



PAPU Remuneration Working group

13 June 2022

Main changes to the methodology options of the UPU remuneration systems

	<i>Doha cycle (2014–2017)</i>	<i>Istanbul cycle (2018–2021)</i>	<i>Abidjan cycle (2022–2025)</i>
Letter-Post remuneration (terminal dues)	Linearization domestic tariffs 20g (P) and 175g (G) items – remuneration applicable to all letter-post items	P/G format: linearization domestic tariffs 20g (P) and 175g (G)	
		E format: derived from PG rate line (44.5% item/kg ratio)	
		E format: self-declared remuneration subject to (domestic) ceiling rates	
Parcel-Post remuneration	Inward land rates (ILR): Fixed at 71.4% of self-declared rates in 2004 (with annual adjustments for inflation) + 40% maximum bonus payments		ILR: self-declared remuneration subject to ceiling rates* + 40% maximum bonus payments
			ECOMPRO: self-declared remuneration (no ceiling rates)
EMS remuneration	EMS: self-declared remuneration (no ceiling rates)		

* Calculation rules for ILR ceiling rates to be reviewed and implemented during Abidjan cycle

Congress resolution C 13/2021

- ❑ Modernization, integration and rationalization of the UPU remuneration systems, reviewing in particular the methodologies that underlie the determination of the basic rates for letter-post, parcel-post and EMS items;
- ❑ Remuneration of basic services for items containing documents and development of proposals for the period of validity of the next Congress Acts (2026–2030);
- ❑ Remuneration of basic services for items containing goods and development of proposals for the period of validity of the next Congress Acts (2026–2030), with particular focus on:
 - reviewing the methodology to determine the **country-specific ILR ceiling base rates** that are consistent with the methodology used to determine the country-specific ceiling rates for E format items;
 - reviewing the methodology that determines the **country-specific ceiling rates of E format** items for mail flows subject to the payment of self-declared E format rates, including a review on the business rules such as the number and selection of domestic tariff references and the relative weighting allocated to each of these reference rates;
 - reviewing the methodology determining the E format rates for those flows that are not subject to the payment of self-declared rates for E format or for the payment of rates that are partially determined on the basis of self-declared rates;
 - determining the combined rate per kilogram for mail flows below the relevant volume thresholds from the new worldwide average composition of mail, on the basis of the item-per-kilogram study to be carried out in 2023;
 - ensuring that the proposals concerning the remuneration of items containing goods will result in better alignment between and rationalization of the two remuneration systems in the next Congress cycle (2026–2029);
 - exploring options that will lead to a more equitable, competitive and cost-based model, in particular within the lightweight item segment below two kilograms (in line with the IRS principles mentioned **including a review of the methodologies to determine floor rates to address the need for higher remuneration for the processing and delivery of inbound international mail in cases where domestic rates are set below cost owing to social or similar policies**);

Integrated remuneration system pillars

- Pillar 1 – Review the remuneration of basic services

Modernization, integration and rationalization of the UPU remuneration systems, in particular a review of the methodologies that underlie the determination of the **basic rates for letter-post**, **parcel-post** and **EMS items**.

Further integration and alignment of the remuneration systems for **items containing goods**, i.e. **small packet letter-post items**, and parcel-post items, **including a review of the ceiling base rates of both remuneration systems** and the development of solutions to achieve more **equitable, competitive and cost-based remuneration for items containing goods within the lightweight segment below 2 kilograms**

Integrated remuneration system pillars

Pillar 2 – Review the remuneration of supplementary services and services that can be added on to the basic and supplementary services

Examination of the **costs associated with the proposed product portfolio**, in particular for M bags (containing goods) and supplementary services (**tracked, registered and insured services**).

Pillar 3 – Drive **simplification** of the remuneration systems, address the market distortion effects of the remuneration systems and further progress the work towards a **single terminal dues system**

A review of all aspects associated with the transition towards a single remuneration system, and addresses any issues related to this transition that could threaten postal traffic, including the diversion of traffic or emerging re-mailing practices.

Pillar 4 – **Incentivize quality of service** and operational improvements that enhance customer, operational and supply chain visibility of all items, in particular those containing goods, travelling through the UPU network

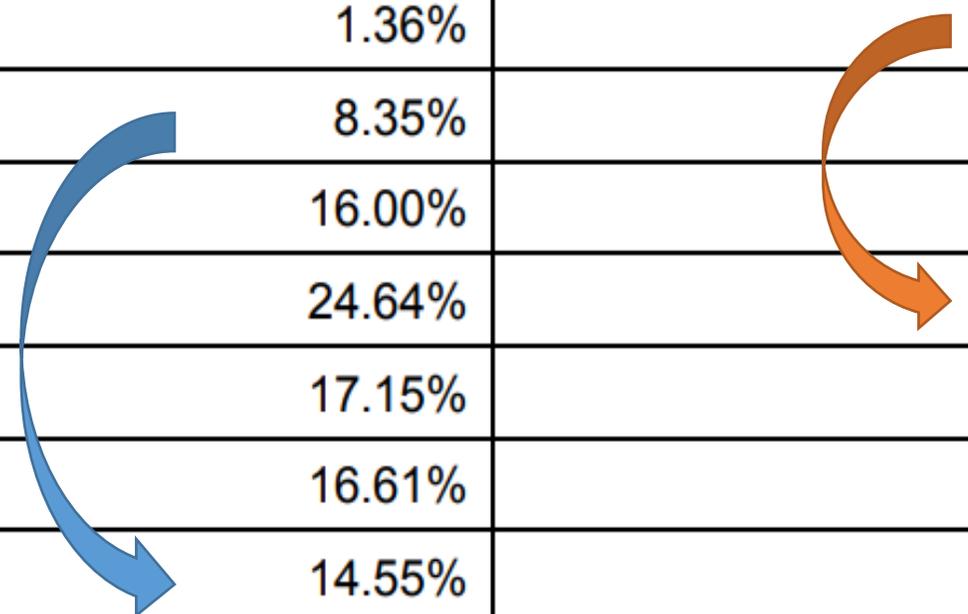
This work mandate includes the review and development of incentives for quality of service improvements (**pay for performance**).

Comparative Study to define the discrepancies and relationships between the remuneration systems

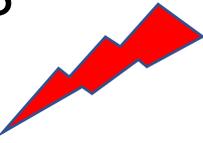
- It can be concluded from the study that the lower the weight of an item, the bigger the difference between the rates of the different remuneration systems. The differences decrease as the average weight grows.
- The distribution of E format items across the different weight steps should be taken into consideration.
- In the following table the P and G format document items have been removed and the distribution of the remaining E format items has been normalized to 100% and exclude UR (registered) and UX (tracked) mail.

Mail structure by weight step normalized for E format only (excludes UR and UX mail) – based on information provided by eight DOs as part of 2018 IPK study

	<i>Weight %</i>	<i>Items %</i>
0–20 g	1.36%	12.11%
21–50 g	8.35%	28.83%
51–100 g	16.00%	28.18%
101–250 g	24.64%	20.40%
251–500 g	17.15%	6.18%
501–1,000 g	16.61%	2.96%
1,001–2,000 g	14.55%	1.25%
>2,000 g	1.34%	0.07%
Total	100.00%	100.00%



Comparisons A and B: Terminal dues with payments for registration and tracking versus inward land rates versus EMS rates

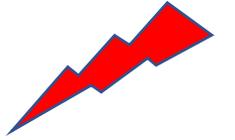


- It was observed that the **inward land rates are lower than the self-declared E format rates at the higher weight steps**. This could be due to :
 - including ILR rates being constrained to inflation linked increases since 2006,
 - overlap in weights between small packets (0–2 kg) and parcel-post (0–30 kg) items,
 - the low item-to-kg ratio in the framework of terminal dues,
 - or high supplemental tracking rates

The mail structure will be updated according to the latest available statistical information, to be obtained from the 2023 IPK study. 2 relative to self-declared rates in 2025

The variance may not be as great if full inward land rates are evaluated

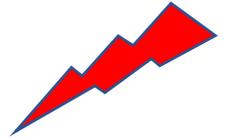
Comparisons A and B: Terminal dues with payments for registration and tracking versus inward land rates versus EMS rates



- Self-declared E format rates have a higher spread than conventional terminal dues rates,
- EMS rates are in general higher across all weight steps, as EMS remuneration is driven by the premium nature of the service requirements.
- According to the features and cost of the processing of postal items,
 - EMS has to be considered as the premium product with a high delivery speed.
 - Parcel-post items represent a higher value proposition than letter-post items, in particular due to larger dimensions, higher liability and two more mandatory scan events (in and out of customs).

Therefore, it should be expected that the remuneration for parcel-post items will always be higher than for letter-post items.

Comparisons A and B: Terminal dues with payments for registration and tracking versus inward land rates versus EMS rates



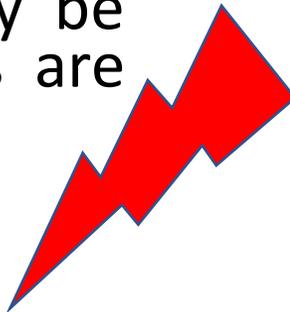
- The remuneration based on self-declared E format terminal dues rates **exceeds** the remuneration based on inward land rates (excluding 20% of potential bonus features) from approximately **450 grammes upwards**, whereas the conventional terminal dues rates remain below those inward land rates up to 1,550 grammes.
- Based on the 2018 IPK study, the volume of items over 500 g represents only about 10% of the non-registered and untracked-format volume, and 2% over 1000 g
- Based on median values, the remuneration based on **undifferentiated self declared TD rates** **exceeds** the remuneration **based on inward land rates** (excluding 20% of potential bonus features) **from approximately 200 grammes and higher**, whereas the **conventional TD rates remain** below those inward land rates up to 370 grams.
- The remuneration for letter-post items is based on **an undifferentiated rate per kg**, in about 50% of the cases **inward land rates are already lower than**, or no more than 10% higher than, TDs at a **weight between 250 and 500 g**

Comparisons A and B: Terminal dues with payments for registration and tracking versus inward land rates versus EMS rates

- Based on **TDs with a rate per item and per kg**, for lightweight items the remuneration for parcel-post items (inward land rates) is generally **higher than** that for letter-post items (terminal dues),
- with some extreme outliers showing inward land rates more than 100% higher than terminal dues.
- It is unclear whether the differences result from **low domestic letter post prices**, **higher domestic parcel rates**, different domestic weight thresholds, **cost structures** or **product attributes**.
- At 1 kg, about 50% (median) of the inward land rates are lower than, or no more than 10% higher than, terminal dues.

Comparison C: Terminal dues with remuneration for tracked delivery items versus ECOMPRO parcel rates

- ❑ Concerning the comparison between TD remuneration and **ECOMPRO** parcel rates, the latter tend **to be higher than the TD remuneration for tracked delivery items at most weight steps**. As with inward land rates, ECOMPRO rates are lower at 2 kilograms. It should also be noted that ECOMPRO rates, unlike inward land rates, are not tied to bonus payments, so the rates are higher overall.
- ❑ In principle, ECOMPRO parcels **should have lower remuneration than** parcel-post items, **as they include only tracking**, whereas parcels additionally offer signature and liability. Compared to tracked letter-post items, ECOMPRO **should show a higher remuneration**, by virtue of the larger dimensions and better tracking.
- ❑ Supplementing remuneration for tracked delivery service features may be overcompensating once full self-declared E format terminal dues rates are achieved.

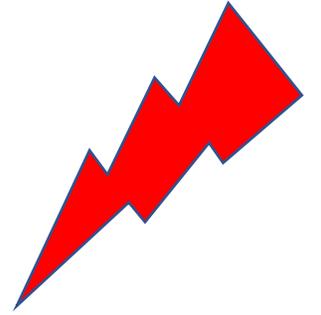


Comparison C: Terminal dues with remuneration for tracked delivery items versus ECOMPRO parcel rates

- Whereas the ECOMPRO remuneration is substantially **higher than** the remuneration of tracked letter-post **items for items below 1 kg**, about 50% of the ECOMPRO rates are lower than, or no more than 10% higher than, the corresponding letter-post remuneration at a weight of only 2 kg. With undifferentiated remuneration for tracked letter-post items, the ECOMPRO rates are lower than, or no more than 10% higher than, terminal dues for weights between 250 g and 500 g.
- The differences in remuneration between tracked letter-post items and ECOMPRO cannot be explained by the differences in features. These differences result from the lower per-item rates for letter-post items. This suggests that the ECOMPRO rates are higher compared to inward land rates and terminal dues; this finding is underlined by the low usage of ECOMPRO services. Considering the associated product features, in particular the maximum weights and size dimensions, ECOMPRO rates are higher than the remuneration of tracked letter-post items. Similarly, ECOMPRO rates feature a flatter remuneration line, indicating a higher item rate and a lower kg rate than the remuneration of tracked letter-post items

In order to maintain consistency and alignment for postal items exchanged based on UPU remunerations Review:

- The overlap in weight steps between letter-post and parcel-post items,
- The item-rate and the kg-rate components for letter-post and parcel-post items,
- Supplemental service rates for tracking.
- The primary reason for this inconsistency is that the current terminal dues were subject to very low item rates in comparison to inward land rates.



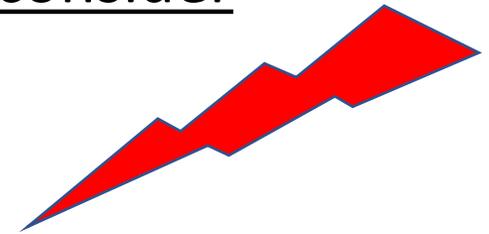
The primary reason for this inconsistency is that the **current terminal dues were subject to very low item rates** in comparison to inward land rates.

One potential way to avoid such inconsistencies would be to **increase the item rate** and **reduce the kg rate** for letter-post items (adjust the item-kg rate ratio).

To further reduce the **gap between terminal dues and inward land rates**, consideration should be given to **increasing the letter-post item remuneration line** (shifting it up) and reducing the ILR remuneration line (shifting it down). **Given that essentially all (96%) of E format items weigh less than 500 g**, and to increase the accuracy of this study, **it is suggested that additional weight points, for example 100 g, 200 g, 300 g and 400 g, be included in future analysis.**

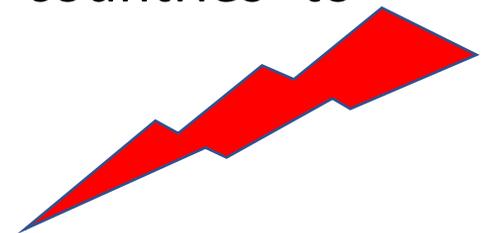
Final conclusions for the Comparative study

- ❑ The comparative study on the UPU remuneration systems for similar weight items shows that the gap between the remuneration for letter-post and parcel-post items narrowed at least for the countries applying self-declared rates for E format letter-post items. In order to better understand the global situation, it is recommended that future iterations of this study include a comparison of each country's domestic tariffs (for the most comparable products) to the UPU remuneration systems.
- ❑ In order to maintain **competitiveness** and to review and align remuneration of letter-post items compared to parcels, it might be necessary to consider
 - The item and kg-rate components for letter-post and parcel-post items,
 - The overlap of letter post (0–2 kg) and parcel post (0–30 kg),
 - Supplemental tracking rates.
 - A lower remuneration for lightweight items may be justified, as such items generally have smaller dimensions, meaning that they can be processed in the letter-post stream at lower cost; at a time of declining small letter volumes, this may also incentivize designated operators that operate separate letter post and parcel post networks to make better use of the letter-post network and adopt more suitable machine processing.



Final conclusions for the Comparative study

- ❑ Differences between EMS and ILR/TD remunerations can be explained by the higher value of the service and cost associated with EMS items.
- ❑ ECOMPRO rates **exceed** the remuneration of letter-post tracked delivery items below 1 kilograms.
- ❑ For TD remuneration for undifferentiated formats, **the more the weight increases, the more the gap** between terminal dues and the other remuneration rates **widens**. In fact, **they exceed not only inward land rates, but also EMS rates.**
- ❑ A possible partial explanation might be the processing costs for separating objects by format, i.e. the rates applied to countries that have breached their commitment to separate by format. These rates are a disincentive for countries to comply with the segregation of shipments by weight category. In view of this anomaly, these rates for undifferentiated format may need to be reviewed to ensure better alignment, without harming their objective, which is certainly to encourage countries to differentiate between formats for more efficient processing.



Business Rules , Methodology Terminal dues

The terminal dues rates projected for 2025 will be calculated as follows:

- A) Domestic prices according to the latest available information will be used. There will be no further adjustment for inflation or cost increases.
- B) For self-declared rates according to article 29 of the UPU Convention, the latest available relationship between the rates per item and per kg will be used

There will be two sets of rates:

Set 1 – E format remuneration (rates for bulky and small packet letter-post items):

- A) For mail flows to designated operators of countries in groups I to IV of the terminal dues country classification system, **use the cap and floor** rates as defined in Convention articles 29 and 30 relevant to format E (bulky items and small packets) for the year 2025. **This allows for the year 2025 to show the range between the minimum and Maximum terminal dues rates.**
- B) For mail flows to designated operators of countries **that self-declared** their E format rates and where paragraphs 7 and 9 of article 28bis 29 of the Convention apply, use the applicable rates.

Business Rules , Methodology Terminal dues

For mail flows to designated operators of countries that self-declared their E format rates according to article 29, other than those flows to which paragraphs and 9 of article 29 apply,

First calculate, at the weight point of 158 grammes, whichever revenue is the lowest between:

i) the revenue calculated based on the DO's ceiling rates (using the cost-to-tariff ratio of 70% to determine the ceiling rates)

; ii) the 2022 revenue increased by applying all the maximum annual increases for the years 2023, 2024 and 2025 set out in article 29.2; and

iii) the self-declared rates (the applicable self-declared rates set in accordance with § 7 and 9 of article 29 of the Convention).

The lowest revenue would make for what could be expected to be the closest approximation of the possible self-declared rates by 2025.

To determine the applicable per-item and per-kg rate, it is proposed to use the item-to-kg ratio of the latest available self-declared per-item and per-kg rate

Business Rules , Methodology Terminal dues

Set 2 – Combined rates based on IPK (items per kg) applicable for mail flows below 50 tonnes per year:

- ❑ Calculate the “combined kg rate” based on the worldwide composition of 1 kg of letter-post items, in which P and G format items containing documents account for 3.97 items weighing 0.140 kg, and E format items account for 5.45 items weighing 0.86 kg for the rates described above
- ❑ The rates are based on the perspective of the sending and receiving country and their respective classifications in the terminal dues country classification system

Business Rules , Methodology for The ILRs, ECOMPRO parcel rates and EMS

The ILRs, ECOMPRO parcel rates and EMS rates will be determined as follows:

- A) Consider the latest available country-specific ILR base rates without bonus payments. Use air parcel rates where ILR air and surface parcel rates are differentiated.
- B) Use the latest available ECOMPRO parcel rates.
- C) Consider the latest available EMS merchandise rates if differentiated between merchandise and documents. Use the highest EMS rates if differentiated by region, presentation of item or service features.

Business Rules , Methodology for The ILRs, ECOMPRO parcel rates and EMS

D) To determine the respective base rates in 2025, apply the average annual increases of the previous four years to the published rates, except if a designated operator:

i) decreased its rates during that period (in this case, the latest available rates will be **maintained**);

ii) decreased one rate component while increasing the other (for example, increased the rate per item but decreased the rate per kg). In such cases, the average annual revenue increases for parcel-post and EMS items shall be calculated based on their respective average weights as determined **by the 2018 IPK study, i.e. 4.616 kg for parcel-post items and 4.063 kg for EMS items.** Where, as a result of this calculation, the revenue has decreased, the 2022 base rates shall be maintained. Where, as a result of this calculation, the revenue has not changed, the 2025 base rates shall be determined at 2% higher than the base rates in 2022;

iii) did not increase the rates during that period; in this case, **a total 2% increase** to its base rates will be applied to determine the final base rates for 2025.

Thanks
Questions ??