

REPORT OF THE PHYSICAL SERVICES WORKING GROUP

1. Introduction

As per the approach taken at the 2016 APPU-EC in Islamabad, Pakistan the Physical Services Working Group (PSWG), the meeting focused on three key items of interest to the membership in the run up to the 2016 UPU Congress:

- Letter Post Remuneration Group (LPRG) - Singapore
- Products Strategy and Integration Group (PSIG) - Australia
- Parcel Post Remuneration Group (PPRG) - Malaysia and New Zealand

A brief session updating the members on an impending EMS postal ballot on service performance standards and awards criteria for EMS was presented by Singapore.

2. Summary of proceedings

2.1. Letter Post Remuneration Group (LPRG)

The packaged proposal for the Letter Post Remuneration proposals for the UPU Congress was presented by Singapore.

In general, the key changes for the Letter Post Remuneration or Terminal Dues model are:

- The re-grouping of Countries into 4 Classification Groups for Terminal Dues purposes.
- The introduction of a E format rate for the Target System countries with the E Format rate calculated based on the current rate tilted at the 375g. The purpose of having a E Format specific rate is to have a more attractive and competitive rate – especially for the ecommerce market.
- The increase for E Format items Cap Rates for Groups II and III will be 9.6%/year and 13%/year respectively. The increase in Caps and Floors for the other Groups remain the same as this cycle.
- Supplementary rates - The increase in Registered item supplementary rate to 1.1 SDR/item in 2018 and an increase of 0.1 SDR each subsequent year. The increase for Insured is also to be raised accordingly.
- A group of countries – which included some from Asia Pacific – raised a proposal to convert the existing Express service to be called “Tracked” service, where the provision of track and trace information will be made mandatory. However, this service remains an optional service.
- Sampling and Format Separation Thresholds for Groups I to III are also to be harmonized and brought to the same level of 50 tonnes in 2021.

- There is no change to the Quality of Service Link to Terminal Dues. However, there is a proposal for this to be mandatory for Group IV countries from 2018 – with a grace period of 2 years meaning that full commencement would occur from 2020..
- The QSF model for remuneration remains unchanged. But there is a proposal by the QSF Review Committee regarding how QSF would be like and how it would be used. Members are encouraged to review that proposal.

After the completion of the presentation, the floor was opened:

- China highlighted their concern on the use of 375g for the tilting point for the E Format rate as study results showed that it should be 255g. A proposal to amend Article 28 where the tilting point of 255g was shown. Thailand also highlighted that this same issue was discussed among the ASEAN members and would support this proposal.
- Malaysia raised the issue that while the proposed Tracked Service was a step in the right direction to provide a service needed by ecommerce customers for track and trace service, the problem was that it was still an optional service. A proposal was raised as a possibility of making this Tracked Service mandatory for target system countries for inbound volumes.

These proposals will be taken offline with countries who are interested.

2.2. Products Strategy and Integration Group (PSIG)

APPU member countries held a session on Wednesday afternoon to review and discuss the outcomes of the work of the Product Strategy and Integration Group (PSIG); in particular work of the Integrated Product Plan (IPP) and associated Congress Proposal. The session was Chaired by Australia.

Australia provided an update on the work progressed by the PSIG since the APPU Regional Roundtable meeting in Kolkata in January 2016, and at the final UPU POC/CA session in February 2016. APPU members were updated on the timelines of the IPP Proposal, which is likely to be made available to all UPU members in late May. The meeting was also updated on PSIG's response to the APPU's queries on the IPP which were raised during the Kolkata meeting.

A number of concerns were raised by the region in relation to the updated IPP, including the IPP's approach to future remuneration; the documents/goods classification; implementation of the IPP, validity of the impact studies; guidelines for the IPP and what we are voting on; and the mandatory use of the S10 barcode. It was clear that the region had a number of queries and required further information before being able to take any decision on the IPP.

In specific terms, India took the floor to share a substantial intervention, voicing the following concerns, issues and observations, which have been captured as fully as possible in response to India's request for the report to fully reflect their comments.

India would like to have the following comments noted in the Report of the meeting in relation to the responses received from the PSIG in response to the APPU questions raised in Kolkata in January 2016.

1. “Need for an integrated approach to future remuneration of the IPP”

India fully supports this fact that there is a need to have an integrated approach to the future remuneration of the IPP. The remuneration should be in line with the current market realities and should ensure that neither any designated operator is facing a loss for delivery of international mail nor any of our international product/ service gets outpriced due to unrealistically high remuneration payable.

2. “Need for a tracked packet service that meets customer demands”.

This is a very genuine demand by many designated operators and India strongly feels that instead of pushing for implementation of IPP in a haste, we should first introduce such a product which should not be mandatory for the designated operators but the tracking facility should be obligatory under this product. This product is the need of today’s e-Commerce market where they do not require the signature but the information of delivery only.

The need “to ensure inclusive and thorough impact studies are completed ahead of any decision or change” and “Stage 1 impact studies included the use of ‘closed questions’ and did not allow members to provide their honest and open feedback”. We had a consensus that implementation of any step in IPP will be preceded by having thorough impact studies on the impact of the proposed changes on the member countries of the UPU. However, when the PSIG conducted an impact study in November 2015, on the Impact of implementation of Step 1 of the IPP, the study was circulated to POC members only. It is not understood why the study was confined to POC members only and not to all the 192 member countries of the UPU, when if implemented, the IPP has an impact on the 192 member countries and not on only POC members. The reasoning that there was very short time left does not hold here.

Then as per the result of the study, PSIG declared that 27 countries responded which means a response rate of 67.5%, But it is responded by only 14% of the UPU member countries. India feels that if PSIG has decided to conduct an impact study, it should be done in a transparent manner and especially the target group should be that which represents the true demographic of the whole UPU membership.

3. Impact Study for Step 1

Looking at the results of the Impact study, the impact study was done to analyze the operational, accounting and regulatory impacts of the recommendations of the PSIG on the UPU member countries. As per a recent presentation made by the PSIG, it stated that many of the respondents were critical of the Impact of the implementation Step 1 on their operational and accounting system. To counter this result, PSIG stated that there is a misunderstanding in some of the designated operators that implementation of Step 1 requires a physical separation based on physical content which is not correct and adverse operational and accounting impacts described by some respondents should therefore now be avoided. In India’s view, this demonstrates that the impact study was itself undertaken with a predetermined result in mind. Even when the impact study was circulated to limited members, out of those limited members, when some members raised concerns, their concerns were discarded by saying it's just a misunderstanding.

India strongly feels that this impact study has been completed in haste and the results shown or the analysis drawn by the PSIG from this impact study are premature and a thorough and comprehensive impact study is required before a decision on Implementation of Step 1 is taken.

4. “The relevance of the physical split and in particular, whether such change is required and market relevant”

PSIG’s response in this regard is that no physical split is required under Step 1 and this misunderstanding has been corrected in the latest IPP version 3. The word classification is now being used rather than the word split.

5. Proposal to mandate the application of a S10 Barcode

India would like to state that this recommendation of the PSIG should be seen in conjunction with another recommendation of the PSIG wherein they propose to make it obligatory to put S10 standard barcode on all the “Small Packets”. India would like to point out the contradictory nature of this PSIG point; that is to say how can a designated operator ensure that all the small packets are barcoded if they don’t do format separation sorting i.e. P,G & E? India understands that all the articles will be sent together but before sending, operators will have to check whether the article falls under the “E” format and if yes, whether it carries a barcode. Therefore, physical separation would be required. Further, it is not understood that if the PSIG is recommending content based classification, then why they are proposing weight barriers on it i.e. a 50 grams packet containing goods for e.g. a packet containing an item such as friendship band will be classified as small packet under E format and a 550 grams packet containing documents will also be treated as small packet under E format.

Another important issue which India would like to raise here is about obligatory application of S10 barcode on all small packets. The reasoning behind this is future customs and security requirements for EAD. Whilst India appreciates that it is better to be prepared for any future regulations, however, making it obligatory from 2018 onwards when the EAD requirements itself may only be applicable from 2020 onwards - possibly later. India uses term “may only be” because, even Customs have not firmed up the date, and only European Commission has informed that there will be revision by 31/12/2020 regarding implementation date for postal products.

6. Informed decision making of the UPU

India would like to note PSIG’s failure to respond to Article 6, Clause 2.1 of the Rules of Procedure of the Postal Operations Council. The clause stipulates that in order to enable the member countries to make informed decisions, the documents requiring a decision or examination by the POC or its committees on the occasion of each POC session should be made available to member countries, designated operators and observers, on the UPU Internet site at least 20 working days before the beginning of the session, and shall announce the publication of new electronic documents by means of an appropriate, efficient system. India

has noticed that this clause is not being adhered to. In the case of IPP version 3 document, this was not uploaded in time on the UPU Website. Moreover, it may be noted here that though the IPP version 3 document was already prepared, the same was not uploaded on the UPU website, it was when the APPU members communicated their feedback on IPP version 2, in response to that, it was shared with a few of us through e-mail. We want to know the reason why when the document itself had already been prepared, why the same was not uploaded on the UPU website for member countries to analyze. This is especially so in the context of such important documents such as IPP version 3 which involves changes in the basic definition of the letter post items. The members require adequate time to seek the advice from their legal/operational units so as to firm up their decision on the matter. So India urges all the APPU members to take up this matter that the Rules of Procedure should be followed in true spirit and documents should be made available on time for member countries to make informed decisions. In case the documents are uploaded late, such documents should not be part of the agenda of the meeting of that group.

7. Final remarks

Accordingly, India urges all APPU member countries that we should ask PSIG to conduct a thorough and transparent impact study before putting forth the proposal for implementation of Step 1 and hence the congress proposal 20.16.2 which seeks to change the definition of letter post items should be voted carefully at the UPU Congress in Istanbul.

Hong Kong suggested an alternative approach to the issue of mandatory use of the S10 barcodes and member countries were encouraged to get together to discuss the concept of a proposal which may assist with the issue of S10 barcodes which were raised during the session.

It was agreed that the above concerns raised by APPU members would be forwarded by the APPU Physical Service's Chair, New Zealand, on behalf of APPU members and this would be addressed to the International Bureau for consideration.

Australia offered to host a teleconference for APPU members to discuss the Congress Proposal on the IPP to assist APPU members understand the proposal. This teleconference would be organised following the release of the final IPP proposal.

2.3. Parcel Post Remuneration Group (PPRG)

Malaysia and New Zealand jointly presented on the work of the PPRG in the Doha Cycle, in two parts. Malaysia spoke to the purpose, mandate and structure of the PPRG for this cycle. We then turned to the specific work of the PPRG and its subsidiary bodies; the Inward Land Rate Remuneration Ad Hoc Group (ILRRAHG) and the Joint Ad Hoc Group (JAG)

The ILRRAHG worked on whether the ILR Base Rate to Bonus ratio should be revised, and after careful study, concluded that the proposed change would adversely affect the bulk of member countries, especially developing countries. Given this, the proposal to change the ratio was withdrawn. The group then went on to research and clarify the rules relating to

inflation adjustments for ILR and clarified in the regulations that the adjustment only applies to the preceding 12 month period for ILRs and not further back in time. Caps and floors were also studied by the ILRRAHG and it was concluded after a thorough study that the ILR floor is adequate and does not need to be changed up or down. Caps were initially studied but this work was postponed on the development of the eCOMPRPO parcels as this product effectively created a cap for ILRs through its creation.

The ILRRAHG also studied open and closed transit charges for parcels. It was concluded that it was appropriate to harmonise the letter and parcel post regulations and charges for transportation costs as member country questionnaires revealed that the work was essentially the same. The same view and decision applied for closed transit handling costs, and the parcel post regulations were harmonised with those of letter post. Finally, open transit handling charges for parcels were studied and it was concluded that these needed uplift from the rates initially implemented and unchanged since 2003, given the changes required in handling parcels - scanning, data collection and exchange etc. - accordingly the per item charge rose from 0.40 SDR to 0.51 SRD

The JAG was tasked with reviewing the ILR Bonus and determining if there needed to be a reallocation of the bonus percentages across the four bonus service features. After substantial analysis and a number meetings it was decided to amend service feature 1 on track and track and service features 4 on the internet based enquiry system.

New Zealand then presented on the work of the PPRG on eCOMPRO parcels, identifying the regulatory changes made to RC 195 Inward Land Rates and RC 116bis e-Commerce Delivery Category to reflect the new parcel product. The features of the eCOMPRO parcel discussed, highlighting the differences between a standard parcel and eCOMPRO parcels, specifically in relation to no signature requirement of that of liability (if approved at the Istanbul Congress), as well as messaging standards (ITMATT and EMSEVTv3).

We then turned to the remuneration model and its phased approach; phase I is simple, easy to implement, yet inflexible, but enabled the product to get into market. Phase II is more complex, but offers DOs a great deal of flexibility across both item and kilo rates in three weight brackets, 0-2, 2-5, 5-30kg.

Finally, we looked at a summary of the work completed for the cycle and presented in Congress-Doc 10, and also at the adopted recommendations on further work to take forward into the Istanbul cycle as discussed in Istanbul Business Plan Work Proposal 027.

2.4. Express Mail Service (EMS)

This is a new topic to the Physical Services Working Group, whereby Singapore kindly offered to present on the EMS postal ballot on changes to EMS performance targets and awards criteria.

Singapore noted that the EMS Cooperative Board has revised the EMS Standards 2016, EMS Statutes 2011, Customer care award criteria 2015–2016 and Performance award criteria 2017. Further adding that the completed signed ballot forms (Annex 2) should be returned by 17 June 2016. APPU members are advised to study the changes and submit their ballot by the due date.

For completeness, the proposed changes presented are listed below:

| Proposal | Changes to | Explanation of changes |
|---------------------------|--|--|
| EMS Standards 2016 | | |
| 1 | Standard 1 – Export, transportation, and delivery <u>and end-to-end performance</u> (legs 1, 2, and 3 <u>and E2E</u>) | To align the EMS Standards with the new EMS Cooperative Business Plan 2017–2020, which sets new key performance indicators such as "On-time end-to-end service performance – 95%"; it is proposed to include the end-to-end performance (E2E) in addition to the existing "Export, transportation and delivery performance (legs 1, 2 and 3 respectively)". |
| 2 | Standard 2 – Quality of tracking data | In order to respond to customers' visibility needs, the EMS Cooperative Board proposed changing "on-time transmission" from "by 9 a.m. the day after the event" to "transmission within 6 hours after the event took place". However, after receiving some feedback from the members, it was decided to make an intermediate step towards that goal and for 2017 to change "on-time transmission" from "by 9 a.m. of the following day" to "within 12 hours of the event having taken place". Please note that the plan is to move this standard to "within 6 hours" in order to compete with competitors' real-time tracking in due course. |
| 3 | Standard 3 – Call centre performance | Clarification of editorial changes to standard 3, as shared at the 19th General Assembly, February 2016. |
| 4 | Standard 9 – Implementation of the EMS Pay-for-Performance Plan | The new EMS Cooperative Business Plan 2017–2020 has a target of 100% Pay-for-Performance by the end of the cycle. To make the first step towards this goal it is proposed to adjust standard 9 on the implementation of the EMS Pay-for-Performance Plan and to replace "at least 40% of their inbound traffic" with "at least 50% of their inbound traffic or sign the Pay-for-Performance multilateral agreement". |
| 5 | Annex 3 – General explanatory notes | Addition to the definition of the minimum tracking requirements "Full track and trace" to include PREDES and RESDES messages. This means that the on-time transmission score will include the measurement of on-time transmission of these two essential messages. |

EMS Statutes 2011

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| 6 | EMS Rules of Procedure 2017 | Proposed changes to the EMS Statutes 2011 were communicated to all members of the EMS Cooperative by webinars held in 2015 and were endorsed at the 19th General Assembly and the 2016 POC. According to article 7.6 of the EMS Statutes 2011, "Decisions affecting the Statutes of the EMS Cooperative shall require two-thirds of the present and represented voting rights." Therefore, it is required that the proposed changes to the EMS Statutes 2011 be approved by vote. |
| 7 | New Annex to the EMS Standards **If the changes to the EMS Statutes 2011 are approved** | <p>The new Rules of Procedure of the EMS Cooperative stipulate, in article 5:</p> <p style="padding-left: 40px;">4.1 The Board may, as further defined in the EMS standards, decide on the establishment and implementation of specific fee-reduction programmes and other incentive mechanisms, particularly with the aim of facilitating adoption of EMS-related technical standards by members or improving overall quality of the EMS network.</p> <p>Therefore, the Board is proposing the incentive structure, which will become Annex 4 to the EMS Standards. Please note that, owing to the transitional period from one business plan cycle to another, the KPIs will be aligned with the business cycle of the relevant year of evaluation.</p> <p>KPIs for 2016 are:</p> <ul style="list-style-type: none"> - On-time delivery – 95%. - Provision of delivery information – 98%. - Inbound item scanning – 98%. - On-time transmission of tracking data – 98%. - Customer service response on time – 98%. <p>KPIs as of 2017 are:</p> <ul style="list-style-type: none"> - On-time end-to-end service performance – 95%; - On-time transmission – 98%; - Customer service response quality – 95%; - Export growth positive – annual growth. |

Customer care award criteria 2015-2016

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| 8 | Customer care award criteria 2017-2020 | As shared at the 19th General Assembly in February 2016, the recently introduced EMS Cooperative award criteria will be extended for the next business plan cycle. The editorial changes are in line with EMS standard 3 and do not impact the criteria already in place. |
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Performance award criteria 2017 (if the standards are approved)

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| 9 | New performance award criteria 2017 | To ensure alignment with the new EMS Cooperative Business Plan 2017–2020, which sets new key performance indicators, such as on-time end-to-end performance and export growth, which is the ultimate objective of the EMS Cooperative, and to align with the latest EMS standards, the performance award criteria has been revised in line with feedback received from the membership during the 19th General Assembly. |
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3. Conclusion

The above report is submitted to the APPU- EC Chair and APPU membership for noting and acceptance as a record of proceedings of the APPU PSWG meetings of:

- 0900 - 1145, Tuesday 17 May
- 1330 - 1500, Wednesday 18 May 2016
- 1400 - 1515, Thursday 19 May 2016 Wednesday, 25 March 2015

Lindsay Welsh
New Zealand - Chair, APPU-EC Physical Services Working Group
Friday, 20 May 2018
Langkawi, Malaysia