

APPENDIX I — Overview of the Universal Postal Union

Introduction

The Universal Postal Union (UPU) is undergoing a transition in its understanding of its role in the international postal community. The UPU has traditionally seen itself as the primary, if not exclusive, agent for the exchange of mail among countries. It now must define its role in supporting government-mandated mail services at an international level in the context of a larger and more rapidly growing private sector market for delivery services. The UPU member countries and their postal operators are changing their expectations for the UPU. While all UPU members continue to support the UPU as the forum for fulfilling basic universal service commitments at a global level, the more commercially aggressive postal operators are shifting attention and resources to developing operational capabilities outside the framework of the UPU and in the larger delivery services market. Private operators, in turn, see many postal operators becoming more commercially aggressive and expect governments and the UPU to open up to the private operators' own issues and interests. Furthermore, they expect governments and the UPU to be even-handed when it comes to competition in the market place. The future of the UPU depends upon its ability to evolve in response to increasingly diverse expectations and requirements.

Origins of the Universal Postal Union

The Universal Postal Union (UPU) is an intergovernmental organization and United Nations specialized agency with 189 member countries. The concept for this organization was first proposed by U.S. Postmaster General Montgomery Blair in 1863. Established in 1874 by the Treaty of Bern, which was signed by twenty-two nations, it is now the second oldest treaty organization in the world. Originally known as the "General Postal Union," after rapid expansion in membership its name was changed in 1878 to the "Universal Postal Union." On July 1, 1948, the United Nations recognized that the UPU met the conditions set out by its Charter to become a United Nations specialized agency (i.e., that the UPU was set up by an intergovernmental agreement and has wide international responsibilities in the economic field). The United Nations also recognized the UPU as the only organization responsible for international postal matters.

Role and Function

At its inception, the UPU's main function was to provide a forum in which national postal administrations could come together and agree on a common set of international postal services. The services set forth in the UPU Acts apply only to operators that have been designated by their governments to provide these services in fulfillment of a domestic universal service obligation. The UPU Acts reflect, at a global level, the commitment of governments, at a national level, to ensure the provision of a basic set of postal services.

The UPU distinguishes between mandatory international services, which all members are obligated to provide, and other optional international services. Mandatory services

include letters and postcards (known as “LC”), printed papers, literature for the blind, small packets (known as “AO”) and parcels. UPU regulations govern the operational procedures, inter-administration charges and payment mechanisms for these products. Optional services include Express Mail (EMS) and financial services such as money orders. The operational procedures, inter-administration charges and payment mechanisms for these optional services are governed by bilateral agreement.

Other key functions of the UPU are to initiate and support programs to improve international quality of service, to promote technological enhancements, to advance mail security, to support marketing efforts, to provide training and technical support, and to transfer knowledge and skills required to promote improved services in developing countries. The UPU also administers a Quality of Service Fund established at the 1999 Beijing Congress. Funded by a portion of the remuneration paid by industrialized countries to developing countries for letter mail delivery, these monies will be used for postal infrastructure development and service improvement in developing countries.

Delivery charges

Another important function of the UPU is to set the delivery charges for mandatory letter post services and the procedures for settlement. With respect to letters and small packets, prior to 1969 it was assumed that a letter sent abroad generated a letter in return. Therefore, postal administrations did not compensate each other as these payments were viewed to balance out. In 1969, in response to concerns of newly decolonized developing countries that were importing far more mail than they were exporting, the UPU adopted interadministration charges to cover the cost of delivery of letter post items; this remuneration became known as *terminal dues*. Terminal dues were initially standardized for all members based on global average costs in order to promote universal services at affordable prices in a manner that was administratively feasible. The structure of the rates evolved over time to reflect more appropriately mail flow characteristics between countries. In 1999, the UPU Beijing Congress took a significant step toward a more cost-based system for industrialized countries, while it continued to apply a global average cost system for developing countries. (The UPU has twenty-nine industrialized country members and 160 developing country members in accordance with the definition of the United Nations Development Program.)

While terminal dues within the UPU must be approved by a majority of the membership, postal administrations may also pursue bilateral or regional arrangements outside the UPU structure. Some administrations that offer more commercial letter post services outside the scope of the traditional universal service obligation, particularly in Europe, have chosen to negotiate such bilateral or regional agreements for their most significant flows. Most administrations, however, continue to apply UPU terminal dues rates.

Unlike with terminal dues, postal administrations set their UPU parcel delivery charges unilaterally. Initially many postal administrations set these rates very high as there was little competition in the parcels market. With the rise of competition in the parcels market, many posts have negotiated parcel delivery rates outside of the UPU, either with other postal administrations or private delivery agents.

Interadministration payments for optional services within the UPU, which include Express Mail and financial services, are also set unilaterally by each national postal administration.

The Rise of Competition

When the UPU was established in 1874, national postal administrations were the primary, if not sole, providers of domestic and international delivery services. Competition was not a significant issue. The emergence of a global marketplace for delivery services, and increasing competition from the private sector for domestic and international delivery markets not covered by national monopolies, has raised questions regarding the role of the UPU and its impact on the private sector. The emergence of competition from the private sector has also raised questions within national postal administrations as to their own involvement in more commercial activities in order to meet the changing needs of national consumers and to maintain the viability of a universal service network in the face of market developments.

These questions have been addressed most thoroughly in Europe where during the past few years the European Commission and national governments have given close scrutiny to the relationship between public postal operators and private operators in addressing competition in the postal sector. Dialogue around this issue has sought to address two questions:

- How can governments help public postal operators fulfill their universal service obligations and become more commercially viable and self-sustaining in a competitive environment so that consumers have access to the highest quality and lowest priced services and;
- As public postal operators become more commercially viable, how can governments ensure that they do not take advantage of their monopoly protection while also promoting fair competition among public and private operators?

In an effort to promote competition and improve the quality of postal services, in the early 1990s most European governments responded to these questions by gradually reducing the scope of the postal monopoly and exposing public postal operators to more competition. The European Commission is seeking to fully liberalize the postal market and drastically reduce or even eliminate postal monopolies by 2009. While public postal operators are still responsible for fulfilling the universal service obligations defined by governments, they are free to offer services on a more commercial basis.

In order to implement most effectively this move towards a more liberalized market for postal services, European governments have also taken measures to separate regulatory functions related to national delivery services from the operational functions related to such services. The regulators oversee fulfillment of universal service obligations, including quality of service standards and affordable prices, essentially for monopoly traffic. Usually part of a government ministry, they are to assume a neutral position in overseeing competition between the public and private operators in order to ensure fair competition and to guarantee that consumer interests are addressed.

The changes in the European postal market and exposure of European postal operators to greater competition in the letter market spurred a flurry of alliances and

then acquisitions by European posts as they positioned themselves in the European postal market. Many European postal operators initially adopted a strategy focusing on improving express mail services in order to compete with the private sector and generate revenues that would enable them to continue to support their costly universal service networks. In 1994, the postal administrations of the Netherlands, France, Germany, Sweden, and Canada created a joint venture with the multinational integrator TNT. This alliance was the first significant break from traditional arrangements among national postal administrations for mail delivery as it set a new precedent for alliances between public and private operators.

This new arrangement proved inadequate, however. In a second watershed event, the Dutch Post bought out their postal partners and purchased TNT, marking the first time a postal administration had ever acquired a private global network. TNT's purchase pushed other European postal operators to reevaluate their international strategies. The strategies of four posts, TNT Post Group of the Netherlands, Deutsche Post World Net of Germany, Consignia of Great Britain, and La Poste of France best illustrate the aggressiveness of the strategies pursued.

Netherlands

PTT Post of the Netherlands was one of the first posts to pursue commercial activities outside its borders. In the late 1960s, PTT Post partnered with KLM Airlines to establish operational hubs in the United States and sell its international services to U.S. customers, particularly for publications. They later expanded these services to include electronic transmission and distribution of letters and printed matter, including printing, sorting, labeling, and address correction. PTT Post's purchase of TNT in 1996 for \$1.45 billion sent shock waves through the postal world. This acquisition gave PTT Post, now called TNT Post Group, a global capability in the parcels, expedited, and logistics markets. This capability was not limited to Europe and enabled the Dutch Post to compete at a global level.

Germany

Following the collapse of the joint venture with TNT, Deutsche Post World Net began to round out its express and parcels network by purchasing private ground delivery networks throughout Europe. In 1998, Deutsche Post purchased its own share of a multinational integrator—DHL. This share was initially 25 percent and has grown to more than 50 percent. Deutsche Post's stake in DHL allowed it to compete in the express and parcels market both within and outside of Europe.

Deutsche Post next expanded into the market for letters and printed matter. It acquired Global Mail in the United States, which was reported to be the largest private provider of international mail services. Deutsche Post's acquisitions also included Yellowstone International Corporation in Illinois, International Postal Consultants in Maryland, the international mail division of Skymail International Inc., in Utah, and QuickMail in New York.

Lastly, Deutsche Post rounded out its market strategy by moving into the global freight forwarding and logistics markets. It entered this market with the purchase of Danzas, the Swiss leader in sea and air freight forwarding, warehousing and logistics, with

offices in sixty countries. Deutsche Post's subsequent purchase of Air Express International (AEI) in the United States gave it ownership of the world's largest global logistics network.

In just two years, Deutsche Post spent more than \$5 billion in acquisitions that would make it a major player in the market for delivery services, freight forwarding, and logistics. These acquisitions enabled Deutsche Post World Net to compete with public and private operators both within and outside of Europe.

Great Britain

The initial postal strategy of Great Britain was to concentrate on the market for letters and printed matter, including catalogues and advertising mail, both within and outside of Europe. The postal administration of Great Britain, now called Consignia, established its own sales organization in the United States which offered U.S. consumers not only delivery in Europe, but also access to value-added services such as mail preparation. In 1997, Royal Mail US had invested more than \$20 million to expand its sales and operations hubs and was deploying an aggressive strategy using preferential wholesale and retail pricing policies. In 1999, the British moved into the market for expedited delivery in the United States when it spent \$40 million to purchase Citipost Group in New York. Citipost provided next-day document service in 155 commercial areas in the United States.

In sum, the British positioned themselves to compete with private providers in the United States and with the U.S. Postal Service. While the services offered by the U.S. Postal Service were set under U.S. law, the British were able to offer services to U.S. consumers and businesses that were set by British law.

France

La Poste of France has pursued activities in the markets for letters and printed matter, parcels and expedited services. La Poste has formed an alliance with Federal Express for the delivery of express mail globally. For parcels in Europe, La Poste has also purchased its own ground delivery network, Deutscher Paket Dienst (DPD). In the United States, like the British and several other European postal administrations, La Poste has set up sales activities to offer services for delivery of letters and printed matter to U.S. consumers, in direct competition with private operators and the U.S. Postal Service.

Extra-territorial Offices of Exchange (ETOE)

In addition to the establishment of postal alliances and acquisitions as part of their postal strategy, some postal administrations, mainly in Europe, have recently established extra-territorial offices of exchange (ETOE). ETOEs are offices that postal operators establish outside of their national territory to process and tender international mail. Whereas private mail consolidators must pay domestic postage rates to access postal networks, ETOE operators seek to access the same services under the provisions of the UPU Acts. Furthermore, ETOE operators may choose to offer services to only the most lucrative markets, while the national postal operator must offer services to all citizens.

The U.S. Postal Service has adopted the position that it will not accept items tendered by ETOEs under UPU documentation for delivery under UPU terminal dues rates. In the Postal Service's view, the services that postal operators provide in fulfillment of their universal service obligations under the UPU Acts are services agreed upon by governments. The services that a postal operator may provide from an ETOE established outside its national territory are strictly commercial services. ETOEs should not, therefore, be able to access postal networks under the terms of the UPU Acts, since they are not treaty-based services fulfilling a country's obligations under the UPU Acts. Furthermore, as private operators do not have access to postal networks under the UPU Acts, permitting ETOEs to access postal networks under the terms of the UPU Acts arguably creates an unequal playing field.

U.S. Postal Service's reaction to the rise of competition

The U.S. Postal Service is developing its own strategies to respond to these changes in the postal market, and particularly to the growing competition from European postal operators that are able to pursue more commercial activities.

In the premium market for expedited services, the Postal Service has formed an alliance with DHL for delivery of letters and packages weighing up to seventy pounds. This premium product offers customers a guaranteed delivery time of two days.

In the Express Mail and parcels market, the Postal Service recently signed an agreement with Consignia of Great Britain for delivery of Express Mail (EMS) and air parcels in twenty-three countries in Europe by accessing the General Parcel network that Consignia has acquired. This agreement has enabled the Postal Service to offer consumers enhanced features such as tracking while maintaining affordable rates for expedited handling. In the Asia-Pacific region, the Postal Service is working diligently with its postal partners to implement a system of pay-for-performance for EMS. By linking delivery payments to service performance, the Postal Service intends to drive service improvements for Express Mail both in Asia-Pacific and the United States. For delivery of Express Mail and parcels in the rest of the world, the Postal Service continues to work with national postal administrations. Through the UPU, the Postal Service is pushing efforts to improve service quality for EMS and parcels by introducing value-added features such as tracking and delivery to all individual residences.

UPU reaction to the rise of competition

The rise of competition in the market for postal products and services, and the liberalization of postal markets in Europe, has also had an impact on the UPU. While the UPU does not have a regulatory role at the global level that postal regulators have at the national level, efforts were made to apply the principle of separation of regulatory and operational functions that existed in Europe to the UPU. The majority of UPU members, however, had not separated operational postal functions from regulatory ones. Nonetheless, in 1994 the UPU reorganized its activities into two bodies, the Postal Operations Council (POC) and the Council of Administration (CA).

The POC has the responsibility for addressing issues of an operational and technical nature. National postal administrations represent UPU members in the POC. Where there is a postal regulator, it may participate in an advisory capacity.

The CA, on the other hand, addresses issues of government policy related to the postal sector. UPU member countries that have separated operational and regulatory postal functions assign lead responsibility in the CA to the postal regulator, with the postal operator serving in an advisory capacity. UPU countries not organized along operational/regulatory lines for postal matters, which are still the majority of UPU members, send representatives from national postal administrations with expertise in policy matters.

U.S. Government Participation in the UPU

Until 1998, the U.S. Postal Service led the U.S. delegation to the UPU Postal Operations Council and Council of Administration. The statutory basis for the U.S. Postal Service to represent the United States in the UPU was 39 U.S.C. 407 (a), which provided in pertinent part: “The Postal Service, with the consent of the President, may negotiate and conclude postal treaties or conventions...” The Postal Service exercised this authority in conformity with the foreign policy of the United States by coordinating with the State Department as the President’s representative for foreign policy.

In the years leading up to the 1999 Beijing Congress, however, questions regarding the role of the UPU and the Postal Service’s participation in the organization rose to the forefront of U.S. international postal policy debate. In the view of the private operators, decisions taken in the UPU also affected their interests. More specifically, they saw the UPU as giving public operators access to postal delivery networks in other countries at conditions that were more advantageous than those available to private operators. They also believed that public operators, by virtue of their UPU participation, had a platform to promote postal issues on a more global scale, particularly with regard to their relationship with national customs authorities in other countries. They called for more openness, greater transparency and increased involvement by private sector stakeholders in the UPU. Lastly, they wanted to see further separation of operational and regulatory functions in the organization.

The Postal Service, on the other hand, asserted that the UPU Acts constituted an international treaty that applied only to postal operators designated by their governments to fulfill universal service obligations; they did not regulate private operators. Furthermore, it claimed that because only the Postal Service was obligated to fulfill the UPU Acts, it was only appropriate that the Postal Service take the lead for the United States in formulating the procedures for mail exchange with other national postal administrations. In the Postal Service’s view, it was the only U.S. government agency with the expertise and technical knowledge to negotiate procedures for exchanging international mail among universal service providers.

In 1998, these issues came to a head when Congress amended 39 U.S.C. 407. This amendment transferred lead responsibility for formulation of international postal policy and lead representation in the UPU from the Postal Service to the Department of State. In implementing this legislation, the State Department now leads delegations to the CA and UPU Congress, while the Postal Service continues to lead delegations to the POC, subject to policy guidance from the State Department.

1999 UPU Beijing Congress

The 1999 UPU Beijing Congress was the first time the U.S. State Department, and not the Postal Service, led a U.S. delegation to a UPU Congress. The U.S. delegation was the only delegation to have representatives from the private sector. The State Department was responsible for building consensus on postal issues not only with other countries but within the delegation itself.

As head of delegation, the State Department's highest priority was UPU reform. The State Department called for greater openness and transparency in the UPU and a wider role for private sector stakeholders (associations of private delivery operators, mailers, postal suppliers, trade unions, etc.). UPU reform efforts encountered significant resistance, however, as the response of most UPU members was initially not very positive. Many questioned the contributions of the private sector in promoting universal service. The only real support came from some European regulators who favored applying European market liberalization policies to the UPU.

Following intense lobbying efforts, the UPU Congress ultimately adopted two resolutions addressing UPU reform. The first resolution approved the creation of an Advisory Group within the UPU. The Advisory Group was to be made up of international nongovernmental organizations, including consumers' associations, associations of private operators, organizations of labor union and mail users' associations. Its purpose was to give these postal stakeholders an opportunity to offer advice and input to the POC and CA on issues of importance to the UPU and the postal industry. These issues included market developments, international trade and commerce, security, the environment and postal development. The Advisory Group would meet twice annually and members could request to observe meetings of the POC and CA.

The second resolution called for the creation of a High-Level Group. This group, composed of twenty-six UPU members including the United States, was mandated to study how to open the UPU to wider participation by the private sector while ensuring support for universal service and the development needs of developing countries. It was tasked with reporting the findings of its study to the 2001 Council of Administration. The U.S. delegation to the High-Level Group was led by the Department of State and included representatives from the Postal Service, private delivery operators, mailers' associations and the Postal Rate Commission.

New mission and structure

The 2001 Council of Administration adopted several recommendations made by the High-Level Group. First, the High-Level Group had debated who should be entitled to membership in the UPU. While the UPU had always been an intergovernmental organization whose members were the governments themselves, some members supported the view that postal operators, regulators and private sector stakeholders should have their own individual membership and membership rights. The CA approved the High-Level Group's recommendation, however, that the UPU continue to be an intergovernmental organization whose members were national governments.

Second, the CA agreed that the UPU's mission would be to promote service quality improvements for universal postal services, ensure freedom of transit for postal items,

promote standardization and use of technology, advance dialogue among all postal stakeholders, provide technical assistance for developing countries, and address customer needs.

Most significantly, the CA approved the creation of a third working body, the Consultative Committee, which would include representatives from the private sector and would give them a wider role and more rights than that of the Advisory Group. The Committee's objective would be to represent the interests of the wider international postal sector in the UPU (private operators, mailers, postal suppliers, labor unions, etc) by 1) providing a framework for effective dialogue between stakeholders; 2) providing input to the relevant work of the CA, POC and UPU Congress; and 3) considering wider sector issues and making recommendations. The most significant new feature of the Consultative Committee was that it gave the private sector members their own status as observers in meetings of the CA, POC, and UPU Congress.

Lastly, the Council of Administration would continue to deal with strategic and governmental policy issues, including further UPU reform measures, matters of international law and the budget. The Postal Operations Council would continue to facilitate interconnection among operators responsible for delivering the services set out in the UPU Acts and would be responsible for standards, procedures and operational and compensation arrangements necessary to meet treaty obligations.

The 2001 CA decided that most of the High-Level Group's recommendations could be implemented immediately. These changes would serve as interim measures only, however, until the 2004 Abidjan Congress. The UPU would therefore have almost three years to evaluate these changes and to consider further reform measures before making final recommendations to the Abidjan Congress.

Perspective on the U.S. delivery services market

To put the U.S. international delivery services market in perspective, it is important to note that international mail only accounts for roughly 3 percent of total revenues of the Postal Service.

According to market research conducted by the Postal Service for the year 2000, the overall U.S. international delivery services market, inbound and outbound, was valued at more than \$10 billion. Expedited and parcel service revenues make up about 83 percent of this marketing and are growing steadily. It is in this lion's share of the international delivery service market that the private multinational integrators dominate; the Postal Service only has an approximate 5 percent revenue share.

Letter and printed matter revenues comprise only about 17 percent of the U.S. international delivery services market; furthermore with the rise of electronic substitution, overall letter volumes and revenues are starting to decline. The U.S. Postal Service has the largest share of this market, about 75 percent by revenue.

Looking Ahead

The UPU continues to reflect, on an international level, the universal service commitments of governments at a national level and the role they assign to national postal operators to fulfill these commitments. The challenge of the UPU is to ensure

that it also reflects varying levels of postal reform and the liberalization of postal markets around the world.

There are varying views on the future role that the UPU will play in the overall market for delivery services. One view projects the UPU as a kind of global regulator promoting the opening up of national and international delivery service markets to all operators on equal terms. In this view, national postal monopolies will diminish, postal operators will be privatized, and several operators may be licensed or otherwise enabled to compete in fulfilling universal service obligations at the national level. At the international level, and depending upon the country, there may no longer be a single national operator designated to fulfill UPU service obligations. Rather, many operators, postal or private, could compete to provide these services. According to this view, the telecommunications sector has already proceeded along this path, at least with respect to long-distance services, and the postal sector is likely to follow. Furthermore, this view asserts that what the World Trade Organization is to global trade and commerce, the UPU could become for the delivery services sector. Developments in Europe provide some support for this view.

Another view projects the UPU as continuing its role as the forum for intergovernmental cooperation in assuring a basic set of universal services at affordable prices on a global level. In this view, although postal monopolies may diminish, and although the market for package and express delivery services will continue to grow outside the framework of universal service obligations, governments will maintain their commitments to a basic set of universal services for the foreseeable future. Furthermore, to enhance their universal service capabilities, governments in developing countries will continue an interest in the postal development and technical cooperation support functions of the UPU. For both industrialized and developing countries, the UPU would continue to have a role with respect to mail security, standardization, interoperability and the application of new technology to mail exchanges. The slower pace of postal reform outside Europe provides some support for this view.

For now, the UPU continues its struggle to find ways to accommodate both perspectives. The more commercially aggressive postal operators will continue their efforts to develop independent delivery networks, outside the UPU framework, through acquisitions, joint ventures or alliances. Private operators will continue to push for reform and market-opening measures, both in the World Trade Organization and in the UPU.