



Commission for
Communications Regulation

Information Notice

Terminal Dues Agreements

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Contents

1	Foreword.....	2
2	Introduction	4
2.1	ISSUE FIRST RAISED IN JANUARY 2002	4
2.2	SUBMISSION OF SEPARATED ACCOUNTS FOR 2001	4
2.3	ISSUE RAISED AGAIN IN DECEMBER 2002.	5
2.4	PURPOSE OF THIS PAPER.....	5
3	Background	6
3.1	EVOLUTION OF TERMINAL DUES	6
3.1.1	<i>Universal Postal Union Convention.....</i>	6
3.1.2	<i>Green Paper on the development of the single market for postal services.</i>	6
3.1.3	<i>CEPT Terminal Dues arrangements.....</i>	7
3.1.4	<i>European Commission Statement of Objections.....</i>	7
3.1.5	<i>Development of REIMS Agreements.....</i>	7
3.1.6	<i>Current UPU Arrangements</i>	8
3.2	LEGISLATION	9
3.2.1	<i>EC Postal Directive.....</i>	9
3.2.2	<i>The European Communities(Postal Services)Regulations 2002 (SI No.616/2002)</i>	10
3.3	IMPORTANCE OF INTERNATIONAL MAIL TO AN POST.....	11
3.4	AN POST'S TERMINAL DUES AGREEMENTS	11
3.4.1	<i>REIMS II.....</i>	11
3.4.2	<i>CEPT Terminal Dues Agreement.....</i>	11
4	Appraisal of REIMS II Agreement.....	13
4.1	BASIC PRINCIPLES.....	13
4.2	LINKAGE TO DOMESTIC TARIFFS	13
4.2.1	<i>Domestic Tariffs as a proxy for costs.....</i>	13
4.2.2	<i>Appropriate percentage of domestic tariff applicable for international mail</i> <i>14</i>	
4.2.3	<i>Single percentage of domestic tariff applicable for all members of REIMS II</i> <i>14</i>	
4.3	LINEAR (TWO-PART) TARIFFS.....	14
4.3.1	<i>Average Weights.....</i>	16
4.3.2	<i>Delay in adjusting for changes in domestic tariffs</i>	16
4.3.3	<i>Discount for Non Priority Mail.....</i>	16
4.4	CURRENCY FLUCTUATIONS.....	17
4.4.1	<i>Special Drawing Rights SDR</i>	17
5	Conclusion.....	18
5.1	REIMS II AGREEMENT	18
5.2	IS AN POST COMPLYING WITH REGULATION 10(1)?	19
	Appendix 1	20

1 Foreword

The separated accounts for 2001 which were submitted to the ODTR at the end of May 2002 revealed that An Post was incurring losses of over €19m on the delivery of inbound international mail. This is the part of An Post's business that delivers to Irish addressees' letters that have been posted overseas.

An Post is paid to provide this service by overseas postal operators. Over 80% of all such payments are determined under the terms of a multi-lateral agreement between European postal operators which is known as REIMS II.

Under Irish and European law such agreements have to comply with three fundamental principles.

- First, prices must be fixed in relation to the costs of processing and delivering incoming cross-border mail.
- Second, prices must be related to the quality of service achieved.
- Finally the terms of the calculations must be transparent and non-discriminatory.

The losses incurred by An Post in handling incoming international mail are prima facie evidence that the first principle is not being complied with. While there is provision in the agreement for payments to be reduced if stipulated quality of service targets are not achieved, there is a lack of transparency in the calculation of the terminal dues payable under the agreement.

In principle the Terminal Dues for Priority Mail payable under the agreement shall, as a proxy for costs, be 80% of the domestic tariff¹. The agreement, however, provides that *“As it is currently impossible to achieve samplings giving the number of items in each weightstep, a system of linear tariffs² by format has been selected. Furthermore, in order to protect the first weightstep³ revenue, a “standard” structure by format has been used as a reference.”* In practice the latter provision seems to reduce the price received for the delivery of heavier letters.

There are many other factors leading to the failure to comply with the “fixed in relation to costs” principle, but because of the lack of transparency it is not possible to identify precisely how much each contributes to the overall loss.

The financial consequences for An Post are unsustainable. If not corrected losses of the order of the €19m loss in 2001 will impact on the ability of the company to provide the universal postal service that it is obliged to provide.

The arrangements also appear to distort inter-community trade in postal services. This arises because the delivery of incoming mail weighing more than 100g per item is no longer reserved to An Post.

Any postal service provider is free to provide these services, but if the price An Post receives for delivering such items is less than the cost of providing the service other service providers will be unable to compete. It should be noted that a significant

¹ Transitional arrangements limited this to 70% during 2001, and current proposals limit it to 74.5% for 2003 and 75.7% for 2004.

² A two part tariff, so much per item and so much per kg.

³ ie standard envelopes weighing less than 20g, - about 80% (by number) of all letters.

share of the losses arise from this competitive segment of the market, even though the domestic service for the same items is very profitable.

Under Regulation 17(1) ComReg is required to monitor An Post's compliance with its obligations in respect of its Agreements on Terminal Dues, and ComReg has powers available to it under Regulation 10(2) to require such compliance. The Commissioners have considered a report on the question of An Post's compliance with its statutory requirements and they have decided that there is prima facie evidence of non-compliance. In the circumstances the Commissioners are requesting An Post to bring its Agreements on Terminal Dues into compliance with its obligations no later than 7 July 2003.

This information notice sets out the basis for which this decision has been reached.

Etain Doyle,
Chairperson.

2 Introduction

2.1 Issue first raised in January 2002

Questions about the losses incurred in handling incoming international (cross-border) mail were first raised in the context of the consultation about the application by An Post for an “interim” 3c increase in the price of Domestic and Outbound International Mail (ODTR 02/15 January 2002). The issue was set out in the following way:

“It should be pointed out that the draft separated accounts for the year 2000 referred to by An Post suggest that the bulk of the losses arise from handling incoming mail from Britain and other countries.

In discussions, An Post expressed the view that these should be covered by an imposition on the price of domestic and outbound international reserved mail. The Director takes the opposite view. To do as An Post suggests is to ask Irish users of An Post’s service to subsidise customers of foreign service providers.” [Section 4.2.1]

The response to that Consultation was published on 28 March 2002 (ODTR 02/32). 14 of the 15 respondents who answered the question “Do you agree that it is unreasonable to ask Irish customers to subsidise losses incurred in handling incoming international mail?” agreed that it would be unreasonable to ask Irish customers to subsidise losses incurred in handling incoming international mail.

While An Post admitted that losses on inward international mail were a matter of serious concern it suggested that the evolving REIMS Agreement would provide the mechanism for addressing those losses and “could get the company to a position where, over time, it is at least covering its costs on that stream”. In the meantime, they argued that losses will be incurred and they will have to be financed as part of the universal service.

The Conclusion of the ODTR was that it was not acceptable to ask Irish customers to subsidise these losses. “An Post will have to address the issues as a matter of urgency.” It was also noted that if An Post continues to sell inbound international mail services below cost Irish customers who are able to do so may well start to post mail in Britain or Northern Ireland to avail of cheaper rates that might be available to them. There is some anecdotal evidence that this is now happening.

2.2 Submission of Separated Accounts for 2001

An Post submitted the separated accounts for 2001 to the ODTR at the end of May 2002. They were subsequently published in summary form on An Post’s website, and showed losses of €19.3m on inbound international mail services.

2001 Regulatory Accounts	Incoming	Outgoing	Total
Turnover	€55m	€68.2m	€123.2m
Profit / Loss	(€19.3m)	€5.1m	(€14.2m)
Profit / Loss as % of Turnover	(35.1%)	7.5%	(11.5%)

Following this An Post recognised the seriousness of the situation and has since been seeking changes to the REIMS II agreement to ensure that the non-cost-orientated pricing provisions which are the main contributors to the losses incurred are eliminated.

2.3 Issue raised again in December 2002.

The Consultation on Outbound international price increases in October 2002 (ODTR 02/94) did not therefore need to address the issue of inbound international pricing. Nevertheless two respondents raised the issue. One respondent summed it up in the following terms:

“... An Post and its customers who mail from Ireland are subsidising foreign postal operators and their customers ...”

In response to these submissions ComReg noted that there was a statutory obligation on An Post to ensure that in its agreements for intra-Community cross-border mail that its “terminal dues shall be fixed in relation to the costs of processing and delivering incoming cross-border mail” and that ComReg may issue Directions to An Post for the purpose of ensuring compliance with this principle.

2.4 Purpose of this Paper

The purpose of this paper is to provide an analysis of the Agreements on Terminal Dues that An Post has entered into and how these comply with the statutory obligations imposed on An Post by the European Commission.

The paper is divided into the following sections:

Section 3 Background Information

Section 4 Appraisal of REIMS II Agreement

Section 5 Conclusion.

3 Background

3.1 Evolution of Terminal Dues

3.1.1 Universal Postal Union Convention

For more than a century the arrangements for the exchange of mails across international boundaries have been set out in the Universal Postal Union (UPU) Convention, an inter-governmental treaty normally revised every five years at a Congress of Plenipotentiaries. The last such Congress was held in Beijing in 1999.

Historically the arrangements were based on the principle of reciprocity, but following the Hamburg Congress of 1969 a system of compensation was adopted. This was based on the difference between the weight despatched and the weight received multiplied by an agreed rate per kg.

At the time when postal services were provided directly by state owned monopolies and it was therefore possible to cross-subsidise services, these arrangements had the benefit of simplicity while facilitating the global exchange of mail. However as postal services in some countries were opened up to competition, wholly or partially, the system began to show its weaknesses. In particular the practice of arbitrage became common, under the name *remai*⁴.

3.1.2 Green Paper on the development of the single market for postal services

In 1991 the Commission of the European Communities published a Green Paper on the development of the single market for postal services. Chapter 5 (paragraph 8) summarised the objections to the terminal dues system as operated by the UPU:

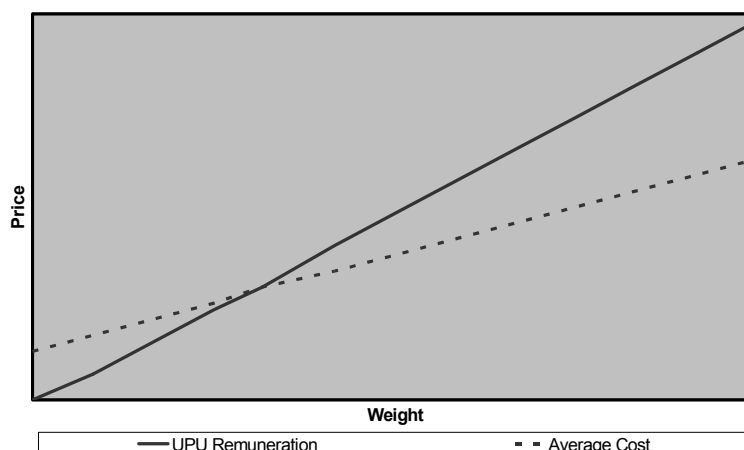
“ . . . any system based purely on weight will inevitably lead to differences between actual delivery costs incurred and the compensation payments made. Firstly, delivery costs are related more to the numbers of items delivered rather than their total weight. Secondly, the same compensation was paid regardless of the level of delivery service required. Thirdly, a single universal system ignores the reality that unit costs will vary – and mostly for reasons unrelated to efficiency”

As Figure 1 demonstrates under the UPU provisions in force at that time remuneration increased proportionately, based on the weight of the mail item, whilst the curve of the average cost is more sloped. This resulted in items at higher weights subsidising those mail items at the lower weight steps.

The Green Paper nevertheless conceded that:

“some terminal dues system will continue to be necessary to provide compensatory arrangements between the 170 countries that are members of the UPU. Further, it would probably not be practical to charge on the basis of each item exchanged at the tariffs of the delivery administration.”

⁴ There are many different types of *remai*, but in general terms *remai* can be defined as mail that is posted in a country other than the country where the mail is produced.

Figure 1 – UPU Terminal Dues arrangements

Source: Green Paper on the Development of the Single Market for Postal Services, Commission of the European Communities, (COM (91) 476 final)

3.1.3 CEPT Terminal Dues arrangements

During 1987, a working party of European and American Postal Administrations agreed to replace the then current UPU terminal dues scheme with a new approach towards terminal dues which took into account the number of pieces of mail as well as total weight.

The new terminal dues rate was expressed as a formula, 1.225 SDR per kg + 0.121 SDR per item⁵, which is often referred to as a linear tariff. This new terminal dues system became known as the “CEPT terminal dues” system. It substantially raised the price for delivery of international mail by modifying the level of terminal dues charges. But the terminal dues rates for every country remained the same, regardless of the level of costs, so postal administrations offices could still trade inward delivery services to compensate for outward delivery services, regardless of the economic value of the two services.

3.1.4 European Commission Statement of Objections

In 1993, following a complaint lodged by the International Express Carriers Conference (IECC), the Commission issued a statement of objections in which it expressed the view that the CEPT system was contrary to Article 81(1) of the EC Treaty since it fixed a uniform rate for the delivery of incoming international mail.

The Commission also considered that Article 81(3) was not applicable since the terminal dues agreed upon were not cost-based. In this context the Commission expressed the view that the method for calculating terminal dues should be fully cost-based or at least involve a more accurate approximation of costs, for example by calculating terminal dues as a percentage of domestic tariffs in the country of destination.

3.1.5 Development of REIMS Agreements

In response to the Statement of Objections several European postal administrations formed a group to design a new system of mutual charges for the processing of incoming international mail and this culminated in the “Agreement for the

⁵ Subsequently revised, and currently 0.147 SDR per item and 1.491 per kg, the same as the minimum rates laid down by the UPU.

Remuneration of Mandatory Deliveries of Cross-Border Mail” (REIMS). The European Commission decided not to pursue its Statement of Objections, but rather to concentrate on an in-depth examination under competition rules of the new REIMS scheme.

Negotiations in relation to REIMS among post offices and between post offices and the European Commission dragged on for more than seven years. At the beginning of 1995, fourteen postal administrations (two non-EU) signed a preliminary agreement that set terminal dues equal to 80 percent of domestic postage rates after a six-year transition period. A revised version was submitted to the Commission in December 1995. This version, known as “REIMS I”, went into effect on 1 January 1996 while Commission approval was still pending. The validity of the REIMS I Agreement had been made dependent on the condition that the Spanish PPO acceded to it by 31 May 1997. Since this condition was not fulfilled, the REIMS I Agreement expired on 30 September 1997.

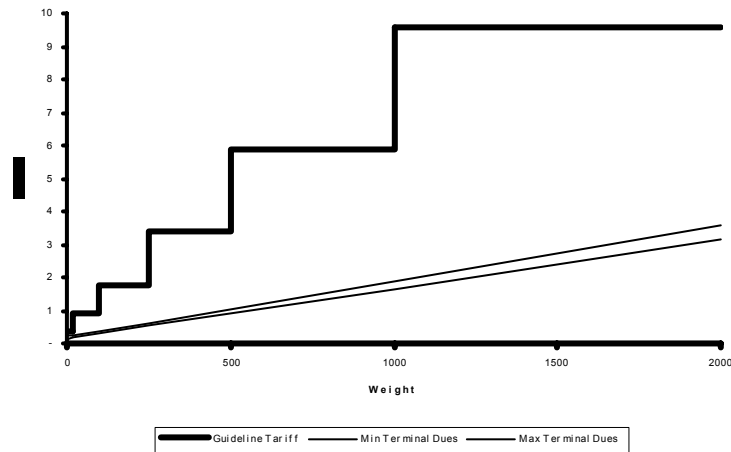
On 31 October 1997, a revised agreement on terminal dues (the REIMS II Agreement) was notified to the Commission with a view to obtaining a negative clearance or an exemption under Article 81(3) of the EC Treaty. After the Commission indicated continuing objections, eleven post offices (two non-EU) proffered a modified REIMS II agreement in October 1998. Eventually, the revised REIMS II was signed by all EU post offices except the Dutch and by the post offices of Switzerland, Iceland and Norway. On 15 September, 1999, the European Commission approved the revised REIMS II⁶, for the period 1 April 1999 to 31 December 2001, subject to a number of conditions including limiting the amount payable to 70% of domestic tariffs.

On 18 June 2001 the Commission received a notification seeking renewal of exemption from the provisions of Article 81(1) of the EC Treaty and Article 53(1) of the EEA Agreement when the existing exemption expired on 31 December 2001. To date the European Commission has not yet published a decision on this application.

3.1.6 Current UPU Arrangements

These are set out in detail at Appendix 1, and apply whenever there is no bilateral or multi-lateral agreement such as REIMS II. The main provisions relating to Terminal Dues applicable to Ireland are set out in Articles 47 and 48. Article 11 and Article RE301 are also of relevance in that these set out guidelines for the Tariffs that should be charged for International Mail. The difference in structure and value between the UPU Terminal Dues and the guideline Tariffs are illustrated in Figures 2.

⁶ 99/695/EC: Commission Decision of 15 September 1999 relating to a proceeding under Article 81 of the EC Treaty and Article 53 of the EEA Agreement (Case No IV/36.748 - REIMS II) (notified under document number C(1999) 2596) (Text with EEA relevance) Official Journal L 275 , 26/10/1999 p. 0017 - 0031

Figure 2 - UPU Guideline Tariffs (Article RE301) & Terminal Dues

Source: Analysis by ComReg based on information in UPU Letter Post Manual

Another important point to stress at this stage is that Article 47(8) provides for alternative arrangements to be put in place by way of bilateral or multi-lateral agreements:

“The administrations concerned may, by bilateral or multilateral agreement, apply other payment systems for the settlement of terminal dues accounts.”

3.2 Legislation

3.2.1 EC Postal Directive

The EU “Postal Directive”⁷ placed a specific obligation on the governments of Member States in Article 13 of the Directive:

*“1. In order to ensure the cross-border provision of the universal service, Member States **shall encourage** their universal service providers to arrange that in their agreements on terminal dues for intra-Community cross-border mail, the following principles are respected:*

- terminal dues shall be fixed in relation to the costs of processing and delivering incoming cross-border mail,
- levels of remuneration shall be related to the quality of service achieved,
- terminal dues shall be transparent and non-discriminatory.

2. The implementation of these principles may include transitional arrangements designed to avoid undue disruption on postal markets or unfavourable implications for economic operators provided there is agreement between the operators of origin and receipt; such arrangements shall, however, be restricted to the minimum required to achieve these objectives”.

⁷ Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service. OJ L 15 21.1.1998, p. 14 as amended by Directive 2002/39/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 10 June 2002 amending Directive 97/67/EC with regard to the further opening to competition of Community postal services OJ L 176 05.07.2002, p. 21

3.2.2 *The European Communities (Postal Services) Regulations 2002 (SI No.616/2002)*

The original Postal Directive was transposed into national law by the European Communities (Postal Services) Regulations 2000 (SI No.310 of 2000). When this Directive was amended in 2002 the government took the opportunity provided by the transposition process to consolidate the Irish regulations into one document - the European Communities (Postal Services) Regulations 2002, S.I. No. 616 of 2002 ("The Irish Regulations"). S.I. No 310 of 2000 was revoked.

Regulation 10 deals with agreements on terminal dues.

*“(1) In order to ensure the cross-border provision of the universal service, a universal service provider **shall arrange** in its agreements on terminal dues for intra-Community cross-border mail that the following principles are respected:*

(a) terminal dues be fixed in relation to the costs of processing and delivering incoming cross-border mail,

(b) levels of remuneration shall be related to the quality of service achieved, and

(c) terminal dues shall be transparent and non-discriminatory.

(2) The Regulator may issue directions to a universal service provider, after consultation with interested parties, for the purpose of ensuring compliance by the provider with the principles set out in paragraph (1)

(3) The implementation of the principles set out in paragraph (1) may include transitional arrangements, designed to avoid undue disruption on postal markets or unfavourable implications for economic providers of postal services, provided there is agreement between the operators of origin and receipt. Such arrangements shall, however, be restricted to the minimum required to achieve these objectives.”

There are a number of points that should be noted:

1. The arrangements put in place through the UPU Convention are inter-governmental treaties, not bilateral or multi-lateral agreements, and are therefore not subject to the “fixed in relation to cost” and other principles set out in Regulation 10. However there is a body of opinion that these arrangements are not compatible with the EC Treaties and are therefore unenforceable within the EC.⁸
2. Article 47(8) of the UPU Convention makes provision for bilateral or multi-lateral agreements and Article 10 of the Irish Regulations requires An Post, as the designated USP, to arrange that it puts in place such agreements for intra-community cross-border mail.
3. Furthermore these agreements, and any agreements that it voluntarily enters into with postal administrations outside of the EU, must comply with the “fixed in relation to cost” and other principles set out in Regulation 10.
4. Finally ComReg is required to ensure compliance with the principles set out in Regulation 10.

⁸ See for example “Remailing and European Community Law” Ulrich Everling, Former judge of the Court of Justice of the European Communities. University of Bonn. European Competition Law Review [1997] E.C.L.R. 523

3.3 Importance of International Mail to An Post

International Mail generally represents a small proportion of the total mail handled by USPs and the ratio of incoming to outgoing mail falls within manageable limits. For two countries within the EU – Luxembourg and Ireland – international mail is a very large proportion of the total mail, but Ireland is exceptional in that it imports substantially more mail than it exports.

Ireland is therefore exceptionally exposed to any deficiency in its Terminal Dues arrangements which do not adequately recompense it for the expense of delivering such mail. Indeed it could be argued that the wide discrepancy between the volume of mail imported and exported arises from decisions taken by companies ever since the foundation of the State (1922) to control their administrative functions in Britain to take advantage of the economies of scale in servicing a market of about 3million people and another of over 50 million people, as well as availing of the cheaper postage rates available in that country for delivery in Ireland.⁹

The following figures taken from a study by PricewaterhouseCoopers for the European Commission illustrate the extent of the problem:

Country	Total Cross Border Mail	Outbound	Inbound
LU	36.5%	21.7%	14.8%
IE	27.6%	9.8%	17.8%
BE	12.5%	6.1%	6.4%
DK	11.1%	6.9%	4.1%
AT	10.5%	5.3%	5.2%
PT	8.9%	4.6%	4.2%
ES	7.5%	3.9%	3.6%
UK	7.2%	4.6%	2.6%
IT	5.3%	2.2%	3.0%
DE	5.1%	2.4%	2.8%
SE	4.6%	1.9%	2.7%
FI	4.1%	1.6%	2.5%
FR	3.4%	1.6%	1.8%

Source: “Overview of the intra-Community cross-border mail market”
PricewaterhouseCoopers December 1998

3.4 An Post’s Terminal Dues Agreements

3.4.1 REIMS II

An Post has currently signed two multi-lateral agreements on Terminal Dues. The first REIMS II is with 16 other postal services providers, 13 within the EU and 3 in the EEA. It represents 79.8% of outgoing mail and 83.4% of incoming mail by weight. The benefits and disadvantages of the agreement to An Post are considered in detail in Section 4.

3.4.2 CEPT Terminal Dues Agreement

An Post has also an agreement with two North American postal service providers, which represents 10.7% of outgoing international mail and 14.5% of incoming

⁹ From 1922 to the late 1980’s the British Post Office treated mail for Ireland as part of its domestic service and priced it accordingly. The price was always cheaper than the corresponding Irish domestic postage rate. Subsequently the price advantages gained through the non-cost related terminal dues arrangements have not been passed onto retail customers, but appear to be still available to business customers with substantial mailings.

international mail by weight¹⁰. As noted above the remuneration payable under this agreement is now the same as the minimum rates under the UPU Convention. The case for continuing with the multi-lateral agreement is debateable. However, as there is no legal obligation on An Post to enter into a multi-lateral agreement, and the rates payable / receivable are no less favourable than those currently available under the UPU Convention, there is no pressing issue at this stage.

3.4.3 Other International Mail

The remainder of An Post's international mail (9.5% outgoing, 2.1% incoming) is dealt with under the provisions of the UPU Convention.

¹⁰ ie approximately 2.5% of total mail

4 Appraisal of REIMS II Agreement

4.1 Basic Principles

There are three basic principles underlying the REIMS II agreement:

1. The price payable for the delivery of incoming international mail is based on 80% of the domestic tariff, as a proxy for costs. As a transitional measure the arrangement is limited as follows:

2000	2001	2002	2003	2004
65%	70%	73.3%	74.5%	75.7%

2. The agreement however provides that:

“As it is currently impossible to achieve samplings giving the number of items in each weightstep, a system of linear tariffs by format has been selected. Furthermore, in order to protect the first weightstep¹¹ revenue, a “standard” structure by format has been used as a reference.”

In other words terminal dues are based on a two part charge, so much per item and so much per kg, for each format rather than the straightforward format *or* weight based pricing structures applicable to domestic tariffs.

3. There are penalties if variable, but sometimes reducing, quality of service targets are not met.

	1998	1999 / 2000	2001	2002
AT, BE, DK, IE, NO, FI, LU, NL, IS, SE, CH	90%	95%	93%	93%
DE, FR, IT, UK, PT	85%	90%	90% OR 91½%	90%, 91½% OR 93%
ES, GR	80%	85%	85%	85%

4.2 Linkage to Domestic Tariffs

4.2.1 Domestic Tariffs as a proxy for costs

The REIMS II Terminal Dues System assumes that domestic tariffs are a proxy for costs. This is not necessarily the case:

For example, the European Commission concluded its antitrust investigation into Deutsche Post AG (DPAG) with a decision finding that the German postal operator has abused its dominant position by granting fidelity rebates and engaging in predatory pricing in the market for business parcel services (see Commission’s Press Release IP/01/419 re case COMP/35.141 of 20 March 2001) The Commission’s decision¹² notes at recital 32:

“Since at least Its earnings from the reserved letter-post area consistently exceeded the stand-alone costs of the reserved area as a whole. .. The reserved area is therefore a likely source of cross-subsidisation.”

¹¹ ie standard envelopes weighing less than 20g, - representing about 80% (by number) of all letters.

¹² Doc 2001/354/EC OJ L 125 05.05.2001 p 27

See also the European Commission's Press Release IP/02/890 of 19 June 2002 which reports the decision that the postal operator subsidised price undercutting in its commercial parcel service.

Furthermore the enhancement of the cost accounting systems of universal service providers as a result of the Postal Directive 97/67/EC has provided more detailed data about the cost of providing the various postal services. In the case of Ireland this suggests that it is Format, ie the size/shape of the item, rather than weight that is the principal driver of costs. This is likely to be the case throughout the EU. Already the universal postal service provider in 10 of the EU's member states (including Ireland) use, in whole or in part, format based pricing systems, and one other is consulting with interested parties about introducing such a system. In member states where domestic tariffs are still solely based on weight, or where the introduction of format based pricing is being introduced on a phased basis, the domestic tariffs are unlikely to be a valid proxy for costs.

4.2.2 Appropriate percentage of domestic tariff applicable for international mail

Even if it could be accepted that Domestic tariffs were an appropriate proxy for costs the question of the appropriate percentage that should be applied must be considered. There will be some saving in costs compared with internal mail, eg postage stamps will not need to be printed or sold, and mail will not need to be collected from pillar boxes and post offices. On the other hand the sorting of mail will not be as cost-effective as mail presented by bulk posters in the country of origin, so sorting costs may be at the higher range of the costs.

4.2.3 Single percentage of domestic tariff applicable for all members of REIMS II

The assumption that a single percentage can be applied to the domestic tariffs of all member states is unsustainable. Delivery is the largest element of cost in processing incoming international mail and the variance between delivery costs was explored in a study conducted by NERA for the Commission entitled "Costing and Financing of Universal Services in the Postal Sector in the European Union" (October 1998). The conclusion was that the percentage of total costs attributable to delivery varied between 38.4% UK and 54% Austria / 57% Ireland. Neither is the assumption compatible with the principle of varying targets in relation to quality of service.

4.3 Linear (Two-part) Tariffs

As noted above the amounts payable under REIMS II are based on two part tariffs, ie so much per item and so much per kg, for each of three different formats. The agreements refer to these as linear tariffs.

The tariffs are supposed to be the same as the agreed percentage of domestic tariffs, but in practice they are not. This is not something that is unique to Ireland.

The table below compares the amount receivable for a metric tonne of letter, flat or packet format international mail. Specifically it compares the amount receivable if the universal service provider delivering the mail received 70% of the domestic tariff with the amount receivable for the year 2001 under REIMS II.

As the table contains confidential information all financial figures, and specifically the average domestic tariff and the REIMS payments, have been adjusted on the basis that the average price for a standard letter is 1.00.

The composition of the metric tonne is that used as the "standard" distribution used to calculate the two part tariffs under REIMS II. As noted in this paper the actual distribution is radically different.

A comparison is made with the tariffs and terminal due rates for Germany to show that these issues are not unique to Ireland.

	No of Items	Average Weight	Average Domestic Tariff	Revenue at 70%	REIMS II			% of domestic tariff
					per item element	per kg element	total	
Ireland								
Letters	68,336	14.63	1.00	47,835	44,735	4,222	48,957	71.6%
Flats	13,795	72.48	1.52	14,664	9,031	5,326	14,357	68.5%
Packets	2,871	348.24	4.31	8,669	2,272	5,189	7,461	60.2%
Germany								
Letters	68,336	14.63	1.00	47,835	26,234	19,934	46,169	67.6%
Flats	13,795	72.48	2.31	22,332	21,092	-	21,092	66.1%
Packets	2,871	348.24	3.50	7,029	4,010	699	4,709	46.9%

Source: Analysis by ComReg based on data in REIMS II agreement and published postal tariffs in Ireland and Germany (adjusted to conceal confidential information)

The discrepancy seems to arise because the basic price per item is adjusted upwards and the price per kilo adjusted downwards. The REIMS II agreement justifies this as “*in order to protect the first weightstep revenue*”. In principle the average revenue remains the same providing that the mix of mail conforms to the “standard” structure by format that REIMS II uses in calculating its adjustments. But the effect of this is for heavier items, and for packets in particular, the linear, two-part, tariff produces a terminal dues payment that is significantly below the agreed percentage of domestic tariffs.

The problem of using two part tariffs, combined with format tariffs, can best be illustrated by using the example of the rate payable to Britain’s universal service provider “Royal Mail” for a postal item weighing up to 60g. In its published tariffs Royal Mail has a single tariff of 27p (approx €0.42) for all first class items weighing less than 60g.

The background to this is that the Carter Committee Report of 1977 recommended that:

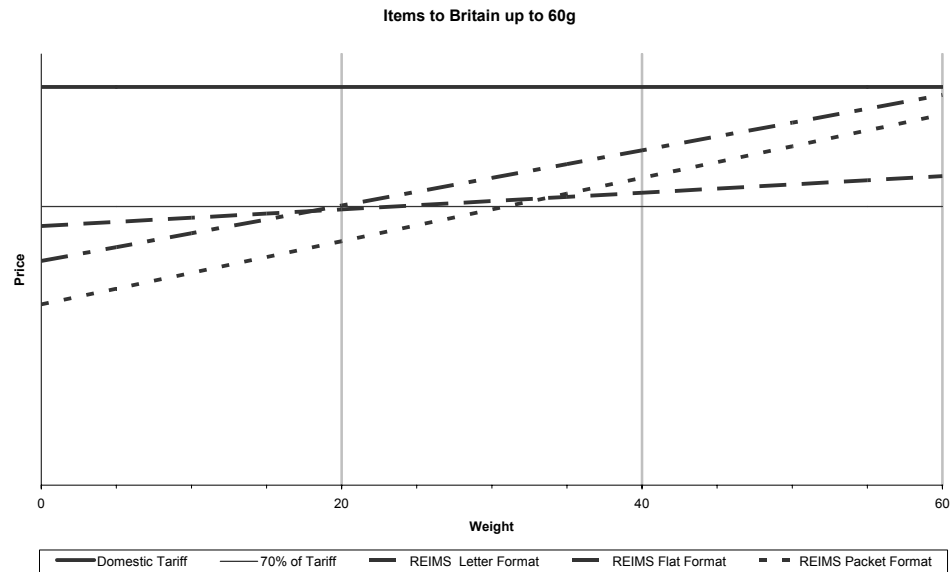
“The minimum letter post rates should in principle apply to objects which are convenient to sort as letters: that is, to flat envelopes or cards within a certain size range. We note that this is how Australia defines a letter, and the British use of weight limit seems to us to be an imperfect substitute.....

It would be a convenience to business if anything capable of inclusion in a ‘Post Office Preferred’ size of envelope went at the minimum letter rate without the trouble of weighing it”.

It should also be borne in mind that there is a substantial body of evidence that there is no difference in the cost of handling such items whatever the weight, albeit that the packet format in particular might generate additional costs.

Yet despite the British service provider offering a single price of 27p the REIMS II agreement produces a significant variation in the cost of handling these items.

If the price payable for delivering a 15g POP Letter envelope is taken as 1.00, the price payable for other items and weights varies between 0.72 and 1.44 See Figure 3:

Figure 3 Comparison of Terminal Dues and Domestic Tariffs

Source: Analysis by ComReg based on data in REIMS II agreement and published postal tariffs in Britain (adjusted to conceal confidential information)

4.3.1 Average Weights

There is a lack of transparency in the way the two part tariffs are calculated.

The discrepancy appears to arise as a result of basing the calculations on an assumed distribution of mail over the various weights steps that differs radically from the actual position, particularly in the case of the “packets” stream – see table below

	Avg. Weight		
	Letters	Flats	Packets
Average Weight used by REIMS II	14.63	72.48	348.24
Inbound International	14.22	63.79	188.50
Minimum Outgoing International	10.57	59.81	58.66
Mean Outgoing International	14.48	103.76	257.44
Maximum Outgoing International	18.33	147.15	647.43

4.3.2 Delay in adjusting for changes in domestic tariffs

There is also a failure to take account of changes to domestic tariffs on a timely basis. For example the Irish calculations are based on tariffs introduced in 1991, and the tariff increases introduced in April 2002 (or any further adjustments later this year) will not be reflected until 2005 at the earliest.

4.3.3 Discount for Non Priority Mail

Another issue is that the terminal dues for non-priority mail are reduced by 10%, even where the operator does not provide priority and non-priority services for domestic customers. In these circumstances the cost savings to warrant a reduced priced service arise purely with the originating service provider and in transportation (eg sea instead of air)

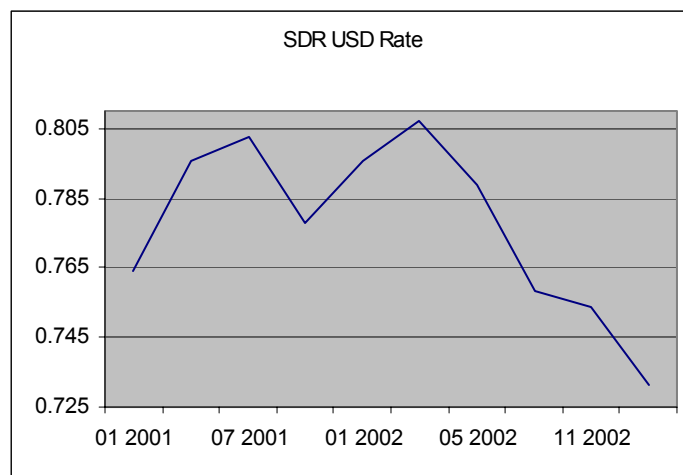
4.4 Currency Fluctuations

4.4.1 Special Drawing Rights SDR

Even though the vast majority of REIMS members are within the eurozone, or have currencies tracking the euro, the SDR is used as the underlying currency for the REIMS II agreement. The basis of valuation of the SDR is a basket of key national currencies that consist of Japanese yen, pound sterling, US dollar and euro. The most recent review of the weightings applied to the currencies comprising the SDR took place in October 2000 with the split agreed¹³ as follows:

Currency weights in SDR basket Jan 1, 2001	
U.S. dollar	45 %
Euro	29 %
Japanese yen	15 %
Pound sterling	11 %
Total	100%

The value of the SDR in U.S. dollar terms is calculated daily as the sum of the values in U.S. dollars of the specific amounts of the four currencies, based on exchange rates quoted at noon at the London market. The variance over the two year period from January 2001 is depicted below.



The use of the SDR as the basis of the currency for calculating the rate per item and the rate per kilogram makes the amounts receivable under the REIMS II agreement vulnerable to fluctuations in the currency market, when no such fluctuations should exist. There will be times when importers suffer, and other times when they gain. But why introduce such risks into an agreement between operators who for the most part share a common currency?

¹³ All details from the IMF web site ref <http://www.imf.org/external/np/exr/facts/sdr.HTM>

5 Conclusion

This analysis of An Post's principal agreement on Terminal Dues must be reviewed in relation to Regulation 10(1) of the European Communities (Postal Services) Regulations, 2002

5.1 REIMS II agreement

The evidence available to ComReg is that the REIMS II agreement, which governs the payment received for about 83% of all inbound international mail does not, at least as far as An Post is concerned, provide for terminal dues that are fixed in relation to the costs of processing incoming mail. There are numerous reasons for this, all of which need to be addressed:

- First the use of two part tariffs based on number of items, weight and format is not consistent with costs, where the primary driver appears to be format, with weight only playing a role in the packet stream.
- Secondly the adjustment “*to protect the first weightstep revenue*” by using a “standard” structure by format as a reference introduces a bias in favour of those countries with a large proportion of lightweight letters, and against those with above average proportions of heavier packets.
- Thirdly the calculation of the two part tariffs are based on a distribution of mail over the various weights steps that differs radically from the actual position, particularly in the case of the “packets” stream. There are also discrepancies in relation to the average weight of items.
- Fourthly there is a failure to take account of changes to domestic tariffs on a timely basis. The current rates are based on tariffs that were fixed in 1991 and it is understood that it will be 2005 at the earliest before the rates will reflect the major re-structuring of domestic tariffs that was started in 2002 and will be completed over the coming year. (Similarly it is noted that the reduction in domestic tariffs imposed on Deutsche Post from January this year will not be reflected until 2005).
- The standard percentage of 70% in 2001 rising to 75.7% in 2003 may not be appropriate.
- It is not appropriate to give a discount for economy mail if no additional economies can be made in the handling of such mail.
- The use of the Special Drawing Rights (SDR) rate generates an exposure to currency movements, with either foreign exchange losses (profits) or increased transactional costs (eg hedging). This is inappropriate in an agreement between members that are primarily operating within the eurozone

Additionally the information available to ComReg is that it is in the area open to competition (100g plus) that there is the biggest discrepancy and that the effect of this is to impose unacceptable barriers to competition.

5.2 Is An Post complying with Regulation 10(1)?

The financial results as set out in the separated accounts for 2001 are prima facie evidence that An Post is not complying. Also the analysis about the REIMS II agreement as it applies to An Post suggests that An Post is not complying with the principles set out in Regulation 10(1) of the European Communities (Postal Services) Regulations, 2002. The Commission has therefore requested An Post to re-negotiate its agreements to ensure that it complies with its statutory obligations.

Appendix 1

Article 47

Terminal dues. General provisions

1 Subject to article 52, each administration which receives letter-post items from another administration shall have the right to collect from the dispatching administration a payment for the costs incurred for the international mail received.

2 For the application of the provisions concerning the payment of terminal dues, postal administrations shall be classified as “industrialized countries” or “developing countries”, in accordance with the list drawn up for this purpose by Congress.

3 The provisions of the present Convention concerning the payment of terminal dues are transitional arrangements, moving towards a country specific payment system.

4 Access to the domestic service

4.1 Each administration shall make available to the other administrations all the rates, terms and conditions offered in its domestic service on conditions identical to those proposed to its national customers.

4.2 A dispatching administration may, on similar conditions, request the administration of an industrialized country of destination to offer it the same conditions that the latter offers to its national customers for equivalent items.

4.3 The administrations of developing countries shall indicate whether they authorize access on the conditions mentioned in 4.1.

4.3.1 When an administration of a developing country states that it authorizes access on the conditions offered in its domestic system, that authorization shall apply to all Union administrations on a non-discriminatory basis.

4.4 It shall be up to the administration of destination to decide whether the conditions of access to its domestic service have been met by the administration of origin.

5 The terminal dues rates for bulk mail shall not be higher than the most favourable rates applied by administrations of destination under bilateral or multilateral agreements concerning terminal dues. It shall be up to the administration of destination to decide whether the terms and conditions of access have been met by the administration of origin.

6 The Postal Operations Council shall be authorized to amend the payments mentioned in articles 48 to 51 between Congresses. Any revision carried out shall be based on reliable and representative economic and financial data and take into account all the provisions on terminal dues in the Convention and the Letter Post Regulations. Any amendment decided upon shall come into force at a date set by the Postal Operations Council.

7 Any administration may waive wholly or in part the payment provided for under 1.

8 The administrations concerned may, by bilateral or multilateral agreement, apply other payment systems for the settlement of terminal dues accounts.

Commentary

47.1 Congress adopted recommendation C 78/Washington 1989, inviting the governments of Union member countries to allocate the entire revenue derived from terminal dues to their postal service so as to enable the latter both to cover the costs of handling foreign-origin mail and to constitute the reserve funds required for replacing and improving its infrastructure.

47.2 The list of industrialized countries and developing countries is given in the Statistical and Accounting Guide published by the IB.

Article 48

Terminal dues. Provisions applicable to exchanges between industrialized countries

1 Payment for letter-post items, including bulk mail but excluding M bags, shall be established on the basis of the application of the rates per item and per kilogramme reflecting the handling costs in the

country of destination; these costs must be in relation with the domestic tariffs. The rates shall be calculated in accordance with the conditions specified in the Letter Post Regulations.

2 For the years 2001 to 2003, the rates per item and per kilogramme may not be higher than those calculated on the basis of 60% of the charge for a 20-gramme letter in the domestic service, or exceed the following rates:

2.1 for the year 2001, 0.158 SDR per item and 1.684 SDR per kilogramme;

2.2 for the year 2002, 0.172 SDR per item and 1.684 SDR per kilogramme;

2.3 for the year 2003, 0.215 SDR per item and 1.684 SDR per kilogramme.

3 For the years 2004 and 2005, the Postal Operations Council shall set the final percentage of the tariffs appropriate to each industrialized country in line with the relations between the costs and tariffs of each country.

4 For the period from the year 2001 to the year 2005, the rates to be applied may not be lower than 0.147 SDR per item and 1.491 SDR per kilogramme.

5 For M bags, the rate to be applied shall be 0.653 SDR per kilogramme.

5.1 M bags weighing less than 5 kilogrammes shall be considered as weighing 5 kilogrammes for terminal dues payment purposes.

6 The administration of destination shall have the right to collect an additional payment of 0.5 SDR per item in respect of the delivery of registered items and of 1 SDR per item in respect of the delivery of insured items.

7 The provisions applicable between industrialized countries shall apply to any developing country which declares that it wishes to abide by them and would like to be considered an industrialized country for purposes of the provisions of articles 48 to 50 and those of the corresponding Letter Post Regulations.

Article 49

Terminal dues. Provisions applicable to mail flows from developing countries to industrialized countries

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Article 50

Terminal dues. Provisions applicable to mail flows from industrialized countries to developing countries

....

Article 51

Terminal dues. Provisions applicable to exchanges between developing countries

.....

Prot Article XXIV
Terminal dues

7 In resolution C 46/1999, Congress instructs the Postal Operations Council to work out, before the year 2002, the methodology for converting the domestic tariffs and/or costs of postal administrations into terminal dues rates, and to define the definitive percentages of domestic tariffs for the years 2004 and 2005. If this instruction is not implemented in due course, Germany reserves the right to define itself the percentages pursuant to article 48.3 for the years 2004 and 2005 in accordance with the principles laid down in that article.

8 In resolution C 46/1999, Congress instructs the Postal Operations Council to work out, before the year 2002, the methodology for converting the domestic tariffs and/or costs of postal administrations into terminal dues rates and to define the definitive percentages of tariffs for the years 2004 and 2005. Notwithstanding article XXIV.7, reserving the right to define unilaterally the percentages pursuant to article 48.3 for the years 2004 and 2005 if the POC has not implemented the instruction of resolution C 46/1999 in due course, the Netherlands, the United Kingdom of Great Britain and Northern Ireland and the United States of America reserve the right to continue applying terminal dues rates based upon the methodology and percentages for converting domestic tariffs into terminal dues rates in effect for the years 2001 to 2003, unless agreement has been reached to apply different terminal dues rates on a mutually agreeable basis or unless the POC has otherwise determined the new percentages of domestic tariffs to be applied for the years 2004 and 2005.

10 The United States of America supports the terminal dues system enacted in articles 47 to 51. Nonetheless, with respect to members of the World Trade Organization, the United States of America reserves the right to implement these terminal dues agreements in accordance with the provisions adopted in future negotiations involving the General Agreement on Trade in Services.

11 Notwithstanding the reservations made under article XXIV, the following member countries shall reserve the right to fully apply the provisions approved by the Beijing Congress regarding terminal dues in their mutual relations with the countries having signed these reservations: Austria, Bahamas, Belize, Benin, Bolivia, Brazil, Bulgaria (Rep), Burkina Faso, Cameroon, Canada, Chile, Congo (Rep), Costa Rica, Côte d'Ivoire (Rep), Cuba, Czech Rep, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, Finland, France, Gabon, Greece, Grenada, Guatemala, Guyana, Haiti, Honduras (Rep), Italy, Jamaica, Kenya, Liechtenstein, Mali, Mauritania, Mexico, Moldova, Morocco, Netherlands, Nicaragua, Peru, Poland (Rep), Portugal, Saint Christopher (St Kitts) and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Senegal, Slovakia, South Africa, Spain, Sudan, Suriname, Sweden, Switzerland, Trinidad and Tobago, Tunisia, Uruguay and Venezuela.

Commentary

Prot XXIV.1 and 9 The adms marked with an asterisk (*) withdrew their reservations after the entry into force of the Beijing Acts.

Article RE 1007

Calculation of the rates of terminal dues applicable to exchanges between industrialized countries

1 The payment of terminal dues between industrialized countries shall be based on the charge for a 20-gramme letter as in RE 209 in the domestic service in force on 1 February 1999. In principle the priority service will be used as the basis.

Administrations of industrialized countries shall notify this charge, expressed in local currency, to the International Bureau, the rates provided for in article 48.4 of the Convention shall apply.

2 The International Bureau shall annually convert the value notified into a rate per item and a rate per kilogramme, expressed in SDR. The resultant rates shall be notified by circular no later than 1 July. They shall come into effect on 1 January of the following year and remain in force for the entire calendar year.

2.0bis To calculate the rates in SDR the International Bureau shall use the average monthly exchange rate of the latest 12-month period available.

2.1 Notwithstanding the provisions set out under 1, the International Bureau must be informed of any reduction in the charge for a 20-gramme letter in the domestic service by the administration concerned in order to calculate the new remuneration rate applicable for terminal dues. The new rate shall come into effect on 1 January of the following year and remain in force for the entire calendar year.

2.2 From 2004, if the charge for a 20-gramme letter in the domestic service increases, the new charge may be used for calculating the payment of terminal dues if it is notified to the International Bureau at least one year before its entry into force by the administration concerned.

2.3 The calculation and entry into force of the rates of terminal dues resulting from the new charges indicated under 2.1 and 2.2 shall be based on the provisions set out under 2 and 2.0bis.

Article RE 1008

General principles for statistical sampling and estimation of the number of items per kilogramme

1 The following principles shall apply to all types of mail flow sampling that are required for the purposes of payment of terminal dues based on per item and per kilogramme charges (eg sampling related to the revision mechanism, system harmonization mechanism, exchanges between industrialized administrations).

1.1 Both sampling and estimation of the average number of items per kilogramme shall reflect the composition of the mail. As the composition of the mail varies with transportation mode, container type, time of year (month), and day of week, the sample of the mail shall reflect these variations and resemble, as closely as is practical, the entire mail flow. Likewise, the method of estimation shall also reflect these variations.

1.2 The statistical sampling program shall be designed to achieve a target statistical precision of $\pm 5\%$ with 95% confidence and on estimate of IPK of the average number of items per kilogramme and of the number of items exchanged between postal administrations.

1.2.1 This target statistical precision defines a goal that all administrations which conduct sampling should attempt to achieve through their designs. It does not define a minimum precision requirement.

1.3 The design of the sampling programme, the selection of the samples, the method of collecting data and the estimation process shall conform to generally accepted principles of mathematical statistics, probability sampling theory, and design of statistical surveys.

1.4 Within the constraints of these principles, each administration has sufficient flexibility to adapt the design of its sampling program to the attributes of its mail flow and its resource constraints. However, each administration must notify the corresponding administration of its design decisions, including estimation approach, in advance of the observation period.

Commentary

1008 After each Congress, the IB prepares a guide for adms' use designed to facilitate the work of staff responsible for transit charges and terminal dues operations. This guide is called the "Statistical and Accounting Guide". It also includes chapters on airmail and postal parcels.

Article RE 1009

Mechanism for revising the rates of terminal dues

1 An administration sending or receiving flows of more than 150 tonnes of mail a year (excluding M bags) may ask the corresponding administration for the application of the revision mechanism described below for determining the new rate of terminal dues suited to their traffic. This request may be made at any time during the year subject to the following conditions:

1.1 when an administration of an industrialized country establishes that the average number of items received from a developing country is higher than the number indicated in article 49.2.2 of the Convention;

1.1.1 the mechanism provided for under 1.1 may apply to a given flow only if the administration of the industrialized country in question does not choose to apply the system harmonization mechanism provided for in article RE 1010 for the same flow;

1.2 when an administration of a developing country establishes that the average number of items sent to an industrialized country is lower than the number indicated in article 49.2.1 of the Convention;

1.3 when an administration of a developing country establishes that the average number of items received from an industrialized country or from another developing country is higher than the number indicated in articles 50.2.1 and 51.2.1 of the Convention.

2 The revision mechanism shall consist in carrying out a special statistical count to calculate the average number of items per kilogramme, in accordance with the procedures set out in article RE 1011.

3 The administration intending to apply the revision mechanism shall so notify the corresponding administration at least three months in advance.

4 The request shall be supported by statistical data showing that the average number of items per kilogramme of the flow concerned deviates from the world average. These statistical data shall be obtained from a sampling of at least six observation days over a period of one month.

5 While respecting the time limit provided for under 3, the statistical period shall commence at the beginning of a quarterly accounting period. The new rate shall take effect from this moment and shall remain in force for at least one year and until such time as a new revision is requested by one or other of the administrations concerned under the terms of articles 49, 50 and 51 of the Convention.

6 If the results of the statistical count confirm the finding of the administration requesting the revision mechanism, the latter shall be entitled to apply to the traffic in question the new rate of terminal dues, calculated in SDR as follows:

rate per kilogramme = (Average number of items per kg x 0.14) + 1.

7 In cases where the average number of items per kilogramme resulting from this revision falls between 14 and 21, the rate provided for in articles 49.1.1, 50.1.1 and 51.1.1 of the Convention shall apply to the traffic in question.

Article RE 1010

System harmonization mechanism

1 Calculation of the threshold

1.1 For each mail flow from a developing country to an industrialized country, the average weight of the mail dispatched for the years 1998 and 1999, and for 1999 increased by 21% excluding M bags, shall establish the threshold to be applied in the year 2001.

1.1.1 If the weight of mail dispatched in 1999, increased by 10%, is higher than the average weight of mail dispatched, calculated in accordance with the formula given in 1.1, that weight increased by 10% shall determine the threshold to be applied in 2001.

1.2 For subsequent years, this threshold shall be updated by a growth factor of 10% per annum.

1.3 In exceptional circumstances affecting the normal transmission of mail such as natural catastrophes, the Postal Operations Council may fix a reference period different from the one provided for under 1.1 for calculating the threshold at the request of an administration if it produces evidence that the period in question is not representative of its mail dispatched.

2 Request for application of the mechanism

2.1 The administration of destination intending to apply the harmonization mechanism shall so notify the corresponding administration. The request may be made at any time during the year.

2.1.1 The administration of destination which requests application of the harmonization mechanism provided for in this article for a flow from another administration shall waive application of the revision mechanism described in article RE 1009.

3 Application of the mechanism

3.1 The system harmonization mechanism shall consist in carrying out a special statistical count to calculate the average number of items per kilogramme, in accordance with the procedures set out in article RE 1011.

3.2 The mechanism shall apply to flows of more than 50 tonnes of mail per year, excluding M bags, which exceed, for a given calendar year, the threshold mentioned under 1. The results of the special statistical count shall be applied to the mail which exceeds the threshold in question.

3.3 The results of the special statistical count shall take effect at the beginning of the year in which the request for application of the mechanism is made. They shall remain in force for at least one year and until such time as a new request for a special statistical count is made by one or other of the administrations concerned.

3.3.1 When the request for application of the harmonization mechanism is made by 30 June of a given year, the results of the special statistical count may apply to mail received the preceding year, provided the harmonization mechanism has not been applied to it.

Article RE 1011

Special statistical count for the application of the revision mechanism or the system harmonization mechanism

1 To apply the revision mechanism or system harmonization mechanism, in the absence of a special agreement, a statistical count shall be carried out on the basis of a sampling of the flow in question.

1.1 The sampling shall reflect the composition of the mail, and shall conform to the principles set forth in article RE 1008. The statistical count shall include at least 24 days of observation within the twelve-month period to which it refers. On an observation day, administrations may employ subsampling, if it is not feasible to conduct a complete count of all the mail received during the day concerned.

1.1.1 As an alternative to sampling on a specified set of days, administrations may instead employ continuous sampling, in which a systematic sample of receptacles is selected for testing throughout the observation period. The administrations concerned shall agree on the statistical forms to be used.

1.2 The observation days shall be spread as uniformly as possible over the working days of the week (only working days for the office of exchange concerned shall be taken into consideration) and the modes of transportation over the entire mail flow. They shall be chosen on a yearly, quarterly or monthly basis as shown below:

1.2.1 yearly basis: at least 24 observation days in a twelve-month period; each working day of the week shall be observed at least once per quarter;

1.2.2 quarterly basis: at least six observation days in the quarter; each working day of the week shall be observed at least once, with the same procedure repeated the three following quarters;

1.2.3 monthly basis: 24 observation days in one month or; failing that, all the working days for that month; the statistical count shall take place during May in odd years and October in even years.

2 Estimation of the average number of items per kilogramme

2.1 In the case of sampling on a yearly or quarterly basis, the average annual number of items per kilogramme shall be the weighted average of the average numbers of items per kilogramme computed separately for each transportation mode and month. It shall be computed as follows:

2.1.1 The average number of items per kilogramme obtained by sampling a given transportation mode over a given month, shall be multiplied by the total weight of mail for that transportation mode and month, the aim being to estimate the total number of items for that transportation mode and month.

2.1.2 The sum of the estimations of the total number of items for each transportation mode and month shall be divided by the total annual weight of mail.

2.1.3 As an alternative, administrations may substitute either day or quarter for month in the procedure under 2.1.1 and 2.1.2.

2.2 In the case of sampling on a monthly basis, the average annual number of items per kilogramme shall be the weighted average of the average numbers of items per kilogramme computed separately for each transportation mode. It shall be computed as follows:

2.2.1 The average number of items per kilogramme obtained by sampling a given transportation mode, shall be multiplied by the total weight of mail for that transportation mode and month, the aim being to estimate the total number of items for that transportation mode.

2.2.2 The sum of the estimations of the total number of items for each transportation mode shall be divided by the total weight of mail of the month in question.

3 The administration requesting application of the revision mechanism or system harmonization mechanism shall choose the statistical system to be applied, including the estimation approach and shall notify the corresponding administration thereof so that the latter can take any necessary control measures.

4 The administration requesting application of the revision mechanism or system harmonization mechanism shall not be required to provide notification in advance of the observation days that it has chosen.

5 Preparation, transmission and acceptance of CN 53 and CN 54 bills

5.1 During the observation days, the office of exchange of the administration requesting application of the revision mechanism or system harmonization mechanism shall enter, for each mail sampled, the number and weight of the items on a CN 53 bill.

5.2 From the CN 53 bills, the administration that requested the special statistical count shall prepare a CN 54 recapitulative statement consolidating the data concerning the mails sampled by transportation mode and month for a calendar quarter.

5.3 The CN 54 recapitulative statement, accompanied by the CN 53 forms, shall be sent to the other administration concerned after each quarter and/ or at the end of the sampling period not later than one month after the dispatch or receipt of the last mail included in the statistics. In addition to hard copies these CN 53 and CN 54 bills shall be provided, whenever possible, in standardized electronic format.

5.4 If the other administration concerned has made no comment within three months of the date of transmission of the CN 54 recapitulative statement, the latter shall be regarded as fully accepted.

5.5 If the other administration concerned received the CN 53 and CN 54 in the standardized electronic format, and has made no comment within two months of the transmission of the CN 54 recapulative statement, the latter shall be regarded as fully accepted.

6 Preparation, transmission and acceptance of CN 54bis recapulative statements

6.1 From the accepted CN 54 and CN 56 recapulative statements, the administration that requested the special statistical count shall prepare a CN 54bis annual statement consolidating the data concerning the mails sampled by transportation mode and quarter.

6.2 From the CN 54bis annual statement, the administration that requested the statistical count shall calculate the average number of items per kilogramme and, in case of application of the revision mechanism, the new rate of terminal dues by application of the formula set forth in article RE 1009.6.

6.3 The CN 54bis recapulative annual statement shall be sent to the other administration concerned not later than one month after the acceptance of the CN 54 and CN 56 recapulative statements concerning the fourth quarter. In addition to hard copies, the CN 54bis shall be provided, whenever possible, in standardized electronic format.

6.4 If the other administration concerned received the CN 54bis, and has made no comment within one month of the transmission of the CN 54bis annual statement, the latter shall be regarded as fully accepted.

7 In cases where the other administration concerned has carried out a control statistical count, the data established by the administration that requested application of the revision mechanism shall be regarded as valid if they do not differ by more than 10% from those established by the other administration.

7.1 If there is a difference of more than 10%, the administrations concerned shall agree on the values to be used for settling the terminal dues, taking into account the precision of the statistical systems used by each administration.

8 In the event of disagreement between the two parties about the application of the revision mechanism, the administrations may resort to the arbitration procedure provided for in article 129 of the General Regulations.

Commentary

1011.6.1 For the model of form CN 55, see art RE 1017.

1011.6.3 For the model of form CN 56, see art RE 1017.

Article 11

Postage charges and air surcharges

1 The administration of origin shall fix the postage charges for the conveyance of letter-post items throughout the entire extent of the Union. The postage charges shall cover delivery of the items to the place of address provided that this delivery service is operated in the country of destination for the items in question.

2 The charges applicable to priority letter-post items shall include any additional costs of fast transmission.

3 Administrations that apply the system based on the contents of letterpost items shall be authorized:

3.1 to collect air surcharges for letter-post airmail items;

3.2 to collect for surface air-lifted "S.A.L." items with reduced priority surcharges lower than those which they collect for airmail items;

3.3 to fix combined charges for the prepayment of airmail items and S.A.L. items, taking into account the cost of the postal services rendered by them and the cost of the air conveyance.

4 Administrations shall set the air surcharges to be collected for air parcels.

5 The surcharges shall be related to the air conveyance dues and shall be uniform for at least the whole of the territory of each country of destination whatever the route used; in calculating the air surcharge for a letter-post airmail item, administrations shall be authorized to take into account the weight of any forms used by the public which may be attached to the item.

6 The administration of origin may allow, for letter-post items containing:

6.1 newspapers and periodicals published in its country, a reduction of not more than 50% in principle of the tariff applicable to the category of items used;

6.2 books and pamphlets, music scores and maps, provided they contain no publicity matter or advertisement other than that appearing on the cover or the fly leaves, the same reduction as that provided for under 6.1.

7 The administration of origin may apply to non-standardized items charges different from those applicable to the standardized items defined in the Letter Post Regulations.

8 The reductions in charges pursuant to 6 shall also apply to items conveyed by air, but no reduction shall be granted on the portion of the charge intended to cover the costs of such conveyance.

Commentary

11.2 Adms using the classification system based on the speed of treatment of items may collect higher charges for priority than for non-priority items.

11.3.2 This option ratifies a practice quite common among adms providing S.A.L. services. For the decisions taken by adms in this respect, see List CN 68, part III, D.

Terminal Dues Agreements

11.3.3 When the weight steps adopted for fixing combined charges are lower than those laid down in art RE 301, the guidelines charges may be reduced in the same proportion.

11.5 The phrase “for at least the whole of the territory of each country of destination” allows adms to form groups of countries of destination for a uniform air surcharge and for combined charges.

11.6 The reduction may be allowed also for newspapers and periodicals sent, not as printed papers but as other categories of item, in particular, priority and non-priority items.

Article RE 301

Postage charges

1 Guideline postage charges are given in the table below:

Category	Weight step	Guideline charges
1	2	3
SDR		
1.1 Charges in the system based on speed:		
Priority items	up to 20 g	0.37
	above 20 g up to 100 g	0.88
	above 100 g up to 250 g	1.76
	above 250 g up to 500 g	3.38
	above 500 g up to 1000 g	5.88
	above 1000 g up to 2000 g	9.56
	per additional step of 1000 g	4.78 (optional)
Non-priority items	up to 20 g	0.18
	above 20 g up to 100 g	0.40
	above 100 g up to 250 g	0.74
	above 250 g up to 500 g	1.32
	above 500 g up to 1000 g	2.21
	above 1000 g up to 2000 g	3.09
	per additional step of 1000 g	1.54 (optional)
.....		