



Posten Norge

# How to reform UPU Terminal Dues - the approach of the Nordic countries

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# UPU terminal dues - background

- Until 1969 inbound international mail was delivered without charge
- Since the UPU congress in Tokyo in 1969 rates for delivering international inbound mail has been settled at the UPU congresses every 4-5 years
  - Settled by majority vote at Congress
  - Specified in UPU Convention; possibilities for reservations unclear
- Preparations of TDs-proposals are left to “designated operators” (governmental agencies or private/state owned limited companies)
  - Governments/regulators have so far been reluctant to get involved although rates are specified in the Convention and voted on by Member States.
- Principles: No definitions, no enforcement, no limits
  - Affordable,
  - Preserve “integrity of the network”
  - Country specific, cost based
  - Based on (multiple) domestic tariff(s), but cap
  - And floor: Protection of countries with low domestic tariffs (2008 Geneva Congress)

# UPU terminal dues – status 2011

- Member countries classified in five groups (+ subgroups)
- “Target system”: TD’s applied by group 1, the most developed countries
- Transitional system: lower / simpler prices applied by all other groups
- Time table for moving each group into the target system (transitional arrangements)
- Goal that all countries apply same system or same prices?

# Lack of clear regulatory principles provides for opportunistic playground

- How to achieve best balance between expected future position as customer (exporter) on the one side and service provider (importer) on the other.
- Transition countries vote on terminal dues rates in the target system and vice versa.
  - This drains influence from those within the target system to outsiders; a purely political system for setting rates
- High cost (although efficient) net import countries/operators argue for higher terminal dues. Net exporters ally with low cost transition countries to keep TDs low.
- A game based on commercial interests; An example from last POC TDs-meeting:
  - An indicative vote (for guidance on final proposals) on future annual increases in terminal dues cap of target system: Alternatives were over or below 4%. Majority voted for below 4%. Nordic modified proposal is 10%, which will bring the rates more in harmony with underlying costs.

# Results: Present system causes flows of subsidies and corresponding allocative inefficiencies

- UPU Terminal Dues Target system; 70% of national single piece rate subject to a cap (maximum rate) and floor (minimum rate if 70% of national reference rate is below floor).
- Table shows share of countries whose import TDs are capped:

Group 1.1 target countries 2012	
Cap'ed	25 (64%)
Below cap	14 (36%) out of which 4 at floor

- Capping implies huge differences between countries in TDs/national rate ratio, see table below. As unit costs increases with underlying costs growth and falling volumes and no relaxation of USO => without substantial increases in cap more operators will probably fall to lower ratios (hardly covering variable costs):

% of national rate	31-40	41-50	51-60	61-69	70-80	>80
# of Group 1.1. countries, Y2012	2	4	11	8	13	1

- In practice the system implies substantial subsidies on imports to high cost countries;
  - paid for by these countries DOs and/or national customers, and
  - shared between net exporting DOs and their customers.

# Low prices – high volumes – sustainable network?

- Argument that low TD's is good for volume which is needed for financing the network in these times of declining volumes
- Low TD's is not synonymous to low prices to customers;
  - Rather high margins?
  - Does not seem to be focused by regulators
- TD's below variable costs is a reality in some countries
  - These volumes are harming the financing of the network of the receiving post, as costs alternatively would be cut more

**Prices reflecting efficient costs give the right incentives for developing a sustainable network**

## Are domestic prices good proxies for costs?

- Is possible monopoly rents a good argument for capping TD's?
- European regulation requires cost based and non-discriminating prices for USO-products;
  - the NRA's responsibility to ensure compliance in each market
- "Cost based" a sound economic principle; mimics efficient prices in cases of lack of competition; efficient allocation of resources
  - No reason not to have cost based prices in industrialized countries
- Costs vary however: geography, demography, climate, delivery days, service standards, volumes, wages.....

**"Cost based" is a good argument for basing TD's on domestic rates, but "non-discrimination" is an even better argument**

## Associated risks

- Economic: subsidies, inefficiencies, undermining USO
- Regulatory: In breach of common regulatory principles in the EU and most industrialized countries. Reference rates for other terminal dues agreements. Stimulating "Free riders". Regulatory action against practicing UPU TDs in general, or in some contracts and not in others?
- Politically: If UPU terminal dues system conflicts with basic regulatory principles of the EU and other industrialized countries, how long can it prevail? How to resolve politically without putting UPU unity and ... role at risk?

**If harmonization from within the UPU is not a realistic option, may concerted member state action outside the UPU become a plausible solution, thus making UPU less relevant?**



# The Nordic approach

- Ministries / regulators and the designated postal operators of the five Nordic countries have agreed on a common approach to address the unsatisfactory situation caused by the UPU /TD-system
- Bring Terminal Dues for industrialized countries in line with sound regulatory principles
  - Cost orientation
  - Non-discrimination
- Terminal Dues to / from industrialized countries should be based on domestic tariffs for similar services
  - No cap
- Terminal Dues to / from developing countries still to be based on special considerations
  - Distribution in ICs in practice subsidized by domestic customers

# How to reform?

- Present trend: reform/“incrementalism”: Modest increases in cap well below inflation rate and rate of falling total volumes. Present imperfections prevail while transition countries get included in target system by 2017; a long – if ever – term scenario.
- Alternative: “Pragmatic reform”: Substantial increases in cap. Gradual inclusion of transition countries in target system according to development indicator-status (no predefined time-schedule); also a long term scenario.
- Alternative “Reform by separate multilateral commitment”: Concerted action - within or outside the UPU – by industrialized countries’ governments, committing themselves to safeguard common regulatory principles with regard to terminal dues on mail flows between their respective Dos; a scenario with a long term durable perspective.

**Reforming UPU TDs system calls for active support and push from governments and regulators side based on sound common regulatory principles.**