

Letter from Bern: The Future of Terminal Dues

Since the Beijing Congress of 1999, the stated goal of the UPU has been to move towards country-specific terminal dues system that are cost-based, that is, the destination country posts' costs. Several project teams were established under a terminal dues action group headed by Canada and some of their findings have driven the new terminal dues system to be voted upon in the Bucharest Congress this September. Here is the state of play on the conclusion of the February Council of Administration negotiations.

The main conclusions and clear targets established so far, around which there seems to be consensus, are that whatever comes out of Bucharest as a terminal dues system be in place by Dec. 31, 2013. Country-specific terminal dues should be implemented in 2010 to 2013, with the most advanced developing countries (referred to as "net contributing countries" or NCC's) joining before 2012.

Interesting nuggets of information: 66% of all mail is exchanged between industrialized countries (ICs); 14% is from ICs to developing countries (DCs); 12% from DCs to ICs; and 8% is between DCs. Additionally, eight countries base their postage rates on costs and made a profit; 17 based rates on costs and broke even; and 50 did not cover their costs. The implication for the terminal dues rates was clear: higher rates, especially for the DCs who are net importers of mail; and the UPU system has to assist posts to develop cost-accounting systems in order to reach the ultimate goal of country-specific cost-based rates. This will take time. Finally, it is UPU policy to encourage direct entry, that is, direct access to the destination system on the same terms offered national customers. This will be meaningful only if terminal dues approach more closely to domestic prices. That prospect is unsettling to DCs.

Developing country posts, which are by far the largest number of posts in the UPU (and thus the most votes), are not enthusiastic about the country-specific and cost-based rate concepts. First, their experience of most industrialized country posts is that their costs are not under control and their domestic rates are very high. Germany and Japan are good examples. Japan terminal dues on a direct mail piece of 20 grams from an IC is about \$0.37; the current terminal dues paid by a developing country is about \$.08. Second, few of these countries have the necessary cost-accounting systems, or inclination to develop them.

As respects terminal dues in general, this element of international postage rates will not change dramatically or quickly, at least for IC-IC traffic. Rates will be per item and per kilogram with a target of 68% of domestic tariff by 2009, up from 60% currently in 2% steps each year from Jan. 1, 2006. The cap on that increase will be 5% in 2006 and 2% subsequently, with the floor rising by 3% in 2006 and 2% in subsequent years. The floor is raised on condition that the rates do not exceed 90% of tariff. These are modest compared to the 15% and 10 % raises seen after Beijing.

It should also be noted that beginning Jan. 1, 2005, IC terminal dues payments to one another will be quality-linked. Countries participating in the quality of service

monitoring system receive a terminal dues increase of 2.5% for their inward letter mail. If the quality target is met, they will receive an additional 2.5%; if the target is not met, they will see terminal dues payments reduced by one-third a percent for each percent below target to a maximum deduction of 5%.

Terminal dues rates affecting the other 34% (IC-DC, DC-IC, DC-DC) of international mail traffic will rise. In principle, per item and per kilo rates are the same as the floor in the IC-IC system, but in practice the global rate of 3.727 SDR per kilo reflects an items per kg of 15.21, which represents a 9% increase over the current rate. That rate can be revised in certain circumstances now in effect, called the revision mechanism, but the threshold for its use is reduced from 150 to 100 tons. What is also new is the "bulk rate option revision mechanism" for countries in the transitional system, which means the remail centers of Hong Kong, Singapore and Korea. Regardless of the sending country, the rate can be raised under the "bulk rate exception" where one sender sends more than 1500 identical pieces per day, or 5000 over a two week period. For these countries, that increase is huge: from 0.14 SDR per item and 1 SDR/kg to 0.147 SDR per item and 1.491 SDR/kg.

For direct access, there is no change. The ICs have to make available to the other administrations all the rates, terms and conditions offered in its domestic service on conditions identical to those proposed to its national customers. The UPU working party on direct access has developed a CD of information on "who to contact" and all make-up requirements. Unfortunately, it is only available to other postal officials.

One of the more significant changes could possibly be made to the Quality of Service Fund system. Under the current state of play, terminal dues payments by ICs to DCs are increased by 7.5% and these funds may be used by the destination countries to improve their international mail service. (The fund currently holds more than \$41 million, of which only about \$11 million has been committed to projects.)

Some serious anomalies have been observed which arise out of the current classification of countries as ICs or DCs. For example, some lower-income ICs are making QSF payments to "DCs" which in fact have higher GNPs. Also, the growth of the fund balance and the entitlements by some countries classified as DCs, such as Korea and Singapore, were a source of some surprise. They have amassed substantial credits and it is certainly questionable whether their postal systems need the money. On the other hand, many of the neediest countries are entitled to very little, as they have little inbound traffic from the DCs. For example, the poorest 49 "less developed countries" (LDCs) obtained just 4.6% of the total QSF amount.

It is now proposed to categorize developing countries according to their classification by the UN Development Programme (UNDP), which recognizes "net contributor countries" with GNI in excess of \$4700 per year (NCCs), DCs and the poorest of the DCs, the less developed countries (LDCs). Neither DCs nor LDCs would contribute to the fund, as in the past, but NCCs would contribute 2% on their traffic to LDCs. Moreover, the NCCs, while required to make the smaller payment, would not be

entitled to QSF funds unless they could prove they were incorrectly categorized. These latter include Singapore, Korea, Hong Kong, Malta, Czech Republic and others. Finally, the payment by ICs on terminal dues payments to DCs and LDCs is increased from 7.5% to 9.0%. However, the fund will be paid out on the basis of 7 % to the richer DCs entitled to receive QSF funds, and 9% to the poorest, or LDCs. It is anticipated that this will have the effect of allocating more funds to the very poorest countries.

It should be recalled that the terminal dues system was still until heated discussion until the very close of business at the Council of Administration meeting ending Feb. 13. It is quite conceivable that the terminal dues system going forward after 2004 will finally be negotiated in Bucharest in September.