



**SECOND EXTRAORDINARY CONGRESS**

**Updated Integrated Product Plan and Integrated Remuneration Plan 2019–2020**

**Report by the Council of Administration and the Postal Operations Council**

<b>1 Subject</b>	<b>References/paragraphs</b>
<p>Submission to the Extraordinary Congress of:</p> <ul style="list-style-type: none"> <li>– Part I: Proposal on the updated Integrated Product Plan (IPP);</li> <li>– Part II: Proposal on the Integrated Remuneration Plan (IRP).</li> </ul>	<p>Part I: §§ 1 to 19 and Annex 1 Part II: §§ 1 to 37 and Annexes 2 and 3</p>
<p><b>2 Decisions expected</b></p> <p><i>Part I: Updated Integrated Product Plan</i></p> <p>The Extraordinary Congress is invited to:</p> <ul style="list-style-type: none"> <li>– take note of this report and of the work carried out to update the IPP;</li> <li>– approve the proposed Convention amendments based on the updated IPP product recommendations</li> <li>– approve one of the proposals of a general nature relating to the implementation of the updated IPP;</li> <li>– note the IPP-linked proposals relating to the Regulations, which will be forwarded directly to the POC for decision.</li> </ul> <p><i>Part II: Integrated Remuneration Plan for 2019 and 2020</i></p> <p>The Extraordinary Congress is invited to:</p> <ul style="list-style-type: none"> <li>– take note of this report and of the work carried out to develop a proposal on an IRP;</li> <li>– approve the proposed Congress resolution of a general nature relating to the implementation of the IRP.</li> </ul>	<p>Part I: §§ 1 to 19 and Annex 1 Proposals 20.17.1, 20.17.2, 20.18.1, 20.18.2 and 20.28.1 Proposals 02 and 03 and Add 1 Proposals 25.17-107.1 and 25.18-102.1</p> <p>Part II: §§ 1 to 37 and Annexes 2 and 3 Proposal 04</p>

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In accordance with Congress resolution C 17/2012, paper copies of documents for the second Extraordinary Congress will not be distributed in Addis Ababa.

## Part I: Updated Integrated Product Plan

### I. Introduction

1 In 2016 in Istanbul, the 26th Congress took note of Congress–Doc 39.Rev 1 (Integrated Product Plan (IPP) 2017–2020) and adopted its related proposals. One of the main aims of the original IPP was to develop a fully integrated portfolio of physical products (letter-post items, parcel-post items and EMS) and adequate and competitive remuneration systems that cover the costs of delivering the products. This, in turn, would ensure that opportunities created by e-commerce could be taken up by the whole UPU membership.

2 The 26th Congress also adopted resolution C 15/2016 (Integrated Product Plan implementation), which instructed the POC to, among other things:

- incorporate into its 2017–2020 programmes a range of activities to ensure that the opportunities created by physical product development are realized for the entire UPU membership, with the activities to focus on providing customers with access to simple, affordable and reliable international postal services;
- take an integrated approach to product development, including remuneration aspects and research activities across the full range of physical services (letter post, parcel post and EMS) with a view to modernizing these services in the light of identified customer needs and expectations;
- develop services to meet customer needs in terms of speed, dimensions, reliability, price, etc., with the aim of modernizing the UPU's physical service portfolio to cover the different needs of each customer segment; and
- establish an integrated approach to issues related to the supply chain, including customs, security, aviation, transport, and operating standards, as the UPU network is vulnerable to external threats in this area and requires a globally coordinated UPU response.

3 Annex 1 to this document includes:

- the objectives and principles of the IPP that were approved by the 26th Congress and that have been used to guide the development of the updated IPP; and
- an overview of the work undertaken by the POC from the 26th Congress to the present.

### II. Recommended fully integrated product portfolio matrices and product-related recommendations

4 As detailed in Annex 1, the POC has had the time to carefully determine how the future integrated product portfolio may look by carrying out a comprehensive study on optional and mandatory supplementary services (POC C 2 2017.2–Doc 2e). It also carried out an impact study to analyze any operational, regulatory or accounting changes that may be required for the implementation of IPP Step 2 in 2020/2022 (POC C 2 2018.1–Doc 2a).

5 Taking into account the guiding objectives and principles of the IPP, as well as the recommendations, questions and comments stemming from the IPP Step 2 impact study, the POC has prepared two proposed matrices, which provide a visualization of the proposed integrated 2020 product portfolio as follows:

- Table 1 provides a visualization of the UPU basic services, value-added services (supplementary services) and add-on service features;
- Table 2 provides a visualization of the UPU basic and value-added services (supplementary services) and their specific features.

Table 1: UPU basic services, value-added services (supplementary services) and add-on service features

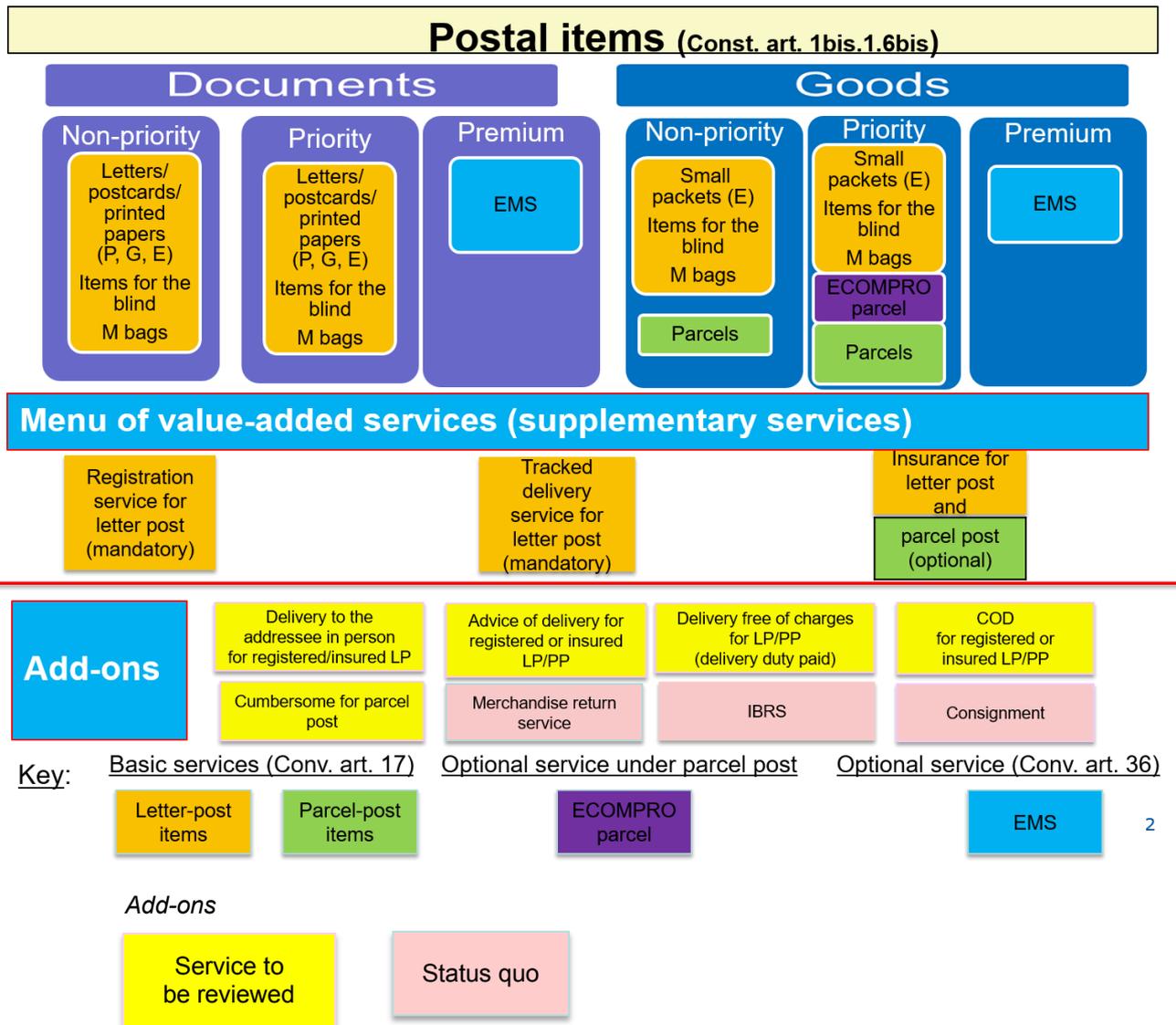


Table 2: UPU basic and value-added services (supplementary services) and their specific features

Product features overlaid with the proposed IPP product portfolio (changes from the current portfolio are highlighted)

Basic services			Mandatory standard features							
			Non-priority	Priority	Premium	Electronic tracking	Signature	Insurance	Liability	IBIS
DOCUMENTS	Mandatory	Letters	√	√	-	-	-	-	-	-
		Postcards	√	√	-	-	-	-	-	-
		Printed papers	√	√	-	-	-	-	-	-
		Items for the blind	√	√	-	-	-	-	-	-
		M bags	√	√	-	-	-	-	-	-
	Optional	EMS	-	-	√	√	√	-	M <sup>1</sup>	√
GOODS	Mandatory	Small packets	√	√	-	-	-	-	-	-
		M bags	√	√	-	-	-	-	-	-
		Items for the blind	√	√	-	-	-	-	-	-
		Parcels	√	√	-	√	√	-	√	√
	Optional	ECOMPRO	-	√	-	√	-	-	-	√
		EMS	-	-	√	√	√	-	M <sup>1</sup>	√
Supplementary services			Mandatory standard features							
			Non-priority	Priority	Premium	Electronic tracking	Signature	Insurance	Liability	IBIS
DOCUMENTS	Mandatory	Tracked	-	√	-	√	-	-	-	-
		Registered	-	√	-		√	-	√	
	Optional	Insurance for letter post	-	√	-		√	√	-	
GOODS	Mandatory	Tracked	-	√	-	√	-	-	-	-
		Registered	-	√	-		√	-	√	-
	Optional	Insurance for letter post	-	√	-		√	√	-	-
		Insurance for parcel post	√	√	-	√	√	√	-	√

<sup>1</sup> M – Mandatory for EMS members signatory to the EMS Multilateral Agreement.

*Matrix – Basic services*

6 In considering the basic services (see Convention article 17) as shown in table 1, it is worth noting that 84% of the respondents to the impact study supported keeping the current "letter post" and "parcel post" categories, as many member countries' operations are organized according to this distinction. It was also agreed to include both the ECOMPRO parcel and EMS within the basic services part of the matrix – despite the fact that they are optional services – because they complete the portfolio of services. Furthermore, EMS was included under basic services in the development of the matrix in order to have a clear picture of the full suite of UPU products. (At this stage, no changes to EMS are envisaged, so this product was not included in the impact study.)

7 A large majority of the respondents to the impact study (83%) also indicated that the "basic services" part of the product matrix should contain a distinct reference to "small packets" under the "goods" classification, for the following reason:

- The distinction is – at least at this stage – of critical importance, since small packets (i.e. lightweight shipments of low-value items) currently represent the bulk of cross-border e-commerce and are the growth segment of international postal traffic. Being able to manage this segment separately will help keep designated operators relevant in the cross-border e-commerce market, for example, giving them the option to define specific product specifications for small packets leading to cost savings (e.g. by facilitating automation). This is in keeping with the conclusions of the study on trends and drivers in the postal market published by the UPU in 2016, and the IPP forum held during the 2017.2 POC in Berne.

8 Discussions by the POC on the basic services, as visualized in table 1, were based on recommendations stemming from the analysis of the results of the impact study (see POC C 2 PSDEIG 2018.1–Doc 4). As a result of its discussions, the POC endorsed the recommendations contained in the table below relating to basic services.

*Table 3: Group 1 recommendations – Basic services for implementation from 1 January 2020*

<i>Basic services</i>	<i>Description</i>
1 Items for the blind	<p>Recommendation 1: It is recommended that items for the blind be added to the definition of "letter-post items containing goods".</p> <p>A proposal to amend the Convention to reflect this recommendation can be found in proposal 20.17.1.</p> <p>Note that the Convention Regulations restrict the content of items for the blind (article 17-107.5.1.2).</p>
<i>Remuneration response</i>	See Integrated Remuneration Plan, Part II, paragraph 24, and table 2 under paragraph 27.
2 M bags	<p>Recommendation 2: It is recommended that M bags be added to the definition of "letter-post items containing goods".</p> <p>A proposal to amend the Convention to reflect this recommendation can be found in proposal 20.17.2. In addition, proposal 25.17-107.1 contains a proposal to amend the Regulations to ensure that designated operators (DOs) apply a single barcode identifier conforming to UPU Technical Standard S10 to M bags containing goods to enable the provision of cross-border customs pre-advice in compliance with UPU Technical Standard M33 – ITMATT V1.</p> <p>Note that the Convention Regulations restrict the contents of M bags (article 17-107.7.1).</p>
<i>Remuneration response</i>	See Integrated Remuneration Plan, Part II, paragraph 24, and table 2 under paragraph 27.
All other basic services	No changes to be made.

*Matrix – Menu of value-added services and add-ons*

9 Discussions by the POC on the menu of value-added services and add-ons, as shown in table 1, were based on recommendations stemming from the analysis of the results of the impact study (see POC C 2 PSDEIG 2018.1–Doc 4). As a result of its discussions, the POC endorsed the recommendations contained in the two tables below relating to the value-added services and add-ons. Two recommendations, relating to making tracking and IBIS mandatory features of the registration and insurance services, were rejected by the POC.

*Table 4: Group 2 recommendation – Value-added services (supplementary services) – Implementation date to be approved by the Extraordinary Congress*

<i>Value-added service</i>	<i>Description</i>
3 Tracked delivery service	<p>Recommendation 3: It is recommended that this service become mandatory.</p> <p>It is recommended that the current product specifications that apply to the optional tracked delivery service under the Supplementary Remuneration Programme in article 30-104 also be applied to the mandatory service.</p> <p>Two proposals to amend the Convention and Regulations to reflect this recommendation can be found in proposals 20.18.1 and 25.18-102.1.</p>
<i>Remuneration response</i>	See Integrated Remuneration Plan, Part II, paragraph 25, and table 2 under paragraph 27.

*Table 5: Group 3 recommendations – Add-ons (services that can be added on to the basic services or supplementary services) – for implementation from 1 January 2020 (fragile parcels) and 1 January 2022 (all other add-ons).*

<i>Add-ons</i>	<i>Description</i>
4 Advice of delivery	<p>Recommendation 4: It is recommended that the POC review this service.</p> <p>Based on the results of the review, recommendations will be submitted to the 2020 Congress, if appropriate.</p> <p>For remuneration response, see Integrated Remuneration Plan, Part II, paragraphs 26 and 27, and table 2 under paragraph 27.</p>
5 Delivery to the addressee in person	<p>Recommendation 5: It is recommended that the POC review this service.</p> <p>Based on the results of the review, recommendations will be submitted to the 2020 Congress, if appropriate.</p> <p>For remuneration response, see Integrated Remuneration Plan, Part II, paragraphs 26 and 27, and table 2 under paragraph 27.</p>
6 COD (cash on delivery)	<p>Recommendation 6: It is recommended that the POC review this service.</p> <p>Based on the results of the review, recommendations will be submitted to the 2020 Congress, if appropriate.</p> <p>For remuneration response, see Integrated Remuneration Plan, Part II, paragraphs 26 and 27, and table 2 under paragraph 27.</p>
7 Cumbersome for parcel post	<p>Recommendation 7: It is recommended that the POC review this service.</p> <p>Based on the results of the review, recommendations will be submitted to the 2020 Congress, if appropriate.</p> <p>For remuneration response, see Integrated Remuneration Plan, Part II, paragraphs 26 and 27, and table 2 under paragraph 27.</p>

<i>Add-ons</i>	<i>Description</i>
8 Delivery free of charges (delivery duty paid)	<p>Recommendation 8: It is recommended that the POC review this service.</p> <p>Based on the results of the review, recommendations will be submitted to the 2020 Congress, if appropriate.</p> <p>For remuneration response, see Integrated Remuneration Plan, Part II, paragraphs 26 and 27, and table 2 under paragraph 27.</p>
9 Fragile parcels	<p>Recommendation 9: It is recommended that the optional fragile parcels service be discontinued.</p> <p>A proposal to amend the Convention to reflect this recommendation can be found in proposal 20.18.2.</p>
Merchandise return service, IBRS, consignment	No changes.

### III. Implementation of the proposed integrated 2020 product portfolio

10 As mentioned earlier, the proposed product matrices in tables 1 and 2 do not create new products that are not already defined in Convention articles 17 and 18. All of the products in the proposed matrices already exist, and their specifications are defined in the Regulations. However, their redistribution into the classifications of "documents" and "goods" or their change from "optional" to "mandatory" means it may be necessary to review and develop the specifications for each service and amend the Convention Regulations as required. This review will be carried out by the relevant POC bodies, in line with the timelines adopted by the Extraordinary Congress.

11 It follows, then, that such an implementation should be done in a progressive manner to allow time for impact studies, capacity building and operational adjustments where necessary. That is why the 26th Congress approved the implementation of IPP Step 1 from 1 January 2018, with a target for transitioning to implementation of IPP Step 2 from 1 January 2020, thereby achieving full product integration.

12 During discussions on the implementation date of IPP Step 2, the POC was of the view that the Extraordinary Congress should be presented with the following two options, for approval of one of them:

#### *Option A*

- a 2018 Extraordinary Congress: Approval of group 1 recommendations (see table 3, basic services) with the date of implementation set at 1 January 2020.
- b 2018 Extraordinary Congress: Approval of group 2 recommendation (see table 4, value-added services) with the date of implementation set at 1 January 2020.
- c 2018 Extraordinary Congress: Approval of group 3 recommendations 4, 5, 6, 7 and 8 (see table 5, add-ons), with consequential proposals to be submitted to the 2020 Congress and with the implementation date of the proposals set at 1 January 2022.
- d 2018 Extraordinary Congress: Approval of group 3 recommendation 9 (see table 5, add-ons) with the date of implementation set at 1 January 2020.

#### *Option B*

- a 2018 Extraordinary Congress: Approval of group 1 recommendations (see table 3, basic services) with the date of implementation set at 1 January 2020.
- b 2020 Congress: Group 2 recommendation (see table 4, value-added services) to be submitted to the 2020 Congress for approval, with the date of implementation set at 1 January 2022, if approved.
- c 2018 Extraordinary Congress: Approval of group 3 recommendations 4, 5, 6, 7 and 8 (see table 5, add-ons), with consequential proposals to be submitted to the 2020 Congress and with the implementation date of the proposals set at 1 January 2022.

d 2018 Extraordinary Congress: Approval of group 3 recommendation 9 (see table 5, add-ons) with the date of implementation set at 1 January 2020

13 The key differences between the two options are the approval and implementation dates in relation to the group 2 recommendation (value-added services). Option B has been added to provide the POC with more time to develop appropriate proposals so that UPU members can invest more time in capacity building.

#### **IV. Electronic advance data recommendations related to the proposed integrated 2020 product portfolio**

14 One of the aims of the IPP is to facilitate efficient compliance with emerging security and customs requirements. In this regard, Convention article 8 on postal security states: "Member countries and their designated operators...shall adopt and implement a proactive security strategy at all levels of postal operations to maintain and enhance the confidence of the general public in the postal services provided by designated operators, in the interests of all officials involved. This strategy shall include the objectives defined in the Regulations, as well as the principle of complying with requirements for providing electronic advance data on postal items identified in implementing provisions (including the type of, and criteria for, postal items) adopted by the Council of Administration and Postal Operations Council, in accordance with UPU technical messaging standards. The strategy shall also include the exchange of information on maintaining the safe and secure transport and transit of mails between member countries and their designated operators."

15 The implementing provisions for providing electronic advance data (EAD) can be found in article 08-002 of the Regulations to the Convention. Paragraph 1 of the article states that items containing goods may be subject to requirements for providing EAD. It further states that "letter-post items containing correspondence or items for the blind, which are not subject to customs duties, shall be exempted" from EAD. Subsequent paragraphs indicate that items for which EAD is provided shall be accompanied by the appropriate UPU customs declaration form and shall bear a unique item identifier conforming to UPU Technical Standard S10.

16 IPP Step 1 facilitated the implementation of article 08-002. The creation of the "documents" and "goods" classifications has enabled the identification of products for which EAD may have to be provided. With the mandatory application of a UPU Technical Standard S10 barcode to all small packets, all categories of items containing goods bear an S10 barcode.

17 It is necessary to ensure that the IPP is in alignment with EAD requirements as indicated in the EAD roadmap document (see POC C 1 2017.2–Doc 6b). New pieces of legislation are coming into force, some of them as early as 2021 (and it cannot be excluded that others will come into force earlier). A cross-cutting approach encompassing all postal items containing goods is therefore necessary in order to comply with the new EAD regulatory requirements. Furthermore, capacity building will be key to ensuring that member countries and their DOs are able to send and receive EAD; otherwise, the efficient flow of mail will be impeded. With this in mind, and in order to enable DOs to be prepared for the prospective 2021 deadline, it is recommended to:

- i continue product development to facilitate efficient compliance with the EAD roadmap implementation;
- ii continue coordinating EAD issues between POC Committees 1 and 2 in relation to e-commerce and IPP outreach communications and capacity building;
- iii continue to develop UPU regulations and standards to support compliance with EAD requirements;
- iv develop and implement plans for incentivizing the provision of EAD;
- v develop and implement plans for assessing quality of service and level of compliance regarding the sending of ITMATT V1 (M33);
- vi develop and implement plans in collaboration with the QSF Common Fund to help member countries implement EAD, and especially to help DOs build bridges for electronic data interchange with national customs authorities.

## V. Development activities and timelines

18 With regard to the implementation of IPP Step 2, it is recommended that the 2018 Extraordinary Congress approve the development activities and associated timelines in order to make sure that implementation of IPP Step 2 is in line with member countries' wishes. The recommended key milestones and dates are therefore set out in the table below:

<i>Date</i>	<i>Activities to be undertaken</i>	<i>Responsibility</i>
September 2018	Submission of updated version of the IPP to the Extraordinary Congress for final approval of the implementation of Step 2 from 2020 (see paragraph 25 of Istanbul Congress–Doc 39.Rev 1).	Extraordinary Congress
October–December 2018	Review and development by the relevant POC bodies of specifications for each of the services, with proposals drafted to change the Regulations as appropriate.  Review and development by the relevant POC bodies of the add-on features in table 5 as necessary, with proposals drafted to change the Regulations as appropriate.	POC bodies
2019	Continued review and development by the relevant POC bodies of the specifications for each service, with amendments to the Convention Regulations as necessary.  Continued review and development by the relevant POC bodies of the add-on features in table 5.  Development of draft IPP 2021–2024 for submission to the 2020 Congress.	2019 POC
1 January 2020	Commencement of Step 2 implementation	Extraordinary Congress
2020	Endorsement of the draft IPP 2021–2024, for submission to the 2020 Congress.  Continued development of an EAD implementation roadmap.	2020 POC/CA
2020	Submission of updated IPP 2021–2024 to 2020 Congress.	2020 Congress

## VI. Proposals

19 To ensure that the work on the implementation of the updated IPP is able to progress, two draft Congress resolutions (proposals of a general nature 02 and 03) relating to the updated IPP have been prepared. Congress will be invited to approve only one of the resolutions, while noting that the only differences between the two are the dates of approval and implementation of recommendation 3 (see table 4). In addition, four proposals to amend the Convention, to reflect IPP-related product recommendations, have been prepared and will be submitted to Congress for approval. Last but not least, two proposals to amend the Regulations, again to reflect IPP-related product recommendations, have also been prepared and will be forwarded directly to the POC.

## Part II: Integrated Remuneration Plan for 2019 and 2020

### I. Introduction

1 The Integrated Remuneration Plan takes an integrated approach to remuneration for different products, with particular consideration of product development aspects, costs of inbound designated operators (DOs), affordability for outbound operators and customers, market dynamics, competition and transition, as well as research activities across the full range of physical services, with a view to modernizing and integrating UPU remuneration systems.

2 Marking a departure from existing UPU remuneration systems based on terminal dues (TD), inward land rate (ILRs) and ECOMPRO rates, the Istanbul work cycle is the first in which an Integrated Remuneration Plan has been devised, including recommendations and guidelines steering the work on the development of proposals for an Integrated Remuneration System by 2020.

3 The IRP has been developed on the basis of the mandate given by the 2016 Congress to modernize, rationalize and integrate the UPU remuneration systems, and also in direct response to the IPP, to ensure that the UPU keeps pace with change by modernizing letter post, parcel post and EMS by taking an integrated approach to product development and remuneration systems alike. The IRP should ultimately result in aligned and more rational remuneration systems for the products recognized in the IPP.

### II. Istanbul Congress mandate

4 The 26th Congress approved resolution C 24/2016 concerning the Istanbul Business Plan (IBP), including all the work proposals contained therein. Work proposal 024 concerned the development and implementation of the IRP, with a focus on the rationalization, harmonization and integration of the current UPU remuneration systems, while responding to the need for modernization of the UPU portfolio of physical services (letters, parcels and EMS).

5 The aim of the IRP is to provide the strategic direction, goals and roadmap to deliver proposals for an integrated, modern, forward-looking remuneration system – the Integrated Remuneration System (IRS) – to be submitted to the POC/CA by 2020 for endorsement and forwarding to the 2020 Congress. The IRS proposals need to reflect the modifications to the UPU product portfolio as well as relevant regulatory, operational and accounting changes that could result from any proposals for an IRS. The IRP is therefore expected to be implemented in a gradual manner, taking full account of all aforementioned aspects, including the relevant information from the different studies (see overview of all studies in § 34).

#### *Principles guiding the development and implementation of the IRP*

6 The 26th Congress adopted a core set of integrated remuneration system principles that need to be observed when it comes to the development and implementation of the IRP. These principles, contained in IBP work proposal 024, are the following:

- ensuring the provision of an affordable and viable universal postal service through sustainable remuneration to delivery designated operators;
- supporting the efficient and economically viable provision of international postal services in line with market conditions, customer interests and regulatory requirements;
- differentiating the various UPU-regulated postal products based on service specifications and market needs;
- supporting the interoperability, sustainability and development of the global postal network under the least market-distortive terms by:
  - being transparent, straightforward and mindful of the different resource and implementation constraints among UPU members while incentivizing improved service performance;
  - ensuring non-discriminatory access to destination markets according to country-specific, cost-based remuneration rates, while respecting:
    - in particular, the right to affordable access to international postal services for the least developed member countries with limited international mail volumes,

- the prevention of remailing, which is abusive of remuneration systems,
- 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.

### *Structure of the IRP*

7 To facilitate the development and implementation of the IRP, three phases were defined, as follows:

*Table 1: Three phases of IRP development*

<i>Phase</i>	<i>Main deliverable</i>	<i>Status</i>
Phase I	Terminal dues remuneration reflective of format (P, G and E format) and content (documents and goods)	Completed (implementation 1 January 2018)
Phase II	Development of the IRP for the 2018 Extraordinary Congress	Present document subject to examination and endorsement by POC/CA
Phase III	Implementation of the IRP in accordance with the roadmap bringing proposals on an IRS to the POC/CA by S7 for endorsement and forwarding to the 2020 Congress	To commence after 2018 Extraordinary Congress

8 Phase I was concluded by the decision of the 26th Congress to remunerate all letter-post items containing goods as small packets (E) rather than on the basis of their weight and format, with effect from 1 January 2018. Phase I of the IRP was a direct response to the Congress decision on Step 1 of the IPP, introducing the classification of items as documents and goods.

9 Phase II concerns the development of the IRP and departs from a comprehensive situation analysis of the existing remuneration systems, including a comprehensive study on the gaps and relationships between remuneration systems, as well as a review of the costs of handling, transporting and delivering small-packet items. The second driver of the IRP is the modernization and integration of the UPU service portfolio. One of the main aims of the IPP for 2017–2020 (Istanbul Congress resolution C 15/2016 on the basis of Congress–Doc 39.Rev 1) is to develop a fully integrated portfolio of physical services (letter-post items, parcel-post items and EMS). The proposed integration of the UPU portfolio of physical services requires a modern, forward-looking integrated remuneration strategy developed on the basis of the principles adopted by the 26th Congress through resolution C 24/2016, and work proposal 024 in particular. Following on from the situation analysis and the assessment of the proposed changes to the UPU service portfolio, the IRP envisages certain changes to the remuneration systems to achieve better alignment and rationalization of the systems, and to minimize the effects of distortions created by the current systems.

10 Phase III concerns the implementation of the IRP based on the decision of the Extraordinary Congress, and will be concluded by session S7 of the councils, when the proposals for an IRS are presented to the POC and CA for their endorsement and forwarding of the joint proposal to the 2020 Congress.

### **III. Development of the IRP**

#### *Situation analysis*

11 The departing point of the IRP is the existing remuneration systems for letter post, parcel post and EMS items. Annex 2 contains an overview of how the TD, ILR and EMS remuneration systems evolved independently from one another over time. This overview provides the context to understand the relationships and gaps between the current remuneration systems.

12 A UPU-commissioned study,<sup>2</sup> concerning a market research report on international letters, express and parcels, raised issues in terms of the alignment of the remuneration of letter-post items (in particular small

<sup>2</sup> UPU 2010, Market research on letters and parcels and EMS lightweight items.

packets), lightweight parcels and EMS items. For example, there are instances in which premium services such as EMS, despite its product service characteristics, could be remunerated at a considerably lower rate than sending the same content as a surface parcel in application of the corresponding relevant inward land rates.

13 The gaps and relationships between the different remuneration systems were studied further in 2017, with the full detailed conclusions reported in document POC C 2 2017.2–Doc 4c. That study compared the remuneration of items containing goods by applying the terminal dues rates, inward land rates, ECOMPRO parcel rates and EMS rates. It simulated the remuneration in 2021, the last year of the Istanbul Acts period (2018–2021). Business rules were followed to ensure that the same or similar service features were included in the comparison to achieve the highest possible level of consistency and comparability. For example, the remuneration of small-packet (E) items was augmented with the additional payments for both the registered service (applying the rates in article 29 of the Convention) and for the exchange of tracking data (applying the rates in article 30-104 of the Regulations), as a way to make the remuneration comparable to parcel-post items, which includes tracking, liability and signature requirements as service features.

14 The comparative study resulted in the following main conclusions:

- In comparison with inward land rates, the cap terminal dues rates for small-packet (E) letter-post items have a lower item and a higher kg component;
- In general, the EMS rates are far higher than the cap terminal dues rates for small-packet (E) letter-post items and inward land rates owing to the predominance of simplified flat rates applied by many countries;
- Generally, it can be concluded that the higher the weight step, the smaller the difference between the rates, in particular between terminal dues rates and inward land rates. In fact, the median rates of inward land rates and terminal dues (cap rates for small packet (E) items) intersect at approximately 1,750 g. This means that below 1,750 g, the terminal dues rates are lower than inward land rates of parcel-post items;
- The inward land rates and EMS rates are evenly distributed, but contain a number of high outliers;
- The gaps and relationships between the remuneration systems, in particular between inward land rates and terminal dues, are to a large extent explained by the differences between letter-post and parcel-post items in terms of their basic service specifications (e.g. format dimensions and maximum weight limits), operational handling requirements and procedures, and market positioning (see POC C 2 2017.2–Doc 4c. Annex 3 for a detailed overview of the different cost drivers);
- Because of the self-declared nature of ECOMPRO parcel and EMS remuneration, as well as the specific market and regulatory conditions, it was concluded that the focus should instead be on the inward land rates and the terminal dues rates for small packet (E) items.

15 Although, to a certain extent, the gaps and differences between the remuneration systems are justified, it became clear that changes to the remuneration systems should be envisaged to achieve better alignment, integration and rationalization of the systems, and to minimize the effects of distortions created by the current systems. In particular, towards lower-weight items, adjustments are required, which could entail upward adjustments to the terminal dues rates or downward adjustments to the inward land rates, or a combination of raising terminal dues and lowering ILRs.

#### *Review of the costs of handling, transporting and delivering small packets*

16 The 26th Congress decided to remunerate all letter-post items containing goods as small packets (E), rather than on the basis of their weight and format, with effect from 1 January 2018. As a result, the E-format rates apply not only to bulky letters, but also to small packets. However, the remuneration for E-format items contained in the terminal dues package presented to Congress was developed on the basis of several considerations, including weight and other parameters, format separation, etc., meaning that small-packet items containing goods were not studied on the basis of their status as E-format items, but rather on the basis of other characteristics.

17 The POC carried out a thorough review of the costs of handling and delivery of inbound small packets, including the cost drivers and other relevant elements that indicate the level of conformity of small-packet items containing goods, in different formats, with the letter-post items not containing goods. Differences explaining

the gaps between terminal dues and inward land rates should also be analyzed. The detailed results from the study are contained in document POC C 2 2018.1–Doc 4a.

18 The survey showed that 32 of the 82 respondents (39%) partly use the parcel network for the sorting, transport and delivery of letter-post items, compared to 25 respondents (30.5%) which sort, transport and deliver all letter-post items through the domestic letter-post network. The remaining 25 respondents (30.5%) indicated that a single domestic network is used for the delivery of both letter-post and parcel-post items. Weighting the flows by countries, it can be concluded that the vast majority of letter-post items are probably sorted, transported and delivered in letter-post or mixed networks. Among those DOs partially using the parcel network, more than half of the respondents indicated that they use it for up to a maximum of 20% of their small packet volumes (i.e. letter-post items containing goods). Letter-post items are primarily inserted into the parcel network when they contain goods, because of procedures related to customs, in particular for items subject to the collection of taxes and duties. This seems to justify lower remuneration for small packets compared to parcels.

19 A comparison of the cost drivers shows that the cost for small packets is higher than for documents, mainly because of customs, security and management of returns. However, as a large proportion of small packets (about 23% of weight, but 69% of items) fall within the P and G format size and weight limits, the need to differentiate the rates between the bulky E format and small packets might be limited. Furthermore, as 80% of the respondents considered the bulky E-format rate appropriate for the remuneration of small packets, consideration should be given to whether higher rates for small packets compared to bulky E formats or lower rates for bulky E format compared to small packets are appropriate.

#### *Remuneration for the return of undeliverable small packets*

20 In connection with the volume growth of small-packet letter-post items, DOs are facing – both domestically and across borders – an increasing number of returned small packets, both ordinary and registered, owing to non-delivery or customs restrictions. The 2016 Congress referred proposal 25.18-104.1 for further study to determine whether remuneration for such items should be introduced, as well as possible rates. The small packet survey included in its scope the collection of data relevant to returned undeliverable items, in order to better understand the operational challenges related to handling of the return of undeliverable registered small packets, as well as identification of the main cost drivers, along with any other specific issues in handling the items, e.g. special treatment, collection and exchange of additional tracking events, etc.

21 That study showed that a majority of Union member countries felt that DOs should be entitled to collect an additional charge for those items. The review concluded that the majority of UPU members would like to include an additional charge for returned small packets and for undeliverable registered letter-post items.

22 Concerning a possible rate structure for an additional charge on returned items, most of the respondents favoured either an item and weight rate (32%) or a weight rate only (29%). However, the proposals concerning the level of remuneration were very diverse. Moreover, it was indicated that the rate structure should be easy to administer and linked to the real cost drivers; these are mainly transportation, along with handling and manual sorting. Therefore, the structure and the level of remuneration should be developed by taking the aforementioned comments into consideration.

#### *Remuneration response to the product matrix (IPP phase II)*

23 As described in § 9, the proposed product matrix is one of the important drivers of the IRP, as the modernization and integration of the UPU service portfolio calls for a modern, forward-looking integrated remuneration strategy developed on the basis of the principles adopted by the 26th Congress through resolution C 24/2016. The remuneration response to the IPP product matrix is described in §§ 24 to 27 and table 2 below.

- 24 Concerning the remuneration of basic services in response to the IPP product matrix (IPP Phase II):
- In response to IPP recommendation 2 concerning M bags containing goods, the current remuneration provided for in article 28 of the Convention may become inappropriate if small packets (goods) are to be accepted as content of M bags, as the current rates are based on a service that exclusively contains the same type of advertising material and other printed matter. However, as there was no clarity on the type of items that are to be accepted as content of M bags, there was agreement that the matter should be further examined after the 2018 Extraordinary Congress with a view to bringing a proposal to the 27th Congress in 2020, with rates effective from 1 January 2022.
  - Proposals for remuneration of M bags containing goods are to be included in the overall review of all remuneration resulting in proposals for an IRS to be submitted to the 27th Congress in 2020 (with effect from 1 January 2022) as described in section IV (§ 28 et seq.).
  - In response to IPP recommendation 1 concerning items for the blind containing goods, the remuneration for small packets (E) is already provided for in the Istanbul Acts period (2018–2021), in particular through Convention articles 29 and 30. As the payment regarding items for the blind between DOs is based on the terminal dues remuneration, the remuneration according to format and content should be applied.
  - The remuneration of all basic services will be reviewed with proposals for an IRS, including proposals to amend the Convention and Convention Regulations, to be submitted to the 27th Congress in 2020.
- 25 Concerning the remuneration of supplementary services (registered, insured and tracked items) in response to the IPP product matrix (IPP Phase II):
- According to IPP recommendation 3, the tracked service should become a mandatory supplementary service. Bearing in mind that the exchange of electronic tracking data is already a mandatory service feature of the tracked service and that the payment of supplementary remuneration for tracking is already mandatory for tracked items under current article 30-104, the existing amounts of supplementary remuneration provided for in article 30-104.4 should be maintained at 0.73 SDR and 0.75 SDR for each qualifying item in 2020 and 2021 respectively.
  - Consequently, no proposals will be submitted to the 2018 Extraordinary Congress to amend the supplementary remuneration of any of the supplementary services in the years 2020 and 2021.
  - The remuneration for all supplementary services should be studied as part of the IRP implementation for the development of proposals for an IRS that are to be submitted to the 27th Congress in 2020 and would come into effect on 1 January 2022;
- 26 Concerning the remuneration of services that can be added on to the basic services or supplementary services (add-on services):
- As proposals in relation to IPP recommendations 4 to 8 concerning the services that can be added on to the basic or supplementary services (add-on services) will only be presented to the 27th Congress in 2020, there is no remuneration response required at this stage.
  - The product matrix envisages eventual proposals for cumbersome parcels by 2020 in order for this service to be retained, as currently no additional remuneration is collected for the handling and delivery of those items.
  - For each of the add-on services, the work on remuneration will commence once a decision has been taken on the product specifications.
- 27 Concerning the remuneration of all the services of the proposed service portfolio:
- All the services of the proposed service portfolio have existing remuneration associated with them that will be in force until 2021.
  - For the remainder of the Istanbul Congress Acts period, in particular in the years 2020 and 2021, the remuneration of all basic and supplementary services, as well as the remuneration for services that can be added on to these services, should remain unchanged. The remuneration for all of the services of the UPU product portfolio should be studied as part of the IRP implementation for the development of proposals for an IRS that are to be submitted to the 27th Congress in 2020 and would come into effect on 1 January 2022.

- A detailed overview of the existing remuneration for the basic services, value-added services and add-ons is provided in document POC C 2 2018.1–Doc 4d. Annex 1.

Table 2: Remuneration response to the IPP product matrix

	<i>Current remuneration</i>	<i>2018 Congress: proposals amending rates</i>
<p><b>IPP recommendation 1</b></p> <p>It is recommended that items for the blind be added to the definition of "letter-post items containing goods"</p>	<p>Remuneration for small packets (E) for the Istanbul Acts period (2018 to 2021):</p> <p>Convention articles 29 and 30</p> <p>To be applied in combination with article 28.12 in case of non-priority items</p>	<p>No proposals to 2018 Extraordinary Congress to amend the rates for the Istanbul Acts period (2018–2021)</p> <p>Apply the existing rates in Convention articles 29 and 30, to be applied in combination with article 29.12 in case of non-priority items</p>
<p><b>IPP recommendation 2</b></p> <p>It is recommended that M bags be added to the definition of "letter-post items containing goods"</p>	<p>Convention article 28</p> <p>Current rates applicable to printed matter</p>	<p>No proposals to 2018 Extraordinary Congress to amend the rates for the Istanbul Acts period (2018–2021)</p> <p>Apply the rates in Convention article 28</p>
<p><b>IPP recommendation 3</b></p> <p>It is recommended that the tracked service become a mandatory supplementary service</p>	<p>Remuneration for tracked items for the Istanbul Acts period (2018–2021):</p> <p>Article 30-104 for tracking (2018: 0.69 SDR; 2019: 0.71 SDR; 2020: 0.73 SDR; 2021: 0.75 SDR per qualifying item)<sup>3</sup></p>	<p>No proposals to 2018 Extraordinary Congress to amend the rates for the Istanbul Acts period (2018–2021)</p> <p>Apply the existing supplementary remuneration in article 30-104 for the remainder of the cycle</p>
<p><b>IPP recommendation 4</b></p> <p>It is recommended that the POC review the advice of delivery service</p>	<p>Similar to IBRS (articles 18-003 and 18-104)</p>	<p>No remuneration response required as these recommendations with eventual proposals are to be submitted to the 27th Congress in 2020 with an implementation date of 1 January 2022</p> <p>Work on remuneration will therefore commence after the 2018 Extraordinary Congress</p>
<p><b>IPP recommendation 5</b></p> <p>It is recommended that the POC review the delivery to the addressee in person service</p>	<p>No remuneration for this particular add-on service</p>	
<p><b>IPP recommendation 6</b></p> <p>It is recommended that the POC review the COD (cash on delivery) service</p>	<p>No remuneration for this particular add-on service</p>	
<p><b>IPP recommendation 7</b></p> <p>It is recommended that the POC review the cumbersome parcel service</p>	<p>No remuneration for this particular add-on service</p>	

<sup>3</sup> Designated operators are entitled to receive a supplementary remuneration from the origin DO if they meet performance thresholds that are defined in article 30-104 of the Convention Regulations. Qualifying items are those items for which all relevant tracking events have been transmitted within their respective time limits as required by article 30-104. See also Annex 3.

	<i>Current remuneration</i>	<i>2018 Congress: proposals amending rates</i>
<b>IPP recommendation 8</b> It is recommended that the POC review the delivery free of charges service	No remuneration for this particular add-on service	
<b>IPP recommendation 9</b> It is recommended that the optional fragile parcel service be discontinued	No remuneration for this particular add-on service	Service is proposed to be discontinued

#### **IV. Implementation of the IRP**

28 The situation analysis, the studies carried out in 2017 and 2018, and the changes stemming from the IPP (Phase II) drive the need to modernize, rationalize and integrate the UPU remuneration systems.

29 The envisaged end state is an Integrated Remuneration System under which, by 2022, the remuneration for items with similar content (documents or goods) is better aligned and more rational, the products and services of the product portfolio are properly reflected, and the integrated remuneration principles in IBP work proposal 024 (see § 6) are fully met. In connection with these objectives and principles, it is vital that the work on the development of proposals for an IRS be carried out in such a way that the following benefits, also defined in IBP work proposal 024, can be achieved:

- Improves access of customers and outbound designated operators to physical products (letters, parcels, EMS items) at affordable tariffs and with visible end-to-end quality and high levels of customer care;
- Ensures that inbound designated operators will have their costs covered;
- Supports governments in their policies aimed at providing customers and users with access to cost-covering universal services at affordable tariffs;
- Addresses the needs of the designated operators of the least developed countries by safeguarding their access to funds to invest in quality of service and improve their outbound and inbound performance;
- Preserves designated operators' position on the important e-commerce market;
- Results in further integration and improvement of the worldwide postal network; and
- Ensures adherence to the integrated remuneration principles (see § 6).

#### *Modernizing, rationalizing and integrating the UPU remuneration systems*

30 The comparative study on the UPU remuneration systems for similar weight items showed that adjustments to the TD and ILR systems are required in order to ensure better alignment between the remuneration systems. Concerning the basic services, the following changes vis-à-vis the current remuneration systems are needed in order to achieve better alignment and rationalization of the systems, and to minimize the effects of distortions created by the current systems:

- For mail flows to, from and between countries of the target system, update the remuneration of basic letter-post services for small letters (P) and large (G) letter-post items containing documents, including a review of the cap and floor rates;
- For all mail flows, the remuneration of items containing goods, in particular the remuneration of parcels through the ILR system and the remuneration of bulky letters (E) and small packets (E), should be reviewed with a view to achieving better alignment between remuneration systems, including:
  - Review the methodology that determines the item and kg rates for bulky letters (E) and small packets (E), in particular whether these rates should continue to be derived from the P/G format rate line or be based on the domestic charges associated with items that are provided against similar conditions;

- Review the inward land rate system and explore options that will lead to a more equitable, competitive and cost-based model as compared to the current ILR system, such as:
  - Examining the possibilities of introducing weight steps for parcels, with different remuneration of parcel items below 2 kilogrammes (0 to 2 kg) and above 2 kilogrammes (2 to 30 kg);
  - Modernizing the current base ILRs by introducing rates based on domestic charges associated with parcel items that are provided under similar conditions;
  - Identifying the options for applying a methodology similar to that proposed for setting the rates of bulky letters (E) and small packets (E);
- Other than the introduction of a bonus scheme for ECOMPRO parcels, the remuneration of ECOMPRO parcels should remain self-declared, as there are no changes to this service under the product matrix.
- The proposals should be guided by the results of studies as listed in table 3.

31 The IRS proposals to be presented to the 27th Congress in 2020 should reflect the product specifications of all basic services, value-added services and add-on services (services that can be added on to the basic services or supplementary services), in particular those services that are subject to modifications under the proposed product portfolio, as follows:

- Examination of the costs associated with the proposed product portfolio, in particular for M bags (containing goods) and value-added services (tracked, registered and insured supplementary services) whose additional service features would increase the costs and product value of these services;
- Review of the current remuneration for add-on services, in particular for cumbersome parcels; and
- Development of remuneration for returned undeliverable letter-post items, mindful of the conclusions of the small packet cost study referred to in §§ 20 to 22.

32 The IRS proposals should also take account of the important aspect of transition. In a status-quo scenario, i.e. one in which the discrepancies of the transition system are maintained, the TD income of weaker transition system members would be threatened, as postal traffic (inbound) flows would continue to divert to other delivery networks. The transitional system also creates large distortionary effects for countries of the target system, as they receive increased volumes of (remailed) small packets, mainly e-commerce items, from countries in the transitional system, as a result of lower terminal dues remuneration than target system countries are required to pay for the delivery of their small packets by the same target system countries. The following measures are to be included in the IRS proposals:

- As a next step in the transition of transition countries towards the target system, proposals are to be developed to harmonize the application of small packet (E) rates for all countries;
- The transition system rates for P/G format items containing documents will continue to apply flat combined kg rates. Those rates will be based on the 2021 rates and will be adjusted by increases to align with the floor item and kg rates of the target system.

33 A further aspect of the work on developing the IRS proposals concerns the incentives for quality of service improvement. The following elements are to be considered in the development of the IRS proposals:

- All TD remuneration, including the remuneration of small packets (E), is currently adjusted to the quality of service results that are measured on the basis of small letter (P) and large letter (G) items. The growing volumes of small packets require that those items be remunerated on the basis of their specific quality of service. Therefore, proposals should be developed to improve the link between small packets (E) remuneration and the inbound quality of service of those items, including bonuses and penalties as well as applicable standards and targets, subject to the status and availability of a measurement solution for this purpose.
- Participation in the quality link to terminal dues will be mandatory for countries in group IV by 2020, after a two-year grace period starting in 2018. By then, all countries will link their terminal dues to their quality of service. The threshold for exempting countries from applying the provisions on the quality link to terminal dues, currently at 100 tonnes of total inbound mail per year, will be revised on the basis of the conclusions of a cost-benefit analysis of participation in GMS and the QS Link system;
- The link between inward land rates and inbound quality of service, including bonuses and penalties as well as applicable standards and targets, should be developed. By 2022, an inbound quality of service

payment system should be introduced for parcels which is conceptually similar to the quality link to terminal dues.

*Further studies in support of the development of IRS*

34 More data is required to support the work on developing future proposals on a modern, forward-looking, integrated remuneration system. A new deliverable should be added to the RIG work plan concerning the study on the costs of providing the supplementary services (tracked, registered and insured items) and M bags. The new study (proposed deliverable POC C 2 RIG–D4.15) should take account of the costs of providing these services, as reflected in the service specifications of the product portfolio.

*Table 3: Studies in support of proposals on a modern, forward-looking integrated remuneration system*

<i>RIG Deliverables</i>		<i>Deliverable for submission by</i>
POC C 2 RIG–D4.1	Comparative study of UPU remuneration systems for similar weight items	Completed
POC C 2 RIG–D4.3	Studies aimed at establishing the correct relationship between domestic tariffs and the cost of processing inward international postal items (letter-post, parcel-post and EMS items)	S4, S6 and S7 (amend to S5)
POC C 2 RIG–D4.4	IPK study including all postal items (documents and goods) and proposal on IPK	S4
POC C 2 RIG–D4.5	Flow study including all postal items (documents and goods)	S6
POC C 2 RIG–D4.7	Survey on the costs of handling, transport and delivery of small packet items	Completed
POC C 2 RIG–D4.8	Survey in relation to costs of handling the return of undeliverable registered small packet items	Completed
POC C 2 RIG–D4.9	Survey on the network used for the delivery of small packets containing goods	Completed
POC C 2 RIG–D4.10	Domestic tariff study	S4 (postpone to S5)
POC C 2 RIG–D4.11	Study on the profile and average weight of parcel-post and EMS items	S4
POC C 2 RIG–D4.12	Survey on the ILR minimum performance requirements and ILR bonus payments	S4 (postpone to S5)
POC C 2 RIG–D4.13	Survey on a bonus scheme specific to ECOMPRO parcel product specifications and attributes	S5
POC C 2 RIG–D4.15	Study on supplementary services (tracked, registered and insured items) and M bags	S5

35 Through these different studies, information is to be collected on the profile of letter-post and parcel-post exchanges, such as average weight and volume information, costs of handling, transporting and delivering inbound postal items and the relationship between UPU remuneration systems and domestic tariffs. The results of these studies will be used to determine the appropriate parameters (such as cost-to-tariff ratios, cap and floor rates, adjustment factors, transition, etc.) that could be part of the proposals of the future integrated remuneration system. The information collected from these studies will also ensure that the integrated remuneration system principles set out in § 6 are observed.

### Timeline

36 The timeline provides an overview of the main activities in Phase III, from the Extraordinary Congress in 2018 until the 27th Congress scheduled for 2020, in order to ensure that the work remains on track and can progress in the right direction.

<i>Date</i>	<i>Main activities to be undertaken</i>	<i>Responsibility</i>
September 2018	Submission of IRP, including all its related proposals, to the 2018 Extraordinary Congress for final approval	Extraordinary Congress
October–December 2018	Review of the outcomes of the 2018 Extraordinary Congress, in particular changes to the product portfolio  Results of the IPK study on all postal items (documents and goods) and proposal on IPK  Identification of methodology options for future remuneration of small-packet (E) and parcel items	2018.2 POC
S5 – 2019	Draft methodology for bulky letters (E) and small packets (E) remuneration  Options defined to improve the ILR system  Results of the following studies:  Domestic tariff study and relationship with domestic tariffs and inward land rates and terminal dues remuneration  Review of all pay-for-performance systems (letters, parcels) and surveys on bonus/penalty systems  Cost studies  Study on supplementary services (tracked, registered and insured items) and M bags	2019.1 POC  2019.2 CA
S6 – 2019	Draft of the IRS, including draft proposals for rates for 2022 to 2025:  Remuneration P/G documents, groups I, II and III  Remuneration bulky letters (E) and small packets (E) for all flows  Draft proposals to amend the ILR system  Remuneration for supplementary services and services that can be added on to the basic services or supplementary services (add-ons)  Draft proposal for returned undeliverable letter-post items  Draft proposals on the link between remuneration and quality of service (documents, small packets and parcels)  Results of mail flow study  Draft integrated remuneration principles to guide the work on remuneration in the next Congress work cycle	2019.2 POC  2019.2 CA
October–December 2019	Regional round tables to familiarize all countries and/or regions with draft IRS proposals and receive feedback before proposals are finalized	IB, restricted unions

<i>Date</i>	<i>Main activities to be undertaken</i>	<i>Responsibility</i>
S7 – 2020	Finalization of IRS and related proposals for endorsement by POC and CA, including:  Proposals to amend the Convention and Regulations concerning remuneration effective from 1 January 2022  Mandate to continue the work on the further development of the IRP and the IRS through modernization, rationalization and integration in the next Congress work cycle	2020.1 POC  2020.1 CA
2020	Submission of IRS and related proposals to the 2020 Congress	2020 Congress

## **V. Proposals**

37 To ensure that the work on the implementation of the IRP and development of an IRS is able to progress in accordance with §§ 30 to 36, a draft Congress resolution (proposal of a general nature) is contained in proposal 04.

| Berne, 27 August 2018

Kenan Bozgeyik  
Chairman of the Council of Administration

Masahiko Metoki  
Chairman of the Postal Operations Council



## I. Product integration objectives and principles

### *Product integration objectives*

1 The original IPP, approved at the 26th Congress, stated that the integrated portfolio of products should contribute to meeting the following requirements, which remain relevant today (see paragraph 19 of Congress–Doc 39.Rev 1):

- i Addresses the needs of the marketplace as well as customers;
- ii Creates a classification based on content (documents and goods), remuneration and product features;
- iii Satisfies the need to provide a seamless 0–30 kg weight range for items containing goods (elimination of any weight silos);
- iv Eliminates product silos and creates simpler product offerings;
- v Facilitates efficient compliance with emerging security and customs requirements for electronic advance data (EAD);
- vi Ensures adequate remuneration that is commensurate with the costs of providing the services or value add-ons;
- vii Results in clear and relevant definitions and regulations;
- viii Ensures network sustainability and takes account of the differing capabilities of member countries.

2 In view of the above, a number of guiding product integration principles emerged during the development of the original IPP.

### *Product integration principles*

3 The principles contained in the IPP approved by the 26th Congress are still very much relevant today and can be summarized as follows:

- i Compliance principle: Ensure the alignment of product development with emerging security and electronic customs pre-advice requirements.
- ii Differentiation principle: In order to reduce the overlap of the products and services and opportunities for service cannibalization, it is important to define criteria for strict differentiation of products:
  - Differentiate products by content (documents/goods);
  - Three basic differentiation criteria related to the product offering:
    - Non-priority: deferred with limited or no value-added services;
    - Priority: quicker with choice of value-added services;
    - Premium: quickest with most value-added services.
- iii Menu approach principle: This approach is applied to service level, price and value-added services.
- iv Progression principle: The application of the IPP will be in line with the dates given in Congress resolution C 15/2016, thereby allowing countries to prepare for its timely implementation.
- v Simplicity principle: The implementation of the IPP will simplify the range of product categories and will also minimize overlap and eliminate redundancies, thereby heading towards a more integrated portfolio of services.

- vi Cost-covering principle: Any product rationalization or planned integration of product portfolios should be done in a fashion that would support the development of adequate remuneration that is commensurate with the costs of providing the services or value add-ons. (In addition to this IPP-related principle, the 26th Congress adopted a core set of integrated remuneration system principles that need to be considered when it comes to the development and implementation of the Integrated Remuneration Plan. These principles are contained in Annex 24 of the Istanbul Business Plan.)

## II. Organization of the work of the POC

4 Taking all of the above into account, following the 26th Congress, the 2017.1 POC organized its work and established a number of standing groups, including the Physical Services Development, E-Commerce and Integration Group (PSDEIG), which reports to POC Committee 2. The POC also assigned two major activities to the PSDEIG, via Committee 2, to fulfil the mandates of the following two Istanbul Business Plan work proposals, approved through Istanbul Congress resolution C 24/2016:

- Work proposal 001: Physical product (letter, parcels, EMS) development;
- Work proposal 004: Integrated Product Plan (IPP) implementation.

5 Given the purpose of this document, which is to update the original IPP, it will first focus on the work undertaken so far to fulfil work proposal 004 on IPP implementation, which had the following objectives:

- Take an integrated approach to product development, including remuneration aspects and research activities across the full range of physical services (letters, parcels and EMS) with a view to modernizing these UPU services in the light of identified customer needs and expectations;
- Develop new physical product features (for letters, parcels and EMS) and improve the quality of the parcel products in order to make them more competitive and capitalize on market growth opportunities, including the use of new technologies.

6 In line with the table under paragraph 29 of Congress–Doc 39.Rev 1, the second main aim of this document is to ensure that recommendations relating to EAD and supplementary services are included in this updated IPP.

7 To carry out the work assigned to it by Congress and the POC through work proposal 004, the PSDEIG, chaired jointly by Australia and Romania, set up four expert teams:

- Rationalization and modernization of existing mandatory and optional services (led by New Zealand);
- IPP impact study (led by Romania);
- IPP product matrix (led by Canada);
- IPP update (led by Australia).

### *a Rationalization and modernization of existing mandatory and optional services*

8 This expert team was tasked with carrying out a thorough review of the current portfolio of UPU services, with recommendations to be made to the 2018 Extraordinary Congress. To this end, a survey on the rationalization and modernization of existing mandatory and optional supplementary services was conducted between 15 May and 15 June 2017. The response rate was 44%, i.e. 81 out of 192 member countries (see POC C 2 2017.2–Doc 2e).

9 The questions and issues relating to the above-mentioned recommendations from the supplementary services survey, as well as the product matrices approved by POC S2, were included in the IPP Step 2 impact study, referred to in the next paragraph.

### *b IPP impact study*

10 This expert team was tasked with carrying out, and analyzing the results of, an impact study that examined elements of the proposed fully integrated product matrices referred to in paragraph 11. The impact study contained a series of questions all directly related to recommendations made and approved following the analysis of the results of the review referred to in paragraph 8. The bulk of the recommendations can be found in

document POC C 2 2017.2–Doc 2e, with additional recommendations in POC C 2 2017.2–Doc 2c. The results of the impact study itself can be found in document POC C 2 PSDEIG 2018.1–Doc 4 (see POC C 2 2017.2–Doc 2d for more details on the work of the expert team). The response rate of the Step 2 impact study survey was 59%, i.e. 113 out of 192 member countries.

*c IPP product matrix*

11 This expert team was tasked with developing the proposed fully integrated product matrices in line with market and customer requirements, as well as with the product integration principles and objectives detailed in the IPP. The development work consisted of two distinct stages as follows:

- i First of all, the expert team used recommendations stemming from the survey on mandatory and optional supplementary services to draft integrated product matrices, which were then submitted to and approved by POC S2 (see POC C 2 2017.2–Doc 2c) in October 2017.
- ii Following on from this and using the POC S2–approved matrices as the basis of their continuing development work, the expert team took the results of the IPP Step 2 impact study and incorporated them into final versions of the matrices, which were subsequently presented to and approved by POC S3 (see document POC C 2 2018.1–Doc 2b).

*d IPP update*

12 This expert team was tasked with drafting the present document (Congress–Doc 8), which is an updated version of the IPP (including recommendations relating to remuneration, EAD and supplementary services), for submission to the Extraordinary Congress. One of the main aims of the current document is to seek approval with respect to the implementation dates of IPP Step 2 (see paragraph 12 of Congress–Doc 8 for an explanation of the two options proposed).

## Overview of existing UPU remuneration systems

### *Introduction*

This note provides an overview of how the terminal dues, inward land rates and EMS remuneration systems evolved independently from each other over time.

This note describes only the current situation; it does not describe any proposal.

### *Terminal dues*

The purpose of the UPU terminal dues (TD) system is to compensate destination countries for the cost of handling, transporting and delivering letter-post items from abroad. Since the introduction of the TD system by the 1969 Tokyo Congress to compensate for imbalances in mail exchanges, much work has been done to improve it, with the focus shifting from imbalances to the coverage of costs incurred by international mail received.

From 1 January 1971 to 31 December 1990, TD was a uniform weight-based remuneration system. Terminal dues payments were made as compensation for handling and delivering net surplus volumes on imbalanced exchanges between any two designated operators (DOs). An important deficit of the system was the misalignment between the global terminal dues rates and the actual costs for handling, transporting and delivering letter-post items, which could vary significantly between countries.

The 1989 Washington Congress departed from the global approach and introduced two regimes: a base terminal dues kilogramme rate which applied to most of the DOs, and a uniform linear rate system based on item and weight components for cases where the correction mechanism is applied for high-volume mail flows (above 150 tonnes). Despite the various improvements to the terminal dues system in 1989, the terminal dues system continued to apply uniform rates that did not properly reflect the cost structures of the individual DOs. This issue was addressed for the first time by the 1994 Seoul Congress, which established a system of country-specific cost-based terminal dues for bulk mail by linking the terminal dues to the prices customers pay in the country of delivery.

The 1999 Beijing Congress created a system which bore a certain resemblance to the target system and transitional system later created by the 2008 Congress held in Geneva. The terminal dues system came to be based on the classification of countries as "industrialized" or "developing". The rates applicable to exchange to, from and between developing countries were considered transitional arrangements, eventually moving towards the country-specific payment system applied to exchanges between industrialized countries. Based on the principle of gradual transition of all countries to the target system, more and more countries joined the target system in the years that followed:

*Table 1: Transition to the target system*

	<i>Target system</i>	<i>Transitional system</i>
From 1999	Industrialized countries	Developing countries
From 2010	Former groups 1.1 and 1.2	Former groups 2, 3, 4 and 5
From 2012	Former groups 1.1, 1.2 and 2	Former groups 3, 4 and 5
2018 <sup>1</sup>	Groups I, II and III	Group IV

<sup>1</sup> The 2016 Congress merged former groups 1.2 and 2 into new group II and former groups 4 and 5 into new group IV.

The 1999 Congress also established the provision that per item and per kilogramme terminal dues rates for exchanges between industrialized countries should reflect the handling costs in the country of destination by means of a cost-to-tariff ratio of 60% of the domestic priority rates, subject to cap and floor rates. Developing countries could invoke the revision mechanism on their flows above 150 tonnes per year. Mail flows from industrialized countries to developing countries became subject to an increase of 7.5% which was assigned to a fund to improve quality of service in developing countries (the Quality of Service Fund).

The 2002 POC introduced the quality-linked terminal dues system (QS Link) between industrialized countries from 1 January 2005. Countries participating in the QS Link system received a terminal dues increase for their participation in the system and for achieving their target. A penalty applied in cases where the target was not achieved. The 2004 Bucharest Congress decided that, for exchanges between industrialized countries, the percentage of the domestic 20-gramme priority letter tariff to be used as the basis for terminal dues in the target system should gradually rise from 60% in 2006 to 68% by 2009, subject to cap and floor rates applied to annual increases.

The 2008 Congress established the country classification system for terminal dues purposes which, following amendments by the subsequent 2012 Doha and 2016 Istanbul Congresses, continues to apply until 2021. The classification system combines a methodology based on postal development indicators and a hierarchical approach, resulting in a comparative classification of countries and territories into five groups. Special consideration was given to countries classified as least developed countries by the United Nations Economic and Social Council, while the status of small-island developing states and landlocked developing countries was also taken into account. For countries in the target system prior to 2010, the cost-to-tariff percentage was increased to 70% from 2010. VAT and other taxes were gradually excluded from the tariffs used for the calculation of terminal dues. Countries from former groups 1.2 and 2 moved to the target system in 2010 and 2012, respectively.

The 2008 Congress further increased the additional payments for registered and insured services and agreed that remuneration for such items could be further increased through supplementary remuneration for providing additional service features. As a consequence of this decision, the UPU supplementary remuneration programme was implemented in 2011, introducing a supplementary payment of 0.5 SDR which the destination DO could receive if it ensured the timely transmission of relevant item-tracking data. The performance of individual participating DOs is reported, and once the minimum performance criteria for the transmission of inbound and delivery tracking events have been achieved, the per-item increase applies. Participation in this programme rose from 36 DOs in 2011 to 92 by the end of 2017.

The 2012 Congress based the calculation of the country-specific terminal dues rates in the target system for the first time on two domestic tariffs, for formats P (small letters) and G (large letters) at the weight of 20 grammes and 175 grammes respectively. The separation of mail into three formats (P, G and E) became mandatory for exchanges between countries and territories in former group 1.1. The separation of mail into two formats (P/G and E) became mandatory on all other exchanges within the target system (i.e. exchanges to, from and between DOs in former groups 1.2 and 2 of the classification system).

The 2016 Congress decided that, from January 2018, bulky letters (E) and small packets (E) would be compensated differently from letter-post formats P (small letters) and G (large letters). Countries and territories in group III of the terminal dues classification system moved to the target system with effect from 1 January 2018. From that date, the terminal dues rates of DOs from 115 countries and territories in the target system are based on the domestic charges of 20 grammes (P) and 175 grammes (G) notified to the International Bureau (IB) every year.

*Table 2: Countries subject to the requirements to notify their domestic charges for terminal dues purposes*

Year	Items	Groups of the TD classification system			
		Group I	Group II <sup>2</sup>	Group III	Group IV <sup>2</sup>
2006 (41 countries and territories)	20 g	41			
	175 g				

<sup>2</sup> Groups II and IV combine former groups 1.2 and 2, and groups 4 and 5, respectively. (Thirteen countries and territories from former group 1.2 joined the target system in 2010, and 22 countries and territories from former group 2 joined the target system in 2012.)

Year	Items	Groups of the TD classification system			
		Group I	Group II <sup>3</sup>	Group III	Group IV
2010 (54 countries and territories)	20 g	41	13		
	175 g				
2014 (76 countries and territories)	20 g	41	35		
	175 g				
2018 (115 countries and territories)	20 g	41	35	39	
	175 g				

Since 1 January 2018, the content, followed by the format, is the determinant criterion used to assign the corresponding remuneration of a letter-post item. This means that letter-post items that would ordinarily fall within the small-letter (P) and large-letter (G) formats will be remunerated as small packets (E) if they contain goods. As a result, a letter-post item can be classified into four different categories:

- Small letters (P): items containing documents only, with minimum dimensions of 90 x 140 mm, maximum dimensions of 165 x 245 mm, a maximum weight of 100 g, and a maximum thickness of 5 mm.
- Large letters (G): items containing documents only that cannot be classified as small letters and with minimum dimensions of 90 x 140 mm, maximum dimensions of 305 x 381 mm, a maximum weight of 500 g, and a maximum thickness of 20 mm.
- Bulky letters (E): items containing documents only that are classified neither as small letters nor as large letters, with minimum dimensions of 90 x 140 mm; maximum dimensions of 900 mm for length, width and depth combined, with the greatest dimension not exceeding 600 mm; and a maximum weight of 2 kg.
- Small packets (E): letter-post items containing goods. The applicable size and weight limits are the same as those for bulky letters (E).

Although terminal dues rates in the target system are based on domestic tariffs, they are subject to minimum (floor) rates and maximum (cap) rates which are defined in the Convention. By 2021, the floor rates and cap rates of groups I, II and III have been harmonized, with the exception of the P/G format cap rates.

*Table 3: Terminal dues cap revenue of 255 g registered small-packet (E) item including tracking (mail flows between countries in group I)*

Year	Cap rates bulky letters (E) and small packets			
	Base revenue <sup>4</sup>	Registered	Tracking (SRP)	Total revenue
2009	0.729 SDR	0.500 SDR	–	1.229 SDR
2013	0.853 SDR	0.600 SDR	0.50 SDR	1.953 SDR
2017	0.960 SDR	0.670 SDR	0.50 SDR	2.130 SDR
2021	1.211 SDR	1.400 SDR	0.50 SDR	3.111 SDR

In 2018, countries in the target system pay country-specific item and kilogramme rates for letter-post items according to the classification of letter-post items by format and content and based on the domestic tariffs of the country of destination, which are subject to caps and floors. Currently, countries in groups I, II and III of the country classification system are part of this system. As part of the target system, terminal dues will reflect quality of service in destination countries, in terms of whether they meet quality of service delivery standards and targets.

<sup>3</sup> Groups II and IV combine former groups 1.2 and 2, and groups 4 and 5, respectively. (Thirteen countries and territories from former group 1.2 joined the target system in 2010, and 22 countries and territories from former group 2 joined the target system in 2012.)

<sup>4</sup> These rates do not include quality-linked increases.

### *Inward land rates*

Payments between DOs for handling and delivering parcel post are referred to as inward land rates (ILRs). The current base rate system consists of two components: a rate component and a bonus component. The bonus component was introduced in 2006 as a pay-for-performance system for setting ILRs, in order to provide DOs with an incentive for improving their parcel processing and delivery procedures.

Prior to January 2006, ILRs were set by DOs in accordance with the POC's recommendation that these rates should be based on DOs' domestic costs. As a result of extensive studies, and concern expressed about excessive ILRs, the 2004 Congress approved a proposal from the POC to introduce a new ILR system for parcels based on service features provided. The new method, which came into force on 1 January 2006, consisted of two parts: part I contained the level and calculation of ILRs for the period 2004–2006 and beyond; and part II introduced a bonus payments system based on service features provided, approved by the POC during its 2005 session.

The current rates structure and bonus payment system are outlined in the Regulations, under which the ILR base rate is set at 71.4% of each DO's ILRs for 2004, and is composed of a per-item and a per-kilogramme rate. DOs are also eligible for bonus payments worth up to an additional 40% (of the base rate) on the basis of the provision of service features defined in the Regulations. In addition, DOs can request adjustments to their ILRs on the basis of inflation variation recorded by their country's consumer price index, limited to a maximum of 5% annually. A floor rate was introduced to protect 44 DOs from the application of a low ILR base rate. The floor rate, or minimum parcel rate, is set at 4.25 SDR for a 5-kilogramme parcel based on a 2.85 SDR item rate and a 0.28 SDR kilogramme rate.

The current system effectively caps rates, as 2004 rates form the basis of the remuneration system, and ILRs can only change by the inflation variation. The maximum inflation adjustment that can be claimed cannot exceed 5% per 12-month period. Air parcels can be subject to higher inward land rates, as it was decided in 2008 to integrate the internal air conveyance dues into the inward land rates for parcels to avoid separate accounting. The components of the bonus system change over time, as agreed by the POC.

The 2008 Congress tasked the POC with reviewing the basis of the ILRs and the payment structure as outlined in the general programme of activities of the Nairobi Postal Strategy (2009–2012). Based on the need to better understand the relationship between the inward land rates, market competitiveness and customer needs, an external consultant, Swiss Economics, reviewed the base ILR system and recommended various options, four of which were ultimately explored further:

- Retention of the current system;
- Application of self-declared rates, i.e. commercial rates, whereby each country would advertise its own inward land rates (system prior to 2005);
- Readjustment of base rate/improvement of bonus system;
- Introduction of a domestic retail method, with ILRs based on domestic retail prices for parcels multiplied by a factor smaller than 1 (mark down), to provide some conformity with the target TD system, which uses domestic charges as a proxy for average costs of handling and delivering letter-post items.

It was ultimately decided to retain the existing system, although modifications were considered by the POC in the previous cycle. In 2013, the Parcels Interim Working Group proposed an alteration of the base rate to 66.7% of the total ILR, with an increase in the total amount of bonus payments from 40% to 50% of the base rate, in order to compensate for the reductions in the base rates. An impact study carried out by the IB in 2014 revealed that the ILRs of 160 DOs would be adjusted downwards as a result of the change to the ratio adjustment. The strongest negative impact would be felt by those DOs that achieved few bonuses, or no bonuses at all. On the basis of the impact study it was decided not to change the base rate and total bonus percentage, as the guaranteed base rate is an important source for investment in the postal infrastructure of developing countries, and to focus on strengthening service performance, in particular by making ILR bonus payments subject to on-time delivery performance.

Significant improvements have been made to the parcels service over the last eight years. In part, this is due to the incentives for service improvement that the bonus system rewards. The bonus component currently applies to destination DOs. It rewards track-and-trace services, home delivery, provision of information about delivery standards, and usage of the common Internet-Based Inquiry System. Three mandatory provisions are

also included, which must be satisfied if DOs are to be eligible to participate in the bonus system: i) mandatory application of the UPU S10 standard barcode on all outbound parcels; ii) acceptance of liability; and iii) updated service-feature information provided by DOs for the Parcel Post Compendium Online.

In reviewing the bonus component of the ILR system, the Swiss Economics report noted that one of the most important quality factors – on-time performance – was not being given sufficient consideration, as DOs only had to provide information about their delivery standards and an indicative average customs clearance time to qualify for the bonus payment for delivery standards. Hence, on-time performance is not defined as a performance goal and is not rewarded, contrary to the quality-linked terminal dues system.

The main component of the ILR bonus payment system concerns service feature 1, which rewards DOs with a maximum of 25 bonus points for the timely transmission of track-and-trace information. Over the years, the minimum performance requirements to qualify for the ILR bonus payments have been increased, in particular for the transmission of tracking data events as well as compliance with the average response time requirements to qualify for the IBIS bonus payments (service feature 4). The requirements to achieve bonus payments in relation to service features 2 and 3, respectively for home delivery and the provision of information about delivery standards, have remained mostly static since their introduction in 2006.

#### *ECOMPRO parcel remuneration*

In response to POC resolution CEP 1/2014.1 on accelerated actions to facilitate the development of e-commerce, the POC started work on the development of principles for a market-oriented remuneration model for parcel-post items under the e-commerce delivery category (ECOMPRO) in 2014, based on the following principles:

- Multilateral rate agreement, simple, easy and fast to implement;
- Transparent base and bonus rates, collected and published by the IB;
- Cost coverage through country-specific, self-declared base rates;
- Built upon the existing ILR structure (rate per item and rate per kilogramme);
- Base rates and bonus scheme supportive of a competitive service.

As ECOMPRO parcels were initially subject to the ILR regime, the country-specific ILRs functioned as a cap on the respective individual countries' ECOMPRO rates until the 2016 Congress separated ECOMPRO parcels from the ILR regime by amending article 32 of the UPU Convention.

As a consequence of the Congress decision, the ECOMPRO rates became self-declared from 1 January 2018 without a corresponding pay-for-performance or bonus system to reward service features and/or quality of service. The self-declared rates are published by the IB every September prior to the year in which they take effect.

#### *EMS*

Provisions on remuneration of EMS items are provided in the EMS Standard Multilateral Agreement, which includes a provision in article 18 that "each Delivery Operator shall establish a delivery payment system (based on net imbalance of EMS traffic), and shall publish a unique rate for EMS items (or separate unique rates according to category for documents and merchandise respectively) which shall correspond to the costs of the service and to the principles adopted by the EMS Cooperative as the basis for inter-operator charging".

Although EMS rates are self-declared, the POC's EMS Cooperative sets guidelines for remuneration, which aim to ensure customer value for money, competitive selling prices and the implementation of enhanced service features, for example through the EMS Pay-for-Performance system, which links payment for delivery of EMS items to the quality of service performed.



## Overview of the UPU supplementary remuneration programme (SRP)

### Introduction

This is a technical note on the current supplementary remuneration programme for additional service features, including the minimum performance thresholds to qualify for the supplementary remuneration. The purpose of this overview is to provide context and clarity on how the additional service features for supplementary services are currently remunerated.

This note describes only the current situation; it does not describe any proposal.

### General overview

The current product specifications for registered, insured and tracked services are described in article 18 of the Convention (Supplementary services), and in articles 18-101, 18-001 and 18-102 of the Convention Regulations. The registered and tracked services are also subject to the mandatory use of barcodes on all outbound items. The requirements for proper barcoding of all letter-post items are contained in article 17-130 of the Regulations. The remuneration supplements associated with the provision of the current registered and insured services are included in article 28.8 of the Convention.

In addition to the service features and remuneration described above, in 2010 the POC introduced additional service features for registered, insured and tracked items against a corresponding terminal dues supplement, provided that a minimum level of service quality is met. The service features consist of an exchange of electronic scanning (tracking) information between designated operators of origin and destination.

In 2020 and 2021, the remuneration of registered, insured and tracked items builds up as shown below:

SDR ↑	<b>Supplementary remuneration</b> 0.50 SDR per qualifying item (optional)	<b>Supplementary remuneration</b> 0.50 SDR per qualifying item (optional)	<b>Supplementary remuneration</b> 0.73 SDR (2020) and 0.75 SDR (2021) per qualifying item ( <u>mandatory</u> )
	<b>Surcharge</b> Convention art. 28.8 1.30 SDR (2020) 1.40 SDR (2021)	<b>Surcharge</b> Convention art. 28.8 1.60 SDR (2020) 1.70 SDR (2021)	<i>No surcharge</i>
	<b>Base terminal dues</b> Convention art. 29 and 30	<b>Base terminal dues</b> Convention art. 29 and 30	<b>Base terminal dues</b> Convention art. 29 and 30
	<i>Registered service<sup>1</sup></i>	<i>Insured service<sup>2</sup></i>	<i>Tracked service<sup>2</sup></i>

<sup>1</sup> Registered service is a mandatory supplementary service in the period of validity of the Istanbul Acts (2018–2021).

<sup>2</sup> Insured service and tracked service are both optional supplementary services in the Istanbul Acts period (2018–2021) – those DOs opting to provide the tracked service are required to exchange electronic tracking information, as this is a mandatory service feature of the tracked service. The exchange of electronic tracking information remains optional for the insured service.

### *Base terminal dues*

The base terminal dues remuneration for flows between countries in the target system is subject to the provisions of article 29 of the UPU Convention. The terminal dues remuneration concerning flows to, from and between countries in the transitional system (i.e. countries in group IV) is based on the conditions defined in article 30 of the Convention. In accordance with article 17-116 of the Regulations, the base terminal dues rates for registered, insured and tracked items are those of bulky letters (E) and small packets (E), regardless of the shape of the item. In 2020, the remuneration will be adjusted to reflect quality of service for all flows, including those to, from and between countries in group IV, with the exception of those designated operators requesting an exemption to the payment of quality-linked terminal dues on the basis of article 30-109.3 of the Regulations.

### *Surcharges*

Convention article 28.8 defines the surcharges for registered and insured items for each year of the Istanbul Acts period. The remuneration in the Convention compensates for the costs of the provision of the mandatory service features as specified in articles 18-101 and 18-001 for registered and insured items, respectively. No surcharges are defined for tracked items. Table 1 provides a complete overview of the surcharges in the Convention for all supplementary services in the 2018–2021 period.

*Table 1: Surcharges for supplementary services in the UPU Convention*

<i>Supplementary service</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>
Registered items	1.100 SDR	1.200 SDR	1.300 SDR	1.400 SDR
Insured items	1.400 SDR	1.500 SDR	1.600 SDR	1.700 SDR
Tracked items	N/A	N/A	N/A	N/A

### *Supplementary remuneration for additional service features*

The UPU supplementary remuneration programme (SRP) was implemented in 2011, introducing a supplementary payment of 0.5 SDR which the destination DO could receive if it ensured the timely transmission of relevant item-tracking data. The performance of individual participating DOs is reported, and once the minimum performance criteria for the transmission of inbound and delivery tracking events have been achieved, the per-item increase applies.

The 2016 Congress made the exchange of tracking information a mandatory service feature, though the tracked service remained an optional service. The terminal dues supplement associated with this service feature increased from 0.50 SDR per qualifying item to 0.69 SDR in 2018, 0.71 SDR in 2019, 0.73 SDR in 2020 and 0.75 SDR in 2021 for each qualifying item.

Article 30-104 of the UPU Regulations allows designated operators to offer, in their relations with each other, additional service features for registered, insured or tracked items, with the offering of these features linked to a remuneration supplement, provided that a minimum level of quality of service is obtained. The service features, as detailed below, are associated with the collection and exchange of electronic scan data.

Participating designated operators collect and exchange electronic tracking information on their outbound and inbound service for any of the three supplementary services (registered, insured or tracked items), and are expected to provide this information on a timely basis.

Table 2: Supplementary remuneration for additional service features

Service element		Minimum performance requirements
Use of S10 barcode for item sender		Participating designated operators shall apply a barcoded identifier compliant with UPU Technical Standard S10 on their outward items.
Performance thresholds	Provision of outward tracking events (EMC)	For each flow, to qualify for supplementary remuneration from the designated operator in the country of origin, a designated operator must provide at least one S10-compliant outbound scan (EMC) to the same partner designated operator in the reverse flow.
	Provision of inward tracking events (EMD, EMH and EMI)	<p>The performance of electronic transmission of information for inward items is based on all EMC (departure from the OE of origin) information transmitted to the designated operator of destination.</p> <p>The designated operator of destination shall observe <u>both</u> of the following targets to qualify for supplementary remuneration:</p> <p>a 56% of all items having received an EMC event shall have an EMD event transmitted within 72 hours of the event time and date;</p> <p>b 56% of all items having received an EMD event shall have either or both an EMH (unsuccessful delivery attempt) and EMI (final delivery) event, each transmitted within 120 hours of the event time and date.</p>
Assessment		The designated operator of destination receives supplementary remuneration only if all of the above criteria have been met. This assessment is carried out for each flow and each service (registered, insured and/or tracked) separately.
Supplementary remuneration	Qualifying items	<p>Subject to the outcome of the assessment that the designated operator meets all of the performance thresholds above, the total number of qualifying items are determined for each flow.</p> <p>For each flow and each category (registered, insured and/or tracked), the total number of inward items having both EMD and EMH and/or EMI events transmitted within their respective time limits (EMD transmitted within 72 hours, EMH and EMI transmitted within 120 hours) qualify for supplementary remuneration, regardless of whether these items have C events transmitted. Consequently, the number of qualifying items can be higher than the number of items which have EMC event information transmitted.</p>
	Rate per item	<p>Supplementary remuneration is as follows:</p> <ul style="list-style-type: none"> <li>– 0.50 SDR for each qualifying registered and insured item (2018–2021);</li> <li>– 0.69 SDR in 2018, 0.71 SDR in 2019, 0.73 SDR in 2020 and 0.75 SDR in 2021 for each qualifying tracked item.</li> </ul>
	Supplementary remuneration	<p>If a designated operator meets the minimum performance thresholds, then the total amount of supplementary remuneration receivable from the designated operator of origin is determined as follows:</p> <p>Supplementary remuneration = Number of qualifying items * Rate per item</p>



## SECOND EXTRAORDINARY CONGRESS

### Explanatory information concerning Congress–Doc 8, proposal 20.18.1, and proposals 02 and 03

1 The purpose of this document is to provide clarity on the interrelation between Congress–Doc 8, proposal 20.18.1 (in relation to making the tracked delivery service mandatory), and proposals 02 and 03 (in relation to the implementation of the updated Integrated Product Plan (IPP)). It is important to note here that the only difference between proposals 02 and 03 is the suggested date of approval and implementation of the proposal to make the tracked delivery service mandatory.

2 Therefore, in response to questions from a number of member countries regarding the consequences of the adoption or rejection of proposal 20.18.1 and proposals 02 and 03, please note that there are three different choices, as set out below:

<i>Possible decision choices</i>	<i>Proposal references</i>	
	<i>Proposal 20.18.1 (in relation to making the tracked delivery service mandatory from 1 January 2020)</i>	<i>Proposal 02 and 03 (in relation to the implementation of the updated IPP)</i>
Choice 1: If a country supports the proposal to make the tracked delivery service mandatory from 1 January 2020 in line with IPP implementation Option A, <sup>1</sup> it may be appropriate to...	→ ... adopt proposal 20.18.1 and.....	→ ... adopt proposal 02. <b>N.B. – Proposal 03 would lapse.</b>
Choice 2: If a country does not support the proposal to make the tracked delivery service mandatory from 1 January 2020, but may support a deferred implementation date of 1 January 2022 in line with IPP implementation Option B, <sup>2</sup> it may be appropriate to...	→ ... reject proposal 20.18.1 given that the date of entry into force is 1 January 2020 and.....	→ adopt proposal 03, as it instructs the POC to submit a proposal for a mandatory tracked delivery service to the 2020 Congress for approval, with the suggested date of implementation set at 1 January 2022, if approved, in line with IPP implementation Option B. <b>N.B. – Proposal 02 would lapse.</b>
Choice 3: If a country does not support the proposal to make the tracked delivery service mandatory, it may be appropriate to...	→ ... reject proposal 20.18.1 and.....	→ adopt proposal 02, as it does not instruct the POC to submit a recommendation for a mandatory tracked delivery service to the 2020 Congress for approval. <b>N.B. – Proposal 03 would lapse.</b>

Berne, 13 August 2018

<sup>1</sup> See Congress–Doc 8, Part I, § 12, Option A.

<sup>2</sup> See Congress–Doc 8, Part I, § 12, Option B.