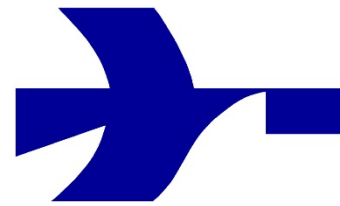


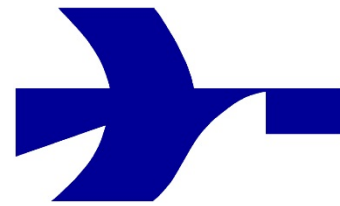
POC C2 – Remuneration Integration Group (RIG)

**ASIAN-PACIFIC POSTAL UNION EXECUTIVE COUNCIL MEETING
2-6 September 2019 , Tokyo, Japan**

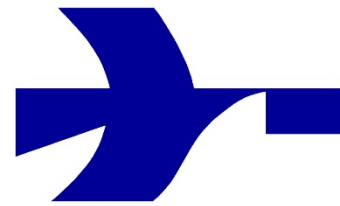


- The 2018 Extraordinary Congress adopted the Integrated Remuneration Plan (IRP) and Resolution C 6/2018 on the implementation of the IRP that should result in proposals for an Integrated Remuneration System (IRS) in which the remuneration for items with similar content is better aligned, integrated and more rational.
- During the remainder of this Congress cycle, in 2019 and 2020, the IRP will be implemented, resulting in IRS proposals to be presented to the 2020 Congress in Abidjan.

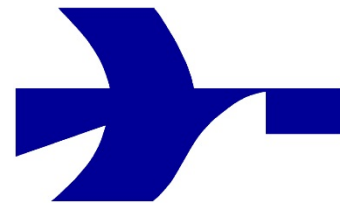
RIG – After 2018 UPU Extraordinary Congress



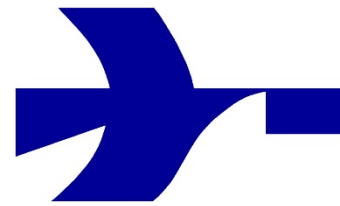
- During the CA S4 session in October 2018, some countries expressed concerns on the lack of cost coverage of the terminal dues applied to E-format letter-post items containing goods.
- In response, the CA decided on a process urgently reviewing those rates.
- POC C 2 RIG was invited to examine options for a possible revision of small packets remuneration before the end of this Congress cycle.
- The work initially resulted in 5 options that were then narrowed down to two options (options A and B).
- The 2019.2 RIG endorsed options A and B and submitted those to POC C 2 for its endorsement and forwarding to CA.



- At the joint meeting of the CA C 2 Expert Team on Remuneration and the RIG in February 2019, several countries supportive of either option A or B, expressed a willingness to find a compromise proposal.
- The remuneration convergence discussion group (RCDG) was created with 22 member countries to explore the possibilities of finding a common ground for a possible convergence proposal.
- RCDG was composed of members across all geographical regions and included balanced support for options A and B.
- RCDG engaged in wide-ranging, open, direct and constructive discussions based on a genuine willingness to find a way forward acceptable to all.
- France and Japan volunteered to be the authors of the convergence proposal, which after consideration by POC C 2 became **option C**.
- POC C 2 brings all 3 proposals (options A, B and C) to CA through document CA C 2 2019.1-Doc 6.



- **Option A**
- Represents changes to the terminal dues system on the basis of the continued application of the current methodology and parameters decided by consensus at the 2016 Congress. for the period of the Istanbul Acts (2018 to 2021):
 - Rates based on two country-specific domestic letter-post service tariff references, at 20 g (P-format documents) and 175 g (G-format documents), at a cost-to-tariff ratio of 70%
 - Brings forward the application of cap rates of group I to the countries in groups II and III in 2020 (harmonization of the E-format cap rates in 2020)
 - Maximum revenue increase of 13% lifted in 2020 and reintroduced in 2021
 - This approach would also apply to group IV countries
 - Format separation and sampling threshold at 50 tonnes (incl. group IV)



- **Option B**
- Allows countries to set self-declared rates for the remuneration of E-format items, on an optional basis.
- To guard against excessively high self-declared rates, option B proposes the setting of country-specific “ceiling” rates (per item and per kg), which would be established in accordance with a set of domestic tariff business rules.
- Rates determined on the basis of linear regression of 100% of 11 domestic tariffs for E-format items. The reference points used in the most recent domestic tariff survey are proposed, i.e. 20g, 35 g, 75 g, 175 g, 250 g, 375 g, 500 g, 750 g, 1,000 g, 1,500 g and 2,000 g
- Format separation and sampling threshold at 50 tonnes, including Group IV

Possible Impacts of Option A

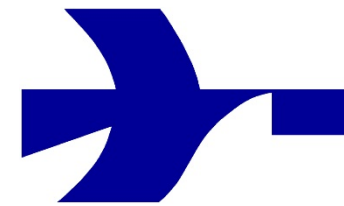


Table 0: Status quo (2020 compared to actual 2019 rates)

<i>Indicator</i>	<i>Group I</i>	<i>Group II</i>	<i>Group III</i>	<i>Group IV</i>
Average increase	2.9%	7.3%	7.7%	2.8%
Maximum increase	3.0%	9.5%	13.0%	2.8%

Table 1: Impacts resulting from the application of option A (2020 rates compared to actual 2019 rates)

	<i>Group I</i>	<i>Group II</i>	<i>Group III</i>	<i>Group IV</i>	
				<i>Above 50 t</i>	<i>Below 50 t</i>
Average impact	2.9%	17.1%	22.1%	30.8%	12.4%
Median impact	3.0%	16.9%	23.3%	23.3%	12.4%
Minimum impact	0.0%	0.0%	3.3%	23.3%	12.4%
Maximum impact	3.0%	23.3%	24.2%	50.2%	12.4%

Possible Impacts of Option B

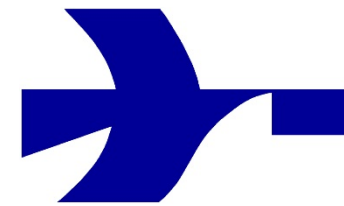
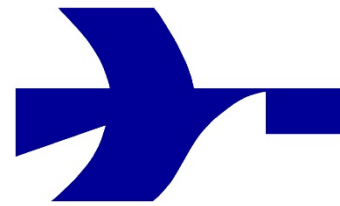


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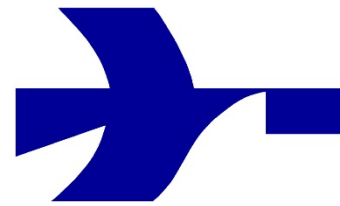
<i>Indicator</i>	<i>Group I</i>	<i>Group II</i>	<i>Group III</i>	<i>Group IV</i>
Average increase	2.9%	7.3%	7.7%	2.8%
Maximum increase	3.0%	9.5%	13.0%	2.8%

Table 2: Maximum increase limits resulting from the application of option B (2020 rates compared to 2019 actual rates)

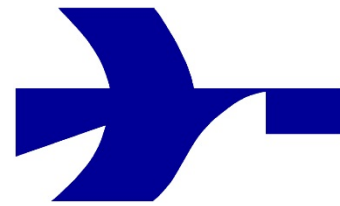
	<i>Group I</i>	<i>Group II</i>	<i>Group III</i>	<i>Group IV</i>	
				<i>Above 50 t</i>	<i>Below 50 t</i>
Average	246.3%	211.0%	172.1%	162.6%	12.4%
Median	232.1%	164.9%	79.6%	48.9%	12.4%
Minimum	-4.4%	-4.1%	2.0%	23.3%	12.4%
Maximum	520.2%	603.5%	647.9%	804.1%	12.4%



- **Option C**
- Implements a self-declared rate system in 2020 with effect from 1 January 2021, countries to set self-declared rates for the remuneration of E-format items, on an optional basis.
- To guard against excessively high self-declared rates, option C proposes:
 - 2020: Harmonization of the cap rates of groups I, II, III and IV in 2020 plus a further increase;
 - > 2021: Country-specific “ceiling” rates based on domestic tariffs at 70% cost-to-tariff ratio (same business rules apply as to Option B);
 - Transition (next slide) to avoid further price hikes with gradual increases throughout 2021 and the next Congress cycle;
 - 2020 Congress to decide on the end state beyond 2025 respecting and without prejudice to the self-declared rate system;
 - Group IV: volume threshold of 100 tonnes to protect from high self-declared rates on the outbound mail to countries in groups I, II and III



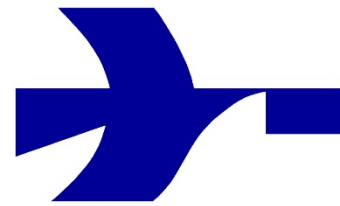
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 - 2020 Congress to decide on the end state beyond 2025 respecting and without prejudice to the self-declared rate system;
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• Option C – transition

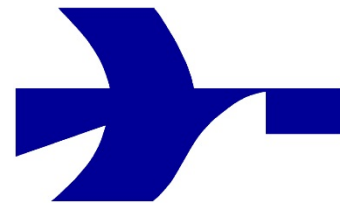
- Harmonization in 2020 at level of Group I cap rates in 2019 + 10%. After that, self-declared rates are accepted, if below country-specific ceiling rate or maximum revenue for relevant year
- Year-on-year increases to maximum revenue at 158g:

	<i>Group I</i>	<i>Group II</i>	<i>Group III</i>
2020	10%	24%	32%
2021	28%	28%	28%
2022	17%	17%	17%
2023	15%	15%	15%
2024	12%	12%	12%
2025	12%	12%	12%
> 2025	The need for further stipulations on maximum revenue increases after 2025 to be studied and proposed to 2020 Congress, respecting and without prejudice to the self-declared rate system		



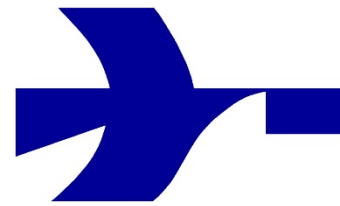
- **Floor rates**
- Options A, B and C: increase existing floor rates of 2020 by 20% (increase compared to 2019: 23.3%)
- Option C furthermore increases to floor rates throughout next cycle:

	Increase year-on-year	Cumulative. (base = 2019)
2020	23.3%	23.3%
2021	2.8%	26.7%
2022	2.8%	30.3%
2023	2.8%	33.9%
2024	2.8%	37.7%
2025	2.8%	41.5%



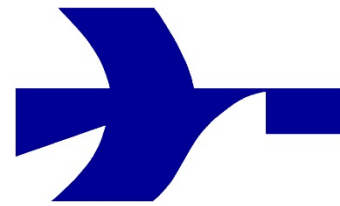
- **Other**
- Quality of Service Fund (QSF) for Options A, B and C: no modifications to the QSF payments as decided by the 2016 Congress, meaning that QSF payments as defined in the Convention would continue to be applicable.
- Quality of Service Link to TDs: Options A, B and C: no changes proposed, except that under option B bonus payments resulting in excess of the country specific ceiling rates are not allowed

Proposals Status



- **Proposals – status (24 July 2019)**
- POC and CA endorsed and submitted the package proposals Options A, B and C for the consideration of the 3rd Extraordinary Congress (EC) in September 2019
- Until 24 July, member countries could submit new proposals and amendment proposals to the POC/ CA proposals. The following proposals were received:
 - 12 proposals amending the POC/CA proposals (8 proposals to amend the Convention, 4 proposals to amend the Convention Regulations);
 - 1 new proposal for Convention change aimed at addressing remail through the bulk mail rules. Brought under urgent postal sector issues agenda item
- Amendment proposals to member country proposals can be received at any time until EC.
- Furthermore, amendment proposals can be made from the floor in relation to any proposal.

Option C – Amended by United States

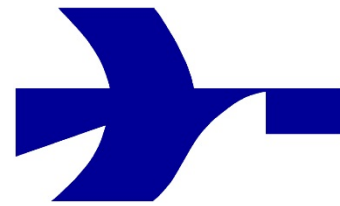


C PLUS

- **Proposal 20.28.97 (USA)**
- US proposal is based on Option C amending two paragraphs:
 - § 1.1.2
Accepting a 70% cost-to-tariff ratio in Option C although seeking flexibility in being able to increase the ratio annually by 1% subject to regulator validation.
 - §6bis (new)
Amendment that would allow the US to implement self-declared rates from 1 July 2020 (Option C: implementation of self-declared rates from 1 January 2021) without maximum annual increases (transition). This approach would apply reciprocally, i.e. the US would also pay self-declared rates to other countries on the basis of the same terms;

Option C – Amended by Brazil

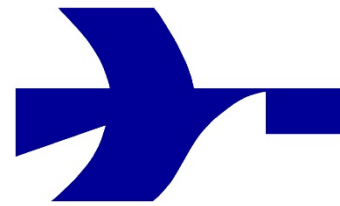
C PLUS PLUS



- **Proposal 20.28.96 (Brazil)**
- Based on Option C, the Brazilian amendment proposes higher annual increases in the years 2021 to 2024 and a lower increase in 2025, as follows:

	<i>Option C (POC/ CA proposal)</i>	<i>Brazil amendment</i>
2021	28%	30%
2022	17%	30%
2023	15%	30%
2024	12%	30%
2025	12%	5%

Option C – Amended by Germany & Others

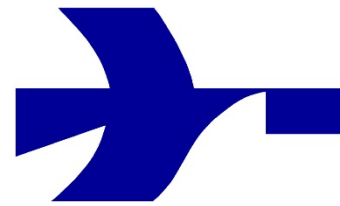


C MINUS

- **Proposals 20.28.94 and 20.29.4 (Germany, France, Laos and Latvia)**
- Based on Option C, these proposals lower cap rates in 2020 followed by lower annual increases in the years 2021 to 2025, as follows:
- Proposed cap rates in article 29:
 - 2020: 0.748 SDR/ item and 1.681 SDR/ kg (same as under Option A)
~~0.799 SDR/ item and 1.795 SDR/ kg (POC/ CA proposal of Option C)~~
 - 2021: 0.770 SDR/ item and 1.731 SDR/ kg (same as under Option A)
~~0.823 SDR/ item and 1.849 SDR/ kg (POC/ CA proposal for Option C)~~
- Proposed annual increase % self-declared rates from 2021:

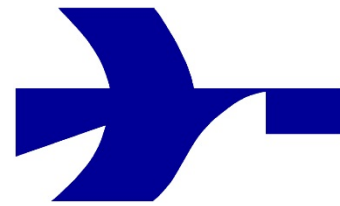
	<i>Option C (POC/ CA proposal)</i>	<i>Germany amendment</i>
2021	28%	13%
2022	17%	10%
2023	15%	10%
2024	12%	10%
2025	12%	10%

Option C – Amended by Italy & Others And Russia



- **Proposals 20.28.93, 20.30.4 and 25.30-117.3 (Italy and Ireland)**
- Based on Option C, the proposal seeks to lower the sampling/ format separation threshold under which countries in the transitional system (Group IV) could benefit from paying floor rates to countries in the target system (Groups I to III)
- Italy proposes: 50 tonnes for all flows (compared to Option C which provides for 100t for Group IV)
- **Proposals 20.28.95, 20.30.5 and 25.30-117.4 (Russia)**
- Russia amends the threshold to 50 tonnes in 2021 (maintaining the threshold at 100 tonnes in 2020 as in Option C).

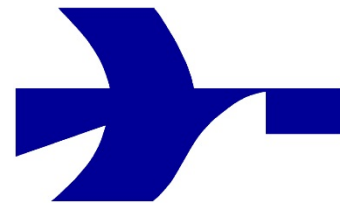
Proposal to Amend Definition of Bulk Mail



- **Proposals 20.28.3, 25.17-107.4 and 25.30-113.1 (Switzerland, Austria, Denmark, Finland, Germany, Ireland, Italy, Latvia, Liechtenstein, Poland, Russian Federation, Spain, Sweden)**
- Proposal inter alia by Switzerland to amend the definition of bulk mail in the Convention and consequential proposals in the Regulations to introduce new criteria under which any mail flow of which more than 90% is E format would be considered as bulk mail.
- This would subsequently allow the destination DO to charge per-item and per-kg rates rather than the floor kg rate.

Latest Possible Amendments

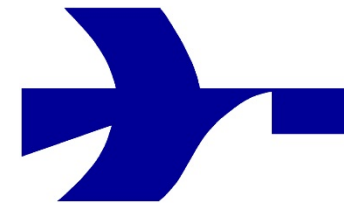
Amendment to proposal 20.28.94 (Option C)



COMPROMISE PACKAGE - includes elements of:



- Proposal 20.28.93 (Italy and others)
 - Sampling Threshold to be set at 50 tons for Group IV countries
- Proposal 20.28.94 (Germany and others)
 - Option C Minus
 - Lower Cap Rates in 2020
 - Followed by lower annual increases in the years 2021 to 2025,
- Proposal 20.28.97 (US)
 - Option C Plus
 - Allow US to Self Declare rates

Agenda for the UPU Extraordinary Congress

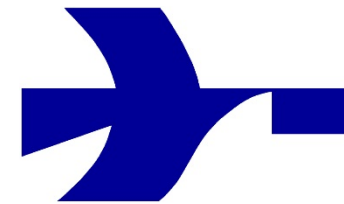


THIRD EXTRAORDINARY CONGRESS

Draft timetable of meetings

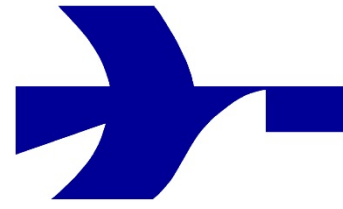
		Main Hall 1
Monday, 23 September		Registration
Tuesday, 24 September	8.00–9.00	
	9.00–12.00	(Registration) Opening session (10.00–12.00)
	12.00–14.00 (Lunch)	
	14.00–17.00	Plenary – Session 1
	18.00–20.00	(Reserved)

Agenda for the UPU Extraordinary Congress

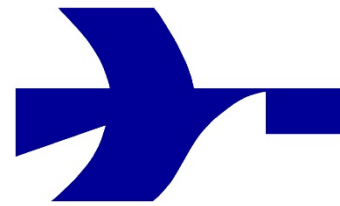


Wednesday, 25 September	8.00–9.00	
	9.00–12.00	Plenary – Session 2
	12.00–14.00 <i>(Lunch)</i>	
Thursday, 26 September ⁷	9.00–12.00	Closing session Report of C 1, appeals, approval of the Acts
	12.00–14.00 <i>(Lunch)</i>	
	14.00–18.00	POC extraordinary session
Thursday, 26 September ⁷	9.00–12.00	Closing session Report of C 1, appeals, approval of the Acts
	12.00–14.00 <i>(Lunch)</i>	
	14.00–18.00	POC extraordinary session

Questions?



Pros and Cons of Option A



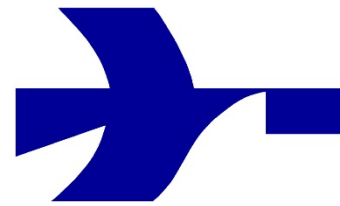
Pros

- Familiar system based on the current system where rates are known (having been decided by last Congress)
- Rates favourable for cross-border eCommerce growth
- Predictable system which allows for DOs to plan for the next few years ahead
- Helps stop the abuse of remail

Cons

- US will leave the Union.
- More countries might follow & leave the Union.
- The rate for E-format is not good enough as it will continue to support market distortion.
- Does not solve the problem of cost covering

Pros and Cons of Option B



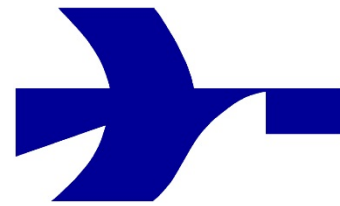
Pros

- US might stay in the Union
- Positive direction for higher cost countries to set self-declared rates, but only if there are business rules
- Provides sovereign freedom to set market-based rates and the rates will be cost covering.
- Net importers have asked for cost covering for many years.

Cons

- Huge price increase.
- Self-declared rates mean cost covering and market-based rates, but there is not enough time for a proper analysis of domestic rates and decide on required business rules.
- Complicated to set business rules and to follow up.
- Remail issue remains
- Too high prices will push customers to look for other solutions.
- Rates not predictable and not according to UPU principles.
- Possible loss of market shares and eCommerce volumes as consequence.
- Might keep US in UPU but this not beneficial for UPU network.

Pros and Cons of Option C



Pros

- Concrete business rules and annual increase of caps could be a good compromise and an evolution of the system.
- Moving towards a system for Net importers who have asked for cost covering.
- Transition period of 5 years allows for a reasonable change towards a new system.

Cons

- A compromise solution but not enough
- Still too high costs
- The US have indicated this compromise will not allow them to stay in UPU.
- Not immediate full cost covering – so it continues to distort the market.
- Less price shock than B but rates remain unpredictable
- Complicated system with business rules which may not benefit the UPU network.
- Sampling Threshold too high.
- Could lead to use of non-postal operators since rates are too high