

Report from Bern and the Universal Postal Union: The "Third Circle," Terminal Dues and the Direct Mail Advisory Board - *Why You Should Care*

In 1999, the Universal Postal Union (UPU) held its 22nd Congress in Beijing. This was a momentous occasion for the UPU, the second oldest existing UN body, which was established in 1874 to assure that mail would be delivered among all countries at all times. It was momentous because the Congress put forth an action plan for governments, Posts and the UPU, among which were objectives "to respond effectively...to the needs and expectations of postal *customers*," and "to strengthen and broaden cooperation and interaction among the *stakeholders* of the postal industry." In short, the UPU recognized that the postal systems of the world were challenged by liberalization, which brought competitors, and by alternate media and changing communication patterns, which involved a loss of customers. Customers, and competitors.

The Third Circle

As a consequence, the UPU established an advisory group, of which the DMA is a member. The group includes postal administrations, customers and other stakeholders, such as the Envelope Manufacturers of America and the Air Couriers Conference of America (competitors: UPU, FedEx, etc.).

The Council of Administration¹ has approved a plan to turn this Advisory Group into a "third circle" of the UPU comprised of stakeholders and customers and competitors. (The first circle is the Council of Administration, the second the Postal Operations Council. That these are less than two distinct circles is explored in footnote 1 at the end of this paper.) This body will be called the "Consultative Committee" and any private sector organization demonstrating an interest in the international postal environment is eligible to apply. Individual companies are not eligible, but their trade associations are.

Now, here is the important thing: private sector members of the advisory group who join NOW will be eligible for continued membership after the next Congress, to be held in Bucharest, Romania in September 2004. The DMA will be a leader in the Consultative Committee and will work to ensure the UPU continues to permit private sector participation in the work and the issues.

What are the issues? For starters, there are terminal dues, which for a U.S. mailer amounts to nearly 80% of international postal cost. There are customs clearance issues and liaison with the World Customs Organization. The Standards Board has already promulgated 80 different standards affecting international mail traffic and the costs imposed on mailers. How about the postal financial services work done by a number of action groups and committees? In many countries, 50% of the cash in the economy flows through postal banks and saving accounts. La Poste, in France, earns 23% of its revenue from its financial arm, which has 28 million customers. The Japan Postal Savings Bank is the largest pool of citizen savings in the entire world. And 150 posts offer international money transfer services. The UPU is even working toward getting more and more posts to encourage use of international direct access, having taken a first step by building a so-

far proprietary database of account managers, products and prices and operational and financial requirements of the participating posts.

It is not a foregone conclusion that Congress will approve this private sector involvement. Much depends on how the private sector responds. If it comes forward and participates, chances of approval are improved. But, it must very seriously be acknowledged that a number of postal administrations *far* in excess of a majority of the members of the UPU must be convinced that (1) the private sector wants to join, and (2) they will be constructive participants. Major and influential members such as China and France, and many developing countries with monopoly legacy postal systems, are not convinced that we are not simply private sector competitive vultures.

This is not trivial. Just two weeks ago in Bern, a number of posts began an initiative to work on customs clearance issues. This group refused to permit the Air Couriers Conference to participate. This issue is even more important to them than the posts, because they obtain customs treatment in most countries on "commercial terms," that is, they pay extra, whereas the posts often (but not always) have a privileged status. ACCA were excluded from this meeting, despite four years of discussing exactly this kind of exclusionary sentiment. And, though the DMA and the ACCA representative protested that the situation should be clarified, this only occurred after the initial meeting of the group.

You can help by urging your trade association or chamber of commerce to come forward and ask for membership. You can also help by urging the DMA to continue to be involved. E-mail Charles Prescott at cprescott@thedma.org for more information.

Why should you care? After the last Congress, a new terminal dues system was established that in some cases directly resulted in an increase in international letter tariffs of 30%. That same system also established a quality of service fund fueled by a 7.5% surtax on terminal dues amounts paid by industrialized companies to developing countries. Total amounts paid in to that fund in the first two years of operation approach USD \$50 million. And, most of that was your money, international direct mailers.

Terminal Dues

These are the sums paid by posts for their counterparts to deliver their (sending country) mail in the destination country. When you send a letter to France, part of the amount you pay USPS goes to La Poste to compensate it for its delivery costs in France.² This entire system was installed in 1969 and now threatens to become more and more complex, and by doing so sowing its own seeds of destruction for all but smaller economies.³

Until 1999, "terminal dues" amounts were based on the amount of mail and in effect countries paid each other the same amount of money per letter. This resulted in the more "expensive" countries like Germany and Japan literally (so they claimed) losing money on inbound mail, while developing countries supposedly were making a profit. At the Beijing Congress in 1999, UPU member countries agreed to move toward a terminal

dues structure that would pay countries on the basis of their costs in delivering the mail. However, since most developing countries did not have accounting systems in place capable of producing such figures, and in addition they would have faced enormous increases in their payments to developed countries, there arose a two-tier system.

Developing countries remained on the old system and received mail from each other and from the developed countries under the old system. On top of that, the developed countries pay a 7.5% surcharge on their payments to developing countries into a "quality of service fund" to be used by the developing countries on projects to improve their international mail facilities.⁴ Developed (read "rich") countries would work toward "cost coverage" and accept mail from other developed countries at the new higher rates, while they would accept mail from developing countries under the old, lower, rates.⁵ This system appears to be fostering a very damaging "arbitrage" system of developing country posts licensing mail consolidators to set up offices in their names in developed countries.⁶

Whether this is true or not, the sentiment is still to move toward "cost coverage" and away from the two-tier system. This will be a major issue at the forthcoming Congress in Bucharest, and how it will be resolved is still unclear. At least eight different proposals have been put forward, and the Terminal Dues Action Group under the chairmanship of Canada is tasked to put one proposal forward. They have reduced the alternatives to three, which contain variations of "minimum tonnage" before terminal dues kick in or increase, and other complexities, such as "floors" as minimum payments and "caps" that protect mailers from the high cost countries like Germany and Japan.

It is early days yet to predict what the new system will look like, but it is absolutely clear that terminal dues rates to most, if not all, destinations will probably rise. The last time the total increases amounted to 30%. They could be worse. And some of the implications are very serious. The Hong Kong Post calculates that if the Japanese proposal is adopted, their volumes of mail to Japan will drop by over one million pieces per month, as terminal dues will increase 50% and their customers have told them they will withdraw from the market.

Ms. Lea Emerson of the USPS, in a presentation to the International Mailers Action Group on November 6 in Washington, estimated that if the Japan proposal were adopted, the resulting impact on the cost of mailing a 20-gram letter from the U.S. would ultimately be an additional 12 cents.

A significant problem here is that many developed countries such as Japan, Sweden and France feel they are having their pocket picked on the outbound, and are being cheated with not being paid enough on the inbound. The risk is that a large number of these countries might conclude they are best served by negotiating bilateral agreements. Since the European zone is all one postal territory now, this would be a relatively easy task for the U.S. Canada and Europe together are probably in excess of 80% of the U.S. international volumes. This would leave only the developing world in the UPU terminal dues system, and would result in those posts paying much higher

charges to developed country posts to cover their costs. In short, the system of international mail universal service is at risk. Make no mistake. There is a complex game of poker being played out here. And a very venerable and very valuable symbol of international cooperation and cost-sharing is exposed to destruction. Its destruction would make international commercial mail delivery substantially more expensive. It is in the interests of the mailing community to preserve it.

Direct Mail Advisory Board.

Also, hopefully to be renewed at the Bucharest Congress is the Direct Mail Advisory Board. This is a joint private sector/post activity funded through separate dues payments by posts and the private sector, including the DMA. In addition to twice-yearly day-long conference programs for all members and observers at the UPU, the DMAB has published *The World Guide to Direct Mail Marketing* and maintains a website with information on the markets of all 189 UPU member countries. This is an important stop for anyone planning an international expansion or mail campaign.

<http://www.dmwg.upu.int/>

Even more important from a market-development perspective are the DMAB workshops for posts that want to develop direct mail markets. Trained presenters and facilitators spend from two to four days with postal officials and local business executives introducing them to direct mail as both a business tool and a postal product. They then help the groups to formulate development action plans for their institutions to pursue. Workshops in Brazil, South Africa, Russia, Hong Kong and the Ivory Coast have resulted in some dramatic developments in those countries. In 2004, workshops are scheduled for China and Iran. At the latter, participants will also come from surrounding countries.

The DMAB's final product for 2003 is a handbook designed to introduce posts to the kinds of products and services needed to develop the market, from address systems to loading docks to sortation equipment. This will be translated into the UPU's official languages and distributed for free to the posts.

Since the outcomes of the Bucharest Congress will hopefully continue an objective for the UPU to continue to support the development of direct mail programs in member posts, the DMAB should continue to have a leading role assisting emerging markets.

A number of companies have been members and supporters of the DMAB, including Group One Software, Firstlogic, National Analysts, Pitney Bowes, and Buhrs Mailing Solutions. These companies find that the membership is bringing them valuable information and exposure to many potential customers.

Hank Martin, senior product manager of Firstlogic notes, "As a software company whose core business is defined around improving the data that drives the business we viewed data about postal delivery networks as a key for companies developing direct mail campaigns around the world. Since its inception, DMAB has brought together

industry experts involved in direct mail and direct marketing from many disciplines...as the global economy evolves and develops and countries look outward for opportunity, direct mail serves as an economical vehicle to grow and develop new business and maintain business/consumer information relationships. For this to happen efficiently and economically, posts will require infrastructure development similar to those experienced by commercial businesses in the developed countries. DMAB provides posts and industry an avenue where best practices are presented, discussed, tested, and measured in efforts to bring about direct mail market growth and opportunities."

Annual membership costs \$2,000 and more information is available from the project director, Raquel Ferrari, at Raquel.FERRARI@upu.int.

¹An elected body of 40 member countries charged with ensuring that the work of the UPU gets done and which supervises regulatory, administrative, legislative and legal issues. There is an ongoing discussion concerning the structure of the UPU policy and administrative bodies. The other major body is the Postal Operations Council, which also consists of 40 elected member countries. It deals with the operational, economic and commercial aspects of the international postal service. In practice, there seems to many observers little to distinguish the two bodies; they have different memberships, but admit overlapping "observer" countries who can not vote, but can speak in debate. Both bodies meet in Bern at UPU headquarters, but generally at different times of year, and many countries send their personnel to attend both sets of meetings. However, the CA is the more powerful organ.

² This was not always so. The early posts assumed that their inbound and outbound traffic amounts were similar, and they thus assumed they were only burdened with the same cost that destination posts bore for their mail. When England became a major colonial power, it discovered it received much more mail than it sent, and so they were a major force in asking for compensation. Prior to 1840 in England, and 1844 in the US, postage was paid by the recipient, not the sender. There are very amusing letters from that era by young men who immigrated from New England to the emerging Middle West complaining that their relatives must have assumed they were failures because they didn't write to them, "since u think I cannot pay the post..."

³ Nothing in the UPU agreements prevents countries from reaching bilateral agreements on how much they will compensate each other on bilateral mail traffic and ignoring the UPU so far as traffic between them is concerned. In fact, Canada is by far the largest recipient of US outbound mail, and the "terminal dues" amount is set under a US-Canada agreement outside the UPU system. Most of the mail traffic between countries in Europe is outside the UPU system.

⁴ The US DMA is very much in favor of this system, as it will improve the ability of merchants to reach and service new clients. 7.5% of a relatively small amount is very little to pay for capital investments that can radically improve postal services in the developing world.

⁵Offices established by posts in each other's territory for the exchange and processing of mail are referred to as "ETOEs" (extra-territorial offices of exchange). Some have long histories, such as the offices of Sweden Post, La Poste, Royal Mail, and Deutsche Post in the US.

⁶ To put a more harsh light on the subject, a mail consolidator from a developed country offers to share some of the terminal dues arbitrage savings with a developing country post, as well as with a mailer, in exchange for use of the indicia. This development appears to be a by-product of the two-tier terminal dues system established in 1999.