

REDUCTION IN CONTRIBUTION UNIT FOR APPU MEMBERS WHO QUALIFY FOR THE UPU 0.1-UNIT CONTRIBUTION CLASS

(Document prepared by the Bureau)

1. Subject	References/paragraphs
<p>Informing Congress on:</p> <ul style="list-style-type: none"> - the inter-related nature of three subjects that deal with financial contributions, one of which is the current document (Congress 2022 Doc 24.5) - the request from Nauru for a reduction in contribution class to the expenses of the administrative section based on its placement in a new UPU contribution class of 0.1-unit - the various aspects reviewed by the Finance Committee including the difficulty in making comparisons between the UPU and APPU financial contributions systems - the financial impact on members if an arbitrarily reduced contribution class of 0.5 units was introduced - the elements considered by the EC at its 2021 meeting - the decision taken by the 2021 EC meeting to approve the Finance Committee recommendation to create an interim 0.5-unit contribution class (for APPU members in the UPU 0.1-unit contribution class) - the need to continue regulatory inclusion of the UPU 0.1-unit members via an interim mechanism - matters that Congress need to consider (how to create an interim contribution class, timing) 	<p>§ 1</p> <p>§ 2</p> <p>§ 3, § 4, § 8.2</p> <p>§ 7, Appendix 1</p> <p>§ 8.1</p> <p>§ 8.4</p> <p>§ 9</p> <p>§ 10, Appendix 2</p>
<p>2. Decisions expected</p> <p>Congress is asked to:</p> <ul style="list-style-type: none"> - note the request from Nauru and the manner in which the matter has been examined by the Finance Committee and the Bureau, including financial impact - note the decision by the 2021 EC meeting to approve a recommendation for the creation of an interim contribution class of 0.5 units to be offered to APPU members in the UPU 0.1-unit contribution class - note the recent observation by the Bureau that an interim step is also required to ensure the UPU 0.1-unit contribution class members remain covered by APPU financial contributions regulations - approve proposal 04 establishing an interim contribution class of 0.5 units that applies from 1 January 2024 	<p>§§ 2 – 7</p> <p>§ 8.4</p> <p>§§ 9</p> <p>§ 10, Appendix 2</p>

1. Background note regarding three inter-related financial subjects

1.1 There are three subjects of a financial nature that are inter-related i.e.,

Congress 2022 Doc 24.5: Reduction in contribution unit for APPU members who qualify for the UPU 0.1-unit contribution class (this is referred to as “**Subject 1**”)

Congress 2022 Doc 24.6: Full review of APPU financial contributions system (this is referred to as “**Subject 2**”)

Congress 2022 Doc 24.7: Request from Nauru for the waiving of arrears in contributions to the APPU (this is referred to as “**Subject 3**”)

1.2 This background note is placed at the start of each of these three documents.

1.3 The inter-related nature of these three subjects is described as follows.

1.3.1 It is clear that there is a relationship between **Subject 1** (reduction of contribution unit) and **Subject 2** (overall review of APPU financial contributions system). The relationship might be described as:

- (i) an immediate, arbitrary reduction in contribution unit to be proposed to the 2022 Congress as an interim arrangement; and
- (ii) a further possible reduction in contribution unit when the proposed overall review of the APPU financial contributions system is completed.

1.3.2 There is no substantive relationship between **Subject 1** (reduction of contribution unit) and **Subject 3** (waiving of arrears in contributions).

1.3.3 There could be a relationship between **Subject 2** (overall review of APPU financial contributions system) and **Subject 3** (waiving of arrears in contributions). Comments in this regard are as follows.

- (i) The system for waiving arrears introduced by the UPU in 2021 resulted in the 0.1 contribution unit being used as the multiplier for the earlier years used in the “waived debt calculation”. This was of significant benefit to countries concerned.
- (ii) If the APPU takes a similar approach to the UPU, then the final position reached on contribution classes (when an overall review of the system is completed), may have a significant bearing on final debt calculations.

2. Introduction

2.1 The reduction in contribution unit for APPU members who qualify for the UPU 0.1-unit contribution class came from an approach by Nauru in 2019. At that time, Nauru sought a reduction from its 1 unit class to a more affordable level.

2.2 A key factor for the Nauru request was a decision taken by the 2018 Addis Ababa Extraordinary UPU Congress to create a 0.1-unit contribution class for SIDS members with populations of less than 200,000 people. (In the APPU membership, this not only applied to Nauru, but also to Samoa and Tonga.)

3. Action taken on the Nauru request

- 3.1 To make an initial assessment of the request, the APPU EC Finance Committee set up a Working Group (the FCWG) comprising Australia (Chair), China, New Zealand and Thailand.
- 3.2 The FCWG was assisted in its work by the Bureau undertaking an extremely thorough review of the background to the contributions system (following which it handed the findings to the FCWG).
- 3.3 The work covered by the FCWG and the Bureau included examination of the following aspects.
 - (i) The basis on which the current contribution system was established in 1962 and then changed in 1966 and 1986.
 - (ii) The relationship between the UPU and APPU contribution systems and the assumed principles on which the relationship was established¹.
 - (iii) The factors that might be used to guide a decision.
 - (iv) An assessment of financial impact on all Union members if a lower contribution class was introduced.
- 3.4 The full detail of the work undertaken by the Finance Committee and the Bureau is set out in EC 2019 Doc 5.1 and EC 2021 Doc 5.1.

4. Observations from the work of the FCWG and the Bureau

- 4.1 The research and review by the FCWG and the Bureau identified a range of conclusions. Some of these were quite clear, some were not.
- 4.2 The following points were in the “quite clear” category.
 - (i) There was no direct relationship (i.e., one-for-one) between the contribution class systems of the UPU and APPU. Nor was there a direct relationship between groups of contribution classes in the UPU and respective classes in the APPU.² (This meant that the new 0.1-unit class in the UPU could not be automatically assigned an APPU contribution class reflecting the same level of decrease from a previous contribution class.)
 - (ii) The current contribution class system in the APPU produced minimal financial distinction between members. On the other hand, the UPU system had significant financial distinction between members. (Neither of these two points was made to assert “one was right, one was wrong” – it was simply an observation of fact.)
 - (iii) The scale of difference across all financial facets of the two organisations resulted in meaningful comparisons or guidance not being available.

¹ No documentation was located that set out the principles used for establishing the relationship between the UPU and APPU Contribution Class systems. Accordingly, the material prepared by the Bureau was compiled in the context of “assumed principles”.

² “Direct relationship” means a mathematical correlation.

- (iv) The APPU had already provided an affordability option for members that qualified for a contribution reduction. That said, the UPU had recognised the significantly reduced financial capacity of members with low populations and low levels of industrial development. The FCWG believed that the APPU could not ignore this.

4.3 Aspects that were not clear were as follows.

- (i) “Affordability” could not be quantified.
- (ii) Was there a point at which membership would be too expensive for members? Conversely, was there a point at which membership could be too cheap?

5. Scope for Nauru to reduce APPU contribution

5.1 Under the current APPU General Regulations, there is no contribution class below the 1-unit class. Accordingly, for Nauru to reduce its contribution, it would require the APPU to create a new contribution class. There is a precedent for a change of this nature to be made.³

6. Other members in the same situation as Nauru

6.1 As mentioned in paragraph 2.2, there are two other members in the same situation as Nauru i.e., countries recognised by the United Nations as SIDS, with a population of under 200,000 (as per the latest statistical information published by the relevant office of the United Nations). These members are Samoa and Tonga. Whatever decision is made regarding Nauru, should also be offered to Samoa and Tonga.

7. Financial impact of making a reduction in the contribution unit for Nauru, Samoa and Tonga

7.1 The Bureau quantified the impact of making a reduction in the contribution unit for Nauru, Samoa and Tonga, as well the increased contribution cost for other members. For calculation purposes only, a nominal level of 0.5 units was used. Details of the calculation are set out in Appendix 1.

7.2 The topline summary of material at Appendix 1 is set out in Table 1 below (figures are based on the 2020 contribution unit of US\$2,650).

Table 1: Topline Summary of Impact of Nominal 0.5-Unit Contribution Class

Member	Change
Nauru	Reduction of US\$1,282
Samoa	Reduction of US\$1,282
Tonga	Reduction of US\$3,932
1 unit contributors	Increase of US\$87
2 unit contributors	Increase of US\$173
3 unit contributors	Increase of US\$260
4 unit contributor ⁴	Increase of US\$346
5 unit contributors	Increase of US\$433

³ The APPU added (APPU Bangkok Congress, 1985) the 1-unit class to reflect, in principle, the 0.5-unit class (UPU Hamburg Congress, 1984) in the UPU system.

⁴ Specific class selected by Bangladesh when it increased its contribution by 2 units at the 2019 Tokyo EC meeting.

8. EC summary and conclusions

8.1 The summary and conclusions of the EC on the request from Nauru for a reduced contribution to the APPU were as follows.

- (i) The request had been based on a change by the UPU whereby Nauru's contribution (to the UPU) had reduced by 90% (from 1 unit to 0.1 unit). Nauru had not initially requested the same reduction (i.e., 90%) for its APPU contribution. Instead, Nauru requested a reduction to a level "that can be afforded by us". Affordability was not something that the EC could quantify.
- (ii) Close examination of the contribution systems in the UPU and APPU revealed increasing differences between the two organisations' systems. This examination also demonstrated that it was not valid to attempt mathematical alignment between contributions to the UPU and to the APPU. Among the factors that led to this statement were aspects such as:
 - (a) scale: the UPU Regular Budget was more than 180 times the APPU Administrative Budget;
 - (b) contribution options: the UPU had 23 contribution classes, the APPU had 4; and
 - (c) contribution range: the ratio between the highest and lowest contribution classes in the UPU was 500:1, while in the APPU it was 5:1.
- (iii) The UPU contribution model, influenced by the size of its budget, was designed to achieve continuing affordability for all members. The APPU contribution model, also influenced by size of its budget, was designed to achieve minimal financial distinction between members as a means of achieving regional cooperation.
- (iv) The UPU financial system had had intense review. The APPU system had been reviewed once (1985).

8.2 The EC received a report from the Finance Committee regarding four questions that it had been assigned in relation to the request from Nauru. These questions and a summary of the Finance Committee response are set out below.

- (i) Verify the principles followed for the possible creation of a new 0.5 contribution class⁵ for the APPU: the FCWG did not find any principles on which to base a mathematically-justified case for a reduced contribution class of, say, 0.5 units.
- (ii) Verify the initially-compiled data and calculations (in Appendix 1 of EC 2019 Doc 5.1): the FCWG verified the data as correct. (This is the material at Appendix 1 of this document.)
- (iii) Provide the EC with an opinion on the creation of a new 0.5-unit contribution class: while sub-paragraph (i) above states that there are no principles on which to base a mathematically-justified case for a reduced contribution class, the FCWG noted the particular statistic regarding contribution range viz., the ratio between the highest and

⁵ The reference to a 0.5-unit contribution class was simply for the use of 0.5-units as a placeholder figure to get an initial indication of financial impact. It was not initially intended as a proposal or recommendation.

lowest contribution classes in the UPU is 500:1, while in the APPU it is 5:1. The FCWG is of the view that the spirit / principle of the Addis Ababa decision could be reflected in the creation of a 0.5-unit class as an interim arrangement.

- (iv) Comment on how any confirmed anomalies in current APPU contribution unit classification might best be dealt with in the potential creation of a 0.5-unit class: although some issues were identified, they were assigned for handling separate to the current report.

8.3 The FCWG **recommended** the creation of an interim contribution class of 0.5 units for APPU members who qualify for the UPU 0.1-unit contribution class. The “interim” aspect reflects the reality that the APPU financial contributions system needs to be thoroughly reviewed, following which a more equitable outcome might be available to the membership. (This is the subject of Congress 2022 Doc 24.6, with the review timed for completion no later than the 2026 APPU Congress.)

8.4 The 2021 EC **approved** a recommendation to submit a proposal to the 2022 APPU Congress to create an interim 0.5-unit contribution class.

9. Additional observation

9.1 Following the 2021 EC meeting, the Bureau made an important observation, as set out in paragraph 9.2.

9.2 Irrespective of the approach by Nauru that has resulted in the proposal for an interim reduced contribution class, some action by the APPU would have been necessary following the UPU creation of its 0.1-unit contribution class. This is simply because the present text of APPU General Regulations Article 116, paragraph 1 does not specify an APPU contribution class for (APPU) members who are in the UPU 0.1-unit class. The current text reads as follows.

“For the apportionment of the expenses of the administrative section, the member-countries are divided into four groups. Those contributing to the expenses of the Universal Postal Union as members of the over 50, 50, 40, 35, 25 and 20 unit classes contribute 5 units; those contributing as members of the 15, 10, and 5 unit classes contribute 3 units; those contributing as members of the 3 and 1 unit classes contribute 2 units; and those contributing as members of the half-unit class contribute 1 unit. However, a member-country may contribute more units.”

9.3 This gap (i.e., the absence of an APPU contribution class that corresponds with the UPU 0.1-unit class) should be referenced in the Congress proposal that deals with the creation of an interim reduced class.

10. Congress consideration of matter

10.1 Congress is asked to approve the creation of a reduced contribution class of 0.5 units as an interim arrangement.

10.2 The financial impact of creating the interim 0.5-unit class has been calculated for all 32 members and provided to the EC in 2019 and again in 2021.

10.3 Two technical aspects need to be dealt with by Congress:

- (i) method of creating the 0.5-unit class (see paragraph 9.4 for detail); and
- (ii) timing for its introduction (see paragraph 9.5 for detail).

10.4 The method for creating the 0.5-unit class would normally be to amend the General Regulations (Article 116). However, given that:

- (i) the 0.5-unit class is an interim arrangement with the possibility of further changes at the 2026 Congress as a result of the overall review of the financial contributions system; and
- (ii) the wish already expressed by some members to confine amendments to the Acts of the Union to one Congress (2026) instead of two Congresses (2022 and 2026) (refer to proposal 01 “Adoption of decisions and recommendations submitted to the 2022 APPU Congress”),

the practical method is to use a proposal of a general nature (Resolution) where the enabling provision is a Congress Decision. A draft proposal is at Appendix 2.

10.5 On the matter of timing, the standard practice for implementing changes made at a Congress held in August 2022, would be 1 January 2024. Given that members’ budgets for 2023 may already be approved, it could be difficult to expect a 1 January 2023 timing for the introduction of the 0.5-unit class. Accordingly, the draft proposal at Appendix 2 sets the timing at 1 January 2024.

Impact Assessment of Interim 0.5-unit APPU Contribution Class (using 2020 data)					
Country	Current Contribution Class	Cost (US\$)	Revised Contribution Class	Cost (US\$)	Change (US\$)
	1 contribution unit = US\$ 2,650		1 contribution unit = US\$ 2,737		
Afghanistan	1	2,650	1	2,737	87
Australia	5	13,250	5	13,683	433
Bangladesh	4	10,600	4	10,946	346
Bhutan	1	2,650	1	2,737	87
Brunei Darussalam	2	5,300	2	5,473	173
Cambodia	1	2,650	1	2,737	87
China	5	13,250	5	13,683	433
Fiji	2	5,300	2	5,473	173
India	5	13,250	5	13,683	433
Indonesia	3	7,950	3	8,210	260
Iran	3	7,950	3	8,210	260
Japan	5	13,250	5	13,683	433
Korea	5	13,250	5	13,683	433
Lao	1	2,650	1	2,737	87
Malaysia	2	5,300	2	5,473	173
Maldives	2	5,300	2	5,473	173
Mongolia	2	5,300	2	5,473	173
Myanmar	1	2,650	1	2,737	87
Nauru	1	2,650	0.5	1,368	- 1,282
Nepal	2	5,300	2	5,473	173
New Zealand	5	13,250	5	13,683	433
Pakistan	3	7,950	3	8,210	260
Papua New Guinea	2	5,300	2	5,473	173
Philippines	2	5,300	2	5,473	173
Samoa	1	2,650	0.5	1,368	- 1,282
Singapore	2	5,300	2	5,473	173
Solomon Islands	1	2,650	1	2,737	87
Sri Lanka	3	7,950	3	8,210	260
Thailand	2	5,300	2	5,473	173
Tonga	2	5,300	0.5	1,368	- 3,932
Vanuatu	1	2,650	1	2,737	87
Vietnam	2	5,300	2	5,473	173
Total	79	209,350	76.5	209,350	0

13th CONGRESS

Proposal of a general nature

04

EXECUTIVE COUNCIL

Resolution

Creation of an interim contribution class of 0.5 units

Congress,

noting the request from Nauru for a reduction in its contribution class to the expenses of the administrative section,

further noting that the request from Nauru arose from the creation by the UPU, at its 2018 Addis Ababa Extraordinary Congress, of a 0.1-unit contribution class for SIDS with a population of less than 200,000 people,

being aware that the new UPU contribution class of 0.1 units represented a 90% reduction for eligible UPU members and, as such, was tangible evidence of the UPU's intent to recognise the financial capacity issues of members with smaller economies,

noting, however, that the financial scale and contribution class systems of the UPU and APPU are vastly different to the point where valid mathematical comparisons between respective contribution class systems cannot be sustained,

acknowledging that a further relevant difference between the UPU and APPU contribution class systems is that the UPU has actively reviewed its structure to respond to member interests whereas the APPU has not undertaken a review since 1985,

further acknowledging that the APPU will propose a major review of its financial contributions system at the 2022 Bangkok Congress and that this review will, in part, examine financial capacity aspects of the membership with a view to bringing forward proposals at the 2026 APPU Congress,

noting that until any changes are made to the APPU contribution class system, the current provisions of APPU General Regulations Article 116 no longer cover members in the UPU 0.1-unit contribution class,

agreeing that, in the interests of proper management of its financial contributions system, the APPU needs to make an interim arrangement that ensures UPU 0.1-unit contribution class members continue to be included in the financial contributions structure of the APPU,

further agreeing that the need to create an interim arrangement for the UPU 0.1-unit contribution class members is an opportunity to reflect the spirit of the UPU's consideration of its members with smaller economies as defined by the 2018 UPU Addis Ababa Extraordinary Congress,

Decides

1. to create an interim contribution class to be offered to APPU members who are placed in the UPU 0.1-unit contribution class;
2. that the interim contribution class be arbitrarily set at 0.5 units; and
3. that the interim contribution class of 0.5 units becomes effective on 1 January 2024 (for the apportionment of the administrative section budget for 2024),

Requests

the Bureau to make the necessary arrangements to implement the Decision in proposal 04.

Reasons – see Congress 2022 Doc 24.5.