Terminal Dues: Winners, Losers, and Path to Reform

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Agenda

1. Introduction

- Common sense in most industrialized countries that postal tariffs should reflect the cost of postal delivery
- What about terminal dues compared to a cost-reflective tariff?
  - Some postal operators are underpaid for delivery of int'l inbound mail
  - Some postal operators are overpaid for delivery of int'l inbound mail
  - ➢ Terminal dues do not seem to be cost-reflective!
- Questions of our paper:
  - Which systems exist for terminal dues?
  - Who are the winners and who are the losers of such systems?
  - How to reform the existing system?

2. Terminal Dues Systems

1. UPU (Universal Postal Union)

- Terminal dues system for about 190 member countries
- Framework of the 2008 UPU terminal dues system (relevant for model):

Flows between target syst. countries	Flows from/to/betw. transitional ctry.
•Related to 66% of the domestic tariff for 20g priority letter •Floor rate: 0.158 per item and 1.598 per kg •Cap rate: 0.237 SDR per item and 1.858 SDR per kg	•Flat rate of 3.727 SDR per kg •Regardless of the number of postal items per kg

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2. REIMS (European terminal dues system)

- Agreement between European postal operators for charging int'l mail
- Framework of the REIMS II agreement (relevant for model as public information only on this agreement; following REIMS-agreements with a similar structure):

  - Priority letter post: 80% of the domestic tariff
  - Non-priority letter post: 10% below the rate for priority mail
  - Floor rate: 0.147 SDR per item and 1.491 per kg

- A lot of countries have terminated the REIMS agreement; further countries will terminate by the beginning of 2012

➢ Increasing importance of bilateral agreements

3. Terminal Dues Model: Framework & Premises

- Scope: Mail exchange between 34 OECD countries and non-OECD countries
- Global assumption:
  - OECD countries = Industrialized countries (ICs)
  - Non-OECD countries = Developing countries (DCs)
- Goal: Identification of ‘distortions’ between different terminal dues regimes
- Reference terminal dues regime: bulk domestic postage

3. Terminal Dues Model: Framework & Premises

Premise 1: Estimating bilateral mail flows

- UPU data 2007: total outbound volumes of each post office
- OECD statistics: bilateral trade in goods and services
- Intra-OECD outbound mail allocated according to bilateral trade data
- Further adjustments necessary to align outbound with inbound volumes
  - Total reported outbound volume < reported inbound volume
    → difference assumed to be remail ("unknown origin")
  - "Unknown origin mail" distributed to flows using shares of "known volumes"

3. Terminal Dues Model: Framework & Premises

Premise 2: Domestic postage rates

- Based on UPU tariff data base by weight step for 2008
- Assumptions on

	IC	DC
Rate for inbound priority mail	80%	100%
Rate for inbound non-priority mail	60%	80%
Share of non-priority mail	40%	60%

Premise 3: Profiles of outbound international mail

- Based on recent survey on profiles by UPU

Avg. weight per letter post item

ICs: 80.0 g (=12.50 IPK)

DCs: 75.5 g (=13.25 IPK)

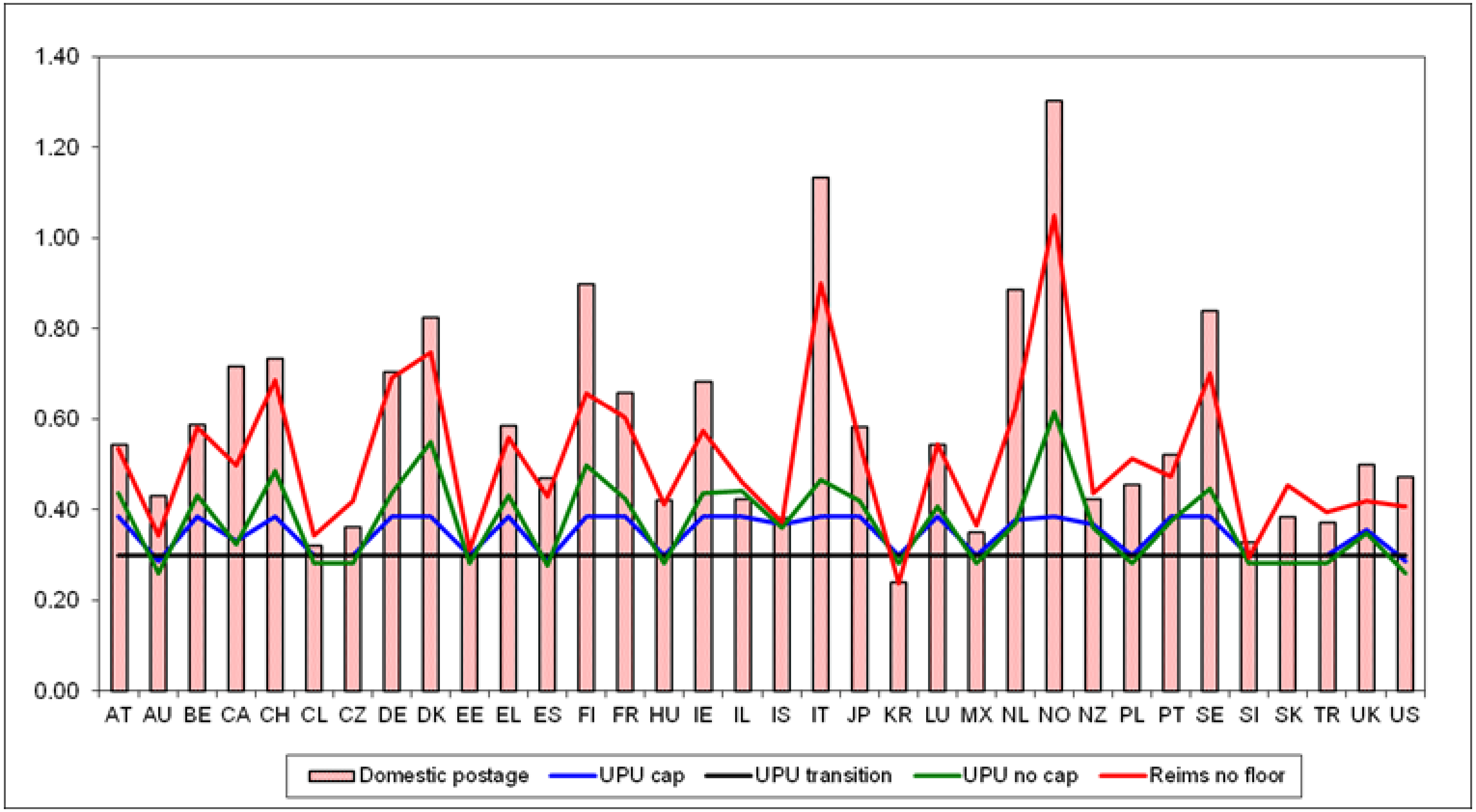
Volume distribution per format

ICs: 69.8% (P); 19.1% (G); 11.1% (E)

DCs: 71.6% (P); 18.2% (G); 10.2% (E)

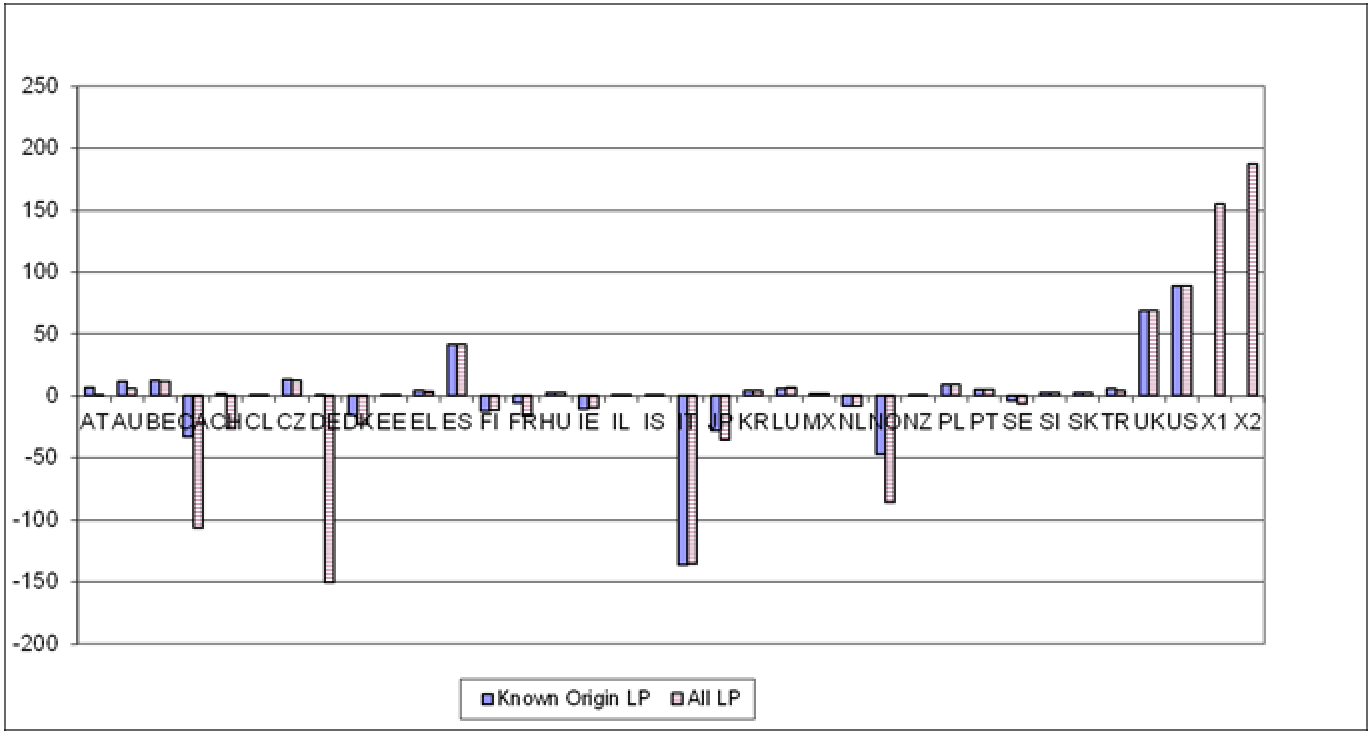
3. Terminal Dues Model: Framework & Premises

- Estimated terminal dues for typical inbound letter post item (IC) (SDR)



4. Terminal Dues Model: Who Wins, Who Loses?

- Intra-OECD net gains/losses (m SDR): UPU vs. domestic bulk rate



X1: "Unknown origin" volume dispatched from ICs
X2: "Unknown origin" volume dispatched from DCs

Winners: ES, US, UK	►	avg./low dom. rates and/or net exporters
Losers: CA, (DE), IT, JP, NL, NO	►	high dom. rates and/or net importers

Total distortion: 299-618m SDR

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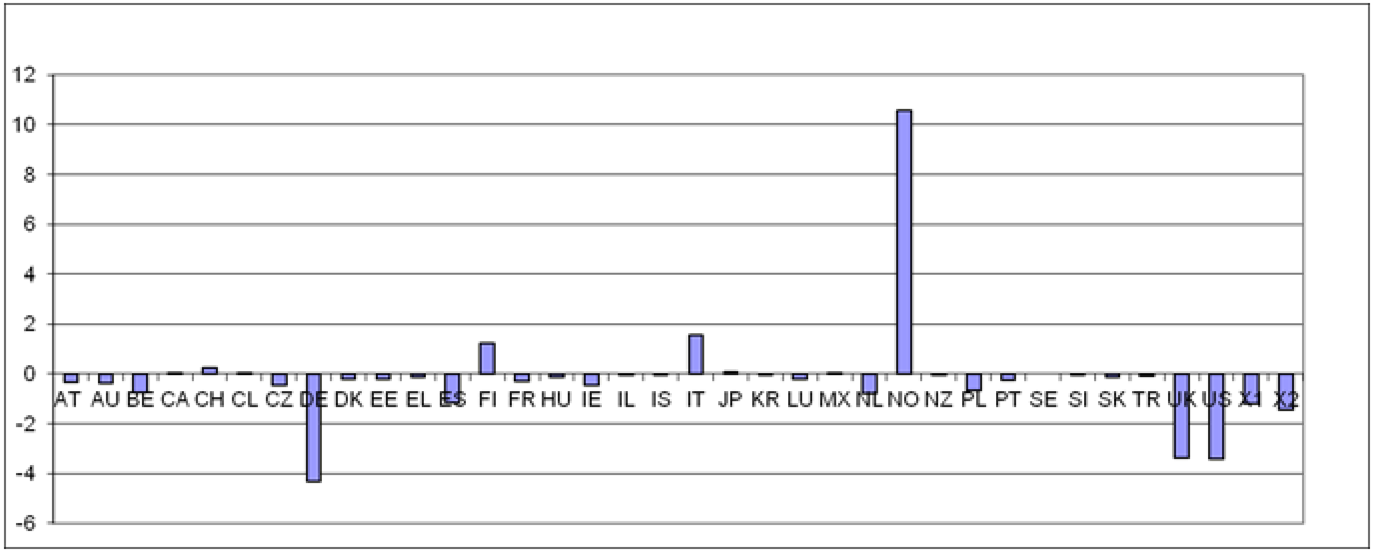
4. Terminal Dues Model: Who Wins, Who Loses?

- Net effect on Sweden Post (m SDR): UPU vs. domestic bulk rate (only known LP)



X1: “Unknown origin“ volume dispatched from ICs
X2: “Unknown origin“ volume dispatched from DCs

- Sweden Post: Net-loser (4.14 m SDR) under UPU terminal dues
- High loss caused by exchange with DE, UK, US
- High profit from exchange with other countries (NO!)

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4. Terminal Dues Model: Who Wins, Who Loses?

- Details of international bilateral exchanges of mail among post offices are hidden from public view (how much, under what agreement…?)
    - Model can only demonstrate basic effect of different terminal dues regimes
- General observation of terminal dues model:

- Winners: countries with average/low domestic postage rates and/or net exports
- Losers: countries with high domestic postage rates and/or net imports

5. Reforming UPU Terminal Dues

- Solution is long understood by policy makers
  - US Dept of Justice (1990: "terminal dues [that] differ from the actual cost of completing delivery ... have the potential to distort competition"
  - EU Commission (1992): "compensation charges between postal administrations ought to be based on the delivery proportion of the inland tariff."
  - UPU (1997): "rates of terminal dues which are not based on the internal tariffs or costs of delivery in the country of destination, create incentives for an economically wrong organization of cross-border transport networks and letter-post streams."
- Suggestion: Simplify political issues by dividing reform into 3 agreements
  a) Agreement on IC-IC terminal dues (OECD)
  b) Agreement on rebates for "social mail" sent by DCs to ICs
  c) Simplified agreement for DC-DC traffic

5. Reforming UPU Terminal Dues

a) *Agreement on IC-IC terminal dues*

- Common interest in liberal trade in postal and delivery services
- Favorable balance among small number of winners and losers
- National competition and postal laws generally favor reform
- Elements of agreement:
  - Grant foreign USPs and mailers non-discriminatory access to government ensured services on the same terms as available to national residents;
  - Require USPs to provide, for primary universal services, simplified tariffs that are aligned to domestic tariffs;
  - Allow USPs to adjust tariffs and adopt bilateral agreements where cost-justified and transparent;
  - Ensure compliance impartial and effective regulatory authority

5. Reforming UPU Terminal Dues

b) *Agreement on terminal dues rebates for "social mail" sent by DCs to ICs*

- Consensus on continuation of subsidies for social mail while preventing abuse by IC mailers and post offices
- Shift enforcement from destination IC post office to origin DC govt
    - DCs to pay normal TDs for all mail sent to ICs
    - IC govts provide rebates I
    - More flexible: ICs can focus on most deserving DCs.

c) *Agreement establishing a simple classification of DC post offices based on the domestic postage rates*

- Neither one single TD rate (current system) nor 157 domestic postage rates makes sense.

6. Conclusions

- UPU system favours countries with low/average domestic rates and/or net exports over countries with high domestic postage rates and/or net imports
- Among OECD countries (ICs), overall distortion equal to 40% of the market

➢ Reforming option 1 (for flows IC←→IC):
Countries should give mailers of other countries non-discriminatory access to their domestic postage rates

➢ Reforming option 2 (for flows DC→IC):
Rebates for terminal dues for “social” mail sent by DCs

➢ Reforming option 3 (for flows IC→DC):
Developing a simple set of terminal dues groups based on domestic postage rates (incl. allowances for subsidies by national governments, if any)