



COVERSHEET

Minister	Hon Kris Faafoi	Portfolio	Broadcasting, Communications and Digital Media
Title of Cabinet paper	Universal Postal Union Extraordinary Congress 2019: Review of the remuneration for E format letter-post items	Date to be published	28 October 2019

List of documents that have been proactively released		
Date	Title	Author
16 September 2019	Universal Postal Union Extraordinary Congress 2019: Review of the remuneration for E format letter-post items	Office of the Minister of Broadcasting, Communications and Digital Media
16 September 2019	DEV Minute: Universal Postal Union Extraordinary Congress 2019: Review of the remuneration for E format letter-post items	Cabinet Office

Information redacted	YES / NO
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In Confidence

Office of the Minister of Broadcasting, Communications and Digital Media

Chair, Cabinet Economic Development Committee

Universal Postal Union Extraordinary Congress 2019: Review of the remuneration for E format letter-post items

Proposal

1. This paper seeks Cabinet approval for the negotiating mandate that New Zealand will take on options for reviewing international postal remuneration to come before the Extraordinary Congress of the Universal Postal Union to be held in Geneva, Switzerland, from 24 – 26 September 2019.
2. It also seeks Cabinet authorisation for the New Zealand delegation to sign the treaty level Final Acts, subject to them being consistent with negotiating parameters set out in this paper.

Executive summary

3. On 17 October 2018, the Government of the United States of America (US) officially notified the Universal Postal Union (UPU) of its intention to withdraw from the organisation. [Redacted] International relations [Redacted]
[Redacted] The US advises that it will withdraw from the UPU on 17 October 2019 unless the UPU reforms its postal remuneration system.
4. New Zealand is sympathetic to attempts to improve fairness in cost recovery relating to small parcels. [Redacted] Commercial Information [Redacted]
[Redacted]
5. In response to the concerns around levels of remuneration and the possible US withdrawal from the UPU, the UPU has launched an expedited process to urgently address the issue.
6. [Redacted] International relations [Redacted]
[Redacted] If the US exits the UPU, other countries may follow suit. This could potentially lead the UPU to collapse, resulting in a long-term disruption to international postal traffic flows, until alternatives to UPU standards and systems are developed.

7. I am seeking Cabinet approval for the negotiating mandate that New Zealand Post will take on options to come before the Geneva Congress. A high-level mandate is necessary as all options amend the UPU Acts in different ways, and other options may come from the floor, meaning negotiating flexibility is required.
8. I also seek Cabinet approval for the delegation to be authorised to sign the treaty level Final Acts, subject to them being consistent with negotiating parameters set out in this paper. [REDACTED] Legal professional privilege [REDACTED]
9. Following the Geneva Extraordinary Congress, and once the final texts of the UPU Acts have been agreed, Cabinet approval will be sought on the final treaty texts for New Zealand to sign and ratify the treaty.

Background

The Universal Postal Union

10. The Universal Postal Union (UPU) is an inter-governmental organisation which regulates the flow of mail between 192 member countries via the administration of various multilateral international agreements. Its supreme body is the four-yearly Congress, which sets the UPU's work programme and budget, elects officials and reviews the international postal treaties that underpin it, known as the UPU Acts.

Current terminal dues system

11. Terminal dues (TD) are the payment by postal operators in an origin country to a postal operator in a destination country for the delivery of letter mail items (items up to 2kg including packets) across borders. Since 1999, there have been two terminal dues regimes: one for developing countries (the "transitional system") and one for industrialised countries (the "target system"). The dual regimes recognise that not all countries are at the same stage of development. The aim is to progressively incorporate the developing countries into the system that applies to industrialised countries.

E Format letter-post items

12. E format letter-post items are bulky letters and small packets. With increased volume of small packets being exchanged through letter-post networks and due to the rise in e-commerce around the world, some UPU member countries including the US have been seeking a new rate structure of compensation for handling of higher volumes of heavier items.
13. For a high-import country (like New Zealand) it is more expensive to deliver E format items. [REDACTED] Commercial Information [REDACTED]

[REDACTED] In addition, the manual sorting required and odd shapes make delivery costs much higher. There is also an impact on border clearance for risk assessment and revenue collection from the growth in E-format mail items, as manual screening

is required.

14. At the 2016 Congress, it was agreed that E format items would be compensated differently from other letter-post formats starting from 2018. However, since then, there has been increasing concern from some member countries that remuneration levels are still not adequate and do not recognise the pressure that growth in e-commerce as well as rising postal volumes puts on the postal networks of high import countries.

Why is there a need for an extraordinary Congress?


15. Concerns around remuneration levels have culminated in the notification from the Government of the United States of America (US) that it intends to withdraw from the UPU. [REDACTED] International relations [REDACTED] The US advises that it will withdraw from the UPU on 17 October 2019 unless the UPU reforms its postal remuneration system.
16. In response to the concerns around levels of remuneration from members and the US' possible withdrawal from the UPU, the UPU has launched an expedited process aimed to urgently address the issue, with a view to developing proposals to amend the UPU Acts, before the next regular four-yearly Congress in 2020. The Geneva Extraordinary Congress seeks to address these issues by presenting options to consider a new remuneration methodology for E format letter-post items.

Risks associated with the US withdrawal from the UPU

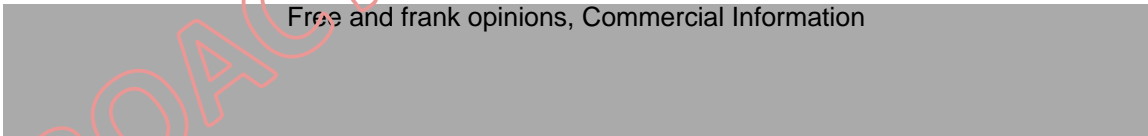
17. [REDACTED] International relations, Free and frank opinions [REDACTED] This could potentially lead the UPU to collapse, resulting in a long-term disruption to international postal traffic flows, until alternatives to UPU standards and systems are developed.
18. The US is a founding member of the UPU and major contributor to its budget. Any shortfall in UPU financing as a result of the US' withdrawal will be passed on to other members pro rata. Given many postal operators are already suffering financial stress, this could be an unsustainable financial burden for postal operators.
19. If the US withdraws from the UPU it would also signify the loss of US funds contributed to the UPU's extraordinary budget and contributions to the Quality of Service fund - a fund dedicated to improving domestic and international postal services in developing countries for the betterment of the international postal community and its sending and receiving customers.
20. However, there are not just financial risks associated with the withdrawal of the US from the UPU. It would also result in a loss of capability as many of the key UPU staffing positions are filled by US delegates who Chair or Co-Chair and contribute as

experts to the various Councils, Committees, Standing Groups, task forces and teams progressing the UPU work plans.

Mitigations

21.  International relations
22. In the event the US does withdraw from the UPU, New Zealand Customs has confirmed that the current customs and border clearance processes are able to continue for mail from the US causing minimal disruption during any transition period.

Framework for negotiating parameters

23. When considering the rates for TD, there are three previously multilaterally agreed principles to consider:
- 23.1. sustainability of the international postal network;
 - 23.2. affordability to the sender and sending operator; and
 - 23.3. cost coverage for the delivery operator.
24.  Free and frank opinions, Commercial Information
25. However, not all known options are sufficient to prevent the US leaving the UPU, and other countries signalling a similar intent. I recommend that an additional outcome of the negotiations should be to support retaining all current members in the UPU. I anticipate that this will be achieved through support for options that result in fair and affordable outcomes for all members in the UPU.
26. I recognise that this is a high-level negotiating mandate. However, this is required as all options will amend clauses of the UPU Acts in different ways, and other options may come to the floor at the Geneva Congress, so it is important to allow for negotiating flexibility.
27. All known options propose changes to the remuneration of E format letter-post items containing both documents and goods. The point of difference for the options hinge on the speed of changes and extent or magnitude of the remuneration changes..
28. If no simple majority decision can be made by the extraordinary Congress, then the status quo for terminal dues rates will remain until 2022 when the next Congress is scheduled to take place. However, the implicit outcome of this approach would be

the withdrawal of the US from the UPU, and potentially other member countries signalling a similar intent. This could result in long-term disruption to international postal traffic flows, until alternatives to UPU standards and systems are developed.

29. I also seek Cabinet approval for the delegation to be authorised to sign the treaty level Final Acts (the international postal treaties that underpin the UPU), subject to them being consistent with negotiating parameters set out in this paper.

Legal
professional
privilege

30. Cabinet does not need to review the Final Acts at the time of signature, because any treaty action included in the Final Acts will be subject to New Zealand's domestic treaty making process, which includes obtaining Cabinet approval.

Options for consideration before the Geneva Extraordinary Congress

31. There are currently five general options that have been tabled for consideration at the Congress. However, as countries may continue to submit and update options up until the Congress commences the options outlined below may not be the final options that are voted on at the Congress:

31.1. Option A maintains the current system of terminal dues rates but accelerates by one year the increases agreed to at the 2016 UPU Congress. This option makes no provision for rates to be set by the US and preserves the status quo. Accordingly, it does not address the key concerns of the United States.

31.2. Option B would allow countries to set their own terminal dues rates in 2020, up to 100 percent of the relevant domestic postal tariff. It includes important exemptions for low-income member states that send low volumes of international mail.

31.3. Option C allows terminal-dues rates to increase gradually between 2020 and 2025, up to 70 percent of the domestic tariff in most cases. Like Option B, this proposal includes exemptions for low-income countries but at higher thresholds.

31.4. Option C amended (proposal by US): this allows for the US to set its own rates from 1 July 2020 with no phased in period of rates increases (for the US only).

International relations

31.5. Option C amended (proposal by Germany): this proposal is essentially to slow down the rates of increases in E format rates over the period 2020-2025, with the cumulative effect being about half that proposed under the current Option C.

International relations, Free and frank opinions

Consultation

32. The Ministry of Foreign Affairs and Trade, New Zealand Customs, the Ministry for Primary Industries, the Treasury and New Zealand Post have been consulted in preparation of this paper. The Department of the Prime Minister [PAG] and Cabinet has been informed.

Financial Implications

33. There are no financial implications resulting from this paper.

Legislative Implications

34. There are no legislative implications arising from this paper.

Impact Analysis

35. No Impact Analysis is required as there are no legislative implications arising from this paper.

Human Rights

36. There are no human rights implications.

Gender Implications

37. There are no gender implications.

Disability Perspective

38. There are no disability implications.

Publicity

39. The communications approach will be managed by my office, in consultation with other entities as appropriate. I expect a low level of business and media attention.

Proactive Release

40. I intend to publicly release a copy of this paper and associated decisions in accordance with Cabinet's proactive release policy.

Recommendations

The Minister of Broadcasting, Communications and Digital Media recommends that the Committee:

1. Note that there has been increasing concern from some Universal Postal Union member countries that remuneration levels are not adequate and do not recognise the pressure that growth in e-commerce as well as rising postal volumes puts on the postal networks of high import countries.

2. Note that as a result of concerns over remuneration levels the Government of the United States of America has officially notified the Universal Postal Union of its intention to withdraw from the organisation.
3. Note that should the United States leave the Universal Postal Union, this could have large scale implications for the Universal Postal Union as an organisation as well as on international mail flows.
4. Approve the following objectives that will inform the positions to be taken by the New Zealand delegation to the extraordinary Universal Postal Union Congress:
 - 4.1. Commercial Information
 - 4.2. retain all current members in the Universal Postal Union:
 - 4.3. achieve fair and affordable outcomes for all members in the Universal Postal Union.
5. Agree that the New Zealand delegation is authorised to sign the treaty level Final Acts, subject to them being consistent with negotiating parameters set out in this paper or subject to the approval of the Minister of Broadcasting, Communications and Digital Media for any matters that fall outside these parameters.
6. Note that any treaty action within the Final Acts will be subject to New Zealand's domestic treaty process which includes obtaining Cabinet approval.

Authorised for lodgement

Hon Kris Faafoi

Minister of Broadcasting, Communications and Digital Media