TERMINAL DUES SYSTEM

Joint Council of Administration and Postal Operations Council report

1 Subject	**References/paragraphs**
Presentation to Congress of the report on the results of the terminal dues work done by the CA and the POC.	§§ 1 to 47 Annexes 1 and 2
2 Decisions expected	
Take note of the document, which contains:	§§ 1 to 47
– a proposal on the terminal dues system;	§§ 20 to 37
– a country classification methodology;	Annex 1
– data requirements and business rules for filling data gaps.	Annex 2

I. Introduction

1 The 2004 Bucharest Congress laid down the framework for a target terminal dues system which all countries were to join by the end of 2013. In particular, resolution C 46/2004 instructed the Council of Administration (CA) to ensure a gradual transition to a country-specific terminal dues system between 2010 and 2013. The Postal Operations Council (POC) was instructed to develop methodologies for converting domestic tariffs or costs into terminal dues rates, consistent with the principles established by the CA.

2 In resolutions C 12/2004 and C 13/2004, the CA was instructed to follow the development of the classification used by the UNDP and other international organizations, as well as developments in the postal environment, and to submit revised classification lists stemming from its work, for approval by the 24th Congress.

II. Organization of terminal dues work

3 To carry out the tasks assigned to them by the Congress, the CA and the POC respectively created:

– the CA Terminal Dues Governance Issues Project Group under CA Committee 2 (CA TD PG), chaired by Barbados;

– the POC Terminal Dues Project Group, under POC Committee 2 (POC TD PG) chaired by Switzerland (Vice-chair Canada). The work was further assigned to three project teams:

- Terminal Dues Model Project Team (PT 1), co-chaired by Belgium and Morocco;

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- Statistics and Accounting Project Team (PT 2), co-chaired by the United States and Malaysia;
- Quality of Service Link Project Team (PT 3), co-chaired by Finland and Brazil.

III. Summary of the work of the CA Terminal Dues Project Group

4 The work of the CA Terminal Dues Project Group focused on establishing an adequate methodology for the classification of countries, consistent with the requirements of resolutions C 12/2004 and C 13/2004.

5 The methodology proposed for the classification of countries consisted in combining the postal development indicator (PDI) and the hierarchical approach (comparative classification).

6 The PDI comprises a macroeconomic component (GNI per capita), with a weight of 75%, and a postal-specific component (normal unit cost per letter based on full-time staff), with a weight of 25%.

7 With the hierarchical approach, countries are listed in five groups. Group 1 contains current ICs and current DCs with a level of development similar to that of ICs. Group 5 contains current LDCs. The PDI values are used to define countries in groups 2, 3 and 4. Domestic tariffs are used as a second criterion for defining group 2.

8 Special consideration was given to countries classified as small island developing states by the United Nations ECOSOC and landlocked developing countries in similar circumstances.

IV. Summary of the work of the POC Terminal Dues Project Group

a POC TD PG Project Team 1– Terminal Dues Model

9 The work of PT 1 was intended to develop a model for the future terminal dues system, based on a number of studies, whose results were as follows:

– Tariff database: a database with information on domestic priority tariffs of member countries was developed. The tariff data, a key factor of the new terminal dues system, will need to be continually updated to be used in calculating rates.

– Flow volumes: flow data collected by the International Bureau from 98 countries were used to simulate the regional impacts of the alternative terminal dues calculation methods examined.

– IPKs: the new worldwide IPK value, to be used during the next cycle for calculating terminal dues rates, is 14.64 items per kilogramme.

– Cost studies: the very limited number of replies (23) led the TD PG to focus work on tariffs as a means of setting terminal dues rates.

10 Terminal dues rates calculation methodology – Two alternative solutions for converting domestic tariffs into terminal dues rates were considered: method A, the current methodology, using the 20 g domestic tariff, and method B using the 20 g domestic tariff and a 68.3 g average tariff (the value calculated as the weighted average of 15 domestic tariff weight steps).

11 Terminal dues policy – The approach followed for achieving the objectives set by resolution C 46/2004, taking into account the conditions endorsed and ranked by the 2006 CA and the 2007 POC, can be summarized as follows:

– a gradual movement towards the final target system, with a view to ensuring the affordability of the universal service obligation (USO) and the competitiveness of the UPU postal administrations;

- gradual movement towards better cost recovery through the application of maximum increases in the terminal dues rates (caps);
- control the impact on and protection of revenues for transition countries through the application of higher minimum rates (floors).

12 The implications of the proposed terminal dues system and the WTO rules were also considered. The results of a study on the implications of the WTO rules for UPU member countries were submitted to the CA. During development of the new terminal dues system, due consideration was given to the requirement that the system's provisions should apply equally to all member countries.

13 Direct access – A number of initiatives were undertaken to support the development of direct access and increase awareness among members. As the basic principles to be applied, each designated operator will make domestic services available to other designated operators on terms and conditions offered to its domestic customers. New target countries may opt to offer direct access on a reciprocal basis. Transition countries may opt to offer it on a trial basis.

b POC TD PG Project Team 2 – Statistics and Accounting

14 The Statistics and Accounting Guide was updated and placed on the UPU website. PT 2 organized presentations on the terminal dues system and accounting that were given at nine different regional seminars in 2005 and 2006.

15 The IC–IC IPK value was changed to reflect the decrease in the average IPK from 14.84 to 13.84 (resolution CEP 7/2007), on the basis of IPK and flow volume studies.

16 PT 2 recommended that the sampling threshold for the revision mechanism should be reduced from 100 to 75 tonnes for the period 2010–2013.

17 A process was established to be used as part of article RL 215 of the Letter Post Regulations for provisional and final payment of quality-linked terminal dues rates.

18 Using data derived from the studies, particularly flow volume and staff cost rates, a new model was developed in 2007 to measure the cost-benefit relationship for sampling and was made available to countries.

c POC TD PG Project Team 3 – Quality of Service Link

19 PT 3 worked on the future link between terminal dues rates and quality of service. In order to facilitate efforts to improve quality of service for letter mail worldwide, PT 3 recommended that the quality of service-linked terminal dues system should be retained, improved and expanded. The results are summarized below as part of the proposed new terminal dues system.

V. Proposal for a global terminal dues system

20 The global terminal dues system will comprise a target system to be applied to flows exchanged between target countries (current and new) and a transition system to be applied to flows to, from and between transition countries.

Target system

21 Payments are established on the basis of the application of a rate per kilogramme and a rate per item. These rates will be adjusted according to the quality of service performance by applying the rules described in §§ 30 to 33 below.

22 Terminal dues rates are calculated on the basis of a percentage of the 20 g domestic priority letter tariff, as follows:

- For countries in the target system prior to 2010, the applicable percentage is 70% for 2010 and 2011. Yearly maximum and minimum rates are applied, resulting from an increase of 4% and 2.4% respectively in the 2009 maximum and minimum rates. The rates, before application of the quality of service link, cannot be lower than the rates applicable in 2009. These rates are:
  - Maximum rates:
    - 0.253 SDR per item + 1.980 SDR per kg for 2010
    - 0.263 SDR per item + 2.059 SDR per kg for 2011
    - 0.274 SDR per item + 2.141 SDR per kg for 2012
    - 0.285 SDR per item + 2.227 SDR per kg for 2013
  - Minimum rates:
    - 0.165 SDR per item + 1.669 SDR per kg for 2010
    - 0.169 SDR per item + 1.709 SDR per kg for 2011
    - 0.173 SDR per item + 1.750 SDR per kg for 2012
    - 0.177 SDR per item + 1.792 SDR per kg for 2013
- For countries joining the target system after 2010, the applicable percentage is 100%. The rates result from a 2.8% yearly increase starting from 2009, as follows:
  - 0.155 SDR per item + 1.562 SDR per kg for 2010
  - 0.159 SDR per item + 1.610 SDR per kg for 2011
  - 0.164 SDR per item + 1.648 SDR per kg for 2012
  - 0.168 SDR per item + 1.702 SDR per kg for 2013

23 VAT and other taxes shall be gradually excluded from the tariffs used for the calculation of terminal dues. Fifty percent of these taxes will be excluded from tariffs used in 2010 and 2011, and 100% in 2012 and 2013.[1]

Transition system

[1] The principle of excluding VAT from the domestic terminal dues rates was approved by the TD PG (POC TD PG 2007.1–Doc 4, section VIII). The relevant part of the report from PT1 to the 2006.2 TD PG reads "PT 1 has already approved the gradual exclusion of VAT from the calculation of terminal dues as of 2010 and the use of net tariffs only."
The relevant sentences in the TD PG report from its October 2006 meeting read: "According to the interim results of the study on value-added tax (VAT), VAT and similar taxes should be excluded from tariffs and the phasing out should start in the next cycle after 2010" (POC C 2 2007–Doc 2.Add1, paragraph 14).
The relevant sentence in the TD PG report to POC/C 2 from its April 2007 meeting reads: "Concerning value added tax (VAT), the TD PG decided to take into consideration net tariffs only for the calculation of terminal dues" (POC C 2 2007–Doc 2, section A ix);
POC Committee 2, in its report to the 2007 POC plenary, approved the TD PG recommendation (POC 2007–Doc 6b).
All rates and resulting impacts presented to countries during the CA and POC meetings, workshops and TD PG meetings, regional roundtables and the World Round Table, were based on domestic tariffs net of VAT.
However, in the drafting and review of terminal dues documents for the 2008 POC and CA sessions, specific mention of the exclusion of VAT from domestic tariffs was inadvertently omitted.
In order to correct this technical omission, the International Bureau, in preparing the final texts of CONGRÈS–Doc 19 and proposal 20.29.1, added the words "exclusive of VAT or other taxes" in paragraph 2 of article 29 and paragraph 22 of CONGRÈS–Doc 19.
Some countries objected to the changes made to CONGRÈS–Doc 19 and proposal 20.29.1, as not depicting what was decided by the CA and POC in January 2008.
Following a consultation between the chairmen of the CA, POC and TD PG, it was agreed to change the above-mentioned document and proposal as presented in CONGRÈS–Doc 19.Rev 1 and 20.29.1.Rev 1, in order to reflect the POC decision made in April 2007.

24 Payments are established, without reference to domestic tariffs, on the basis of a yearly increase of 2.8% applied to the adjusted 2009 rates, using the worldwide average of 14.64 items per kilogramme. The rates applicable are as follows:

– Above 100 tonnes, following the application of the revision mechanism:
  - 0.155 SDR per item + 1.562 SDR per kg for 2010
  - 0.159 SDR per item + 1.610 SDR per kg for 2011
  - 0.164 SDR per item + 1.648 SDR per kg for 2012
  - 0.168 SDR per item + 1.702 SDR per kg for 2013

– Below 100 tonnes:
  - 3.831 SDR per kg for 2010
  - 3.938 SDR per kg for 2011
  - 4.049 SDR per kg for 2012
  - 4.162 SDR per kg for 2013

Special services

25 Additional payments for special services will be applied as follows:

– registered items – 0.55 SDR per item in 2010 and 2011, and 0.60 SDR per item in 2012 and 2013;

– insured items – 1.1 SDR per item in 2010 and 2011, and 1.2 SDR per item in 2012 and 2013.

26 The POC will be authorized to supplement remuneration for these and other supplementary services based on additional service features.

Optional services

27 On an optional basis, designated operators may agree to exchange non-priority mail by applying a 10% discount to the priority TD rate and format-separated mail at a discounted TD rate.[2]

Classification – transition

28 The methodology proposed for the classification of countries for terminal dues and Quality of Service Fund purposes is presented in Annex 1. The lists of the resulting groups of countries are presented in Congress proposal 24.Annex 1.

29 In the light of resolution C 46/2004, which requires more advanced developing countries to enter the target system at the earliest possible date, it is proposed that:

– group 1 countries join the target system in 2010;

– group 2 countries join in 2012;

– group 3 countries join in 2014;[3]

– group 4 and group 5 countries join after 2014.

The linking of terminal dues to quality of service

[2] See POC TD PG 2008.1 – Doc 2. Mention of these optional services was inadvertently omitted in the drafting and review of documentation prepared for the 2008 POC and CA sessions, and from CONGRÈS–Doc 19 and proposal 20.28.2.

[3] Transition arrangements for groups 3, 4 and 5 to join the target system will depend on a decision taken by the 2012 Congress, as the Acts of the Nairobi Congress will be in effect from 2010 to 2013.

30 The linking of terminal dues to quality of service implies:

- commitment to delivery standards and the achievement of performance targets;
- remuneration rules including incentives for participation in a QS measurement system agreed by the UPU and bonuses/penalties depending on achievement of the agreed targets;
- participation in a quality of service measurement system approved by the UPU.

31 Rules for participation:

– Designated operators of countries and territories in the target system are expected to participate. They may, however, elect not to, in which case, an opting-out rule applies.

– According to the opting-out rule, designated operators in the target system electing not to participate pay the incentive and bonus percentages to the other participants. They cannot, however, benefit from the penalties imposed on others.

– Countries in group 2 (prior to 2012) and in groups 3, 4 and 5 may elect to participate in the QS-linked terminal dues scheme on a voluntary basis.

– A grace period of two years will be provided for designated operators of new target system countries with regard to their obligation to participate and the application of the opting-out rule. They may choose from the following options during the grace period:

  i not to participate in the QS link for one or two years. In this case the terminal dues rates paid and received in relation to other designated operators will not be affected by incentives and penalties;

  ii to apply from the first or second year the rules laid out in article RL 216 of the Letter Post Regulations. In this case incentives and penalties for designated operators of transition system countries will apply;

  iii to apply from the first or the second year the rules laid out in article RL 215 of the Letter Post Regulations. In this case incentives and penalties for designated operators of target system countries will apply.

32 The incentives and penalties will apply as follows:

– a 2.5% increase as an incentive for participation;

– an additional 2.5% increase as a bonus for achieving targets;

– a decrease of 1/3% for each percentage point of under-performance.

33 The delivery standards and the performance targets are set out as follows:

– Delivery standards will be set by the POC, based on domestic standards (set by national regulator and made public to customers).

– Performance targets for 2010:

  • Group 1: 88%
  • Group 2: 85% (Greece, Malta, Spain)
  • Group 3: 82% (Brazil, Ukraine)
  • Group 4: N/A (new entrants).

– The POC should decide on performance targets for 2011, 2012 and 2013.

Quality of Service Fund (QSF)

34 The following general principles are proposed for the link between terminal dues and the QSF:

– The QSF should continue to exist until all UPU member countries have joined the target system.

– Terminal dues should continue to be linked to quality of service.

– There should be an increase in the level of contributions intended for least developed countries.

– A minimum amount of 12,565 SDR[4] should be guaranteed for low-volume beneficiary countries of groups 2, 3, 4 and 5; the additional funds needed for reaching this minimum should be invoiced to the countries in the target system prior to 2010, proportionally to the volumes exchanged.

35 Group 1 countries that join the target system in 2010 should no longer be entitled to QSF receipts and should begin making QSF contributions to all remaining transition countries. The QSF receipts of group 2 countries joining the target system in 2012 should be reduced as follows:

– The 8% contribution level of target system countries for group 2 countries (current transition system countries receiving 8% prior to 2010) should be reduced to 4% in 2010 and 2011 and to 2% in 2012 and 2013.

– The 1% contribution level of target system countries for group 2 countries (current transition system countries receiving 1% prior to 2010) should be maintained in 2010 and 2011 and discontinued in 2012 and 2013.

36 The remaining countries in the transition system (groups 3 to 5) should have their QSF receipts maintained or increased as follows:

– The 8% contribution level of current target system countries for group 3 countries (current transition system countries receiving 8% prior to 2010) should be maintained.

– The contribution level of new target system countries for group 3 countries (current transition system countries receiving 8% prior to 2010) should be set at 4%.

– A contribution level of 10% should be introduced for group 4 countries.

– The current 16.5% contribution level for LDCs should be increased to 20% and will apply to group 5 countries.

37 These percentages are presented in the table below:

TO / FROM	G1 (without current ICs) 2010–2013	G2 2010–2011	G2 2012–2013	G3	G4	G5
Current ICs	0%	1%/4%	0%/2%	8%	10%	20%
G1 (in target system) (without current ICs) 2010–2013	0%	1%/4%	0%/2%	4%	10%	20%
G2 (still in transition system: 2010–2011)	0%	0%	0%	0%	0%	20%
G2 (in target system: 2012–2013)	0%	0%	0%	4%	10%	20%
G3	0%	0%	0%	0%	0%	20%
G4	0%	0%	0%	0%	0%	20%
G5	0%	0%	0%	0%	0%	0%

[4] Further to the decision of the 2008 POC, the amount of 20,000 USD, initially proposed by the TD PG, has been converted to SDR at a rate of exchange of 1.59164 USD/SDR, valid on 30 January 2008.

VI. Work to be conducted between the 24th Congress and the 25th Congress

38 Terminal dues work will need to continue after the 24th Congress.

39 Taking into account the degree of achievement of the proposed framework set by resolution C 46/2004 and the principles subsequently laid down by the CA and the POC, the following tasks should be considered as priorities for the next cycle.

Methodology for converting domestic tariffs to terminal dues rates

40 During this cycle, none of the methods examined by the POC bodies for calculating terminal dues based on domestic rates has gained a clear consensus. The solutions envisaged by the TD PG proposal were the fruit of a compromise facilitated by the fact that the rates are calculated on the basis of the principle of applying minimum and maximum values.

41 Given the low degree of representativity of the rates calculated using only the 20 g domestic priority letter tariff, it would be appropriate, for the next cycle, to seek a method producing terminal dues rates that better reflect domestic tariffs and costs.

Domestic cost recovery percentage

42 As specified above, for countries in the target system prior to 2010 the proposed percentage of domestic cost recovery will be 70%. This percentage would be applicable in 2010 and 2011. It is therefore proposed that Congress:

– instruct the POC to conduct a study during 2009 and 2010;
– authorize the POC to change the percentage of the domestic tariffs applicable (domestic cost recovery percentage), if required, for application in 2012 and 2013.

Transition to the target system

43 Following the proposals for the transition of countries to the target system, it is proposed that groups 3, 4, and 5 will join the target system from 2014.

44 It would be necessary for the CA to prepare a proposal for the next Congress concerning the pace of transition of countries in groups 3, 4 and 5 to the target system based on:

– developments in the international and domestic economic and postal environment;
– the experience gained from countries that joined the system in 2010 and 2012;
– the impacts involved.

Additional payments for special services

45 Taking into account the proposal on the charges for special services, work needs to be carried out in order to set remuneration, if required, for supplementary services where the services provided contain additional features to be specified in the regulations.

46 The revised rates should be cost-related, taking into consideration additional service characteristics.

47 The draft resolution on the future work is presented in proposal 25.Rev 1.

Berne, 4 February 2008

For the Council of Administration | For the Postal Operations Council

Gabriel MATEESCU
Chairman

Michael REGAN
Chairman

Country classification methodology for the future terminal dues system

I. Introduction

1 The present document describes the methodology to be used for the classification of countries for terminal dues and quality of service fund purposes.

2 Resolutions C 12/2004 and C 13/2004 instructed the Council of Administration to follow the development of the classification used in the UNDP and other international organizations, as well as developments in the postal environment, and to submit revised classification lists stemming from its work for approval by the next Congress. The criteria would be macroeconomic or postal specific.

3 These criteria shall be used to determine which postal administrations will join the target system, the pace at which they will join, and whether they will benefit from special treatment in terms of:

– level of direct remuneration for services, i.e. terminal dues;
– participation in the quality of service link system;
– contribution to the Quality of Service Fund (QSF);
– benefiting from the QSF.

II. Methodology for the classification of UPU member countries

4 The methodology approved by the 2007 CA is essentially based on the postal development indicator (PDI). The PDI is then applied following a hierarchical approach for the listing of countries in groups using as reference the current target system countries and the UN ECOSOC classification of least-developed countries (LDCs). Small-island developing states (SIDS) and landlocked developing countries (LLDC) status is also taken into account.

A. Postal development indicator (PDI)

5 The PDI includes a macroeconomic part, the gross national income (GNI) per capita, and a postal-specific part, the normal letter unit cost.

6 The GNI per capita is an indicator of the average annual income available to an inhabitant of the country in question. For given normal letter unit costs, it is true that the higher the GNI per capita, the more developed the country, and the higher its rank in the country classification.

7 The normal unit letter cost indicates, in terms of resource requirements (man-years per letter), the difficulties in serving the postal territory, given the level of postal services offered. This cost encompasses all financially relevant aspects of processing and delivering a letter and automatically weights them appropriately. For given GNI per capita, it is true that the higher the normal unit costs, the less developed the country and the lower its rank in the country classification.

8 A common reason for high unit costs in many developing countries is low volumes that imply high fixed costs per letter. In contrast, many developed countries benefit from low fixed costs per letter due to high volumes (economies of scale).

9 The mechanism related to normal unit costs works as follows: other things being equal, greater difficulties in serving the postal territory means:

- higher normal unit costs;
- a decreased reciprocal of normal letter unit costs;
- a decreased PDI value;
- a decreased rank in the PDI country classification.

10 The total normal costs in terms of full-time staff are determined by econometric regression, using as variables:

- for fixed costs: the population with home delivery, the surface area and the country characteristics (i.e. island);
- for variable costs: the number of letter-post items.

Total normal costs = a1 * weighted number of letters + a2 * surface area +
a3 * (population * percentage of home delivery) +
a4 * (population * percentage of home delivery * island-dummy)

11 The coefficients a1, a2, a3 and a4 reflect the importance of the respective variable for total costs. They are estimated using the least squares method.

12 The normal costs of the letter-post activity are derived by applying the following adjustments to the regression coefficients above:

- The variable cost coefficient *a1* is adjusted by multiplying it by the world-average income percentage of the letter-post. This adjustment reduces world-average total variable costs per letter to the world-average letter-specific variable costs per letter.
- The fixed costs coefficients *a2, a3* and *a4* are adjusted by multiplying it by the country-specific income percentage of the letter post divided by the sum of the country-specific income percentages of the letter post and of parcels and logistics. This adjustment reduces *total* country-specific network fixed costs to country-specific and *letter-specific* network fixed costs.

13 The letter-post normal unit cost for each country is calculated as the ratio between the letter-post normal costs and the weighted number of letter-post items.

14 Furthermore, for SIDS (small island developing states) and small LLCs (land-locked countries) in similar circumstances, the normal unit cost obtained is adjusted upward (on average by 24% and in every single case by 15% at least). The agreed definition of small land-locked countries in similar circumstances is as follows:

- "small" = not larger than the largest SIDS;
- "similar circumstances" (compared to SIDS) = DC status (developing country).

  Therefore, the special treatment will be granted to all land-locked developing countries not larger than the largest SIDS.

15 The PDI is obtained by applying the following formula:

- PDI = (1 – α) * postal-specific part + α * macroeconomic part = (1 – α) * (normalized (1 / normal unit costs)) + α * (normalized GNI per capita) where each part is normalized to a value between 0 and 1 according to the following formula: normalized value = (value – minimum) / (maximum – minimum).

16 The relative weight of the macroeconomic part, that is α, is 75%. Correspondingly, the relative weight of the postal-specific part is 25%. The greater weighting importance of the macroeconomic part is due to the fact that it constitutes a decisive classifying factor for both sides of the international postal process (inbound and outbound), whereas the postal-specific part concerns the inbound side only.

B. Hierarchical approach – comparative classification

17 The PDI values calculated as above are compared with the PDIs of countries in the current target system and with those of LDCs, following the UN ECOSOC classification.

18 The domestic tariff is used as an additional criterion and its application is motivated as follows:

– Inbound side: High tariffs can be expected not to be subsidized. Thus, tariff-based terminal dues rates according to target system rules would not underestimate delivery costs.

– Outbound side: If customers can afford to pay target-system-like domestic tariffs, they can also afford to pay target system terminal dues rates.

19 Countries are classified in five groups, with the most developed countries in Group 1 and the least developed countries in Group 5:

a Group 5 – all LDCs.

b Group 1 – all remaining countries with a PDI value higher than the minimum PDI of current target system countries (where the minimum PDI is determined without regarding territories that are in the current target system).

c Group 4 – all countries not in Group 1 or 5 and with a PDI below the maximum PDI of Group 5.

d Group 2 – all countries not in Group 1, 4 or 5 and with tariffs above the average tariffs of Group 1 countries.

e All remaining countries will be placed in Group 2, if their PDI value is above the average of countries not in Groups 1, 4 or 5. Countries with a PDI value below this average will be placed in Group 3.

UPU country classification based on the PDI: data requirements and business rules

I. General rules

1 Classification for the years n+2, n+3, n+4 and n+5 (i.e. a four-year classification cycle) is established during the year n and based on the most recent data available, i.e. using macro-economic data for n-2, postal and geographic data for n-1 and tariff data for n. If a variable value is missing, the most recent value available for the country in question will be used instead.

2 The four-year classification cycle means that a finalized classification for the years 2010, 2011, 2012 and 2013 is decided by the 2008 Congress, using macroeconomic data for the year 2006, postal and geographic data for the year 2007 and tariff data for the year 2008. In case of missing data, the above rule will be applied.

II. Detailed list of classification variables and parameters with data requirements, sources and business rules

Population

3 Data for the year n-1 and n-2 are required. The source is UN statistics.

GNI per capita

4 Data for the year n-2 are required. The source is the World Bank, and the total GNI used is computed according to the Atlas method (GNI in USD).[1]

5 In the case of missing GNI for the year n-2, any earlier value used will be "updated" to the n-2 period by multiplying the value in question by the world GNI growth factor for the relevant period.

6 The population used to compute the GNI per capita must correspond to the number of inhabitants during the year n-2, in order to ensure consistency with the GNI figure.

7 In cases where the GNI is not available, not even from other recognized sources (e.g. UN statistics), the GNI per capita is estimated on the basis of the GDP per capita for non-least developed countries (LDCs) (e.g. GNI = GDP); for LDCs, the GNI per capita is estimated by the GDP per capita of that LDC multiplied by the LDC average of the ratio between the GNI per capita and the GDP per capita.

Surface area

8 Data for the year n-1 are required. The surface area is to include land and sea in order to reflect the particular difficulties of multiple-island states.

9 The source is UN statistics, provided that they include the sea area. Otherwise, other recognized sources (e.g. the country's government data) will be used.

[1] The World Bank's Atlas method smoothes out exchange rate effects by relying on a three-year exchange rate average.

Items (mail volume)

10 Data for the year n-1 are required, as well as data for 2003 and 2004 (alternatively, data for the years preceeding 2003).

11 The source is UPU Postal Statistics.

12 Missing data on the number of items will be replaced by an approximation based on GNI: 1) domestic items = GNI * regional average of (domestic items/GNI), 2) international dispatch items = GNI * regional average of (international dispatch items/GNI), and 3) international receipt items = GNI * regional average of (international receipt items/GNI). If GNI is not available either, an estimated GNI will be used (see above).

13 The volumes that are taken into account for the classification cannot fall short of the minimum of: 1) the approximation based on GNI according to the rule under § 13; and 2) the average number of items for the years 2003 and 2004 (if either the 2003 or the 2004 value is unavailable, the most recent earlier value, if available, is used instead). The rule is applied separately to domestic mail, international outbound mail and international inbound mail.

Weighting of the number of letter-post items

14 The weighting of volumes used for the calculation of total costs is made by weighting the domestic, international inbound and international outbound number of letter-post items by 100%, 68% and 32% respectively.

Home delivery percentage

15 Data for the year n-1 are required. The source is UPU Postal Statistics.

16 If no home delivery (HD) percentage is available for any year, it will be estimated according to the following business rule: % of HD = GNI per capita * world average of (% of HD/GNI per capita).

Postal income percentages

17 Data for the year n-1 are required. The source is UPU Postal Statistics.

18 Where the income percentage of the letter post or, respectively, parcels and logistics is not available, a world average is taken instead.

Number of posts (labour force)

19 Data for the year n-1 is required. The source is UPU Postal Statistics.

20 If the number of posts is not available for any year, it is calculated as the sum of full-time staff and 50% of part-time staff for the most recent year. If only a full-time staff number is available, the part-time staff number is estimated by: part-time staff = full-time staff * world average of (part-time staff/full-time staff).

21 If both the number of posts and the full-time staff number are not available for any year, the country cannot be included in the regression (for the classification there is no consequence, as the PDI does not depend on staff numbers).

Tariffs

22 Tariffs in SDR without VAT are used for year n.

23 Tariffs in domestic currency would be collected annually from postal administrations, in accordance with 15 standard weight steps (three for letters, five for flats and seven for packets; using the world frequency of each weight step as determined in the last flow study available, a weighted-average tariff will be computed for each country).

24 In case of missing data, the most recent tariff available, expressed in SDR, would be increased by 20% for classification purposes. This provides an incentive to transmit tariff information. If a tariff of a country is not available for any year, the corresponding maximum tariff (in SDR) in the corresponding UPU region can be used. This provides an incentive to transmit tariff information.

Transition from one group to another and classification review

Upward transition

25 Upward transition will take place according to the following rules:

a Countries more than 10% above the group threshold will be classified in the respective group.

b Countries above the group threshold, but within a margin of 10% will still benefit from the lower group conditions (group one level below the group to which the threshold is related), unless they prove to be above the threshold for the preceding classification cycle.

c An LDC losing that status will be classified in the same way as any other country, i.e. immediate or delayed transition to Group 1, 2 or 3 if the respective thresholds are exceeded, transition to Group 4 otherwise.

Downward transition

26 There is no automatic downward reclassification, except temporary downward reclassification due to war or extremely severe economic crisis, following a CA decision.

Classification review

27 A review of the classification will take place every four years where:

a the structural PDI parameters stemming from the cost regression are taken from the initial classification without change;

b for every country updated variable values (GNI per capita, mail volume, etc.) are used;

c the group thresholds are recalculated using the update.