

# TERMINAL DUES

## NEW FRONTIERS FOR A CHANGING WORLD

EXECUTIVE SUMMARY



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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.

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.

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