates. In other words, the link to remuneration is mandatory, whereas participation in a quality of service measurement system is voluntary.

With the implementation of the GMS Technical Design in May 2010, there are two sets of technology platforms run by two measurement system providers, which postal operators may use to provide UPU GMS-compliant performance measurement.

Box 13: **Quality-linked terminal dues**

Quality-linked payments to terminal dues started in 2005. Quality of service adjustments are predicated on annual quality of service performance results reported at the end of the quality reporting period. Postal operators are subject to 0.33% penalties on their terminal dues remuneration for every point they perform below their country-specific targets. It is important to note that quality of service performance is measured against country-specific delivery standards, meaning that low-income developing countries or the least developed countries do not need to comply with the same delivery standards as some of the industrialized countries. Also, quality of service standards can differ significantly different between countries in the same geographical region or within the same TD classification group. For example, Denmark's quality of service performance is measured on the basis of a standard of K+5, i.e. mail items that are included in the measurement are considered to be on time if delivered within five days of their arrival in Denmark. In Germany, despite being a larger country, a similar item is considered to be on time if delivered within one day of its arrival in Germany. The reason for these differences is that, in each country, different quality of service standards apply with respect to items covered by the universal service. The ability of the postal operator to process and deliver inbound international postal items against the same quality of service standards and targets that apply to similar items in the domestic service determines performance in the QS Link. Figure 33 gives a high-level overview of how, among a growing population of postal operators aligning their terminal dues remuneration to inbound quality of service, performance in the QS Link has evolved since its inception in 2005.

Figure 33: **Performance against country-specific targets (number of postal operators)**



From 2015 a trend can be observed of overall performance in the QS Link system decreasing as a result of an increasing number of postal operators having an annual quality of service performance result that is below target and, in a growing number of cases, significantly below target. Although the situation is different in each country, there are however a number of global factors that could explain the general trend.

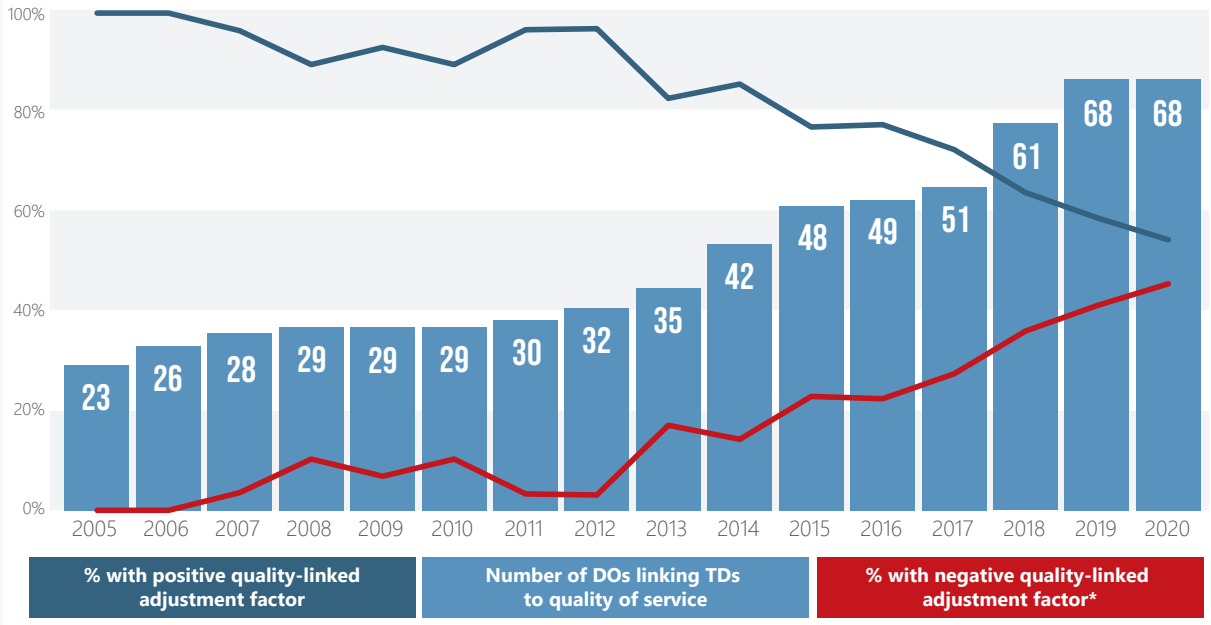
First, the number of postal operators adjusting their terminal dues remuneration to quality of service has increased from 23 operators from industrialized countries in 2005 to 68 operators from all levels of postal economic development in 2020. The more advanced postal operators have longer experience of quality of service measurement and, in general, have more financial capacity to adjust their postal operations, such as streamlined and automated mail processing activities at the office of exchange or late evening forward transportation to meet cut-off times for entry of mail into the domestic delivery network. Less advanced postal operators may not have the required infrastructure or optimized interface with the domestic delivery network that enables them to meet domestic delivery standards. Many of the initial 23 postal operators already had experience with quality of service measurement, for example as signatories to the REIMS II agreement. Many new participants in the QS Link system face initial difficulties before they are able to improve the quality of their inbound mail operations. This was visible in particular among the new participants that joined after 2005 and up until 2013, with many of those countries seeing significant quality improvements within a year or two of joining the programme.

Second, the trend of decreasing quality of service performance from 2014 onwards could also be explained by the declining volumes of P and G format letter-post items. The decline of those volumes, combined with growing small packet volumes, has significantly changed the profile of international mail. Considering that quality of service measurement is still based on P and G format documents, the performance results are increasingly less representative of the entire mail flow. Postal operators are under pressure to achieve cost efficiencies, in particular in the processing and delivery of those formats, and national regulators and government authorities in many countries support relaxation of the domestic delivery standards. Simultaneously, because of this trend, postal operators are reducing their capacity for handling and delivering traditional letters and reallocating some of those resources to infrastructure and capacity for handling small packets and parcels. The structural shift from volume and capacity to handle traditional letters in favour of small packets and parcels clearly affects the ability of postal operators to meet the quality of service standards in the QS Link.

Finally, related to the trend described above is the fact that, with postal operators handling an increased volume of untracked and tracked small packet items, which often arrive mixed with other formats such as P and G format documents, items are increasingly subject to inspection by government agencies, such as customs or security agencies. Although there are mechanisms in place to apply border agency corrections to the quality of service measurement, these mixed receptacles do require additional postal handling procedures, and the interaction with the border agencies may not be conducive to optimized processing at the facility.

Figure 34 illustrates the global trend of a growing proportion of postal operators seeing their terminal dues remuneration decrease because of lower quality of service performance. It should, however, be noted that among the postal operators with a negative quality-linked terminal dues adjustment factor, there are many that are protected by the minimum rates in the terminal dues system; quality-linked adjustments cannot lead to terminal dues remuneration that is lower than these floor rates. For example, in 2020, the first year impacted by the COVID-19 pandemic, among the 26 postal operators with a negative QS Link adjustment factor, 13 postal operators applied 100% of their base rates, i.e. the negative adjustment was waived as the minimum rates in the Convention guarantee a minimum income for postal operators.

Figure 34: **Share of postal operators with a positive or negative quality-linked adjustment factor**



* No negative quality-linked adjustments are applied to postal operators that receive minimum terminal dues rates

SUPPLEMENTARY REMUNERATION FOR ADDITIONAL SERVICE FEATURES

The supplementary remuneration programme is an initiative under the UPU's aegis that creates a win-win situation for both postal operators and customers wanting to have their shipments not just sent but tracked and traced along the way. Since July 2011, this programme has enabled participating postal operators to generate more revenues while increasing the availability of end-to-end tracking services for customers.

Essentially a voluntary scanning data exchange programme, postal operators can opt for bonus revenues for up to three product areas, i.e. registered, insured and tracked delivery items. Participants have to ensure that outward items carry a barcode identifier compliant with the UPU S10 standard, and that they are scanned at dispatch, and inward items scanned during arrival and delivery. This data also has to be sent to the Postal Technology Centre for reporting purposes.

For postal operators to benefit from supplementary remuneration on top of their basic terminal dues, the scanning data must show a minimum level of service quality. The postal operator in the country of destination can receive a supplementary payment if it ensures the timely transmission of relevant item tracking data. The performance of individual participating DOs is reported, and once the minimum performance criteria for the transmission of inbound and delivery tracking events have been achieved, the per-item increase applies.

The 2016 Congress made the exchange of tracking information a mandatory service feature, though the tracked service remained an optional service. The terminal dues supplement associated with this service feature increased from 0.50 SDR per qualifying item to 0.69 SDR in 2018, further rising to 0.75 SDR in 2021.[73] The Abidjan Congress decided in favour of a more advanced remuneration mechanism for tracked delivery items that includes per-item payments for each item for which a delivery scan is transmitted, and additional bonuses that can be obtained for the overall timely scanning performance of each flow. According to these decisions, from 2022, the postal operator in the destination country can obtain a maximum additional payment of 1.15 SDR per item in addition to the base terminal dues remuneration.

73 Qualifying items are those that meet the minimum requirements defined in the Convention Regulations concerning the transmission of EDI event data.

TECHNICAL COOPERATION AND CAPACITY BUILDING

The global postal network links all countries and is a guarantee of universal postal services. To safeguard the integrity and advanced character of the world's postal network, it is critical that continuous efforts be made to strengthen the postal service worldwide. In this context, the more developed countries have an ineluctable duty to help developing countries establish their postal networks and improve quality of service.

In terms of capacity building, an important aspect of the terminal dues system is the Quality of Service Fund, which aims to improve the quality of inbound letter-mail flows, making national postal services and international mail flows more speedy, reliable and secure.

As decided by the Beijing Congress, the Fund's activities commenced in 2001, financed through a 7.5% increase in the rate of terminal dues applied to mail from industrialized countries to developing countries. The Congress also decided on the following principles governing the Quality of Service Fund:

The QSF would be used to finance projects aimed at improving universal service quality in DCs;

These projects would have to be linked to one of the following areas: access to services; speed and reliability; security, liability and handling of inquiries; customer satisfaction; or design and implementation of cost accounting systems.

Noting that the proportion of funds assigned to the least developed countries (4.9% by 2004) was too low to permit a significant improvement in their quality of service, proposals were made to grant the LDCs increased QSF resources. Countries classified as LDCs receive minimum QSF receipts of 20,000 SDR on an annual basis, irrespective of the mail volumes they receive.

The Geneva Congress in 2008 adopted the country classification system for terminal dues and QSF purposes. QSF contributions ranged from 2% (contributions payable by countries in former group 2 to countries in former group 3) to 20% (contributions payable by countries in former group 1.1 to countries in former group 5). Countries in the target system did not receive any QSF payments. Owing to the gradual transition of groups of countries from the transitional system to the target system, the number of direct beneficiaries of QSF receipts decreased over time.

Measures adopted at the Istanbul Congress in 2016 expanded the pool of QSF resources by moving countries in group III into the category of contributors and by creating a Common Fund to support postal modernization in developing countries.

SECTION II

TERMINAL DUES: LOOKING BACK




MADAG
MALI
MALTE
MAROC
R. I. M.
MEXIQE
MONACO
MNGLIE
OUGNDA
PKSTAN
PANAMA
PRGUAY
PAYSBS
A. N. SR
PEROU
PHILS
RWANDA
S. MRIN
SNGAL
SRR. LN
SNGPOR
SMLIE
SOUDAN
SUEDE
DOYEN
VICE-PRESIDENT
VICE-PRESIDENT
RAPPORTEURS

Over the course of 50 years, the significant evolution of terminal dues has been possible because of the spirit of compromise in the UPU membership. This respect for the interests of a diverse membership recognizes that an equitable terminal dues system is one of the key factors in maintaining the single postal territory. Challenges remain to ensure that the system takes account of market conditions and postal operators' need to cover the costs of performing delivery.

2.1

BEFORE TERMINAL DUES

In the face of constant growth in postal exchanges throughout the world, the plenipotentiaries of 22 countries met at a conference in 1874. Before the Treaty of Berne, a great confusion existed between nations because of differing postage rates, weight units, mail regulations and routeing systems. Postage collected on each letter had to be shared by the countries delivering it, in proportion to the value of the services rendered. This produced an elaborate and almost unworkable international postal system in which the calculations required to establish international postage were impossible for the layman to comprehend.

Established in 1874, the Universal Postal Union is dedicated to the principle that the world is a single postal territory for the exchange of mail between people, as an unparalleled example of international cooperation and reciprocity. The creation of a single postal territory for the reciprocal exchange of letter-post items among all member countries, the guarantee of freedom of transit and the standardization of charges formed the basic rules governing the global postal network in the UPU's first hundred years.

TREATY OF BERNE 1874

The Swiss Government convened an international conference at the suggestion of Heinrich von Stephan. Twenty-two nations attended, and the Treaty of Berne was signed on 9 October, establishing the General Postal Union and creating a single postal territory.[74]

Today, more than 145 years on from the conclusion of the Treaty of Berne, the importance of this achievement is still significant. If a country were to turn away from the UPU, the resulting disruption to the international postal system would be immense. In such a scenario, all other countries could refuse to accept the mail sourced in that country, and the only means of retaliation would be not to accept the mail. Without UPU involvement, countries would have to negotiate bilateral agreements with other postal operators. This would be a time-consuming and expensive task. The negotiation of mutually beneficial agreements is difficult, because many countries would end up worse off.

THE PRINCIPLE OF UNIFORMITY OF CHARGES

From 1874, the rates of postage for the conveyance of correspondence throughout the entire extent of the single postal territory were uniform and fixed by the UPU Congress. The principle of uniformity of charges introduced in the 1874 Berne Convention simplified and standardized the complex scales of postal charges that had existed under bilateral agreements.

The unsettled state of the economy in numerous countries after the First World War and the constant increase in the costs of the service made it necessary to adapt the principle of uniformity to the economic reality of the world which, in the 1920s, was appreciably different from that of preceding decades. That is why the 1920 Madrid Congress laid down basic charges (which in reality were maximum charges, because postal administrations had the option of stipulating lower charges under certain conditions). The 1924 Stockholm Congress gave administrations the option of increasing or reducing the basic charges within certain percentage limits. Nevertheless, the maximum limits set by the Congresses for a five-year period were a very contentious matter, as the costs of living of UPU member

74 In 1878 the Union's name was changed to Universal Postal Union to reflect its rapidly expanding membership.

countries varied more than the latitude permitted for the rates. As a result, it became increasingly difficult to reconcile the principle of uniformity of charges with modern ideas on rate fixing, in particular in member countries where the rate system led to the paradoxical situation whereby the rates in the domestic service were higher than those in the international service.

THE PRINCIPLE OF RECIPROCITY

In addition to the uniformity of charges, there was another fundamental principle that governed the global postal network: the **principle of reciprocity** (also referred to as the principle of non-sharing of charges) expressed in the Convention, with the exception of the transit charges payable by the country of origin to the country of destination.[75]

Under the principle of reciprocity, it was assumed that a letter gives rise to a reply and that the total number of letters dispatched from a country therefore approximates to the total number of letters sent in the opposite direction. As applied to letters, the principle goes back to the Congress of 1874; it was subsequently extended to AO items.

Back in 1874, it was indeed possible to speak of reciprocity; however, over time some countries found that they were receiving far more mail from abroad than they dispatched, in particular AO items, and therefore bore increasingly heavy expenses which were out of proportion to any benefits they derived from the arrangement. In some countries, in particular developing countries, these difficulties were aggravated by the size of the area to be covered and the precariousness of the means of transport.

At the 1906 Rome Congress, this principle of reciprocity was challenged for the first time when the Persian delegation proposed an amendment to the article dealing with the allocation of charges in the Universal Postal Convention. According to its proposal, it would be allowed to collect from the dispatching offices 25% of the charge collected by those offices from the senders of printed-matter items, as compensation for the extra expenditure it incurred for the conveyance to destination of all kinds of printed matter arriving from abroad.

BASIC POSTAL CHARGES – TIMELINE

1874 The Treaty of Berne established uniform postal charges and simplified the settlement of international accounts

1924 The principle of uniformity of charges was adapted to the economic realities of the world which, in the 1920s, were appreciably different from those of the preceding decades. The 1924 Congress gave administrations the option of increasing or reducing the basic charges within certain percentage limits.

1979 Provisions in the Convention allowed postal operators to increase the basic charges in the Convention by up to 100% and reduce them by up to 70%.

1989 Congress decided to convert the basic charges into guideline charges.

With statistics to support it, the Persian delegation justified its proposal by drawing attention to the fact that, in the preceding year, it had received more than 320,000 printed-paper items from abroad, mainly newspapers and various other publications of considerable weight and volume, whereas not a single printed-paper item had been dispatched from its country.[76] In view of the continually increasing sacrifices that the postal operator was having to make in order to convey and deliver those items from abroad, without the benefit of reciprocity, the Persian delegation called upon the Congress to set aside this very principle of reciprocity, i.e. the principle of non-sharing of charges. The 1906 Congress rejected this proposal (3 votes to 9, with 11 abstentions), arguing that the proposal was based on considerations that were totally foreign to the spirit of the Union.

75 E.g., the 1964 Vienna Convention, Article 46 stated that "except where otherwise provided by the Convention and the Agreements each postal administration shall retain the charges which it has collected". Article 47.1 stated that "[transit] charges shall be payable by the administration of the country of origin of the mail. [...] costs of conveyance between two offices of the country of destination shall be borne by that country [i.e. the country of destination]."

76 Other than printed matter, the Persian postal administration received 276,000 letters and 28,800 postcards from abroad, while in the same period it dispatched 265,000 letters and 15,600 postcards.



Table 2: **Overview of proposals for a compensation mechanism before 1964**

CONGRESS	PROPOSAL	PROPOSING COUNTRY	VOTE
Rome 1906	Proposal by Persia	Persia	3 for, 9 against, 11 abstentions
Madrid 1920	Floor amendment	Mexico	24 for, 30 against
Stockholm 1924	Proposal by Norway	Norway	Withdrawn
Stockholm 1924	Proposal by Romania	Romania	1 for, 28 against
London 1929	Proposal 265	Australia	2 for, 11 against, 1 abstention
London 1929	Proposal 1822	Netherlands Indies	19 for, 34 against, 4 abstentions



Owing to its simplicity, the principle of reciprocity was retained for a long period of time by the various Congresses, which considered that a compensation mechanism for the delivery of mail by the destination country would be a retrograde step and an abandonment of a fundamental doctrine of the UPU, namely the parity of interests between sender and addressee. This principle was reaffirmed time and again, for example by the 1929 London Congress, which decided against a proposal by the Netherlands Indies to introduce a "terminal charge" payment of 0.75 francs per kilogramme for L/C items and 0.10 francs per kilogramme for AO items. Table 1 provides an overview of the various attempts made by Union member countries to introduce a mechanism to compensate for the imbalances of mail.

On each occasion, the Congress argued that the payment of terminal dues to the destination country would constitute an additional cost that led to higher postal charges and a consequential reduction of the volume of outward international mail, with adverse effects on the economic, cultural and scientific development of countries. It was furthermore argued that, although a postal operator may be at a financial disadvantage in receiving more correspondence than it sent, the country nevertheless benefited because its national life thus received more information and useful suggestions from other countries than it was able to give in return; this surplus contributed to its development and served the interests of its citizens. Above all, the view was held that it would undermine the principle of reciprocity and undo the great progress achieved by the Treaty of Berne.

This brief excursion into the Congress of 1906 and other early Congresses shows that the question of terminal dues was not a new one when it was raised many years later at the 1964 Congress in Vienna.

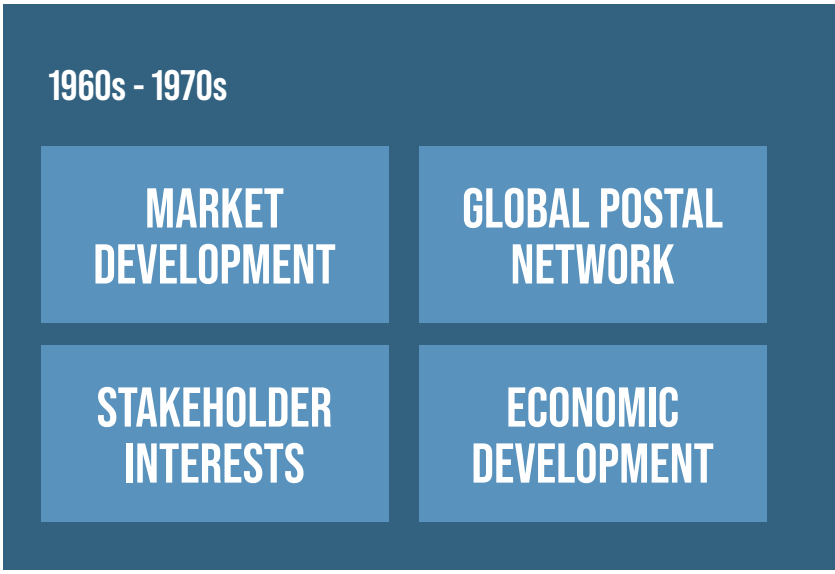
2.2

THE FIRST 20 YEARS

In the 1960s and 1970s, for the majority of developed market economy and planned economy countries, inward international mail generally accounted for only a small proportion (often less than 5%) of the total volume. In the majority of these countries, international mail constituted marginal traffic which did not cause major economic constraints. A completely different situation prevailed in many developing countries, where the volume of inward international mails – which generated no revenue for the country of destination – exceeded the total volume of internal and outward mail. In these countries, the imbalance had a direct impact on the postal infrastructure, the financial situation and the level of development of their postal services.

By 1964, a growing number of countries were challenging the principle of reciprocity and calling for a change in the system because they received far more international mail than they dispatched, and argued that they should be compensated for the increased handling costs. Adopted by the 1969 Congress in Tokyo, terminal dues were introduced in July 1971 as a payment by the sending country to the receiving country for handling and delivering international surface mail.

Even though the validity of the principle of compensation where imbalance exists between the volumes of outward and inward mails was no longer challenged after the Tokyo Congress, there was still uncertainty as to the fairness to the parties involved of the criteria used for determining terminal dues and their amount. The question of which factors should be taken into account in determining whether there is really an imbalance in the volume of outward and inward mail was heavily debated: should it be the weight, the number of items, the nature of the items exchanged, or a combination of these three factors? This was the focus of the main concerns expressed during the discussions on the subject at the Tokyo, Lausanne and Rio de Janeiro Congresses.



The central pillar of the 20th century global postal economy was the international gold standard. Since many countries fixed the value of their national currency in terms of gold, each currency had a fixed exchange rate against every other – thus virtually eliminating foreign exchange risk and barriers to international payments. The gold franc rate per kilogramme was applied to the difference between the weight of mail received and dispatched to determine the amount of terminal dues a country would or receive. The gold francs were converted to the currency of payment using that currency's gold franc equivalent.





Plenary session of the 15th Universal Postal Congress in Vienna, Austria

1964
VIENNA CONGRESS

Based on the assumption that each letter demands a response, the founders of the Union reasoned that the number of letters received by a postal operator would more or less equal the number of letters sent, meaning that it was unnecessary to remunerate the destination operator for the services rendered.

Considering this reasoning to no longer be valid, Colombia proposed to the 1964 Congress that the growing imbalances in letter flows be studied to determine the costs associated with the handling, transportation and delivery of international letter-post items. A number of countries voiced their support for an objective study, provided that the Congress decision would not be interpreted as a definite agreement to move away from the principle of reciprocity applied to letter-post items. Congress adopted resolution C 13/1964, instructing the Executive Council to carry out the study.

Resolution C 13 was a milestone in the development of the terminal dues system, as it was the first time in history that a Congress decided in favour of examining a more equitable procedure for sharing the charges between sending and receiving country.

RESOLUTION C 13/1964

adopted by the Vienna Congress to study the costs associated with the handling, transportation and delivery of letter-post items:

Résolution C 13

Prix de revient de l'acheminement, de la transmission et de la distribution des envois de la poste aux lettres

Le Congrès,

étant donné

que, jusqu'à ce jour, aucune étude n'a été faite sur le prix de revient, la transmission et notamment sur la distribution des envois de la poste aux lettres dans le réseau intérieur de chaque Administration postale,

considérant

l'importance que ce problème présente pour toutes les Administrations postales des Pays-membres, surtout pour les Administrations des Pays en voie de développement, en vue d'établir un procédé plus équitable entre les prestations de tous les Pays,

charge

le Conseil exécutif d'entreprendre une étude sur le prix de revient de l'acheminement, de la transmission et de la distribution des envois de la poste aux lettres dans le domaine international.

(Congrès – Doc 154, Colombie, 23e séance plénière)



Emperor Hirohito and Empress Kōjun of Japan, at the opening ceremony of the 16th Universal Postal Congress in Tokyo

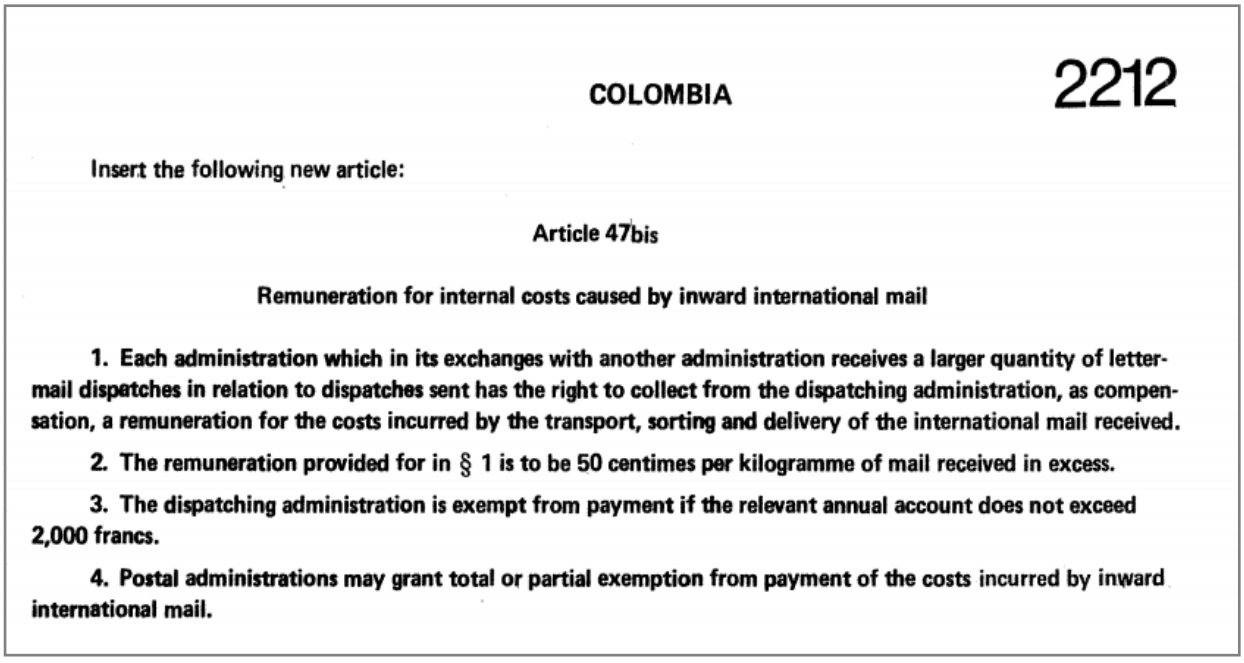
1969
TOKYO CONGRESS

After the Vienna Congress, the Executive Council set up a dedicated sub-committee to undertake the study mandated in resolution C 13/1964. Despite a great deal of work, it was unable to reach agreement on a proposal for remedying the issue, and recommended to the Tokyo Congress that the study be continued.

This recommendation did not satisfy Colombia, which submitted proposal 2212 (shown below), suggesting a remuneration rate of 50 gold centimes per kilogramme. Colombia came to this figure on the basis of cost estimations for the transportation, sorting and delivery of one kilogramme of mail in the United Kingdom (86 gold centimes), Switzerland (36.5 gold centimes) and Colombia (51.5 gold centimes). Although the average of the three was 58 gold centimes per kilogramme, Colombia presented a lower rate of half a gold franc per kilogramme.

PROPOSAL 2212

from Colombia was adopted by the Tokyo Congress:



COLOMBIA 2212

Insert the following new article:

Article 47bis

Remuneration for internal costs caused by inward international mail

1. Each administration which in its exchanges with another administration receives a larger quantity of letter-mail dispatches in relation to dispatches sent has the right to collect from the dispatching administration, as compensation, a remuneration for the costs incurred by the transport, sorting and delivery of the international mail received.

2. The remuneration provided for in § 1 is to be 50 centimes per kilogramme of mail received in excess.

3. The dispatching administration is exempt from payment if the relevant annual account does not exceed 2,000 francs.

4. Postal administrations may grant total or partial exemption from payment of the costs incurred by inward international mail.

The proposal was vigorously discussed at Congress, where it drew support from mostly developing countries, which believed the principle of non-sharing of charges no longer reflected the realities of the modern world. Supporters of proposal 2212 argued that the financial impacts from the longstanding principle of reciprocity were no longer tenable.

Some countries favoured the principle of the payment of internal charges on AO mail only, and not LC and AO as in proposal 2212. Since the proposal dealt with both LC and AO items, it appeared to them to be too wide in its scope and too general. The Congress therefore first held a vote on whether a new remuneration system should be introduced for all letter-post items or for AO items only. By 81 votes to 6, with 2 abstentions, the Congress committee decided in favour of the principle of the payment of internal charges on all inward international mail.

Having accepted the principle of remuneration to compensate for the costs of processing, transporting and delivering inward international letter-post items, the Congress then studied its practical application. Among different proposals, the deliberations began with proposal 2212, which was the most radical.

A number of countries spoke in favour of the adoption of Colombia's proposal, as it would result in the introduction of a purely provisional system with moderate rates applicable only to excess mail, which should not necessitate rises in the level of international rates or have any significant impact on their mail users. The underlying costs of sorting, conveyance and delivery of inbound international mail would need to be determined by the time of the next Congress, on the basis of a serious and complete study.

At the 1969 Congress, Mr Ibrahima N'Diaye, Director of the Senegalese Office of Posts and Telecommunications, who presided over the committee that was responsible for letter-post issues, described the landmark decision as follows:

"Some would be tempted to describe as revolutionary the action taken, which, although introducing a certain equity in relations between postal administrations, is nevertheless a serious threat on the other basic principle: non-sharing of charges. It is encouraging to note that Congress showed wisdom and prudence on such a difficult problem, although rejecting a certain conservatism which in the long run would impede the development of the postal services."

Union Postale, April–May 1970

Other countries opposing the proposal argued that the (outward) charges collected were extremely low in most countries and far from fully covered costs and that, for this reason, it was obvious that the situation would become even worse if the countries of origin had to compensate countries of destination for the handling of inward international mail. Moreover, the increase in postal charges could result in a reduction in the volume of outward international mail because those services would no longer be interested in favouring the increase in the volume of AO mail, which would have adverse effects on the economic, cultural and scientific development of countries.

There were also countries that saw the merits of remuneration for internal costs caused by inward international mail, but believed that other factors must be taken into account by the Congress, as the adoption of the proposal could lead to another inequitable situation – which was precisely what the Congress should want to avoid. The overall delivery costs may in fact be greater for the net exporting country, i.e. the country in a bilateral relationship that sends more letter-post items than it receives, than those of the net-importing country. This would increase the imbalance in the delivery costs and would also not be a fair solution.

As author of proposal 2212, Colombia responded to the arguments from the different delegations, and pleaded for justice for the young countries receiving large quantities of mail, especially from the industrialized countries. It argued that the sole application of the principle of non-sharing of charges lacked equity and could no longer be regarded as economically just, and that what was being proposed was consistent with precedents such as airmail conveyance rates and parcel rates.

On the morning of Monday, 27 October 1969, proposal 2212 was adopted by a secret ballot with 75 members voting in favour, 42 against and 4 abstentions.

After long and intense discussions, the Tokyo Congress adopted two important measures in relation to the new remuneration system. The first was the establishment of a rate of 0.5 gold francs per kilogramme of excess mail. It also decided to more closely sample the mail and extend this statistical exercise to the entirety of the mail to determine the weight in kilogrammes of the imbalances in mail exchanges. The Congress instructed the Executive Council to continue the study on the costs associated with the handling, transporting and delivery of inbound mail.

THE TERMINAL DUES SYSTEM ENTERED INTO EFFECT ON 1 JULY 1971.



1974 LAUSANNE CONGRESS

Ernst Brugger, President of the Swiss Confederation, addresses the 17th Congress at its opening ceremony in Lausanne

A proposal by the Executive Council to increase the terminal dues rates from 0.5 to 1 gold franc per kilogramme was contested by different net-importing UPU member countries. Alternative proposals concerning the level of terminal dues were considered by the Lausanne Congress in the order of their divergence from the status quo. Lesotho proposed a phased increase to 4 gold francs by 1977 (this proposal was rejected by 77 votes to 18, with 15 abstentions). New Zealand proposed a phased increase to 2 gold francs by 1977 (rejected by 55 votes to 53 with 7 abstentions). And Canada proposed, as a compromise, a direct increase to 1.50 gold francs per kilogramme; this was adopted by 83 to 30 votes with 5 abstentions.

The remuneration system also underwent a name change and was called "terminal dues" from the 1974 Congress onwards.

On the basis of a proposal by Australia, the Congress decided to apply terminal dues not only to surface mail, but also to airmail, which had grown to represent a very significant percentage of total mails exchanged between countries.

At Lausanne it was contended that the terminal dues rates were arbitrary compromises for as long as the available information on the cost of handling mail imbalances was inadequate. The Congress therefore adopted resolution C 53, which instructed the Executive Council to develop proposals to the 1979 Congress that included a formula for fixing the rate of terminal dues by taking into account not just the weight of the mails, but all cost factors, especially conveyance costs and handling costs according to the number of items contained in the mails, including special printed matter bags.



Plenary session of the 18th Universal Postal Congress in Rio de Janeiro, Brazil

1979
RIO DE JANEIRO CONGRESS

As instructed by the 1974 Congress, the Executive Council organized a working party, made up of Canada, Colombia and the United Kingdom, to develop a formula for fixing terminal dues rates. At its first meeting in September 1975, the working party choose weight as the criterion for assessing terminal dues, being the only measurement of traffic recorded by all UPU member countries. The working party acknowledged that this method had the advantage of simplicity, but recognized that other factors, such as the number of pieces of mail, should also be taken into account.

It was widely agreed that the weight criterion alone was a negative aspect, and a report by the working party showed that a kilogramme of mail dispatched from a developed to a developing country contained half as many units as *vice versa*, hence the absolute need to take the number of items into account as well. As a consequence, a debtor country on the basis of weight could become a creditor country on the basis of the number of items.

As of 1977, the working party obtained information on the composition (weight and pieces) of international mail from UPU member countries. This was the beginning of the statistical sampling and item-per-kilogramme studies that in the future would be such a central aspect of the terminal dues system.

Despite all efforts, the working party decided that it was neither practical nor feasible to arrive at a simple mathematical formula as instructed in resolution C 53/1974. For that reason, and giving due weight to the particular characteristics of the different countries, it was concluded that a uniform terminal dues rate would not be equitable for all countries, and therefore proposed a three-tier structure, according to the development of countries on the basis of the UNDP criteria:

Developed countries: 1 gold franc

Least developed countries: 4.50 gold francs

Other countries: 2.50 gold francs

It was argued that, under the terminal dues system, too high a proportion of total TD payments was made to industrialized countries, where the additional cost of handling inbound mail was considered to be only marginal. On the other hand, for developing countries and the least developed countries in particular, the picture was entirely different. Studies revealed that many developing countries felt overwhelmed, in both operational and financial terms, by the volume of international mail they received. It was therefore justified that they would receive greater compensation.

After full discussions by the last Executive Council before the 1979 Congress, a strong trend emerged in favour of a single rate for LC and AO and a different, more favourable, rate for M bags. However, the Executive Council left it entirely up to the Congress to set the amounts of the rates on the basis of country proposals submitted. This led to many country proposals being received with different rates according to categories of items and categories of countries.

The 1979 Congress was ultimately not in a position to differentiate terminal dues rates between countries on the basis of their economic development. It was considered that the rates should be uniform across all countries and based on sound, objective, realistic and fair criteria for all members.

For many countries, it appeared necessary to have three categories of items (LC, AO and M bags) and three different rates, as the three different categories had different charges in the Convention, and required different handling on arrival. A single LC/AO rate per kilogramme would amount to merging into a single mass the traffic imbalances, which varied considerably from one mail flow to another. It would penalize creditor countries when the excess was made up of LC items, and it would penalize debtor countries when the excess was of AO items. Different proposals by France, Argentina and other countries proposed that AO items, with a higher per-item weight than LC items, should benefit from a lower rate per kilogramme owing to a different item-per-kilogramme ratio and different inward handling costs for a kilogramme of mail.[77] It was also feared that a combined single LC/AO rate, further increased by the Congress, would have a drastic impact on books and other printed matter (AO mail) that heavily depended on the global postal network for their worldwide distribution. In fact, a study by the Executive Council concluded that the decision by the Lausanne Congress in 1974 to triple the terminal dues rates marked an erosion of international printed paper traffic, in particular publications and books. For these reasons, it seemed advisable to fix a lower rate of compensation for AO excess mail than for LC.

Nevertheless, instead of separate rates for LC, AO and printed matter, the Congress decided in favour of a combined rate for LC/AO mail of 5.50 gold francs per kilogramme and 1.50 gold francs for M bags as proposed by member countries of the then Postal Union of the Americas and Spain (proposal 2053.10 with 95 votes to 32, with 4 abstentions), for the sake of simplicity and in recognition of the fact that not all countries were in a position to measure their traffic by category, i.e. by separating LC and AO mail items.

77 A study by the Executive Council in 1978 determined the worldwide average weight of LC items to be 20 grammes and AO items 233 grammes.

2.3

A PERFECT TERMINAL DUES FORMULA?

In the 1980s, in all regions other than Africa, the number of letter-post items grew faster than the population; in other words, the number of items per capita increased. Between 1982 and 1987, the total letter-post market grew by 30.5%, with domestic LC items increasing by 23.4% (1.4% international LC items) and domestic AO items increasing by 32.6% (3.4% international AO items).[78] The major upswing in traffic was largely generated by the development of international trade, as well as the existence of buoyant postal markets that benefited from the expansion of the tertiary sector of the economy and the powerful surge in business mail. On the other hand, private couriers made inroads into the most lucrative segments of the postal market and were able to establish a considerable market share, with some of these private operators involved in remailing activities.

Concerning the terminal dues system, the discussions in the 1980s continued where they had left off in the 1970s, revolving around the challenge that a system based on payments of a single flat rate based on weight, without recognition of the number of items, the nature of the items and the level of economic development of the countries involved in mail exchanges, was inadequate to take fair and accurate account of a very complex reality of an increasingly competitive international postal market that needed to cater to increasingly different economic, social and political needs.

With its uniform weight-based remuneration, an important deficit of the system was the misalignment between the global terminal dues rates and the actual costs for handling, transporting and delivering letter-post items, which could vary significantly between countries.



Despite all the efforts by the Executive Council, the 1984 Congress was ultimately unsuccessful in moving away from this simplified system of a flat rate per kilogramme for excess mail. Meanwhile, the system increasingly invited arbitrage and market distortions, as postal operators incurred large losses when the Convention required them to deliver massive volumes of lightweight mail at terminal dues below costs. On the other hand, printed papers, which included books, periodicals, newspapers, music scores and small packets, and had a higher average weight per item, were over-remunerated in the single rate system, in contradiction with the Union's policy, which recommended that the exchange of books, magazines and periodicals should be encouraged. Competitors of the global postal network were taking advantage of the weaknesses of the system, and remailing companies were proliferating.

78 1989 Washington Congress, Congress–Doc 20/Annex 5

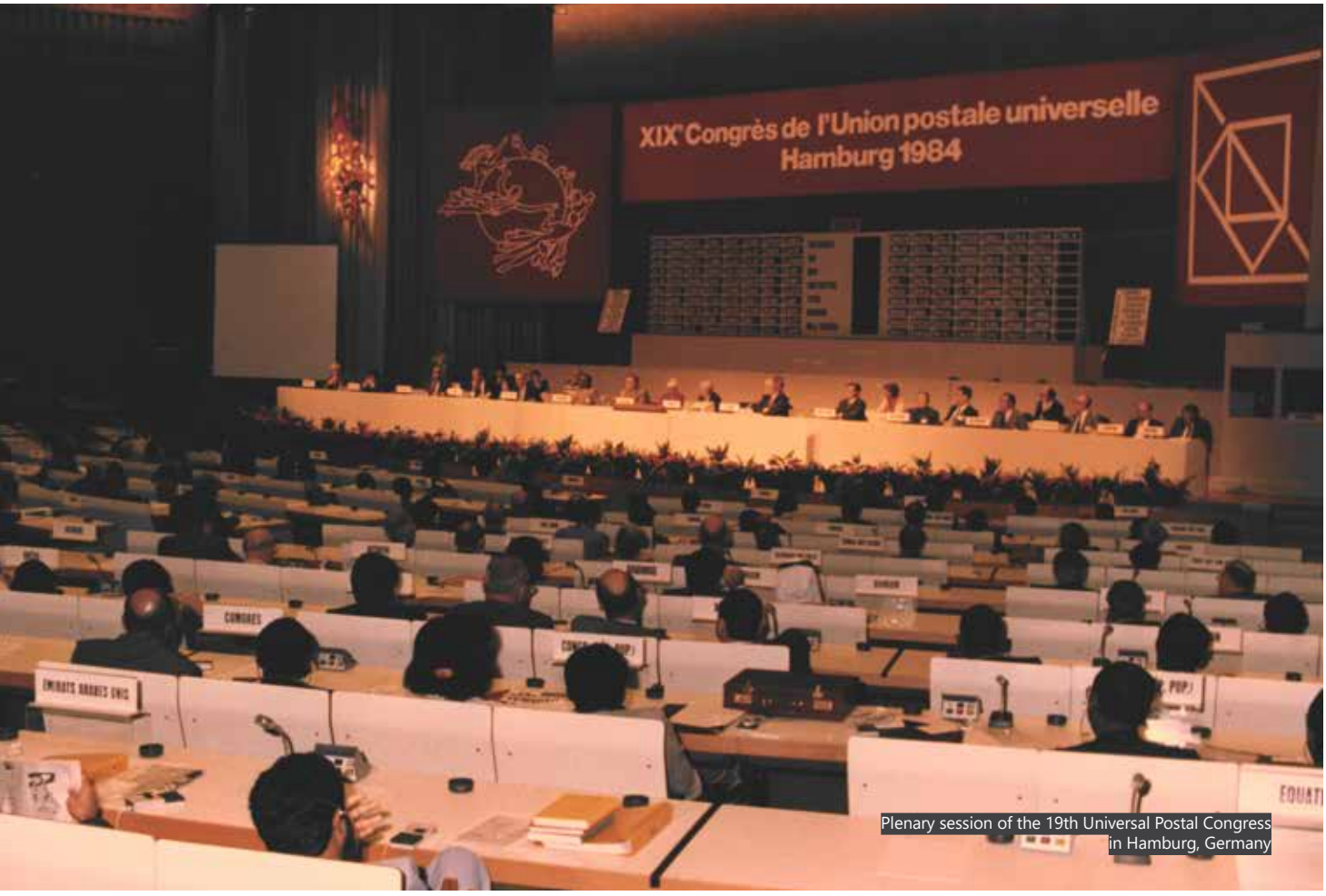


Delegations at work at the World Round Table on Terminal Dues in Berne, 6 and 7 April 1989

Low-traffic developing countries were concerned to keep a simple system that would safeguard their receipts, while the heavy-traffic countries insisted on having, in their reciprocal relations, a new system based on separate terminal dues rates for LC and AO mail in cases where the mail structure deviated from the world structure (correction mechanism). The 1989 Congress circumvented the gridlock by introducing weight thresholds above which the correction mechanism could be activated.

Since the 1969 Congress, there has been much insistence on the need to seek a simple and equitable formula that takes account of all the factors and complexities involved in fixing the rate of terminal dues. Because of the heterogeneity of postal traffic, it has proved impossible to find this simple magic formula.

In this context, alternative terminal dues agreements emerged, such as the method used in the framework of the European Conference of Postal and Telecommunications Administrations in 1987 and the later REIMS agreements in the 1990s. Those agreements were the testbeds of future key aspects of the UPU terminal dues remuneration system that would include country-specific per-item and per-kilogramme rate elements based on domestic tariffs of the destination country.



Plenary session of the 19th Universal Postal Congress in Hamburg, Germany

1984
HAMBURG CONGRESS

The 1979 Congress was unsuccessful in finding the right terminal dues formula for the very complex nature of international mail exchanges, and tasked the Executive Council with the development of proposals for the 1984 Congress that would take account of the number, weights and nature of mail items in determining the volume of imbalance of mail exchanges. For example, an imbalance of traffic measured by weight rarely corresponded to an imbalance of traffic measured in terms of numbers of items. In fact, the size of the imbalances could be radically altered simply by adjusting the criteria used to determine the excess of mail.

The world average terminal dues rate per kg for all LC/AO mail caused considerable distortions in the amounts paid for mail imbalance between any two countries, since the proportions (in weight and number of items) of LC and AO in the mail sent by two given countries may differ sharply from the world average proportions. Two statistical studies concluded that there was a need for separate rates for both mail categories.

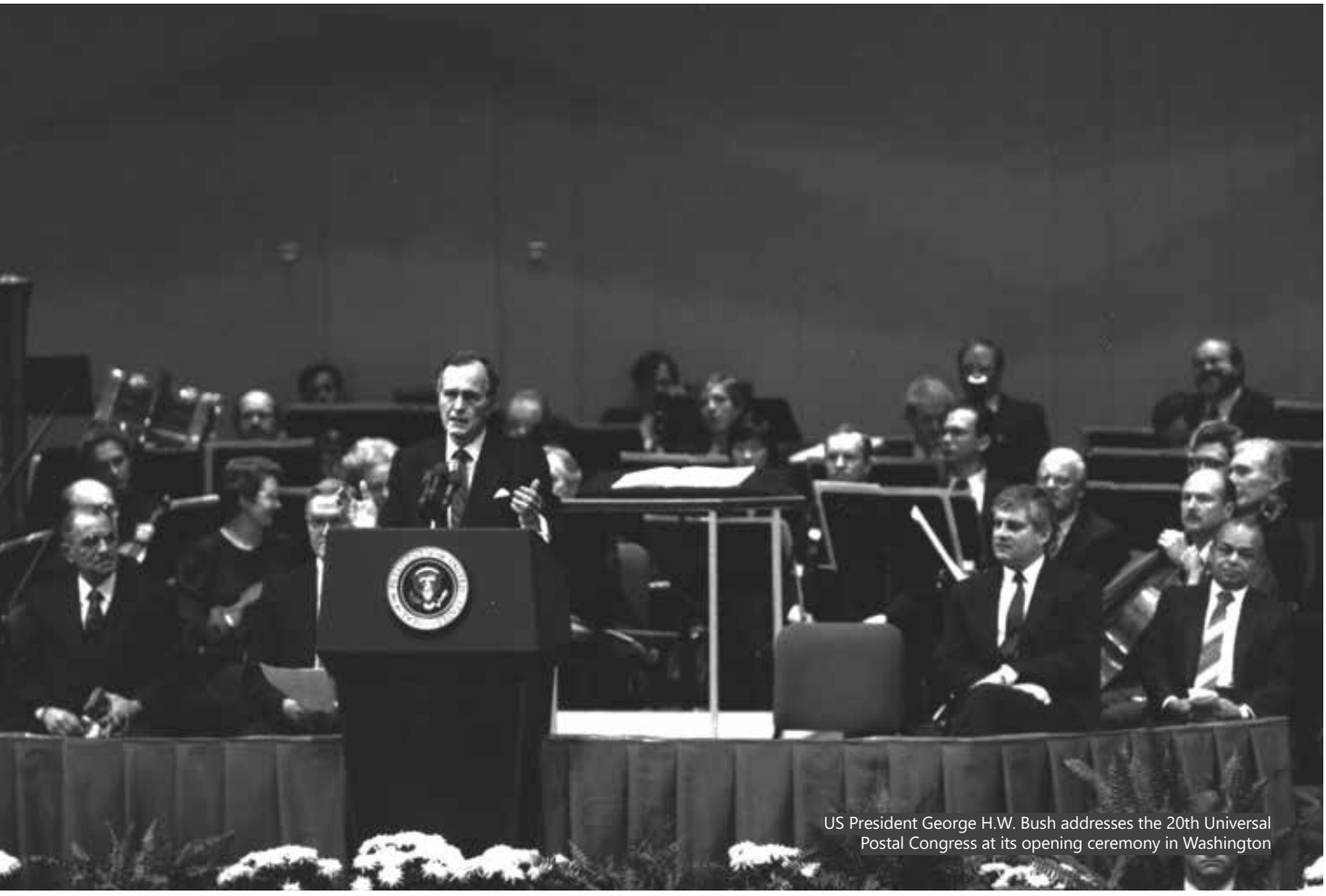
Proposals by the Executive Council followed a so-called "revenues approach" guided by the principle of equivalence under which mail flows would only be in equilibrium if, for every item sent from country A to country B, a corresponding *identical* item was sent from B to A. Financial equilibrium of two mail flows would only be obtained when the mail flow in both directions was composed of the same number of items of the same weight in each rate category, thus generating, through the application of a system of reference prices (i.e. the basic charges in the Convention) the same revenue in both directions.[79] As the origin of terminal dues lay in the concept of imbalance, the purpose of TD payments was to re-establish equilibrium.

The United States carried out its own study which followed a "cost approach", in which it was identified that the delivery costs per kilogramme of LC and AO mail were not the same, and the market conditions were not identical. The results of the cost analysis by the United States showed, to a very strong degree, that the calculated costs for all three mail categories were very similar to the revenue per kilogramme for each mail category as identified by the Executive Council.

Based on the two studies, the Executive Council proposed to Congress differential rates for LC and AO (in addition to the existing separate rates for M bags) in order to reduce the distortions and make the payment between two countries more equitable and more adapted to the special features of those two countries. A separate, lower rate for AO mail compared to the LC rate would also protect the global postal network from a weakening of its competitive position vis-à-vis private carriers.

However, the innovations proposed, i.e. differential rates for LC, AO and M bags and the equal sharing of world revenues per kilogramme in accordance with the equivalence principle, had led a majority of the countries to fear a drop in their receipts. It was thus for purely pragmatic reasons that the differential rates proposed by the Executive Council were rejected (proposal 3062.4 with 40 votes in favour, 90 against, and 2 abstentions), and a combined LC/AO rate proposed by Sri Lanka was adopted (proposal 3062.2: 90 votes in favour, 36 against, 5 abstentions). The decision resulted in an increase of 45% and 33% respectively in the rates for LC/AO (from 5.5 to 8 gold francs per kilogramme) and M bags (from 1.50 to 2 gold francs per kg).

79 The revenues approach directly linked the terminal dues rates to the basic charges.



US President George H.W. Bush addresses the 20th Universal Postal Congress at its opening ceremony in Washington

1989
WASHINGTON CONGRESS

After the failed attempts in 1979 and 1984, it was the Washington Congress that finally took the first major steps in adapting the terminal dues system to the market situation and the need for cost coverage. The main concern expressed by the low-traffic countries was to be able to keep a simple system that would safeguard their receipts, while the heavy-traffic countries insisted on having in their reciprocal relations a system providing better adapted cost coverage in order to be able to keep the volume of traffic. The 1989 Congress introduced the principle whereby a delivering postal operator could, for its largest flows, request a payment based on the number of items delivered. For these large flows above 150 tonnes, payment would be made not on the imbalance, but on the gross flow in each direction.

Address of Chairman Edward E. Horgan, Jr at the closing meeting of Congress on Thursday, 14 December 1989:

"We have shed that vestige of the 19th century, the gold franc, in favour of the SDR, and we have also created a new terminal dues system that will lead to rates more related to actual costs – and thereby improve our price competitiveness."

Following the demonetization of gold decided on by the International Monetary Fund on 1 April 1978, the SDR was gradually introduced into the Acts as an intermediate currency unit. The Hamburg Congress instructed the Executive Council to study the effects of the SDR on the level of terminal dues. These studies confirmed that linking the TD rate to the SDR had a stabilizing effect, as the increases in national currencies are absorbed by the loss of value of many currencies in terms of SDR.

The Executive Council again proposed to Congress that the present system of terminal dues be replaced by a three-rate system (LC, AO and M bags) in relations between postal operators with an annual LC/AO traffic volume in excess of 150 tonnes in each direction. For these exchanges, the proposal also provided for a correction mechanism if the structure of the mail received differed from the world average composition per kilogramme taken into account in the study, i.e. 48 LC items and 5.6 AO items.

For low-traffic exchanges, it was proposed that the existing system be maintained, i.e. if the mail flow had a total weight of LC/AO mail less than 150 tonnes a year in each direction, the rate applicable would be 2.940 SDR for LC/AO items (uniform rate for the entire Congress cycle). If the total mail flow exceeded 150 tonnes a year in both directions, then the applicable rates were 8.115 SDR for LC items and 2.058 SDR for AO items (separate rate for each category). In cases where the threshold was exceeded in only one direction, the destination DO could decide which of these two rate systems to apply. Proposal 3064.1 concerning the new system was adopted by 109 member countries voting in favour of the proposal, 7 against and 12 abstentions.

To guarantee the destination country an adequate payment under the new system in cases where the structure of LC and AO mail deviates from the worldwide average, a correction mechanism for the terminal dues rates for LC items and AO items was proposed. The mechanism could be activated by the destination country when the average number of items (LC and/or AO) contained in one kilogramme of mail received was 15% higher for LC and 25% higher for AO than the worldwide average (48 items for LC and 5.6 items for AO), i.e. more than 55 LC items and/or more than 7 AO items.

The 1989 Congress instructed the Executive Council to study and develop a terminal dues remuneration system comprising two elements (a rate per kilogramme and a rate per item), which, by taking into account delivery costs relating to the number of items, would allow the possibility of ensuring better coverage of the costs borne by the countries of destination.

The Congress also decided on the conversion of basic charges into "guideline" charges. This move gave postal operators the much-needed flexibility in establishing international postage rates, in particular giving greater latitude to sending postal operators in granting preferential rates to large customers.

2.4

THE NEED FOR CHANGE

Global economics was the byword of the new era, as economies became more and more interdependent, with a general move towards market economy as the dominant economic trend. Deregulation, corporatization and, in some cases, privatization strongly impacted the postal landscape. In the early years of the 1990s, the growth rate in international postal traffic slowed down to an annual average of 1.1% (0.8% for industrialized countries and 1.6% for developing countries).[80] The international traffic of letter-post items slowed down to an average annual growth rate of 0.6% in the period from 1993 to 1997.[81] In terms of average composition of mail, international postal traffic remained predominantly composed of LC items, which accounted for 78.3% of all items posted in the international service in 1992 (21.8% AO items). By comparison, LC items accounted for less than half the total number of items posted in the domestic service (49.3% in 1992). The difference in mail composition showed the changes in the commercial environment, with large mailers increasingly using private carriers for the processing and delivery of international mail items.

In the 1990s, UPU members were in favour of a more objective terminal dues system responsive to specific market conditions in each country. However, differences in opinion were expressed as to whether the proposed changes to the terminal dues system were adequate to meet market needs, whether or not the remuneration system was in line with World Trade Organization's regulations, and whether the new system was sufficiently robust to deal with market distortions caused by remailing activities.



By the early 1990s, remailing had gained approximately 15% of the international mail market, even though it is illegal in most countries. Where terminal dues rates were lower than the domestic tariff, there was concern that some domestic mail may be posted in a different country to profit from the lower TD rates (ABA remailing).

In the late 1980s and throughout the 1990s, alongside progress in economic globalization and trade internationalization, competition from private carriers intensified while (public) postal operators were increasingly entering into competition outside their own borders. The substitution of postal physical mail by electronic communication products is another kind of competition driven by technological progress. In the 1990s, even as mail volumes were still increasing, the Post's share of the overall communication market was at the beginning of a steady decline.

80 Seoul Congress 1994, Congress–Doc 20
81 Beijing Congress 1999, Congress–Doc 21

These factors, in particular market development, trade liberalization, increased competition and remailing, had a great impact on the postal service and terminal dues in the 1990s. In this rapidly changing environment, UPU members needed a more flexible remuneration system that would enable them to remain competitive while also responding to the need to maintain the universal service obligation.

As the WTO negotiations took a particular interest in postal services, the Beijing Congress discussed proposals to modify the terminal dues system in terms of its compliance with the WTO requirements that were expected to be defined in the next round of GATS negotiations in the early 2000s.

At the eve of the 21st century, the UPU faced a turning point in the evolution of the terminal dues system at its 1999 Congress. Demands had increased for the system to become more flexible, market-oriented and cost-based, while continuing its support of the universal service. It took three and a half sessions of lively debate in Committee 4 at the Beijing Congress before 90% of the UPU members agreed to adopt a new terminal dues system. By doing so, the UPU had taken a step in the transition to a new cost-based, market-oriented structure. Two key elements of the transition were the differentiation between developing and developed (industrialized) countries, and the linkage between terminal dues payments and quality of service. The decision to introduce a country-specific remuneration system, initially for all flows between developed countries, was particularly important in terms of meeting the WTO GATS requirements, but also in terms of levelling the playing field with remailers.

In the late 1990s, the UPU's Council of Administration, the European Commission and other regulatory bodies stressed the need to maintain an affordable universal service and improve quality of service. In the European context, the European Commission assessed the compatibility of the REIMS II terminal dues agreement with EU competition law and, after review, approved the agreement whereby terminal dues increases were contingent on quality of service improvements. At the UPU level, the Beijing Congress decided to introduce a quality measurement solution linking industrialized countries' quality of service results to their terminal dues receipts from 1 January 2005.

IN THE 1990s, UPU MEMBERS WERE IN FAVOUR OF A MORE OBJECTIVE TERMINAL DUES SYSTEM RESPONSIVE TO SPECIFIC MARKET CONDITIONS IN EACH COUNTRY.



First plenary meeting of the 21th Universal Postal Congress in Seoul, Korea (Rep.)

1994
SEOUL CONGRESS

Before Seoul, the aim of terminal dues was to remunerate the weight imbalance in postal exchanges between two countries. Market and regulatory changes in the postal market, as well as institutional developments such as liberalization and corporatization, led to the principle agreed at the Seoul Congress that terminal dues should be a payment for the costs incurred for international mail received. However, Seoul did not go so far as to assure that every member's costs would be fully covered. First of all, it was agreed that developing countries should maintain their revenue from terminal dues, given constant volumes, and certain criteria were agreed to reach this aim. And secondly, there were advantages in retaining a worldwide single rate, with a revision mechanism, insofar as it ensured simplicity in operations. The disadvantage of the new system, however, was that postal operators remained undercompensated for some items and overcompensated for others under the worldwide average rate.

The 1994 Congress made further progress on the development of a country-specific remuneration system, and took an important step forward in meeting the requirements of the most-favoured-nation principle, adding a separate payment system for bulk, or commercial mail, which linked remuneration to the domestic tariffs in the country of delivery. The amendments required a postal operator seeking remuneration based on domestic tariffs for delivery of bulk mail to offer conditions at least as favourable as those it offered its partners in a cost- or tariff-based terminal dues system.[82] Bulk mail rates affected mail from all countries, as they discouraged ABA and ABC remailing activities and reduced the arbitrage gap. The principal motivation for creating the bulk mail option was to better reflect the costs incurred in delivering this mail, and not to stimulate high-volume commercial traffic.

Another fundamental change agreed at Seoul was that terminal dues were to be paid on the basis of gross flows, and no longer on traffic imbalances.

The Congress decided that the implications of the General Agreement on Tariffs and Trade for postal services should be studied by the UPU since, while that agreement did not challenge the universal service and freedom of transit, it would certainly have consequences for terminal dues, and confirmed the need to bring the system into line with changing times. Recognizing that the WTO's MFN and national treatment principles and competition law in general would strongly influence the development of terminal dues systems, Congress instructed the Council of Administration to identify the regulatory and WTO requirements which would apply to the terminal dues system, and to analyze the principles of compensation systems that are applied in other international organizations, which may be instructive for development of equitable TD arrangements.

By the 1990s, in the Nordic countries, quality of service had been measured for several years, and the Nordic terminal dues system included a quality of service element. The positive impacts on operational performance and quality of service were significant, prompting the Seoul Congress to instruct the newly formed Postal Operations Council to develop proposals for linking quality of service to terminal dues in the IC–IC system.

82 The term bulk mail is used to refer to dispatches of over 1,500 items dispatched on the same day or 5,000 items over a two-week period by the same sender in one or more mails. Later, in 2019, the third Extraordinary Congress would extend the definition of bulk mail.



Plenary session of the 22nd Universal Postal Congress in Beijing, China (People's Rep.)

1999
BEIJING CONGRESS

In spite of the progress made at Seoul, the terminal dues system remained unable to check the economic distortions observed in the world postal market. Different types of remailing activities intensified, solely to profit from the maladjustment of the terminal dues system. Meanwhile, the overall postal market was changing rapidly, owing to globalization and increased competition between private operators and UPU postal operators.

Moreover, at the February 1999 POC session, doubts were expressed about the compatibility of the envisaged terminal dues system with WTO principles. There were also lively debates about relations between developing and industrialized countries, especially regarding any increase in terminal dues rates for mail intended for the developing countries under the head of improving quality of service (IC to DC mail flows) and the introduction of protection against the dislocation of industrialized countries' mail (DC to IC mail flows).

The 1999 Congress established the principles for access to postal operators' domestic services. Aligned on those of the WTO, they were designed to enable access by one postal operator to the domestic system of another operator on conditions identical to those offered by the latter to its domestic customers. Developing countries have the option of deciding whether or not to authorize access to the domestic market. This option must be used in a non-discriminatory fashion, i.e. the decision taken by a developing country applies to all other postal operators. The amendment adopted by the Beijing Congress extended to the whole terminal dues system the most-favoured-nation principle which previously existed for bulk mail only.

The Beijing Congress furthermore created a system which bore a certain resemblance to the target system and transitional system later created by the 2008 Congress. The terminal dues system came to be based on the classification of countries as "industrialized" or "developing". The rates applicable to exchange to, from and between developing countries were considered transitional arrangements, eventually moving towards the country-specific payment system applied to exchanges between industrialized countries.

The provision was established that per-item and per-kilogramme terminal dues rates for exchanges between industrialized countries should reflect the handling costs in the country of destination by means of a cost-to-tariff ratio of 60% of the domestic priority rates, subject to cap and floor rates. As a result, in 2001, country-specific rates came into effect for ICs whereby the specific per-item and per-kilogramme cap rates increased by 15% over the calculated floor rates, thereby creating a wedge between cap and floor rates. The cap rates increased by a further 5% in 2002 and 15% in 2003. By linking terminal dues to domestic tariffs, the new system reduced the financial incentive for remailing between developed countries.

Mail flows to, from and between developing countries remained subject to the basic arrangements of the existing worldwide average rate system. However, developing countries could still invoke the revision mechanism on their flows above 150 tonnes per year. Mail flows from industrialized countries to developing countries became subject to an increase of 7.5%, which was assigned to a fund to improve quality of service in developing countries (the Quality of Service Fund). Finally, additional remuneration for registered and insured items was introduced to cover the additional costs associated with the handling and delivery requirements of these items.

2.5

EYES ON THE TARGET

In the 2000s, the structure of the cross-border industry changed considerably, with a blurring of the boundaries between private, semi-public and governmental operators. Globalization moved some traditionally national postal operators to operate in other markets, and competition with private carriers increased. Estimations in a 2010 UPU study showed that the overall share of incumbent postal operators declined from 48% in 1998 to 37% in 2008 in the lightweight mail and packages segment of the global mail market.[83] A large portion of this decline is explained by the drop in international LC/AO mail items exchanged between (designated) postal operators. As a result of the numerous and lengthy economic downturn periods in the 2000s, for example the worldwide recession in 2001 or the global financial crisis of 2008, international mailers became highly sensitive to any significant increases in their costs which further impacted on the volumes of international postal traffic. In the mail profile, the share of printed matter, advertising material and small packets as a percentage of total cross-border volume was growing in the 2000s.[84]

The significant changes made at the Beijing Congress led to a new country-specific terminal dues system that gave a better cost coverage than previous systems for exchanges between ICs, which, at the time, accounted for about two thirds of international letter mail traffic. At the same time, the system remained affordable for DCs.



Nevertheless, despite all efforts, the system still left room for arbitrage as letter-post items deviated from their normal route for reasons linked to terminal dues. For example, by sending lightweight items from DCs and heavyweight items from ICs, remailing companies could access the postal service of ICs at prices that covered only a very low proportion of costs. Differences between UPU terminal dues rates and domestic rates in the destination country also provided some arbitrage opportunities. System harmonization, transition towards a country-specific terminal dues system and revision mechanisms offered important protection against arbitrage.

The goal was to have a final system that was country-specific and cost-based for all countries. However, this was not considered a realistic goal for the short term. To make it clear that the future system would be a cost-based, country-specific system, the IC–IC system was renamed the "target system" and the DC system the "transitional system".

83 UPU 2010, Market research on international letters, and lightweight parcels and express mail service items

84 POC C 1 TDG 2010.2–Doc 2c

The 2008 Congress established the country classification system for terminal dues purposes which, with amendments adopted by the 2012 and 2016 Congresses, still applies today. The classification system combines a methodology based on postal development indicators and a hierarchical approach, resulting in a comparative classification of countries and territories into five groups. Special consideration was given to countries classified as least developed countries by ECOSOC, while the status of small-island developing states and landlocked developing countries was also taken into account. Countries from former groups 1.2 and 2 moved to the target system in 2010 and 2012, respectively.

The UPU QS Link for ICs was implemented in 2005. In 2006, following the decisions of the Bucharest Congress, the system was opened up for participation by countries in the transitional system, on a voluntary basis. Malta and Latvia in 2006 and Brazil, Jamaica and Ukraine in 2007 were the first countries to join the QS Link on a voluntary basis. The number of initial participants thus increased from 24 in 2005 to 29 in 2007, and it would include the entire UPU membership by the year 2020 as a mandatory feature of the terminal dues system for all countries, including those in the transitional system. In order to deal with technical and operational issues relating to measurement systems and the link between quality of service and terminal dues, the POC established the Quality Link User Group in 2007.

SYSTEM HARMONIZATION, TRANSITION TOWARDS A COUNTRY-SPECIFIC TERMINAL DUES SYSTEM AND REVISION MECHANISMS OFFERED IMPORTANT PROTECTION AGAINST ARBITRAGE.



Plenary session of the 23rd Universal Postal Congress in Bucharest, Romania

2004
BUCHAREST CONGRESS

The cost-to-tariff ratio was a much debated topic before and at the Bucharest Congress. Through resolution C 46, the Beijing Congress had instructed the POC to develop a TD system taking account of each country's costs and to determine the final percentage of the domestic rates to be applied by industrialized countries (i.e. the cost-to-tariff ratio). In order to fulfil that requirement, the IC cost/tariff ratio was calculated for different flows. However, as there was no agreement in the POC working groups on whether to use the median or the average values, a figure of 68% was proposed as the rounded middle of the IC figures (between 64% (median) and 72% (average)). The 2004 Congress ultimately decided that the cost-to-tariff ratio would go up from 60% in the Beijing Congress cycle to 62% in 2006, 64% in 2007, 66% in 2008 to 68% in 2009. Congress adopted the corresponding proposal 20.25.1 (86 votes for, 28 against, 28 abstentions). It also lowered the revision mechanism threshold from 150 to 100 tonnes per year, and increased the bulk mail rates.

The 2002 POC introduced quality-linked terminal dues between industrialized countries with effect from 1 January 2005. Initially, countries participating in the quality of service monitoring system received a terminal dues increase of 2.5% for their inward letter mail. If the quality target was met, they received an additional 2.5%. On the other hand, DOs could receive a penalty of up to 5% if the quality target was not met (0.33% penalty for each percentage point of underperformance).

At Congress, during a long discussion on a proposal seeking to make direct access mandatory in the inward direction for all countries, the opposing countries maintained that tariffs in DCs were often subsidized for the benefit of their citizens. Moreover, they did not have adequate cost accounting systems to set cost-based tariffs. The countries in favour of the proposal stressed that private operators deposited the items concerned in the country of destination for local tariffs and would therefore be able to take traffic away from the UPU system. Proposal 20.24.3 was rejected (30 in favour, 108 against, 9 abstentions).

Through resolution C 32/1999, the Beijing Congress instructed the CA to study the possibility of establishing, for terminal dues and QSF purposes, a new classification of countries on the basis of criteria reflecting the level of their postal services. The Bucharest Congress adopted proposal 20.0.4 (103 votes for, 33 against, 8 abstentions). This classified ICs as target system countries, with DCs to participate in the transitional terminal dues system, limiting QSF benefits to those countries and territories eligible for UNDP TRAC 1 resources.

The Bucharest cycle established a target system for industrialized countries to gradually obtain better cost coverage, and a transition system for developing countries which would enable them to prepare to join the target system at a pace that would be decided by the 24th Congress in 2008.



Plenary session of the 24th Universal Postal Congress in Geneva, Switzerland

2008
GENEVA CONGRESS

The Bucharest Congress called for a review of the classification system to include postal-specific information in the development of a postal development indicator. The methodology proposed to the 2008 Congress for the classification of countries consisted of calculating and comparing countries' levels of postal development to produce a hierarchical classification based on the PDI, which has two components:

A macroeconomic component (GNI per capita, with a weight of 75%); and

A postal-specific component (normal unit cost in terms of full-time staff, with a weight of 25%).

The proposal of a general nature was extensively debated by Congress, which finally adopted it (84 votes for, 33 against, 12 abstentions). This led to the creation of six groups based on country characteristics, including the initial time schedule for the transition of these groups to the target system:

GROUP 1

Countries and territories that were in the target system prior to 2010;

GROUP 1.2

ICs and countries whose indicators are sufficiently close to those of the current ICs as to be deemed the most advanced and ready to join the target system on 1 January 2010;

GROUP 2

Countries whose postal indicators are sufficiently close to those of group 1 and deemed more advanced and ready to join the target system on 1 January 2012;

GROUP 3

Countries whose indicators are below those of group 2, but which are deemed sufficiently advanced to join the target system as of 1 January 2014;

GROUP 4

Countries whose indicators are close to those of group 5 but are not LDCs. Postal administrations in this group should continue to benefit from transitional arrangements and support after 2014;

GROUP 5

Countries classified by ECOSOC as having the least developed economies.

The implications of the proposed terminal dues system and the WTO rules were also considered. The results of a study on the implications of the WTO rules for UPU member countries were submitted to the CA. During the development of the new terminal dues system, due consideration was given to the requirement that the system's provisions should apply equally to all member countries.

For countries in the target system prior to 2010, the cost-to-tariff percentage was increased to 70% from 2010. VAT and other taxes were gradually excluded from the tariffs used for the calculation of terminal dues. A cost-benefit analysis showed that it was not cost-effective to sample mail flows lower than 75 tonnes to determine the actual number of items per kg. It was therefore proposed to reduce the 100 tonne threshold for revision mechanism sampling in the transition system to 75 tonnes.

The 2008 Congress further increased the additional payments for registered and insured services, and agreed that remuneration for such items could be further increased through supplementary remuneration for providing additional service features. As a consequence of this decision, the UPU supplementary remuneration programme was implemented in 2011, introducing a supplementary payment of 0.50 SDR which the destination DO could receive if it ensured the timely transmission of relevant item-tracking data. The performance of individual participating DOs is reported, and once the minimum performance criteria for the transmission of inbound and delivery tracking events have been achieved, the per-item increase applies.

2.6

E-COMMERCE GROWTH AND TERMINAL DUES REFORM



In the last decade (2010–2019), consumers' buying habits underwent a sea change. Consumers have grown increasingly comfortable making online purchases from retailers located in another country. With an expected worldwide growth of more than 10% a year, cross-border e-commerce still represents an untapped potential for the postal sector.[85]

As the global postal network processed and delivered more and more e-commerce–generated items, it increasingly operated in a highly competitive market segment in which not only are private carriers active, but where online retailers, such as Amazon, started building their own delivery networks. In the context of these and other developments, questions emerged regarding the overall effect of the terminal dues system on wider postal sector stakeholders, such as domestic e-commerce businesses and consumers.

For example, it was argued that market distortions result from the differences in terminal dues rates between countries within the target system and, in particular, between the target system and the transitional system. The differences in rates led to increased remailing practices and arbitrage, with small packet items in particular rerouted via countries that pay lower outbound terminal dues rates, such as countries in the transitional system. The 2016 Congress and the 2019 Extraordinary Congress addressed this problem by agreeing to harmonize the rates for E format items (bulky letters and small packets) and revise the bulk mail provisions targeting remailed E format items.

UPU member countries responded to the challenges of declining mail volumes and the growth opportunities in the e-commerce segment by adopting a reform agenda to modernize, integrate and rationalize the UPU remuneration systems through the Integrated Remuneration Plan – see also section III. Countries attending the 2018 Extraordinary Congress agreed on the IRP, which provided the roadmap for modernizing and rationalizing the UPU's remuneration systems, resulting in proposals for an integrated remuneration system to be presented to the 2020 Congress.

However, the implementation of the reform agenda was accelerated by the notification of the United States of America of its withdrawal from the Union. The US sought reforms to the terminal dues system that would provide for fair and non-discriminatory rates for goods that promote unrestricted and undistorted competition and achieve full cost coverage. The 2019 Extraordinary Congress achieved these important reform goals and delivered those results at least two years ahead of what was already considered an ambitious IRP roadmap schedule. Following the decisions of the third Extraordinary Congress, the United States rescinded its notice of withdrawal, thereby keeping the global postal network intact.

85 UPU 2018, Trends and Drivers for International Letter Mail, Parcels, and Express Mail Services, www.upu.int/uploads/tx_sbdownloader/researchOnPostalMarketsTrendsAndDriversForInternationalLetterMailParcelsAndExpressMailServicesEn.pdf.pdf

UPU MEMBER COUNTRIES RESPONDED TO THE CHALLENGES OF DECLINING MAIL VOLUMES AND THE GROWTH OPPORTUNITIES IN THE E-COMMERCE SEGMENT BY ADOPTING A REFORM AGENDA TO MODERNIZE, INTEGRATE AND RATIONALIZE THE UPU REMUNERATION SYSTEMS THROUGH THE INTEGRATED REMUNERATION PLAN.



Main plenary hall at the 25th Universal Postal Congress in Doha, Qatar

2012
DOHA CONGRESS

A 2009 study identified as main inconsistencies in the UPU system the rigidity in rate setting, over-remuneration of heavy items, and the flat rate in the transition system, which together presented major challenges to the growth of the international postal market. The same study underlined the need for transition countries to move rapidly to the target system to spur on the competitiveness of international letter-post services and other lightweight items (e.g. small packets, given the exponential growth of e-commerce), for the benefit of all member countries. Therefore, in a status-quo scenario, i.e. one in which the discrepancies of the transition system were to be maintained, the TD income of weaker transition system members would be threatened, as most postal traffic flows would be diverted to other delivery networks.

A further study in 2012 concluded that the transition of new target system countries from 2010 resulted in the application of rates per item and per kilogramme with, at least initially, moderate financial impacts, mostly due to the effect of IPK values on revenues and expenses. New target system countries recognized the advantages of measuring quality of service and linking their results to terminal dues revenue. New target system countries that had difficulties with the implementation of the measurement system benefited from a two-year grace period and QSF financing for quality measurement purposes.

Despite the positive experience from the transition of countries in 2010 and 2012, the POC and CA proposed to slow down the pace of transition into the target system set by the previous Congress. At Doha, many transition countries expressed concerns with regard to the transition to the target system, saying they would not be ready to apply the target system provisions. Therefore, they requested additional time to further study their impacts during the next cycle. The transition timelines of former groups 4 and 5 would be reviewed by future Congresses.

The 2012 Congress based the calculation of the country-specific terminal dues rates in the target system for the first time on two domestic tariffs, for formats P (small letters) and G (large letters), at weights of 20 grammes and 175 grammes respectively.

The separation of mail into three formats (P, G and E) became mandatory for exchanges between countries and territories in former group 1.1. The separation of mail into two formats (P/G and E) became mandatory in all other exchanges within the target system (i.e. exchanges to, from and between DOs in former groups 1.2 and 2 of the classification system), subject to decreasing thresholds below which format separation and sampling would not be required.

In order to make the quality link to terminal dues system more attractive for the new target countries, the participation incentive was increased from 2.5% to 5%, while the 2.5% bonus for reaching the quality-of-service target was removed.



Plenary in session at the 26th Universal Postal Congress in Istanbul, Turkey

2016
ISTANBUL CONGRESS

The Istanbul Congress introduced a new rate system for E format items (bulky letters and small packet letter-post items), streamlined the country classification system, and planted the seeds for the integration, modernization and alignment of the UPU remuneration systems.

It decided that, from January 2018, bulky letters (E) and small packets (E) would be compensated differently from letter-post formats P (small letters) and G (large letters). Since 1 January 2018, the content, followed by the format, has been the determinant criterion for calculating the remuneration of a letter-post item. This means that letter-post items that would ordinarily fall within the small letter (P) and large letter (G) formats are remunerated as small packets (E) if they contain goods.

Countries and territories in group III moved to the target system with effect from 1 January 2018. The Doha Congress had adopted the proposal whereby former group 3 countries would not join the target system until 2016 (instead of 2014). These countries included China (People's Rep.), the Russian Federation, South Africa, Turkey and Malaysia, as well as Gabon, Mauritius, Lithuania and Costa Rica. From that date, the terminal dues rates of DOs from 115 countries and territories in the target system were based on the domestic charges of 20 grammes (P) and 175 grammes (G) notified to the International Bureau every year.

Besides the full application of the target system provisions to, from and between countries in the new target system (group III), the 2016 Congress took two important measures in support of the progress towards a single terminal dues system:

In the 2014–2017 system, countries were sorted into one of six groups based on a set of postal development indicators, with the lowest two groups applying rules of the transitional system. In 2018, these six groups were merged into four, with only one group remaining in the transitional system. To achieve this outcome, the former groups 1.2 and 2 were merged into the new group II, while groups 4 and 5 made up the new group IV.

The Congress also decided to harmonize the rates of bulky letter (E) and small packet (E) letter-post items across all the countries in the target system by the year 2021.[86]

Finally, the 26th Congress instructed the POC and CA to present to the 2018 Extraordinary Congress a roadmap for modernizing and rationalizing the complex set of systems used to compensate designated operators for processing and delivering inbound international postal items. Guided by this mandate, the POC and CA initiated the work on the development of an Integrated Remuneration Plan, which would lay the foundation for a modernized terminal dues system as part of an integrated remuneration system.

86 The third Extraordinary Congress in 2019 decided to accelerate the harmonization of E format cap rates at a higher level by 2020.



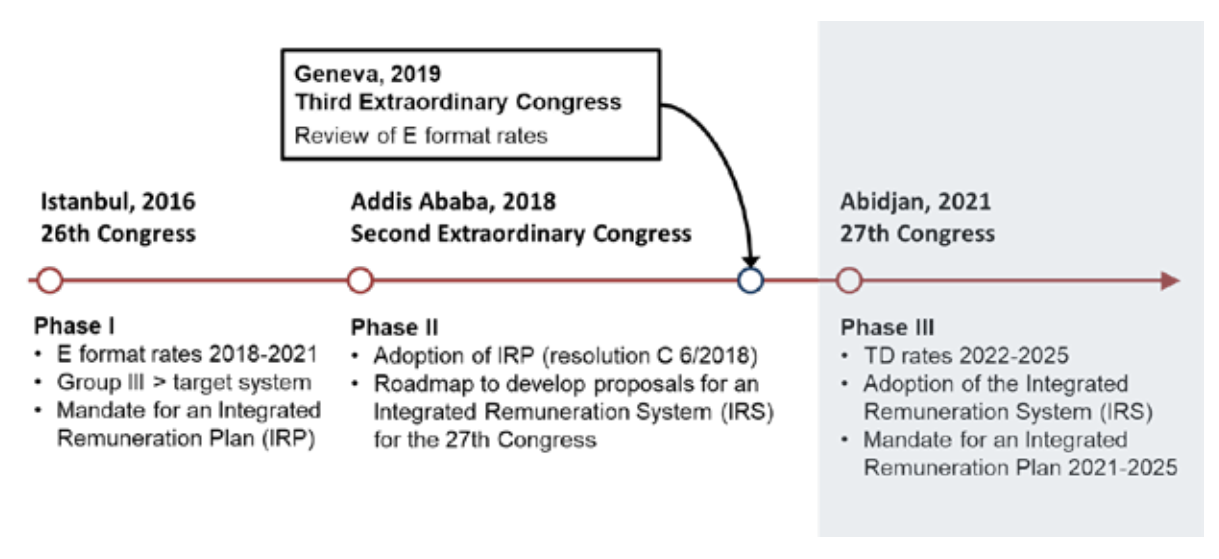
Opening ceremony of the UPU's second Extraordinary Congress in Addis Ababa, Ethiopia

2018
SECOND EXTRAORDINARY CONGRESS, ADDIS ABABA

Through resolution C 24/2016, the 2016 Istanbul Congress approved the Istanbul Business Plan, including all the work proposals that it contained. Work proposal 024 concerned the development and implementation of the Integrated Remuneration Plan, with a focus on the rationalization, harmonization and integration of the current UPU remuneration systems, but also on the need for modernization of the UPU portfolio of physical services (letters, parcels and EMS).

In the initial stage of reforming the UPU remuneration systems, three separate phases were identified. As illustrated below, the first phase concerned the decisions of the Istanbul Congress, which paved the way for the development of a new integrated remuneration system.

Figure 35: **The road from Istanbul to Abidjan**



In the second phase, through Congress resolution C 6/2018, the 2018 Extraordinary Congress adopted the Integrated Remuneration Plan, which instructed the Postal Operations Council and Council of Administration to implement the IRP, leading to proposals for an integrated remuneration system to be submitted to the 2020 Congress. Under that resolution, the methodology options envisaged changes vis-à-vis the current remuneration systems in order to achieve better alignment, integration and rationalization of the systems.

The third phase involved the delivery of proposals to the 2020 Congress for an integrated remuneration system. However, because of the accelerated review of the remuneration of E format items, the third Extraordinary Congress in 2019 actually delivered on a key aspect ahead of schedule.

The IRP and resolution C 6/2018 mark a critical departure from the silo-based approach to remuneration for different products, and aim to ensure that the UPU keeps pace with change by modernizing the remuneration systems for letter post, parcel post and EMS, in accordance with the integrated approach to both product development and remuneration systems.



At the UPU's third Extraordinary Congress in Geneva, Switzerland, member countries approved by acclamation the proposal, known as "Option V", which included accelerated rate increases to the terminal dues remuneration for the delivery of inbound international bulky letters and small packets

2019
THIRD EXTRAORDINARY CONGRESS, GENEVA

The work on the implementation of resolution C 6/2018 on the IRP and the development of proposals for the Abidjan Congress on the modernization, rationalization and integration of the UPU remuneration systems had already started when, in October 2018, the United States of America wrote to the UPU stating its intention to leave the Union in October 2019. The United States identified the E format terminal dues rates as the most relevant impetus for that decision. The departure of one of the organization's founding members, and traditionally the largest exporter and importer of international mail, would undoubtedly have had a substantial impact on the sustainability of the global postal network and the future of the Union. In its 145-year history, during which it had grown from a membership of 22 to 192, no country had ever left the Union.

The departure of the United States as a member could simply not be countenanced, and wheels were immediately set in motion to avoid such an outcome. In response to the US notification and concerns raised by other UPU member countries, the CA decided, at its October 2018 session, to launch an expedited process aimed at urgently reviewing those rates, with a view to developing proposals to amend the relevant provisions of the UPU Convention and its Regulations before the 2020 Congress.

Technical groups reviewed a wide spectrum of different options to change the remuneration of E format items, before finally settling on three options that became known as options A, B and C.

OPTION A

proposed the continued application of the current terminal dues methodology and parameters decided by the 2016 Congress; it would have brought forward the harmonization of the E format cap rates and applied those cap rates to all flows.

OPTION B

proposed to allow countries to set self-declared rates for the remuneration of E format items from 2020, on an optional basis, though subject to country-specific "ceiling rates", based on 100% of the equivalent domestic rates.

OPTION C

had features of both options A and B, with the main differences being the implementation of a self-declared rate system for E format from 2021; the application of a cost-to-tariff ratio of 70% in determining the country-specific ceiling rates; and a phased implementation process to transition from the current system to the new system with maximum annual revenue increases.

Meanwhile, the UPU member countries had called for a third Extraordinary Congress, and this was duly held in Geneva from 24 to 26 September 2019. Around 800 delegates from more than 130 countries attended the Congress, with many meeting in advance to engage in critical discussions.

In Geneva, the actual agenda played out quite differently from the planned agenda after the first day's deliberations. Option B was discussed first; had it been agreed, the Extraordinary Congress would have completed its work and discussion of the other options would have been redundant. After Option B was rejected (57 votes for, 78 against, 9 abstentions), negotiations shifted gear, and a new proposal package, known as Option V (for 'Victory'), was discussed and finally adopted by acclamation on the afternoon of 25 September.

The new system allowed countries to self-declare their rates as from 1 January 2021, including a dual-speed arrangement for countries with an annual inbound volume of more than 75,000 metric tonnes. Any postal operator meeting this threshold was allowed to optionally self-declare its E format rates as soon as 1 July 2020, on a reciprocal basis with its partner postal operators, which could do likewise. The following is an overview of the main changes to the determination of the E format rates following the decisions of the third Extraordinary Congress:

E FORMAT CAP RATES (current system)

At the 2016 Congress, it was decided that the cap rates of group I would increase by 3% annually, those of group II by 9.6% annually, and those of group III by 13% annually. Those increases would have resulted in the harmonization of the cap rates for all flows within the target system by 2021. The third Extraordinary Congress however decided to accelerate the harmonization of the cap rates by 2020 and apply country-specific rates for E format items to all flows, including flows to, from and between countries in the transitional system (group IV).

FLOOR RATES

The floor rates for E format items were set for the entire 2022–2025 period and apply to both the opt-in (i.e. self-declared rates) and the default E format system, with the distinction that the self-declared E format rates in the opt-in system could be set below those rates. An increase of 20% in 2020 and subsequent annual increases of 5% to the floor rates were agreed to accommodate the needs of countries with social and/or non-cost-covering rates.

SELF-DECLARED RATES (optional)

Countries are allowed to self-declare their E format rates from 1 January 2020. There are, however, limits on these self-declared rates:

Country-specific ceiling rates: the revenue on the basis of the self-declared E format rates shall not exceed the revenue calculated on the basis of the 70% domestic rates determined by linear regression.

Maximum annual increases: the annual revenue on the basis of self-declared E format rates shall not increase by more than 15% in 2021, 15% in 2022, 16% in 2023, 16% in 2024 and 17% in 2025.

ACCELERATED IMPLEMENTATION

Countries with annual inbound volumes in 2018 of more than 75,000 tonnes are allowed to self-declare their E format rates as from 1 July 2020 on a reciprocal basis with their partner postal operators. The aforementioned maximum annual increases shall not apply.[87]

PROTECTION MECHANISMS

Flows below 100 tonnes from countries in group IV and flows below 25 tonnes between countries in groups II and III, as well as flows below 25 tonnes from countries in groups II and III to countries in group I, are excluded from the payment of self-declared rates.

To limit abuse of the system through the dispatch of e-commerce items in bulk via countries in group IV, the third Extraordinary Congress in 2019 decided to expand the definition of bulk mail to include other criteria based on the composition of inbound mail, and to make it easier to identify cases of large volumes of e-commerce items being routed through the country from which they are dispatched. In particular, if 90% or more of the inbound weight over a period of four weeks is composed of E format letter-post items, it can be assumed that e-commerce items in large quantities are routed via such a country. To ensure that the natural growth in postal volumes generated through e-commerce is not hampered, a further provision requires that the total weight of such mail received should have increased by more than 50% compared to the same four weeks the year before.

87 In addition, the cost-to-tariff ratio escalator allows for annual increases to the cost-to-tariff ratio if certain conditions are met, and no restrictions in terms of the item-to-kilogramme ratio apply to self-declared E format rates in the year 2020.


TOPIC LEADER
TOPIC LEADER
SECRETAIRE
SECRETAIRE ADJOINT



Opening ceremony of the 27th Universal Postal Congress in Abidjan, Côte d'Ivoire (Rep.)

2021
ABIDJAN CONGRESS

At the 27th Congress in Abidjan, an updated remuneration plan and a new remuneration system were adopted, marking an important step forward in the rationalization, modernization and integration of the UPU's remuneration systems.

This was the first Congress to adopt an integrated remuneration system, which will be implemented throughout the 2022 to 2025 Abidjan work cycle. The IRS builds on the landmark decisions taken by the third Extraordinary Congress in 2019, where the terminal dues remuneration for small packets was reviewed and self-declaration of those rates within certain limits and conditions was introduced.

One of the main aspects of the new system is that it provides an improved level of cost coverage for postal operators in the destination country through increased remuneration rates, while at the same time focusing on making significant improvements in improving quality of service, as well as customer and operational visibility of postal items traveling through the global postal network. It also recognizes the needs of the least developed countries and of designated operators with small mail volumes by extending the protection mechanisms that ensure continued access to affordable remuneration rates in the destination country.

The IRS also recognizes changes in the average profile of mail where the average dispatch includes more small packet items and fewer documents. The use of world average and flow-specific statistics is important to ensure that the payments reflect as closely as possible the actual composition of mail flows and ensure a fair and correct compensation of the designated operator in the destination country. Among the most important observations from comparing the composition and IPKs that applied in the Istanbul and Abidjan Congress cycles are those relating to the changes in the ratio between formats P/G and E, and the lower average weight of E format. These changes can be explained by the overall decrease in document (P and G format) items and increase in small packet items driven by e-commerce. Among E format (small packets), the most recent item-per-kilogramme study showed increased volumes of low-weight, low-value small packet items, and in particular an increase of those volumes sent by postal operators from group III countries. It should also be noted that, in similar studies prior to the Istanbul Congress in 2016, letter-post items falling within the size and weight limits of P and G format items but containing goods were considered as P and G items, whereas they were treated as E format items in studies conducted after the Istanbul Congress, owing to their content.

Another important aspect concerned the decision to harmonize the terminal dues framework across all groups of the TD classification system by 2025, thereby eliminating arbitrage and other abuses stemming from the inherent anomalies of the multi-tier system that existed for many years. These issues were largely addressed by the 2019 Extraordinary Congress when it reviewed the remuneration for small packets, and the Abidjan Congress decided to harmonize the minimum and maximum rates of the remaining P and G format letter-post items.

Along with the introduction by the 2019 Extraordinary Congress of self-declared terminal dues rates for E format items, the Abidjan Congress decisions on rate increases in the conventional TD system, as well as the changes made to the inward land rate system to align it with the framework for the remuneration of E format items decided upon in Geneva, are considered another step forwards towards the full integration of the UPU remuneration systems, namely the terminal dues system, inward land rates (ILRs), ECOMPRO rates and the remuneration system for EMS items, which have all evolved independently from one another over time.

The situation before Geneva and Abidjan resulted in lack of rate alignment across letter-post items, lightweight parcels and EMS items. At the same time, there was a need to modernize the UPU remuneration systems, in particular the rates and conditions applicable to items containing goods, to provide for more flexibility and to better respond to the important aspects of cost coverage and changing market needs.

Finally, the decisions by the Abidjan Congress also recognized the needs of designated operators in developing countries with small mail volumes, extending the protection mechanisms that ensure continued access to affordable remuneration rates in the destination country.

SECTION III

NEXT CHAPTER IN TERMINAL DUES





3.1

LOOKING FORWARD

The work on terminal dues is never finished. No sooner has a Congress decided on the remuneration system for the next four years than the negotiations start for the proposals to the next Congress. The most recent Congress in Abidjan approved, for the first time, proposals on an integrated remuneration system. This system enters into effect on 1 January 2022. The Abidjan Congress also decided on the mandate, strategic roadmap and principles that will guide the work of the negotiations for the next set of proposals to be discussed by the 28th Congress. This section of the report looks ahead and considers some possible developments and policy aspects that could be of relevance in the development of those proposals for the next Congress. Those different aspects and considerations come together in the Integrated Remuneration Plan, which will provide the mandate and structure for the future work.

The UPU multilateral framework formed the basis for international postal operations for nearly 150 years. It forms the primary forum for cooperation between postal sector players and sets the rules for international mail exchanges. The rules concerning the compensation for the costs of routeing, sorting and delivering mail that postal operators receive from abroad will remain at the heart of the system governing international postal exchanges. A **global postal network** that is ready and appropriate for the digital age requires a terminal dues system that supports its long-term viability.

The Internet and e-commerce have globalized trade, with the world postal network as a key infrastructure connecting every corner of the world to the online economy. As a consequence of these changes, the postal business model is increasingly shifting its focus from a sender-oriented model to one focused on the needs of the recipients of postal items. In this trend, it is important for UPU member countries to rely on the global postal network to facilitate cross-border trade relationships that provide consumers with access to a wider range of products, and businesses with opportunities to grow their economic activities across borders.

The terminal dues system is essential in lowering the transaction costs for postal operators to ensure a truly global postal service. Copenhagen Economics determined that the terminal dues framework reduces transaction costs in three different ways.[88] Firstly, it reduces the coordination costs, as the UPU sets the standards for different postal services. For example, the terminal dues framework defines the requirements for format separation, sampling and the use of statistics to remunerate international postal exchanges. Without the TD agreement, postal operators would need to agree on a bilateral basis on how the operate and remunerate their bilateral mail exchanges, and the resulting patchwork of different arrangements applying different standards and rules would result in inefficient international postal services.

88 Copenhagen Economics, Throwing away the baby with the bathwater? Economic literature on global coordination vs unilateralism: relevance to the UPU remuneration system and the future of the postal industry, www.copenhageneconomics.com/dyn/resources/Publication/publicationPDF/1/481/1552402124/copenhagen-economics-unilateralism-vs-global-coordination.pdf. This study identified three types of transaction costs linked to the terminal dues system, i.e. coordination, negotiation and enforcement costs. The following text in this section is based on those three groups of transaction costs.

Secondly, a single global multilateral agreement prevents UPU member countries and their postal operators from having to engage in bilateral negotiations with every other member country. With mail flowing into and out of every country on the planet, replicating the scope and breadth of the existing terminal dues arrangements could theoretically mean establishing some 24,090 bilateral communication channels between the 220 designated operators of the 192 UPU member countries currently in the terminal dues system. Those 24,090 bilateral contacts would need to agree on the remuneration of the 48,180 flows (as, for any bilateral link, the mail travels in two directions). Negotiations on the terminal dues system are coordinated by the POC and CA, and through meetings of expert teams, standing groups and POC and CA committees, regional round tables and the world round table on remuneration. The direct UPU stakeholders (governments, regulators and designated operators) thus have a centralized, coordinated framework to negotiate the conditions and rates applicable to their inbound and outbound mail operations. A single terminal dues agreement includes flexibility to use flow-specific statistics, such as information from sampled mail flows, and charges applicable in the destination country's domestic service. In addition, member countries and designated operators can conclude agreements to supplement, improve or replace the terminal dues agreement on a bilateral basis.

Finally, the treaty-based terminal dues agreement is one that can be enforced, which gives it the legal basis for ensuring the integrity of a global postal network. Furthermore, there are significant efficiencies in enforcing and implementing one single agreement, as opposed to a large and varied set of bilateral agreements. The UPU International Bureau, as a neutral agent, coordinates the collection of all relevant operational information, such as domestic tariff information, and verifies that information to ensure that it is fit for purpose. The IB also ensures the calculation and publication of the terminal dues rates and adjusts those rates to the quality of service rendered by the postal operator in the destination country. It performs an essential monitoring function and gives guidance to postal operators on how to implement the agreement. These arrangements provide for transparency, avoid uncertainties and significantly reduce the number of disputes between any two parties.

In the coming years, the terminal dues system will also have to consider any possible changes in the definition of the **universal service obligation**. In many countries, the current regulatory framework does not address issues that have arisen in recent years related to trends and developments that did not exist when national postal legislation was adopted, such as digitalization and the growth of e-commerce activity, as well as the fundamental changes in communication and consumer behaviour and demands.

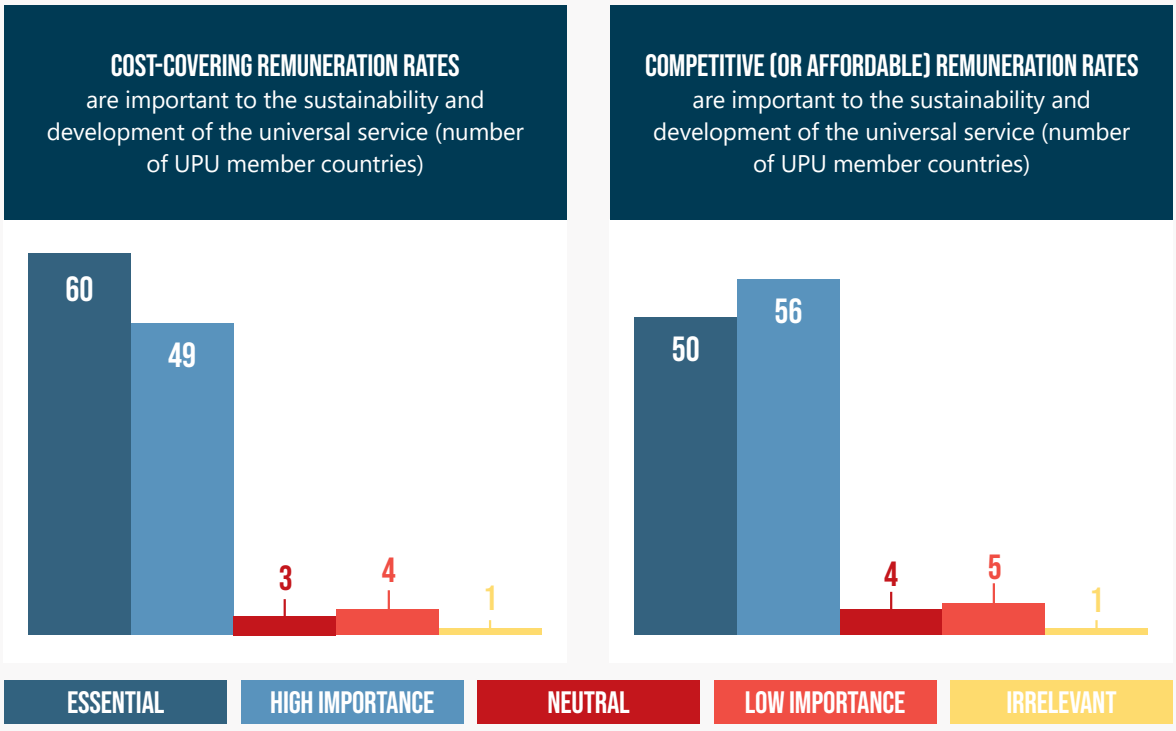
Postal services played a key role during the COVID-19 pandemic by providing the means to keep businesses connected to a global supply chain and enabling them to reach customers no matter where they may be based. In many countries, the postal service was designated as an essential service, which speaks volumes about how much the government and communities rely on the domestic and international postal system. The pandemic accelerated changes in consumer behaviour, including online purchases from foreign merchants, and underlined the importance of the convenient delivery of e-commerce small packet items and parcels.

At the domestic level, according to a 2021 study by the UPU, maintaining the affordability and sustainability of the universal postal service is likely to become an increasingly pertinent topic and challenge for governments.[89] The importance of the dual objectives of affordability (i.e. the ability to pay for universal postal services), and sustainability (cost-oriented remuneration that ensures the long-term viability of postal services) at the international level was confirmed in a 2019 CA study. Of the 117 UPU member countries that participated in this study, over 93% indicated that cost-covering remuneration rates are essential or highly important to the sustainability of the universal service, while over 91% indicated that competitive or affordable remuneration rates are important to the sustainability of the universal service.[90] Affordable, competitive remuneration and sustainable cost-oriented remuneration are not necessarily mutually exclusive principles, although the affordability will depend on the ability of the sending postal operator and the users of the postal service to pay for the delivery services in the destination countries, as well as the ability of the destination postal operator to cover the costs of providing inbound international postal services on a viable long-term basis.

89 UPU 2022, Universal postal service and postal regulation, a global panorama (to be published)

90 UPU, Results of the market impact survey, CA C 2 2019.1–Doc 7a

Figure 36: **Importance of terminal dues rates to the sustainability and development of the universal service**



Affordability and accessibility of postal services remain a key aspect of the universal service provision at both the domestic and international level. In Europe, Regulation 2018/644 on cross-border parcel delivery services entered into force on 22 May 2018. This framework responds to the key objectives of enhancing regulatory oversight of cross-border parcel delivery services within the European Union, increasing transparency of single-piece tariffs and allowing assessment of those tariffs for certain cross-border services. When the European Commission launched a consultation on the tariffs for cross-border parcel services in the EU in 2012, it concluded that the delivery market failed to adequately meet the needs of low-volume senders, particularly small and medium-sized enterprises and individuals, especially in terms of access to affordable tariffs for cross-border delivery services. It underlined the direct negative impact on users seeking cross-border parcel delivery services, most notably in the context of e-commerce. Such developments are also relevant from a terminal dues perspective, in particular as, within the EU, an estimated 80% of addressed parcels generated by e-commerce weigh less than two kilogrammes, and they are often processed in the letter-post mail stream.[91] As described in sections 1.5 and 1.8, in the past, policy developments in the European Union have had a strong impact on the direction of the development of the terminal dues system.

The economic value of international postal services in terms of helping businesses, and in particular SMEs with limited access to alternative affordable international delivery services, to enter foreign markets and grow to their economic potential has already been mentioned. SMEs are less connected to the digital economy and have lower volumes and less latitude to negotiate service agreements at affordable prices with international delivery service providers, postal operators and private carriers than do large mailers and big online merchants. Business-to-consumer e-commerce opens the possibility for SMEs to capture higher margins by accessing international markets for the delivery of their products to customers worldwide. However, this form of trade also requires the use of postal or express delivery services that ship directly to the consumer. Burdensome customs procedures, inefficient and inadequate international delivery services and pricing of cross-border delivery services are major bottlenecks for SMEs.

91 Regulation (EU) 2018/644 of the European Parliament and of the Council of 18 April 2018 on cross-border parcel delivery services, eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018R0644

In many developing countries, e-retailers rely almost exclusively on postal services to deliver products across borders. Especially for SMEs that are unable to build their own distribution networks, the international postal network provides a cost-effective way of engaging in global e-commerce. The postal system is of particular importance to African e-commerce businesses. For example, in mid-2015, the International Trade Centre conducted a perception study among SMEs in Tunisia to assess their readiness for e-commerce. Most of the SMEs participating in the study indicated that they used postal services to ship items internationally, although some used private carriers, i.e. international courier services, for the delivery of their items abroad. Overall, a majority of the respondents judged the price/quality ratio of the available international delivery services to be poor.[92]

In Ireland, another study showed that about two out of five SMEs were satisfied with the cost of sending packages and parcels. Participants in the survey indicated their satisfaction with the availability of delivery services available to them, without drawing any distinction between domestic and international delivery services. Importantly, more than one in three SMEs said they were dissatisfied or very dissatisfied with the costs of sending packages and parcels.[93] The different studies underline the importance of the position and needs of SMEs and consumers as the UPU and member countries develop policies aimed at increasing the engagement and participation of those actors in cross-border e-commerce activities.

The **economic development** potential of the global postal network is an aspect which is becoming increasingly important for low-income and least developed countries to connect to the digital economy and benefit from economic growth that can be generated from the engagement in international trade and e-commerce activities. Indeed, UNCTAD cites the ability to connect to the international postal network as a cost-effective way of engaging in global e-commerce, especially for smaller enterprises that are unable to build their own distribution networks.[94] It is essential that the global postal network address the particularly critical needs of small merchants in defining services, in particular tracking and quality of service of international postal services, as well as the remuneration agreements, in order to strengthen its position as an efficient, affordable international shipping provider for small businesses.

At the global level, the UN development goals of social and economic inclusion translate to citizens located anywhere in the world having access to a minimum set of local, national and international postal services, at a certain level of quality and at affordable prices. For example, in the EU, users of postal services expect affordable prices to remain a core feature of postal services in the next five to ten years, in particular for low-income groups.[95]

As described in section 1.2, a sustainable postal service implies that costs are covered, and this aspect is particularly important to ensure a viable universal postal service in the long term. Responding to the needs for increased remuneration to improve the levels of cost-covering inbound postal services, the proposals for an integrated remuneration system include increases of between 5 and 15.5% annually to the maximum rates of P and G format letter-post items, and 10% annually to the maximum rates of E format letter-post items where the self-declared rates do not apply. The cumulative increase in the P/G format minimum rates will be 33.6% over the period 2022 to 2025. Further increases in supplementary services, such as registered and tracked delivery items, also aim to achieve a higher level of cost coverage.[96]

For a number of high-income net-importing postal operators, cost-covering terminal dues are vital to ensure a long-term viable international postal service. A number of postal operators have reported significant losses on their international inbound mail operations. The UPU maximum rates for these countries can fall below the cost benchmark across the different formats. Simultaneously, as letter volumes decrease, the average costs of handling, transporting and delivering a postal item are likely to increase. For example, as shown in Figure 37, in Australia, the mail volumes are declining while the number of delivery points is increasing, which may result in an increased cost per delivery.

92 International Trade Centre, 2015. International E-Commerce in Africa: The Way Forward, ITC, Geneva,

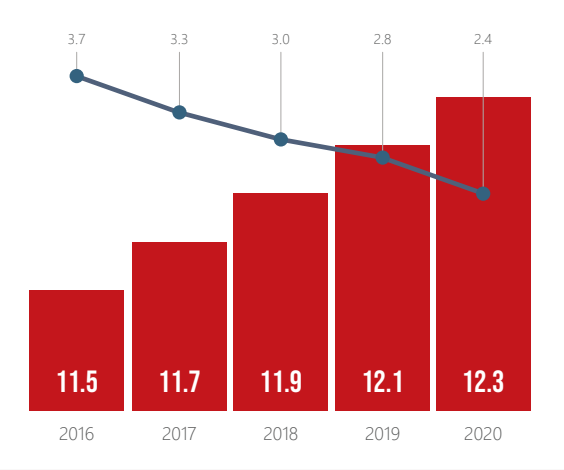
93 Commission for Communications Regulation, ComReg Postal service users SME study, ComReg Document No. 19/84b

94 UNCTAD, 2015. Information Economy Report: Unlocking the Potential of E-commerce for Developing Countries. unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1146

95 WIK Consult, User Needs in the Postal Sector and Evaluation of the Regulatory Framework, www.wik.org/fileadmin/Studien/2021/User_needs_in_the_postal_sector_and_evaluation_of_the_regulatory_framework.pdf

96 See Abidjan Congress proposals 20.28.1.Rev 1, 20.29.1 and 20.30.1.Rev 1.

Figure 37: **Letter volume and delivery points in Australia**[97]



Source: Australia Post

A significant part of the postal network costs are fixed and do not easily adjust to changes in volumes, meaning that average costs decline with increasing volumes being processed through the network, for example due to economies of scale and increased efficiencies of handling larger volumes of mail. Because of the various processes described in section 1.3, the global postal network, like domestic delivery networks, is handling lower traditional letter volumes. These processes, combined with increased operating costs, and impeded by domestic and international regulations relating to universal service provision – which often still require them to provide extensive, frequent coverage across the whole country at a regulated price point – put additional pressures on the postal operator from the perspective of achieving improved levels of cost coverage. In addition, given the changing composition of international mail, with an increasing number of small packet items and fewer traditional letter items, the operating costs are higher, since the former require more manual handling and additional operations at the office of exchange or in the delivery of those items to the addressee. In terms of domestic tariff referencing for terminal dues purposes, it should also be borne in mind that the relative per-item profit margins of small packets are typically lower than traditional single-piece letter items, as small packets operate in a significantly more competitive market. [97]

In other words, in terms of the relationship between affordability and sustainability of the international postal services, there are a large number of different aspects that need to be considered in order to find the appropriate balance between different and sometimes competing policy objectives. Figure 38 gives a selection of different comments and statements made by UPU member countries on the relationship between the remuneration aspects of affordability (and/or competitiveness) and sustainability (cost-covering viability) of international postal services. These statements reflect different positions and expectations in terms of an affordable, cost-oriented remuneration.

One of the most important drivers behind the development and modernization of the terminal dues system over time concerns market development. As at any time in the past, it is extremely difficult to be precise with projections of how the market may develop in the coming years. However, all expectations clearly point to an accelerated growth in cross-border e-commerce transactions, at least until 2025. Those developments will continue to drive a great deal of interest from existing and new players, with industry competition remaining high. In addition, in a growing number of markets, large international online merchants are beginning to enter the delivery environment, choosing to fulfil part of the process themselves. In the face of these opportunities and challenges, postal operators need to make every effort to maintain their market-leading position in the B2C segment by providing high quality postal services at competitive prices.

Asia is already the world's largest e-commerce marketplace; for the short term it is set to continue growing rapidly and reaffirm its global leadership role in the digital economy. As seen in section 1.3, the projected growth rate in e-commerce in South-East Asia is 24%. Importantly, e-commerce is heavily cross-border in some of the economies of this region. Today, a wide diversity in terms of e-commerce development is visible between regions, and also between countries of the same region. For example, in many of the Asia-Pacific region's least developed and developing countries, e-commerce use is still very low, owing to inadequate infrastructure and consumers' limited economic and technical resources to participate in the global e-commerce economy.

There are studies that make projections about the development of the global e-commerce market in the coming years. From Figure 39, it may be seen that global e-commerce transactions are projected to grow by 18% annually between 2019 and 2023, which is a significantly higher rate than the growth rate of physical retail economic activity.

97 Australia Post, annual report 2020, auspost.com.au/content/dam/auspost_corp/media/documents/2020-australia-post-annual-report.pdf

Figure 38: **UPU member countries on relationship between affordability and sustainability**[98]

Cost coverage and affordability are very important principles that should be considered in finding a balanced remuneration system, considering that only cost coverage will protect sustainability among industrial countries, but will remove developing countries in the long term. That is why balanced consideration of two different principles is essential to find a balanced remuneration system among different countries; UPU member countries differ in terms of economic growth, and economic and social development.

Cost-covering remuneration rates for inbound designated operators are absolutely essential to ensure a sustainable universal postal service. Competitive/affordable remuneration rates are also important for outbound designated operators and customers; however, these rates need to be driven by the market. If the remuneration rates are significantly reduced or capped to ensure affordability, these rates will not reflect market conditions and will create unacceptable distortions.

A well-balanced trade-off must be found in order to stimulate international exchange of postal items.

Cost-covering remuneration rates are essential for development of universal service

The concept of cost coverage is a prerequisite; however, with respect to cross-border traffic, i.e. a small part of the traffic managed by the designated operator, it cannot be full costs.

The sustainability of the universal postal service relies to a large extent on sufficient volumes going through the network to keep fixed costs as low as possible. E-commerce provides those volumes. Increasing terminal dues for small packets will most probably lead to a massive decline of these necessary volumes due to changing consumer behaviour. The changes agreed upon by the Istanbul Congress are sufficient in order to mitigate the negative consequences of the current terminal dues system.

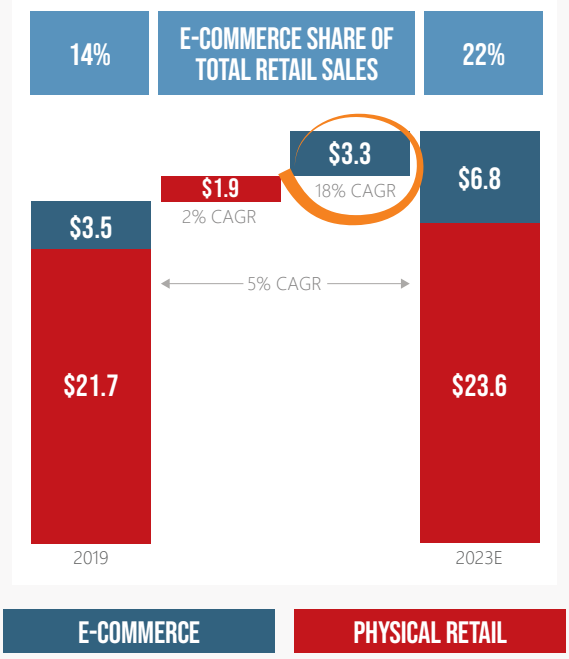
As a net importer country, it is important that the costs of last-mile delivery are covered. Self-declared rates assist this and ensure that the market is affordable, sustainable and competitively priced for tracked and untracked products.

It is necessary to establish rates that cover costs, while at the same time being competitive

Discussions within the UPU consider cost and competition as being opposing factors. However, depending on the market of destination, very low prices cause distortions in the receiving market and result in rampant competition in the market of origin. Considering that it is common to have only one designated operator in the country of destination and more than one shipper in the country of origin, the low terminal dues (in comparison with the market) result in the various shippers stifling their value chain in an effort to reduce their costs as much as possible, only to deliver their consignments to a single operator in the country of destination.

98 Source: UPU, Results of the market impact survey, CA C 2 2019.1–Doc 7a. Selection of comments received from UPU member countries in relation to the statements presented in Figure 36.

Figure 39: **Global retail by channel: 2019 vs 2023E in trillions USD**[99]



Data: Activate Forecast

UNCTAD estimates that cross-border B2C e-commerce sales amounted to 440 billion USD in 2019, a 9% increase over 2018.[100]

To benefit from these developments in the global e-commerce market, postal operators are entering into agreements with online merchants and e-commerce platforms. For example, in April 2021, the South African Post Office announced a strategic partnership with the global e-commerce platform Wish, which was looking to SAPO to help it strengthen its delivery capabilities in the South African market. SAPO has been investing in developing its capabilities to track international postal items entering its network.[101] Developments such as these, paired with increased readiness among consumers to make purchases outside of their country or region, will contribute to the rapid expansion of cross-border e-commerce growth and provide opportunities for postal operators as they build their capacities to participate in the continuous growth of international small packets and parcels.

Box 14: **COVID-19**

The above projections do not even include the structural impacts from the COVID-19 pandemic on consumer behaviour and the wider economic landscape. The pandemic has proven to be an immense challenge for designated operators, which have been obliged to adapt their operations and delivery services in compliance with government-mandated precautionary measures and the capacity constraints arising from the reduced availability of air transport solutions.

While the global pandemic is still playing out in many economies around the world in 2021, it is clear that it has profoundly changed how consumers and businesses interact with online channels. The pandemic kept people out of physical stores and at home, and many consumers pivoted to making online purchases. The pandemic provided a glimpse of how consumers will prefer to shop in the coming years, and what postal operators need to do to keep up with the increasing demand, as they started to process an unprecedented volume of small packets and parcels.

In April 2021, UNCTAD made a preliminary assessment of the impact of COVID-19 on online shopping, drawing on online retail sales data from selected countries. It concluded that, while overall retail sales declined by 1% in 2020 in Australia, Canada, China (People's Rep.), Korea (Rep.), Singapore, the United Kingdom and the United States combined, online retail grew by 22% compared to 2019.

In 2020, postal operators saw the structural changes in the postal market exacerbated by the onset of the pandemic, which, while accelerating the growth in the volumes of small packets and parcels, spurred the deceleration in letters (documents). In France, La Poste Group reported a 38.1% increase in parcel volumes in 2020, largely driven by the e-commerce burst. Meanwhile, the drop in addressed mail volumes was 18.1% – steeper than in any previous year.[102] Other postal operators reported similar results over the pandemic year 2020. For example, Australia Post saw its domestic letter volumes decline by 14.5% compared to 2019 and its international letters volumes (severely impacted by global conditions such as the significant fall in air freight capacity to and from Australia) by 16.3% compared to 2019. Letter volumes in Australia are down by more than 56% since peak mail volumes.[103]

99 Activate Forecast, Technology and Media Outlook 2 020, activate.com/outlook/2020/

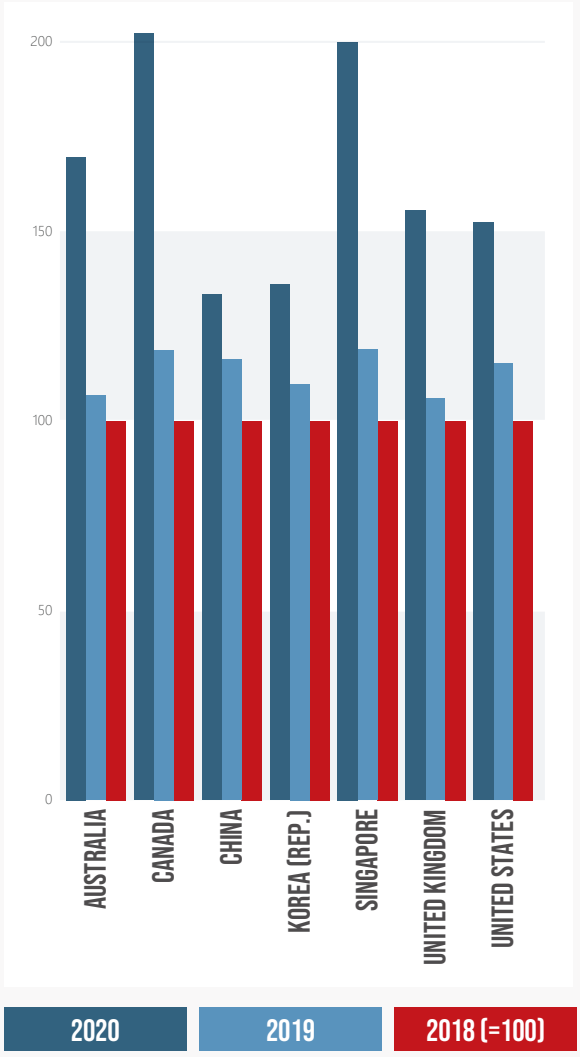
100 UNCTAD, Estimates of Global E-commerce 2019 and Preliminary Assessment of COVID-19 Impact on Online Retail 2020, unctad.org/system/files/official-document/tn_unctad_ict4d18_en.pdf

101 Wish, Wish Announces Strategic Partnership With South Africa Post Office, ir.wish.com/news-releases/news-release-details/wish-announces-strategic-partnership-south-africa-post-office/

102 Groupe La Poste, FY 2020 Results, 2030 Strategic Plan, www.groupelaposte.com/en/financial-publication/2020

103 Australia Post, 2020 Annual Report, auspost.com.au/content/dam/auspost_corp/media/documents/2020-australia-post-annual-report.pdf

Figure 40: **Growth of e-commerce transactions in selected countries**[104]



Source: UNCTAD

As we saw above, the growth in the cross-border e-commerce market will draw a great deal of interest from existing and new players providing a wide range of different services, from fulfilment and warehousing through to international transportation and delivery. Postal operators will also seek to benefit from the enormous growth of cross-border e-commerce. As they invest in their network with a view to strengthening their position in the international delivery market, the landscape is becoming increasingly competitive, with new players entering the market, be they large e-commerce platforms developing their own delivery capabilities, or other companies focusing on value-chain orchestration or end-to-end logistics services.

From a **competition policy** perspective, and in the context of the developments described above, there may be a need in the coming years to reassess the impacts of the terminal dues system on different stakeholders and market players. A study in 2014 – predating the reforms to the remuneration system adopted in 2016 in Istanbul and, in particular, in 2019 in Geneva – identified six types of market distortions created by the terminal dues system: i) distortion of competition for first-mile handling of cross-border letter-post items; ii) distortion of competition for last-mile handling of cross-border letter-post items; iii) distortion of demand for delivery within and outside the terminal dues system; iv) distortion of demand for domestic versus cross-border delivery; v) distortion of demand for cross-border delivery originating in transition versus target countries; and vi) financial transfers between delivery operators fulfilling the obligations of the UPU treaty.[105]

At the 2016 and 2019 Congresses, some of these aspects were resolved or significantly reduced (see sections 1.4 and 1.5). For example, the market-distortive effects from the terminal dues system applicable to differential rates in the transitional system (point iv above) were resolved by: 1) the transition of all countries in group III, notably China, into the target system from 2016; 2) the introduction of a separate remuneration structure for small packets and E format items that entered into effect in 2018 and; 3) the significant increases and self-declaration of those terminal dues rates that entered into effect from 2020. These reforms also addressed the issues of cost coverage and financial transfers between postal operators (point vi above). The remaining differential rates for small mail flows sent by low-income developing and least developed countries are justified from a socio-economic and development perspective while, owing to the low volume thresholds, any impacts are likely to be insignificant.

104 UNCTAD, Estimates of Global E-commerce 2019 and Preliminary Assessment of COVID-19 Impact on Online Retail 2020, unctad.org/system/files/official-document/tn_unctad_ict4d18_en.pdf

105 Copenhagen Economics, The Economics of Terminal Dues, report prepared for the Postal Regulatory Commission, http://www.prc.gov/sites/default/files/reports/The%20Economics%20of%20Terminal%20Dues_final%20report%20300914.pdf

It should be borne in mind that, while domestic charges do provide a relevant and practical proxy for the cost-orientation of terminal dues remuneration, a like-for-like comparison of terminal dues rates to domestic postage, in particular single-piece retail tariffs, presents a range of issues. As described in section 1.4, even in the domestic service, only a small percentage of domestic mail is actually purchased at retail rates, rather than generally lower commercial rates. It can reasonably be assumed that in the domestic service, large volumes of mail, bundled, format separated and dropped off at a centralized location, apply lower rates than a citizen would pay for posting a single item at the post office. Therefore, basing any comparison on retail tariffs to try to contrast terminal dues with those rates would result in a perceived difference that may be larger than reality.

As discussed in section 1.4, the aforementioned market distortions are not only of importance from a competition policy perspective; they are also an increasingly important aspect of international trade relationships. For many years, one of the main concerns of the terminal dues system concerned its compliance with multilateral trade agreements, and in particular the most-favoured-nation principle. From the late 1990s, the terminal dues agreement was scrutinized from a trade policy perspective, in particular as it applied a multi-tiered rate system in which countries were able to access different international delivery rates based on their classification in the TD classification system. Following the 2019 Extraordinary Congress, the remuneration of small packets (E format) was reformed with significant increases in remuneration for these type of items to achieve improved level of cost coverage. From the trade perspective, an important part of the reforms was that they ended the differentiation between terminal dues rates based on the origin of the mail, except to the below-threshold low-volume mail flows from certain groups, in particular low-income developing and least developed countries in the transitional system. All other mail flows are subject to the same terminal dues remuneration for small packet items. For example, mail flows from China to countries in the target system are subject to the same remuneration for small packet items as industrialized countries pay among themselves. The next and final step was taken by the Abidjan Congress, which adopted provisions that will complete the transition to a single terminal dues system by harmonizing the rates of P and G format documents by 2025.

As mentioned previously, it is imperative that the work on the reduction of possible market distortions continue in the Abidjan work cycle. However, there are also other concerns that it is important to pursue. This points back to the importance of continuing the efforts in international negotiations of finding balanced outcomes among a wide range of different policy objectives. A more detailed study on the impacts resulting from the important reform decisions of the 2019 Geneva Congress could provide guidance in terms of the extent to which the aforementioned market distortions still apply today and, in this rapidly changing market environment, what type of market failures and other emerging issues the terminal dues system may need to address to ensure maximum welfare. In this context, outcomes that ensure continued access for all consumers and businesses to an affordable international postal service that is both competitive and financially sustainable for both the sending and receiving postal operator will be part of the exercise of balancing the different policy objectives, concerns and interests of the stakeholders of the global postal network.

The essence behind the terminal dues agreements reached at every Congress is that of a well-balanced system that takes particular account of the interests of net-importing countries and the competitiveness of the sending countries, especially net-exporting countries and low-income developing countries. However, in the context of accelerated changes in the international postal market spurred on by structural developments and changing consumer behaviour, such as the increase in e-commerce–driven traffic and the effects of e-substitution on traditional mail, terminal dues agreements reached at one Congress can reflect a balanced outcome of the different interests in the lead up and at Congress, but as these market developments continue and pick up pace, the negotiations on the development of proposals for the next Congress increasingly indicate the need to continuously reform the TD system and recalibrate the balance between the different concerns and interests. This was most noticeable in the Istanbul Congress cycle, where a separate set of rates were introduced for small packet and other E format items, in view of market developments. While these changes were impactful, discussions on financial transfers and market-distortive effects were already taking place before the Istanbul Convention came into force on 1 January 2018[106].

106 See for example Postal Technology International, the fight against terminal dues, January 2017

The e-commerce–driven developments in the market will continue, and may well accelerate in the coming years, while the decline in traditional letter volumes is likely to be sustained, resulting in further changes in the average mail profile, with more small packets in the mail stream. Not only are these small packets more costly to handle than traditional letters, but they also operate in a highly competitive market. Although a number of the market-distortive effects of the terminal dues system were either resolved or significantly reduced by the 2019 Geneva Congress, the direct stakeholders, such as governments, regulators and postal operators, will continue to discuss the appropriateness of the terminal dues system from all the different policy perspectives at UPU meetings. Indirect stakeholders, such as trade associations, private carriers, e-commerce delivery platforms and other users of the international postal service, will watch those discussions with interest.

The changing mail profile will increase the need to incentivize **quality of service and operational improvements** that enhance customer, operational and supply chain visibility of all items, in particular those containing goods, travelling through the global postal network. Currently, the terminal dues remuneration system incentivizes quality of service improvements for P and G format document items, whereas the growing volumes of small packets are creating an opportunity to link E format remuneration directly to the quality of service measurement of small packet items rather than small and large letter-post document items. The 2021 Abidjan Congress decided in favour of proposals to provide postal operators in destination countries with an opportunity to further increase their remuneration for tracked small packet items, provided that they meet higher standards in the transmission of electronic scanning data for end-to-end tracking purposes.

Cross-border e-commerce is also creating challenges in the international supply chains, such as managing customs clearance procedures for ever-growing volumes of low-value shipments. Work is being done to develop proposals to incentivize compliance and performance improvements against the electronic advance data requirements that have gradually been put in place in many UPU member countries. These and other requirements put forward by stakeholders in the postal value chain, for example by customs and border security agencies, have an impact on the costs of different processes, for example the costs for the postal operator in the origin country of collecting information from the sending customer, or the additional costs for the postal operator in the destination country of handling postal items that are subject to customs inspection.

Many of the challenges, opportunities and policy objectives outlined above will shape the discussions and work on the future terminal dues system. The Integrated Remuneration Plan provides the roadmap and framework for the development of proposals for the future remuneration systems which are to be proposed to the Congress in 2025. This work entails numerous studies, analyses, discussions and round table discussions which will be taking place in the 2022–2025 period. As mentioned at the beginning of this section (section III), the work on terminal dues is indeed never finished.

3.2

INTEGRATED REMUNERATION PLAN AND SYSTEM

Marking a departure from existing UPU remuneration systems based on terminal dues, inward land rates and ECOMPRO rates, the Istanbul work cycle was the first in which an Integrated Remuneration Plan was devised, including recommendations and guidelines steering the work on the development of proposals for an integrated remuneration system.

Figure 41 presents a SWOT analysis which takes into consideration the various political, economic and social issues that were discussed in this study. This analysis is based on the larger SWOT analysis included in the Istanbul World Postal Strategy, focusing only on those aspects that are directly and indirectly related to the policy and market issues concerning the remuneration of items through the postal network.

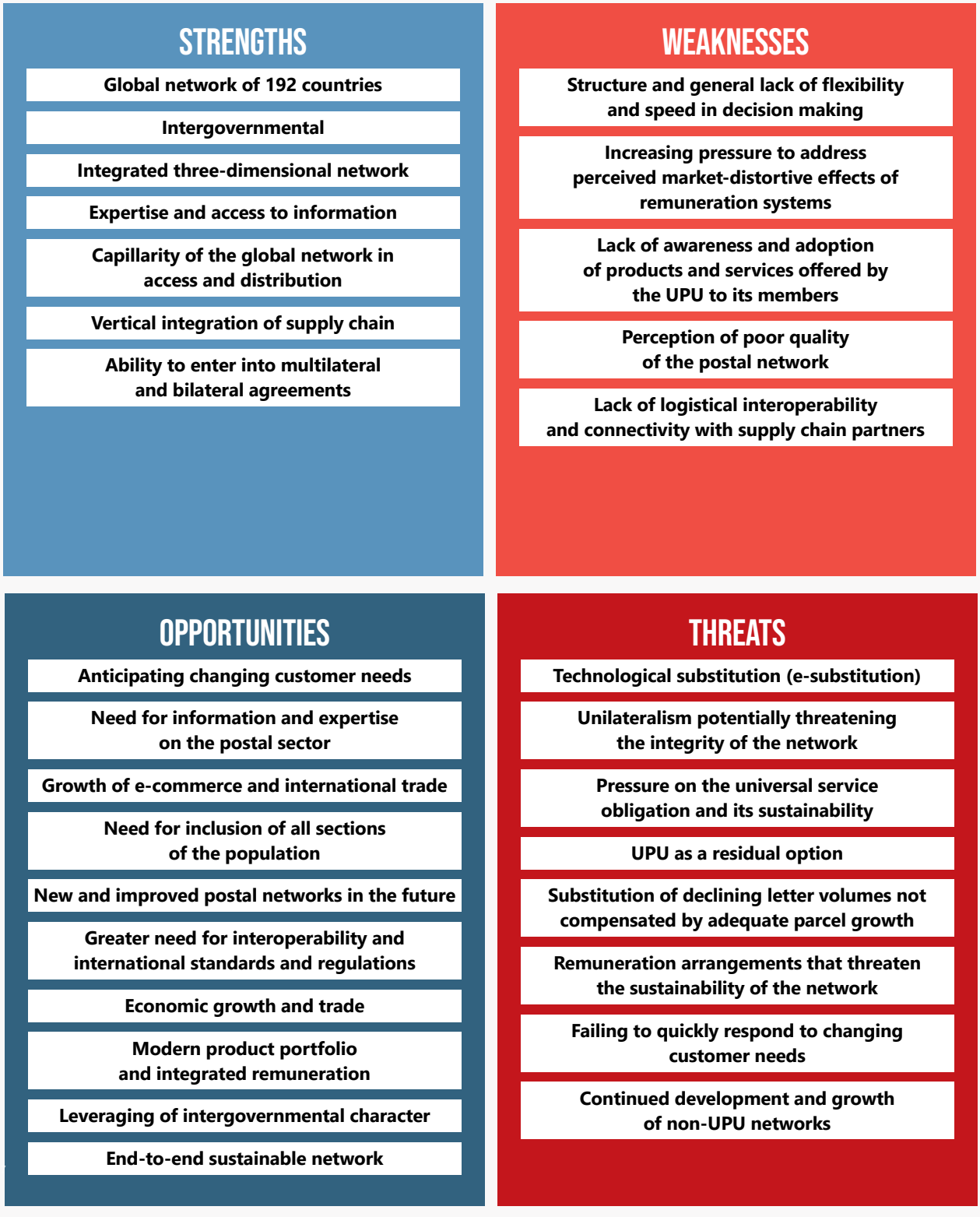
In terms of strengths, the global postal network remains the largest international delivery network in the world, connecting more than 220 designated operators from 192 member countries and providing access to international postal services through 630,000 post offices around the world. The intergovernmental character of the UPU and the treaty-based remuneration systems ensure a solid basis of governance and enforceability of the provisions concerning terminal dues. As mentioned in section 1.1, the International Bureau provides member countries and their postal operators with solid expertise and support in the implementation of the provisions, in particular through the efficient collection of information, the calculation and publication of terminal dues rates and secretariat support in the development of new provisions on TD rates and settlement procedures. Without a terminal dues agreement, a chaotic situation would arise in which each postal operator needed to negotiate bilateral agreements with each of the other 220 postal operators from 192 countries, creating an enormous amount of uncertainty in the international postal service.

The main weaknesses of the terminal dues system were discussed in this study, with particular focus on the increasing pressure to address perceived market-distortive effects of remuneration systems. The remuneration reforms adopted at the 2016 Congress, and in particular at the 2019 Extraordinary Congress, did address those concerns to a considerable extent. However, the terminal dues system could give rise to continued and/or new distortions in the postal market, which will need to be carefully studied and addressed as part of proposals for a future remuneration system. Another major weakness of the global postal network that deserves attention is the perception of poor quality of the postal network. Terminal dues have contributed to operational improvements that ensure that items are moving more quickly through the network; however, significant improvements are needed to ensure better interoperability and quality of service performance measurement, in particular in the area of small packet remuneration.

As discussed at different points in this study, e-commerce growth presents the single largest opportunity for the global postal network, the UPU member countries, postal operators and (SME) businesses that depend on the global postal network to grow to their economic potential. The terminal dues system has a role to play in strengthening the global postal network, by facilitating interoperability and contributing to global development. The continued work on the integration and modernization of the remuneration system, through the Integrated Remuneration Plan, represents an important opportunity for postal operators to achieve competitive and viable remuneration for the longer-term sustainability of the universal postal service.

The SWOT analysis, as presented in the Istanbul World Postal Strategy, identified unilateralism as one of the main threats to the UPU and the global postal network. This threat did in fact materialize during the Istanbul Congress cycle as the United States announced its withdrawal from the Union on the basis of inadequate terminal dues remuneration and related policy issues. Although the notice was rescinded after the 2019 Geneva Congress agreed on substantial reforms to the terminal dues agreements, the IWPS correctly identified unilateralism as an important threat to the UPU and other forms of international cooperation and development. Electronic substitution and the growth of volumes of items moving through non-UPU delivery networks are two other significant threats that have been analyzed in this study.

Figure 41: **SWOT analysis** [107]



107 Istanbul World Postal Strategy, with minor adaptations.

Figure 42: **Integrated remuneration system principles for the Abidjan Congress work cycle**[108]

- Ensure the provision of an affordable and viable universal postal service through sustainable remuneration to delivery designated operators
- Support the efficient and economically viable provision of modern international postal services in line with regulatory requirements and with the flexibility to respond to rapidly changing market conditions and customer needs
- Differentiate the various UPU-regulated postal products based on service specifications and market needs
- Recognize the need to differentiate UPU-regulated postal services, simplifying and harmonizing these across formats as much as possible
- Support the interoperability, sustainability and development of the global postal network under the least market-distortive terms
- Be transparent, straightforward and mindful of the different resource and implementation constraints among UPU members and support aid programmes for the postal development of transitional countries
- Incentivize improved service performance through linking of quality of service measurements to remuneration
- Ensure non-discriminatory access to destination markets according to country-specific, cost-coverage remuneration rates
- Respect the right to affordable access to international postal services for the least developed member countries with limited international mail volumes
- Prevent the abusive practice of remailing
- Respect the need for higher remuneration for the processing and delivery of inbound international mail in cases where domestic rates are set below cost owing to social or similar policies

These various policy issues and market developments pose serious challenges and opportunities for postal operators and member countries alike. It is therefore important that the work on the development of the terminal dues system be guided by a framework that targets those very specific policy issues.

The Integrated Remuneration Plan provides the strategic direction, goals and roadmap to deliver future proposals for an integrated, modern and forward-looking remuneration system – the integrated remuneration system. Abidjan Congress resolution C 13/2021 will ensure that the IRP framework remains in place for the development of the future IRS to be studied, developed and negotiated throughout the Abidjan cycle, with a view to presenting new proposals to the 28th Congress in 2025.

The work on the development of proposals for an integrated remuneration system for the 2022–2025 cycle was guided by a core set of integrated remuneration system principles adopted by the Istanbul Congress. The Abidjan Congress decided on a new set of principles that will guide the work during the Abidjan work cycle to ensure that the IRS proposals for the 2026–2030 cycle take into consideration the various policy objectives detailed in Figure 42.

108 Integrated remuneration system principles contained in Abidjan Congress resolution C 13/2021

In the Abidjan work cycle, the IRP will need to be implemented in support of the further modernization, rationalization and integration of the UPU remuneration systems, and also in direct response to the Integrated Product Plan (IPP), to ensure that the UPU keeps pace with change by modernizing the remuneration of letter post, parcel post and EMS and taking an integrated approach to product development and remuneration systems alike.

The IRP is to be implemented from the beginning of the Abidjan cycle, through regular implementation reports to the POC and CA, which will be continuously updated to include the most important conclusions from the different studies, and progress in the development of options to improve the remuneration systems.

The IRP provides the strategic direction, goals and roadmap to deliver the future proposals for an integrated remuneration system for the 2026 to 2030 period that focuses in particular on the four main pillars outlined in Figure 43:

Figure 43: **Four main pillars of the Integrated Remuneration Plan**

1.	Modernize, integrate and rationalize the UPU remuneration systems
2.	Review the remuneration of all basic and supplementary services
3.	Drive simplification of the remuneration systems, address the market-distortive effects from the remuneration systems and further progress the work towards a single TD system
4.	Incentivize quality of service and operational improvements that enhance customer, operational and supply chain visibility of all items, in particular those containing goods

IRP PILLAR 1: Modernization, integration and rationalization of the UPU remuneration systems

The first pillar deals with the ambitious agenda of modernizing, integrating and rationalizing the different UPU remuneration systems by reviewing in particular the methodologies that underlie the determination of the basic rates of letter-post, parcel-post and EMS items.

Modernization of the UPU remuneration systems

Modernization refers to the work on reviewing the existing methodologies of the different remuneration systems, including the default terminal dues system, the remuneration system of self-declared E format TD rates, the inward land rate system for parcel-post items, and the ECOMPRO remuneration system for parcel-post items that are exchanged under this specific delivery category.

Modernization responds to the policy objectives of remuneration systems that are country-specific and cost-oriented, and meet the various needs of direct and indirect stakeholders of the global postal networks, in particular the needs for an affordable, competitive and cost-covering remuneration system that supports the long-term viability of the universal postal service. In this context, it is important to revisit the methodologies, including the reference tariffs and information used in terminal dues calculations and other provisions, including the more technical parameters such as minimum and maximum rates, weight steps and the calculation methodology that determine the rates, to ensure that the system remains fit for purpose. This means meeting the various policy objectives, such as removing market-distortive effects, meeting the most-favoured-nation principles and ensuring affordable access to international postal services, and being responsive to market opportunities to strengthen the global postal network and the position of postal operators, businesses and citizens.

The 2021 Abidjan Congress did not change the methodology of the default terminal dues system, partly because of the important changes involved in introducing an optional self-declared rate system for E format items, and also because of the need to close the remaining gaps between the rates applicable in the different groups of the TD classification system. Once those gaps have been closed by harmonizing the various maximum rates by 2025, there will be a solid basis for introducing new changes to the methodology of the default terminal dues system for the future.

The self-declared remuneration system adopted in Geneva in 2019 has recently been implemented, and no major changes are expected. It may, however, be necessary to review some of the very specific parameters, in particular those concerning the calculation of the so-called ceiling rates that are derived from 11 domestic tariffs. The weight points and item and weight distribution determined by the 2023 items-per-kilogramme study may point the way to some minor adaptations to the methodology for calculating those ceiling rates, to ensure that the system better meets the conditions of a level playing field with the delivery rates applicable to domestic mailers.

Inward land rates are a remuneration system that compensates destination operators for parcel-post items received from abroad. The ILR system has not been discussed in this study so far, as our focus has been on remuneration of letter-post items, i.e. traditional letters and small packet items, along with registered and/or tracked delivery items. Nevertheless, the remuneration of parcel-post items is increasingly of relevance to that of small packet items, as ensuring a better alignment between the different remuneration systems, in particular those remunerating the delivery of items containing goods, is an important objective. Significant changes to the remuneration of parcel-post items were made in Abidjan, with the introduction of a self-declared rate system limited by country-specific ceiling rates. Resolution C 13/2021 on the IRP for 2022 to 2025 provides a specific mandate to modernize the methodology of the ILR system, as the current provisions have been in place for a long time and there are increasing demands for reviewing the remuneration system to meet the demands for a competitive, cost-covering remuneration system that builds in more flexibility to change according to shifting demands in the market.

Box 15: **Inward land rates**

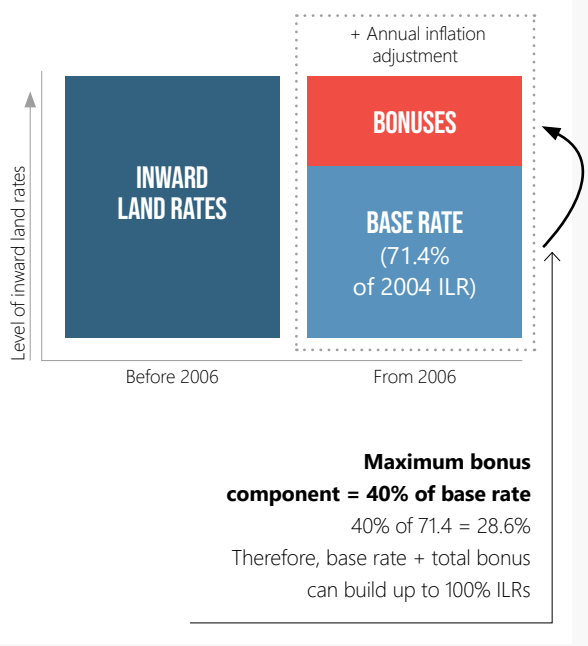
Payments between postal operators for handling and delivering parcel post are referred to as inward land rates. The current base rate system consists of a rate component and a bonus component. The bonus component was introduced in 2006 as a pay-for-performance system to provide postal operators with an incentive for improving their parcel processing and delivery procedures.

Prior to January 2006, ILRs were set by postal operators in accordance with the POC's recommendation that these rates should be based on postal operators' domestic costs. As a result of extensive studies, and concern about excessive ILRs, the 2004 Congress approved a proposal from the POC to introduce a new ILR system for parcels based on service features provided. The new method, which came into force on 1 January 2006, consisted of two parts: part I contained the level and calculation of ILRs for the period 2004–2006 and beyond; and part II introduced a bonus payments system based on service features provided, approved by the POC during its 2005 session.

The current rates structure and bonus payment system are outlined in the Convention Regulations, under which the ILR base rate is set at 71.4% of the inward land rates of 2004, and is composed of a per-item and a per-kilogramme rate. Postal operators are also eligible for bonus payments worth up to an additional 40% (of the base rate) on the basis of the provision of service features defined in the Regulations. In addition, designated operators can request adjustments to their ILRs on the basis of inflation variation recorded by their country's consumer price index, limited to a maximum of 5% annually. A floor rate was introduced to protect operators from the application of a low ILR base rate.

The current system effectively caps rates, as 2004 rates form the basis of the remuneration system, and ILRs can only change by the inflation variation. The maximum inflation adjustment that can be claimed cannot exceed 5% per 12-month period. Air parcels can be subject to higher inward land rates, as it was decided in 2008 to integrate the internal air conveyance dues into the inward land rates for parcels to avoid separate accounting. The components of the bonus system change over time, as agreed by the POC.

Figure 44: **Inward land rates**



The main component of the ILR bonus payment system concerns service feature 1, which rewards DOs with a maximum of 25 bonus points for the timely transmission of track-and-trace information. Over the years, the minimum performance requirements to qualify for the ILR bonus payments have been increased, in particular for the transmission of tracking data events, as well as compliance with the average response time requirements, to qualify for the IBIS bonus payments (service feature 4). The requirements for achieving bonus payments in relation to service features 2 and 3, respectively for home delivery and the provision of information about delivery standards, have remained mostly static since they were introduced in 2006.

The Abidjan Congress made changes to the ILR system allowing postal operators to self-declare their base rates below the level of the current base rates. In alignment with the self-declared rate system for small packet items adopted in Geneva in 2019, the current base rates will be referred to as ceiling rates, below which an operator can notify self-declared inward land rates. The methodology for determining the ceiling rates will be studied in the Abidjan work cycle.

Integration and rationalization of the UPU remuneration systems

The Integrated Remuneration Plan takes an integrated approach to remuneration for different products, with particular consideration of product development aspects, costs of inbound postal operators, affordability for outbound operators and customers, market dynamics, competition and transition, as well as research activities across the full range of physical services, with a view to modernizing and integrating the UPU remuneration systems.

A strategic objective of the IRP is to achieve an acceptable and appropriate level of alignment between the different remuneration systems that is based on a rational remuneration for each of the services of the UPU product portfolio. It is important to recognize that the terminal dues, inward land rate and EMS remuneration systems evolved independently from one another over time. The relationships between the different remuneration systems were not considered for many years, not least because they remunerated very different services. For example, terminal dues remuneration concerns universal postal service items weighing up to 2 kilogrammes, whereas inward land rates remunerate parcels that can be as heavy as 30 kilogrammes, with vastly different dimensions and service features and catering for different market needs.

The interest in benchmarking and streamlining the overall portfolio of remuneration agreements and provisions started in 2010, when a UPU-commissioned study, concerning a market research report on international letters, express and parcels, raised issues in terms of the alignment of the remuneration of letter-post items (in particular small packets), lightweight parcels and EMS items. For example, there are instances where premium services such as EMS, despite its product service characteristics, could be remunerated at a considerably lower rate than sending the same content as a surface parcel and applying the corresponding inward land rates.

The 2016 Congress adopted the Istanbul World Postal Strategy and Istanbul Business Plan containing the work proposals and strategic direction for the development of integrated products, services and remuneration systems during the Istanbul work cycle.

The gaps and relationships between the different remuneration systems were studied further in 2017 by comparing the remuneration of items containing goods on the basis of terminal dues rates, inward land rates, ECOMPRO parcel rates and EMS rates. This study simulated the remuneration in 2021, the last year of the Istanbul Acts period (2018–2021). Business rules were followed to ensure that the same or similar service features were included in the comparison, to achieve the highest possible level of consistency and comparability. For example, the remuneration of small packet (E format) items was augmented by the additional payments for both the registered service and the exchange of tracking data, as a way of making the remuneration comparable to parcel-post items, which include tracking, liability and signature requirements as service features.[109]

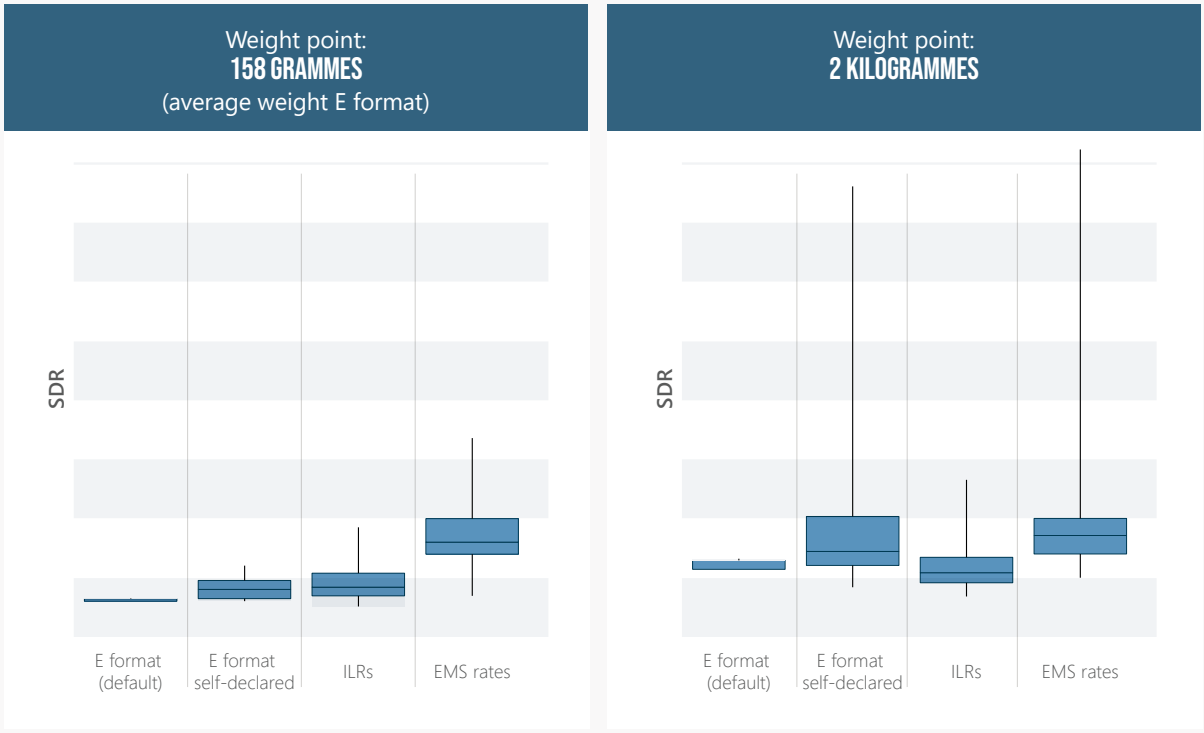
The study concluded that there were major differences between the remuneration systems, with terminal dues having a relative lower per-item and a higher per-kilogramme component, whereas the opposite was true for the rates under the ILR and EMS rate systems. It was observed that, given the differences in the rate structures, the difference between the rates decreased at the higher weight steps. In fact, in 2017 it was projected that the median rates of inward land rates and terminal dues would intersect at approximately 1,750 grammes in 2021. However, following the changes agreed at the 2019 Extraordinary Congress, the intersection point is now closer to 1,250 grammes.

Figure 45 illustrates the gaps and relationships between the UPU remuneration systems as of 2021. It should be noted that this overview does not consider the significant changes to the remuneration systems, in particular the default terminal dues system, that will enter into effect from 1 January 2022. It is also important to bear in mind that the terminal dues remuneration has been increased with the remuneration for tracking and registration service features applicable in 2021 to ensure the best level of comparability with the remuneration for parcel and EMS services. Finally, the remuneration calculated on the basis of the self-declared E format terminal dues rates considers the exchanges to and from the United States, as those flows are subject to different criteria. These rates are used because the self-declared E format rates for other mail flows are due to be harmonized with those self-declared rates, i.e. applicable mail flows to and from the United States, once the transition period is over, meaning that they provide a better basis for comparison, since they represent the end state. The comparisons are made at the weight points of 158 grammes, which is the average weight of E format items, and 2 kilogrammes, the maximum weight of letter-post items.

Figure 45 presents some interesting observations about the relationships between the different remuneration systems. First of all, the spread, i.e. the difference between the lowest and highest remuneration, gives an indication of the extent to which country-specific rates are limited by minimum and maximum remuneration, such as cap and floor rates and maximum annual increases. The spread of the E format terminal dues remuneration is particularly limited, owing to the application of minimum and maximum rates, as well as the use of the fixed per-item remuneration for tracking and registration service features. Where remuneration of E format items has been self-declared in 2021, the spread can be significant, in particular owing to the different levels of ceiling rates and differences in the structure of the self-declared rates. In the latter case, the Convention allows postal operators to change the ratio between the self-declared per-item and per-kilogramme rate. As some postal operators opt for an increase in the per-kilogramme rates, the remuneration above the average weight point of 158 grammes becomes increasingly higher, proportionate to postal operators opting for a higher per-item component.

109 The results from this study are presented in POC C 2 2017.2–Doc 4c. However, it should be noted that these results were based on a large number of assumptions made in the year 2017 about remuneration in the year 2021 without knowledge of the important changes that were made to the terminal dues agreements at the 2019 third Extraordinary Congress in Geneva, which introduced self-declared remuneration of E format items.

Figure 45: **Gaps and relationships between the UPU remuneration systems**



Note: the line in the middle of the boxplot represents the median value

Other important information about the structure of the remuneration and the relationships between the different remuneration systems can be gleaned by focusing on the interquartile range, i.e. the area between the first and third quartiles. The middle half of the data falls between the first and third quartiles, and is centred around the median. As such, this provides a useful reference of comparison between the different remuneration systems. For example, at the weight point of 158 grammes, the median remuneration based on self-declared E format items is very similar to the median remuneration based on inward land rates. However, at a weight of 2 kilogrammes, the median remuneration based on self-declared E format items is about one third higher than the remuneration based on inward land rates. In comparison to the remuneration of EMS merchandise items, the self-declared terminal dues remuneration for E format items is approaching equivalence at the weight point of two kilogrammes.

The gaps and relationships between the remuneration systems, in particular between inward land rates and terminal dues, are to a large extent explained by the differences between letter-post and parcel-post items in terms of their basic service specifications (e.g. format dimensions and maximum weight limits), operational handling requirements and procedures, and market positioning. At the higher weight points, in particular starting from above 1,250 grammes, the higher remuneration paid for the delivery of small packet items may lead to distortions vis-à-vis the delivery of parcel-post items that provide for more advanced service features, higher network and delivery costs due to the larger average sizes and higher average weights of parcel-post items. At the weight of 2 kilogrammes, more than 56% of postal operators receive less remuneration on the basis of their own inward land rates in 2021 than the lowest remuneration available in the terminal dues system, i.e. the minimum rates. When comparing the country-specific terminal dues remuneration against the country-specific inward land rates, it can be observed that more than 66% of all postal operators receive higher remuneration for a 2 kilogramme item through the terminal dues system (13.6% of all postal operators at the weight point of 158 grammes).

Similar issues may exist in terms of the relationship between remuneration for small packet items and EMS items, in particular in those instances where the self-declared E format items result in a higher remuneration for small packet items compared to the premium and express nature of EMS items, which are typically delivered through a separate and higher cost courier or express delivery network in the destination country. Concerning the relationship between inward land rates and EMS rates, in 2019, 52 postal operators had inward land rates higher than their EMS rates. Similarly, 19 of the 58 postal operators that have notified their ECOMPRO rates have self-declared ECOMPRO rates that are higher than their inward land rates, despite the fact that the ECOMPRO service excludes various features that are mandatory for ILR parcels, in particular signature and liability.

Although, to a certain extent, the gaps and differences between the remuneration systems are justified, further changes to the remuneration systems may need to be envisaged to achieve better alignment, integration and rationalization of the systems, and to minimize the effects of distortions created by the current systems. The IRP and the work proposals under the Abidjan Business Plan include a mandate to further examine the relationships between the UPU remuneration services. The results of that study will contribute to the work on the development of proposals to the 28th Congress for a better alignment between the remuneration systems and a more rational basis under which gaps and relationships are more justified.

IRP PILLAR 2: Review the remuneration of all basic and supplementary services

Goal 2 of the Istanbul World Postal Strategy is to ensure sustainable and modern products. This is to be achieved by modernizing and fully integrating the product portfolio and supporting remuneration systems, accelerating the development of e-commerce solutions, supporting the development of diverse products and services, and supporting trade facilitation through the postal network. In this connection, and in accordance with the IRP, any future remuneration proposals should reflect the product specifications of all basic services, supplementary services and add-on services (services that can be added on to the basic services or supplementary services) as reflected in the Integrated Product Plan.

Under the IRP, it is proposed that the costs associated with all of the UPU portfolio of physical services be examined, including those of basic and supplementary services. Table 3 gives an overview of the different basic and supplementary services of the UPU portfolio of physical services.

The Integrated Product Plan is one of the important drivers of the IRP, as the modernization and integration of the UPU service portfolio calls for a modern, forward-looking integrated remuneration strategy developed on the basis of the integrated remuneration system principles. Any modification to the portfolio of physical services requires a remuneration response, as the underlying cost base or the value proposition of these services may change accordingly.

The IRP specifically calls for the POC and CA to undertake a comprehensive review of the remuneration of basic services for items containing documents and/or goods, as well as the remuneration of supplementary services (tracked, registered and insured services) on the basis of the product specifications associated with the product portfolio, and develop proposals for appropriate remuneration for the 2026–2030 period.

Table 3: **Proposed UPU basic and value-added services (supplementary services) and their features**[110]

BASIC SERVICES			MANDATORY STANDARD FEATURES							
			Non-priority	Priority	Premium	Electronic tracking	Signature	Insurance	Liability	IBIS
DOCUMENTS	Mandatory	Letters	✓	✓	–	–	–	–	–	–
		Postcards	✓	✓	–	–	–	–	–	–
		Printed papers	✓	✓	–	–	–	–	–	–
		Items for the blind	✓	✓	–	–	–	–	–	–
		M bags	✓	✓	–	–	–	–	–	–
	Optional	EMS	–	–	✓	✓	✓	–	–	✓
GOODS	Mandatory	Small packets	✓	✓	–	–	–	–	–	–
		M bags	✓	✓	–	–	–	–	–	–
		Items for the blind	✓	✓	–	–	–	–	–	–
		Parcels	✓	✓	–	✓	✓	–	✓	✓
	Optional	ECOMPRO	–	✓	–	✓	–	–	–	✓
		EMS	–	–	✓	✓	✓	–	M[111]	✓

SUPPLEMENTARY SERVICES			MANDATORY STANDARD FEATURES							
			Non-priority	Priority	Premium	Electronic tracking	Signature	Insurance	Liability	IBIS
DOCUMENTS	Mandatory	Registered	–	✓	–	–	✓	–	✓	–
	Optional	Insurance for letter post	–	✓	–	–	✓	✓	–	–
		Tracked delivery	–	✓	–	✓	–	–	–	–
GOODS	Mandatory	Registered	–	✓	–	–	✓	–	✓	–
	Optional	Tracked delivery	–	✓	–	✓	–	–	–	✓
		Insurance for letter post	–	✓	–	–	✓	✓	–	–
		Insurance for parcel post	✓	✓	–	✓	✓	✓	–	–

110 Integrated Product Plan, Congress–Doc 35.Rev 1 (amended following the rejection by the 27th Congress of proposals to make tracked delivery service a mandatory supplementary service)

111 M – Mandatory for EMS members signatory to the EMS Multilateral Agreement.

IRP PILLAR 3: Drive simplification of the remuneration systems, address the market-distortive effects of the remuneration systems and further progress the work towards a single TD system

The long-term goal of the TD system was to move towards a system where terminal dues are aligned with country-specific costs of delivery, or use domestic tariffs as a proxy to determine the applicable rates. Subject to the approval of the proposals for an integrated remuneration system for the 2022–2025 period, this goal will be achieved in 2025. The 2019 Extraordinary Congress decided on the harmonization of the E format terminal dues rates in 2020; as a result, only the rates for small (P) and large (G) letter documents still differ according to the classification of the country of the sending and/or destination postal operator.

As discussed in section 1.6, outbound flows from countries in the transitional system may be protected from paying the highest self-declared terminal dues rates in the destination country provided that the mail flow remains under a certain threshold, since volume-based approaches are compatible with the WTO multilateral agreements so long as these thresholds apply objective criteria, such as the volume of mail, rather than the national origin of the service or the supplier.[112]

As a result of the last phase of harmonizing the terminal dues rates by 2025, the 28th Congress will be in a position to decide on a single terminal dues system. However, in accordance with the IRP and Abidjan Congress resolution C 13/2021, the future proposals on the terminal dues system must recognize the particular needs of the least developed countries and small-volume landlocked and island states. Nevertheless, from 2025, the market distortion of demand for cross-border delivery originating in transition versus target countries will become significantly less relevant. Other forms of possible market distortions, such as distortion of competition for first and last-mile handling of cross-border letter-post items, or distortion of demand for domestic versus cross-border delivery, have been significantly weakened as a result of the reform decisions by the 2016 Congress and, in particular, the 2019 Extraordinary Congress. The full extent of any remaining distortions will need to be carefully examined in the Abidjan cycle; the Abidjan Business Plan work proposals include deliverables to examine those issues, for example the international tariff study (work proposal 3.1.8 REM 3), or the assessment of the market and regulatory impacts of the UPU remuneration systems (work proposal 1.2.12 REM 1). More specifically, the Integrated Remuneration Plan for 2022–2025 instructs the CA to assess the market and regulatory impacts of the UPU remuneration systems on the wider postal sector stakeholders and the financial and operational impacts of the decisions on remuneration taken by the third Extraordinary Congress and the 27th Congress (resolution C 13/2021).

The importance of removing or mitigating any possible market distortions is also covered in the proposed integrated remuneration system principles, in particular the principle that future remuneration proposals need to support "the interoperability, sustainability and development of the global postal network under the least market-distortive terms".[113] As the terminal dues system is operating in an increasingly competitive market, it is important that any of the possible market-distorting effects be examined by the POC and CA, and that possible measures be considered to ensure that the future system remains fit for purpose and compliant with the IRS principles.

112 UPU, Obligations arising from the General Agreement on Trade in Services (GATS), Beijing Congress 1999, Congress–Doc 72

113 Abidjan Congress resolution C 13/2021

While reviewing the market impacts of the terminal dues system, stakeholders may need to pay attention to any of the other possible distortive effects that could result from the introduction of a self-declared remuneration system. The objective is to ensure that the remuneration under the terminal dues system is not only increasingly country-specific, but is also set at levels similar to those that apply to mailers in the domestic service. In sections 1.4 and 1.5, it was already noted that, while domestic tariff referencing is the overall objective, there are important nuances that need to be considered. For example, a like-for-like comparison between domestic retail tariffs for single-piece items and terminal dues is imperfect as long as no consideration is given to the fact that in the domestic service only a small percentage of items are posted as single-piece items at decentralized locations, for example at the post office, while international items arrive in bulk volumes at the offices of exchange for forward-sorting and entry into the delivery network.

Avoiding market distortions through the implementation of the terminal dues provisions is equally important. The 2019 Extraordinary Congress decided upon the use of country-specific ceiling rates to prevent self-declared E format terminal dues rates from exceeding domestic tariffs. It is important that the weight points for which domestic tariff information is used to determine the country-specific ceiling rates, i.e. the rate line below which E format terminal dues rates can be self-declared, be reviewed with a view to reducing any possible overrepresentation of certain weight steps in the linear regression model that is intended to achieve domestic tariff equivalency. Box 16 below illustrates some of the issues that could result from overrepresentation of some of the domestic tariffs in the linear regression model used to calculate the country-specific ceiling rates.

In the example used in Figure 46, reducing the number of weight points from 11 to 8 results in recalculated ceiling rates approximately 11% lower in terms of the revenue calculated at the weight point of 158 grammes. A weighted linear regression model could result in different outcomes. This example shows that domestic equivalency is difficult to determine, and there is indeed a possible risk of new market-distortive effects being created by attributing disproportionate weight to domestic tariffs that correspond to weight points for which very few items are exchanged between postal operators.

Another aspect that may need be considered to avoid market distortions in terms of non-domestic tariff equivalency concerns the reference domestic service used for the notification of the 11 domestic tariffs. The services offered domestically do not always align with the UPU portfolio of international postal services, in particular in terms of weight and size limits, or with service features that may be included in the domestic tariffs used for the purposes of calculating the ceiling rates, but are not included in the basic services of the UPU. As a practical example, a number of postal operators may be notifying domestic parcel tariffs for the purpose of calculating the ceiling rates, while the format size limits of such items may well exceed the maximum dimensions of a letter-post item. If insufficient attention is paid to the definition of the reference services for domestic tariff equivalency, there is a risk that domestic tariffs are used that correspond to different services, in particular if the postal operator uses the domestic letter network for the delivery of the majority of lightweight, small-sized small packet items.

These are just two examples of possible distortions in relation to domestic tariff equivalency, which speak to the same type of concerns of possible market-distortive effects that were discussed in sections 1.4 and 1.5. All of these possible market distortions need to be examined in greater detail in the Abidjan cycle with a view to developing proposals for the 28th Congress that further mitigate and remove, as far as possible, remaining market-distortive effects under the terminal dues provisions.

Box 16: **Ceiling rates and domestic tariffs**

Figure 46 illustrates the domestic tariffs corresponding to 11 weight points (20 g, 35 g, 75 g, 175 g, 250 g, 375 g, 500 g, 750 g, 1,000 g, 1,500 g and 2,000 g), and how linear regression is used to determine the country-specific ceiling rates below which the terminal dues rates of E format items can be self-declared. In this model, equal weight (in the sense of importance) is attributed to each weight point, whereas studies show that the majority of E format items (small packets and bulky documents) are in fact of relatively low weight.

All weight points, except those of 250, 500 and 1,000 g, represent the mid-point of their respective weight steps. For example, the domestic tariff of an item weighing 175 g represents the mid-point of the weight step from 100 g up to 250 g, and the domestic tariff of an item weighing 375 g represents the mid-point of the weight step of 250 g up to 500 g. As a consequence, the weight steps 250, 500 and 1,000 g represent the upper limit of a lower weight step and the lower weight limit of a higher weight step, and as such are not representative of the remuneration of the entire weight step. This is why these weight steps do not appear in any study on the average mail profile.

Figure 47 presents the item distribution across eight weight steps and the corresponding mid-point weights. It shows that a large share of the E format items are items with an average weight below 250 g. Unweighted regression across the 11 weight points may therefore result in overrepresentation of some weight steps, as well as disproportionately higher importance given to domestic tariffs corresponding to the weight points that are above 250 g.

Figure 46: **Ceiling rate line determined on the basis of domestic tariffs**

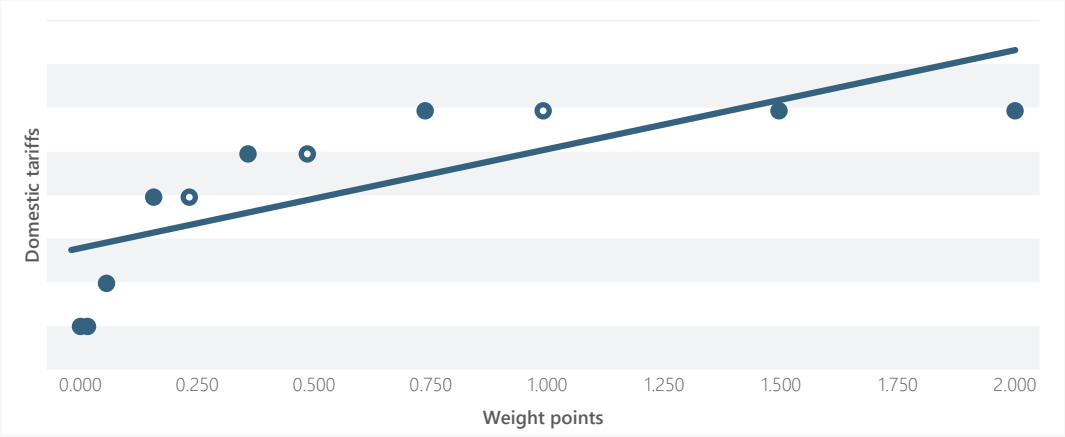
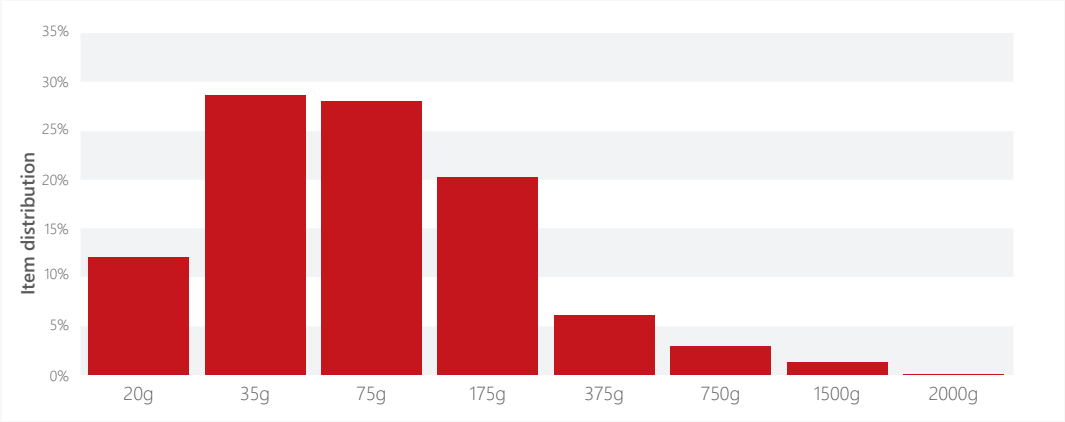


Figure 47: **E format item distribution across different weight steps**



IRP PILLAR 4: Incentivize quality of service and operational improvements that enhance customer, operational and supply chain visibility of all items, in particular those containing goods

Over the past few decades, the demand for what the UPU has to offer has continuously increased, as has the variety and the depth of products and services provided through the global postal network. A strategic goal of the Istanbul World Postal Strategy is to improve the interoperability of the network infrastructure by ensuring quality of service, efficient and secure supply chains, the development of standards and of information and communication technologies, and streamlined operational processes and regulations.

As we saw in section 1.8, the terminal dues system connects with a number of these activities and objectives, in particular the important aspect of quality of service. According to the IRP, the relationship between quality of service performance measurement and terminal dues remuneration should be revisited in the Abidjan cycle, and should lead to possible proposals aimed at continuing to improve, or establishing governance of, the link between remuneration of items containing goods and performance evaluation in relation to quality of service, including bonuses and penalties, and applicable standards and targets. The current quality of service measurements are based on registrations from RFID tags placed in small letter (P) and large letter (G) format test items, and on-time performance measurement excludes items of other formats, such as bulky letters and small packet items, meaning that TD remuneration for all formats is adjusted on the basis of measured quality of service of P and G format items. With the increasing volumes of E format items, in particular small packets, flowing through the global postal network, there is a need to obtain information about the status of implementation of solutions to measure E format letter-post items, to ensure that the quality of service adjustments are reflective of all formats, not just traditional letter items.

With various countries and regions now imposing electronic advance data regulations, it is more important than ever to ensure that all Posts are ready to exchange this data with critical actors across the supply chain. The UPU has created an EAD roadmap to bring the entire postal network in line with modern needs. Although these are essentially non-remuneration activities, the POC committee responsible for supply chain issues recommended that the relevant group examine any possible incentive system to be put in place to either compensate postal operators in the destination country for the handling of non-compliant small packet items and/or to penalize the sending postal operator in case of poor performance or non-compliance in transmitting timely and complete ITMATT[114] messages.

The application of a UPU Technical Standard S10 barcode identifier on small packet items is a prerequisite for being able to exchange ITMATT data. Consequently, the S10 barcode has been mandatory on all small packets and other letter-post items containing goods since 1 January 2018. However, it has been noted that a considerable number of small packets continue to be dispatched without the mandatory barcode. To further incentivize postal operators to comply with these requirements, the proposals for an integrated remuneration system include new remuneration payable to the destination postal operator for any small packet item that does not carry an S10-compliant barcode. In recognition of the need to further support and promote compliance with EAD requirements, Congress resolution C 13/2021 on the IRP includes a mandate to develop proposals, whether based on incentives or penalties, for ITMATT compliance and/or performance. Such proposals would be developed according to measureable standards and criteria defined by the relevant product and supply chain standing groups. In relation to EAD compliance issues, there are, however, scenarios where remuneration may not be sufficiently motivating or compensatory, which is why the relevant groups and stakeholders are considering a wider range of solutions to address the challenges in relation to S10 barcode and ITMATT compliance and performance, and, along with their own work, are providing guidance for the efforts to find possible remuneration solutions that could help postal operators achieve improved levels of compliance with these requirements, and compensate destination operators for costs resulting from non-compliance by the sending postal operator.

114 ITMATT: ITeM ATTribute pre-advice – an EDI message describing the attributes of a postal item sent by the origin DO to the destination DO.

CONCLUSIONS




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From its foundation in 1874, the UPU operated under the principle that the country of origin should not pay the country of destination for delivering mail, since a letter generated a reply and the number of letters sent and received would tend to balance themselves out.

By 1964, some countries were calling for change because they received far more international mail than they dispatched, and argued that they should be compensated for the increased handling costs. Based on a proposal by Colombia, the 1964 Vienna Congress instructed the Executive Council to study the costs incurred in handling inward international mail and to report to the 1969 Tokyo Congress.

When the Executive Council failed to make substantive recommendations for resolving the mail imbalance at the 1969 Congress, Colombia said that Congress itself should take a decision, and proposed that postal operators receiving larger quantities of surface mail than they sent should collect half a gold franc per kilogramme of excess mail from the dispatching postal operator.

The Tokyo Congress adopted Colombia's proposal, and terminal dues for surface mail imbalances came into effect on 1 July 1971.

This study has looked back at the first 50 years of terminal dues and revisited the important moments of the different Congresses where this matter was – often intensely – debated. Over these 50 years, the terminal dues (TD) system has evolved from a straightforward universal single rate system to a sophisticated – and complex – remuneration system that responds to a long list of policy objectives and market requirements.

As the title of this publication aims to highlight, the terminal dues system evolved in a continuously changing socio-economic and political context, adapting to the dynamics and developments in the market. This study has considered and analyzed at least eight main policy issues and drivers behind the evolution of the terminal dues system. These eight policy areas demonstrate the scale of complexity in finding a remuneration solution that meets the needs of all 192 member countries. Each policy area presents a profusion of competing pressures that make contrary demands on the terminal dues system. The continuously changing policy and market environment mean that the work on terminal dues is never finished.

There are important lessons that can be drawn from those 50 years that can lead to a better understanding of how and why the terminal dues remuneration system turned out the way it did half a century later. Many of those lessons remain valid today, as the underlying policy objectives are, in many instances, still the same. Nevertheless, the accelerated growth in cross-border e commerce transactions and the continued decline of letter mail volumes have led to significant changes in international postal operations, which, taken together, present new challenges for the terminal dues remuneration system in the next 50 years.

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