UNIVERSAL POSTAL UNION

26th CONGRESS

UPU terminal dues system for the 2018–2021 period

Joint Council of Administration and Postal Operations Council proposal

1 Subject Presentation of the proposal for the UPU terminal dues system for the 2018–2021 period.	**References/paragraphs** §§ 1 to 21 and Annexes 1 and 2
2 Decision expected Congress is invited to take note of the proposal described in the document and its annexes.	 §§ 1 to 21 and Annexes 1 and 2

I. Introduction

1 The purpose of the UPU terminal dues (TD) system is to compensate destination countries for the cost of handling, transporting and delivering letter-post items from abroad. Since the introduction of the TD system by the 1969 Tokyo Congress to compensate for imbalances in mail exchanges, much work has been done to improve it, with the focus shifting from imbalances to the coverage of costs incurred by international mail received.

2 Through resolution C 57/2012, the Doha Congress set out the objectives to be met and the work to be done to develop the TD system for use during the 2018–2021 period. Through resolution C 77/2012, it endorsed the methodology for the classification of countries and territories for TD and Quality of Service Fund (QSF) purposes.

II. Purpose of this Congress document

3 The aim of this document is to describe the proposal jointly prepared by the CA and POC in response to the framework defined by the Doha Congress. Resolution C 57/2012 sets out the TD system requirements to be proposed to the Istanbul Congress.

4 Resolution CA 1/2014.1 provides for the integration of the Doha Congress principles into both the TD and inward land rates (ILR) systems in a bid to facilitate the work of the POC on both UPU remuneration systems during the 2013–2016 cycle.

III. Classification of countries

5 The Doha Congress approved the methodology for the classification of countries for TD and QSF purposes, as described in resolution C 77/2012, Annex 1. The application of that methodology resulted in the distribution of countries into six groups (1.1, 1.2, 2, 3, 4 and 5).

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25.5.2016

6 At the end of the Doha Congress cycle, countries in groups 1.1, 1.2, 2 and 3 will make up the target system countries, and countries in groups 4 and 5 the transitional system countries. Although there are six groups, the UPU member countries and territories apply only four distinct sets of TD provisions, which are proposed to continue in the next Congress Acts cycle.

7 Accordingly, Annex 1 and Attachment 1 thereto set out a proposal for the simplification of the groups as well as a procedure for appeals on country classification for the TD system in the 2018–2021 cycle. This will enable the CA to deal with requests for reclassification due to war or extremely severe economic conditions and requests for classification as detailed in Annex 2.

IV. Proposed new terminal dues system for 2018–2021

Country-specific rate

8 Countries in group III (formerly group 3) will apply country-specific rates from 2018, between themselves and other target system countries in groups I and II (formerly groups 1.1, 1.2 and 2).

Sampling and format separation

9 The proposed sampling and format separation thresholds are as follows:

	Group I (formerly group 1.1)	*Group II (formerly groups 1.2 and 2)*	*Group III (formerly group 3)*	*Group IV (formerly groups 4 and 5)*
Sampling	Mandatory	50 tonnes	75 tonnes (2018–2020) 50 tonnes (2021)	Optional
Format separation	50 tonnes 3 formats (P, G, E)	50 tonnes 2 formats (P/G and E)	75 tonnes (2018–2020) 50 tonnes (2021) 2 formats (P/G and E)	Optional

Direct access

10 It is proposed that direct access remain mandatory for countries in group I (formerly group 1.1) only, and optional for all other groups.

Quality of service link to terminal dues

11 The quality of service link to terminal dues aims to encourage designated operators to monitor, manage and improve their service quality. The quality of service link to terminal dues will remain mandatory for countries in the proposed new groups I (current 1.1), II (current 1.2 and 2) and III (current 3).

12 As regards countries in the proposed new group IV (current 4 and 5), it will become mandatory in 2020, following a two-year grace period starting in 2018. Those countries can, however, voluntarily request to apply the provisions on the quality of service link to terminal dues earlier than 2020.

13 The threshold for exempting countries from applying the provisions on the quality of service link to terminal dues will remain at 100 tonnes of total inbound mail per year.

Quality of Service Fund

14 The QSF should enable the member countries most in need in group IV (formerly groups 4 and 5) to benefit from quality improvement projects financed through the QSF.

15 If a member country does not reach the minimum yearly QSF revenue of 20,000 SDR from contributions from TD payments, the additional funds needed to reach this minimum amount should be invoiced in proportion to the volumes sent by all countries in the target system in groups I, II and III (formerly groups 1.1, 1.2, 2 and 3), and not only group I (formerly group 1.1) as currently. A Congress proposal has been made to amend article 30.6 of the UPU Convention as follows:

"The combined terminal dues payable into the QSF for improving the quality of service of countries in group~~s 4 and 5~~ IV shall be subject to a minimum of 20,000 SDR per annum for each beneficiary country. The additional funds needed for reaching this minimum amount shall be invoiced, in proportion to the volumes exchanged, to the countries in the target system ~~prior to 2010~~."

16 The proposed annual future contributions to the QSF are as follows:

Destination / *Origin*	*Group IV (formerly group 4)*	*Group IV (formerly group 5)*
Group I (formerly group 1.1)	10%	20%
Group II (formerly groups 1.2 and 2)	10%	20%
Group III (formerly group 3)	5%	20%
Group IV (formerly group 4)	0%	0%
Group IV (formerly group 5)	0%	0%

New target TD system

17 Resolution C 57/2012 asked for improvements to the TD system, specifically pointing to the need to link rates with the level of service and with the structure of format-separated mail exchanges. The future TD model takes the current system as the starting point.

18 One methodology was developed involving separate rate calculations for P/G format and E format items, as well as a tool enabling members to assess the impact. This methodology involves the continued application of the current 2014–2017 methodology, whereby 20 g and 175 g domestic tariffs are used for linearization and tilted to a 12.8% item-to-kilogramme ratio at the tilting point of 91.9 g (average item weight). This rate line would apply to P/G format items. The E format rate structure is created by tilting the P/G line at 375 g towards the item-to-kilogramme ratio of 44.5%.

19 The following parameters are used, which resulted from studies conducted during this cycle:

a Domestic tariffs: As explained above, 20 g (P) and 175 g (G) are used for P/G format items.

b Cost-to-tariff ratio: The current ratio is 70%. The most recent cost study revealed a ratio of 65%, but was calculated based on a limited number of responses. So, for the sake of simplicity, it is proposed that the current ratio of 70% be maintained for the 2018–2021 period.

c Item-to-kilogramme ratio: It is proposed to maintain the current item-to-kilogramme ratio of 12.8% for P/G format, and 44.5% for E format, which is the median item-to-kilogramme ratio for groups I, II and III (formerly groups 1.1, 1.2, 2 and 3), based on their domestic tariffs.

d Increase of cap and floor rates: For P/G format, it is proposed to maintain the current annual increases of 3% for the cap rates of group I (formerly group 1.1) and 6% for the cap rates of group II (formerly groups 1.2 and 2), and to apply the recommended 6% for the newly introduced cap rates of group III (formerly group 3). The floor rates of all groups mentioned above would increase by 2.8% and would remain harmonized among those groups. For E format floor rates, a 2.8% increase per year is proposed for all groups. For E format cap rates, the following is proposed:

– 3% per year for group I (formerly group 1.1);

– 9.6% per year for group II (formerly groups 1.2 and 2);

– 13% per year for group III (formerly group 3).

e Reference points for cap and floor rates: The reference point for P/G format is 37.6 g (average weight according to the IPK study). For E format, the IPK study revealed an average weight of 255 g. However, 375 g is proposed since it is the mid-point of the letter tariff weight scale of 250–500 g used in most countries.

f Tilting point for E format items: The tilting point is used to tilt the initial rate line. The tilting point is also used to create the E format caps and floor. For E format, 375 g is also proposed as the tilting point.

New transitional TD system

20 For group IV (formerly groups 4 and 5) countries in the transitional system, the application of the worldwide average composition of one kilogramme of mail according to the IPK study carried out in 2014 and the rates proposed result in the following rates:

– 4.472 SDR/kg for year 2018;
– 4.592 SDR/kg for year 2019;
– 4.724 SDR/kg for year 2020;
– 4.858 SDR/kg for year 2021.

V. Supplementary services and M bags

21 For M bags, it is proposed to maintain the current rates, but with an increase of 2.8% per year. For registered items, it is proposed to increase the surcharge from 0.67 SDR in 2017 to 1.10 SDR/item in 2018, 1.20 SDR/item in 2019, 1.30 SDR/item in 2020 and 1.40 SDR/item in 2021. For insured items, it is proposed to increase the surcharge from 1.342 SDR/item in 2017 to 1.40 SDR/item in 2018, 1.50 SDR/item in 2019, 1.60 SDR/item in 2020 and 1.70 SDR/item in 2021.

Berne, 11 February 2016

For the Postal Operations Council
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For the Council of Administration
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Chairman

Classification of countries and territories for terminal dues and Quality of Service Fund purposes

I. Introduction

1 The Doha Congress approved the methodology for the classification of countries for terminal dues (TD) and Quality of Service Fund (QSF) purposes, which is essentially based on the postal development indicator (PDI). The PDI was applied based on a hierarchical approach for the listing of countries in groups, using as a reference the target system countries before 2010 and the United Nations Economic and Social Council (ECOSOC) classification of least developed countries (LDCs).

2 This methodology resulted in the distribution of countries and territories into six groups (1.1, 1.2, 2, 3, 4 and 5). At the end of the Doha Congress cycle, countries in groups 1.1, 1.2, 2 and 3 will make up the target system countries, and countries in groups 4 and 5 the transitional system countries. Although there are six groups, the UPU member countries and territories have applied only four distinct sets of TD provisions, which are proposed to continue in the next Congress Acts cycle.

II. Regrouping

3 Accordingly, a simplification is proposed whereby countries in the target system in groups 1.1, 1.2, 2 and 3 are reallocated into three groups, and countries in the transitional system in groups 4 and 5 are reallocated into one group, in both cases according to the TD provisions applicable to each of the four groups, as follows:

Current groups (2014–2017)	*Proposed groups (2018–2021)*
Group 1.1 (target system prior to 2010)	Group I (target system, level I)
Group 1.2 (target system from 2010)	Group II (target system, level II)
Group 2 (target system from 2012)	
Group 3 (target system from 2016)	Group III (target system, level III)
Group 4 (transitional system)	Group IV (transitional system)[1]
Group 5 (transitional system)	

III. Exceptional cases

4 Exceptional cases would be dealt with in the following way:

– the United Arab Emirates, classified by the Doha Congress in group 1.2 for the purpose of the QSF and the TD link to quality of service, but applying the same TD rates as countries classified in group 3, would apply a uniform set of target system provisions from 2018 to 2021, i.e. those of the new group III countries;

– the Maldives and Tunisia, reclassified in group 4 by the 2013 CA until 2017, and Libya, reclassified in group 4 by the 2015 CA until 2017, would continue applying the transitional system provisions from 2018 to 2021, i.e. those of the new group IV countries;

[1] Countries classified by the United Nations ECOSOC as LDCs would benefit from higher percentages of QSF contributions than others in the same group.

– the Dutch Caribbean would be classified in group II from 2018 to 2021, as per the technical assessment by the International Bureau contained in CA C 1 2015.1–Doc 6.Add 1.Annex 2, which recommended its classification in group 2 based on its PDI;

– any other country or territory not classified by the Doha Congress (see list in Annex 2 to resolution C 77/2012) would have the opportunity to request classification from the CA, which would be mandated by the Istanbul Congress to take a decision on such requests; and

– countries experiencing severe economic crisis or situations of war would be allowed to request a temporary reclassification according to the rules currently set out in resolution C 77/2012, Annex 1, section III. A proposal to this effect is included in the draft Istanbul Business Plan.

Classification of countries and territories for terminal dues and Quality of Service Fund (QSF) purposes

Group I (formerly group 1.1) – List of countries and territories that were in the target system prior to 2010 and shall apply the target system during the period from 2018 to 2021, and that contribute to the QSF as provided for in article 28 of the Convention

Countries and territories	*Former group*
Australia	1.1
– Norfolk Island	1.1
Austria	1.1
Belgium	1.1
Canada	1.1
Denmark	1.1
– Faroe Islands	1.1
– Greenland	1.1
Finland (including the Åland Islands)	1.1
France	1.1
French Overseas Territories coming within the Union's jurisdiction by virtue of article 23 of the Constitution:	
– French Polynesia (including Clipperton Island)	1.1
– New Caledonia	1.1
– Wallis and Futuna Islands	1.1
Germany	1.1
Great Britain:	
– United Kingdom of Great Britain and Northern Ireland	1.1
– Guernsey	1.1
– Isle of Man	1.1
– Jersey	1.1
Overseas Territories (United Kingdom of Great Britain and Northern Ireland):	
– Falkland Islands (Malvinas)	1.1
– Gibraltar	1.1
– Pitcairn, Henderson, Ducie and Oeno Islands	1.1
– Tristan da Cunha	1.1
Greece	1.1
Iceland	1.1
Ireland	1.1
Israel	1.1
Italy	1.1
Japan	1.1
Liechtenstein	1.1

Countries and territories	*Former group*
Luxembourg	1.1
Monaco	1.1
Netherlands	1.1
New Zealand (including the Ross Dependency)	1.1
Norway	1.1
Portugal	1.1
San Marino	1.1
Spain	1.1
Sweden	1.1
Switzerland	1.1
United States of America	1.1
Vatican	1.1

Group II (formerly groups 1.2 and 2) – List of countries and territories that joined the target system in 2010 (formerly group 1.2) and 2012 (formerly group 2) and shall apply the target terminal dues system during the period from 2018 to 2021, and that contribute to the QSF as provided for in article 28 of the Convention

Countries and territories	*Former group*
Aruba, Curaçao and Sint Maarten	1.2 (Aruba), 2 (Curaçao and Sint Maarten), previously part of "Netherlands Antilles and Aruba"
Antigua and Barbuda	2
Bahamas	1.2
Bahrain (Kingdom)	2
Barbados	2
Brunei Darussalam	2
Croatia	2
Cyprus	2
Czech Rep.	2
Dominica	2
Estonia	2
Grenada	2
Hong Kong, China	1.2
Hungary	2
Korea (Rep.)	2
Kuwait	1.2
Latvia[1]	2
Macao, China	2
Malta	2

[1] Initially classified in group 3, Latvia voluntarily moved to group 2 in 2014 (IB circular 105/2013).

Countries and territories	*Former group*
Territory under Netherlands:	
– Dutch Caribbean (Bonaire, Saba and Sint Eustatius)[2]	1.1
Territory under New Zealand:	
– Cook Islands	2
Overseas Territories (United Kingdom of Great Britain and Northern Ireland):	
– Anguilla	1.2
– Bermuda	1.2
– British Virgin Islands	1.2
– Cayman Islands	1.2
– Montserrat	2
– Turks and Caicos Islands	1.2
Poland	2
Qatar	1.2
Saint Christopher (St. Kitts) and Nevis	2
Saudi Arabia	2
Singapore	1.2
Slovakia	2
Slovenia	1.2
Trinidad and Tobago	2

Group III (formerly group 3) – List of countries and territories that joined the target system in 2016 and shall apply the target system during the period from 2018 to 2021, and that contribute to the QSF as provided for in article 28 of the Convention

Countries and territories	*Former group*
Argentina	3
Belarus	3
Bosnia and Herzegovina	3
Botswana	3
Brazil	3
Bulgaria (Rep.)	3
Chile	3
China (People's Rep.)	3
Costa Rica	3
Cuba	3
Fiji	3
Gabon	3
Jamaica	3
Kazakhstan	3
Lebanon	3
Lithuania	3
Malaysia	3
Mauritius	3

[2] Classification recommended by the 2015 CA.

Countries and territories	*Former group*
Mexico	3
Montenegro	3
Nauru	3
Territory under New Zealand:	
– Niue	3
Oman	3
Panama (Rep.)	3
Romania	3
Russian Federation	3
Saint Lucia	3
Saint Vincent and the Grenadines	3
Serbia	3
Seychelles	3
South Africa	3
Suriname	3
Thailand	3
the former Yugoslav Republic of Macedonia	3
Turkey	3
Ukraine	3
Uruguay	3
United Arab Emirates (UAE)[3]	1.2
Venezuela (Bolivarian Rep.)	3

Group IV (formerly groups 4 and 5) – List of countries and territories that apply the transition terminal dues system during the period from 2018 to 2021 and that benefit from the QSF as provided for in article 28 of the Convention

Countries and territories	*Former group*
Albania	4
Algeria	4
Afghanistan[4]	5
Angola[4]	5
Armenia	4
Azerbaijan	4
Bangladesh[4]	5
Belize	4
Benin[4]	5
Bhutan[4]	5
Bolivia	4
Burkina Faso[4]	5

[3] The Doha Congress classified the United Arab Emirates in group 1.2 for the purposes of the QSF and the terminal dues link to quality of service, but allowed that country to apply the same terminal dues rates as countries classified in group 3 for the 2014–2017 period.

[4] LDCs classified in former group 5 as of the date of adoption of Congress resolution C 77/2012 shall continue to benefit from higher QSF contributions than those received by other countries and territories classified in the new group IV.

Countries and territories	*Former group*
Burundi[5]	5
Cambodia[5]	5
Cameroon	4
Cape Verde	4
Central African Rep.[5]	5
Chad	5
Colombia	4
Comoros[5]	5
Congo (Rep.)	4
Côte d'Ivoire (Rep.)	4
Dem People's Rep. of Korea	4
Dem. Rep. of the Congo[5]	5
Djibouti[5]	5
Dominican Republic	4
Ecuador	4
Egypt	4
El Salvador	4
Equatorial Guinea[5]	5
Eritrea[5]	5
Ethiopia[5]	5
Gambia[5]	5
Georgia	4
Ghana	4
Guatemala	4
Guinea[5]	5
Guinea–Bissau[5]	5
Guyana	4
Haiti[5]	5
Honduras (Rep.)	4
India	4
Indonesia	4
Iran (Islamic Rep.)	4
Iraq	4
Jordan	4
Kenya	4
Kiribati[5]	5
Kyrgyzstan	4
Lao People's Dem. Rep.[5]	5
Lesotho[5]	5
Liberia[5]	5

[5] LDCs classified in former group 5 as of the date of adoption of Congress resolution C 77/2012 shall continue to benefit from higher QSF contributions than those received by other countries and territories classified in the new group IV.

Countries and territories	*Former group*
Libya[6]	3
Madagascar[7]	5
Malawi[7]	5
Maldives[6]	3
Mali[7]	5
Mauritania[7]	5
Moldova	4
Mongolia	4
Morocco	4
Mozambique[7]	5
Myanmar[7]	5
Namibia	4
Nepal[7]	5
Nicaragua	4
Niger[7]	5
Nigeria	4
Overseas Territories (United Kingdom of Great Britain and Northern Ireland):	
– Ascension	4
– St Helena	4
Pakistan	4
Palestine[7]	5
Papua New Guinea	4
Paraguay	4
Peru	4
Philippines	4
Rwanda[7]	5
Sao Tome and Principe[7]	5
Senegal[7]	5
Sierra Leone[7]	5
Solomon Islands[7]	5
Somalia[7]	5
South Sudan[7]	5
Sri Lanka	4
Sudan[7]	5
Swaziland	4
Syrian Arab Rep.	4
Tajikistan	4
Tanzania (United Rep.)[7]	5
Territory under New Zealand:	
– Tokelau	4

[6] These countries appealed against their classification and were reclassified from former group 3 to former group 4 by the CA in 2013 (Tunisia and the Maldives) and in 2015 (Libya) up to 2017.
[7] LDCs classified in former group 5 as of the date of adoption of Congress resolution C 77/2012 shall continue to benefit from higher QSF contributions than those received by other countries and territories classified in the new group IV.

Countries and territories	*Former group*
Territory under United States of America:	
– Samoa	4
Timor-Leste (Dem. Rep.)[8]	5
Togo[8]	5
Tonga (including Niuafo'ou)	4
Tunisia[9]	3
Turkmenistan	4
Tuvalu[8]	5
Uganda[8]	5
Uzbekistan	4
Vanuatu[8]	5
Viet Nam	4
Samoa[8]	5
Yemen[8]	5
Zambia[8]	5
Zimbabwe	4

[8] LDCs classified in former group 5 as of the date of adoption of Congress resolution C 77/2012 shall continue to benefit from higher QSF contributions than those received by other countries and territories classified in the new group IV.
[9] These countries appealed against their classification and were reclassified from former group 3 to former group 4 by the CA in 2013 (Tunisia and the Maldives) and in 2015 (Libya) up to 2017.

Appeals on country classification for the terminal dues system in the 2018–2021 cycle

a Requests for reclassification due to war or extremely severe economic conditions

1 A country in group IV, but not in the United Nations Economic and Social Council list of least developed countries (LDCs), may request a temporary downward reclassification due to war or extremely severe economic conditions, in order to benefit from higher Quality of Service Fund (QSF) contributions applicable to those LDCs. The request should substantiate the reason given for the reclassification request. It should be documented with verifiable supporting data and information.

2 Such requests could be received and examined by any CA session and should be sent to the International Bureau two months before the beginning of the relevant CA session.

3 The International Bureau should conduct a technical analysis of requests received and make them available to CA members no later than two weeks in advance of the beginning of the relevant CA session.

4 The temporary downward reclassification decided by the CA will be valid for two years at the most, with a possible extension after that period upon a new decision by the CA, but not beyond the end of the cycle.

b Requests for classification

5 Any country or territory not classified by Congress and therefore not listed in Annex 1.Attachment 1 will have the opportunity to submit a classification request to any CA session.

6 Such requests could be received and examined by any CA session, and must be submitted by the above-mentioned two-month deadline before the beginning of the relevant CA session (see § 2).

7 The International Bureau's technical analysis of requests received will be made available to CA members no later than two weeks in advance of the beginning of the relevant CA session.

8 The classification decided by the CA will be valid for the whole period (2018–2021), but not beyond the end of the cycle.