

UNITED STATES DELEGATION REPORT

UPU COUNCIL OF ADMINISTRATION

2-20 OCTOBER 2006

INTRODUCTION

This report summarizes the work of the 2006 session of the UPU Council of Administration (CA), held in Bern, Switzerland from October 2 to 20. In addition to CA meetings, many Postal Operations Council (POC) project groups, action groups, subgroups, boards, and project teams met during or the week prior to the CA session.

Decisions or actions of importance to the United States that were taken during this session included the following:

- Delegates in Bern debated possible alternative models for the UPU, both within the working group responsible for this subject – the Structure and Constituency of the Union Project Group – and in CA Committee 1. No real consensus emerged from these discussions, other than a general sense that the CA should continue its study of possible reform models.
- The CA finalized its plans for the UPU Strategy Conference scheduled to be held in Dubai on 14-16 November 2006.
- The Strategic Planning Group, which reports to both the CA and POC, progressed with its work on Report Cards to measure progress made by the UPU and its member countries in achieving the goals in the UPU's strategic plan for the 2005-2008, the Bucharest World Postal Strategy. The CA also endorsed a proposal put forward by Russia, the Chair of the Strategic Planning Group, to hold a strategy session on UPU strategic planning at the June 2007 Pochtovaya Troika Conference in Saint Petersburg.
- The Customs Support Group (a POC group) addressed the quality of information entered on CN 22 and CN 23 customs declarations affixed to international mail items, and reported on the surveys carried out by two major postal administrations to measure the quality of these declarations. The Support Group's findings, which included proposals for greater efforts to train postal staff to improve the quality of postal customs declarations, were communicated to the World Customs Organization (WCO) at an October 18 meeting of the WCO-UPU Contact Committee.
- The Finance Committee extended the mandate of the Working Party responsible for studying the system of mandatory contributions to the UPU regular budget, and to include study of the issue of zero nominal growth.

Ambassador Dennise Mathieu, Director of the Office of Technical Specialized Agencies of the Department of State's Bureau of International Organization Affairs led the U.S. delegation. Other members of the delegation included Dennis Delehanty of the Department of State; U.S. Postal Rate Commissioner Ruth Goldway; Chief Postal Inspector L.R. Heath, Senior Vice President for Intelligent Mail Charles Bravo, International Postal Affairs Executive Director and POC Chairman Mike Regan and Lea Emerson, William Alvis, and Harold Lane of the U.S. Postal Service. The full U.S. delegation is shown in Annex 2 below.

The first part of this report provides an overview of the decisions taken and results obtained by the CA and its various committees and project groups, including the Strategic Planning Group. The second part of the report describes the outcomes achieved at the meetings of the various groups, boards and teams of the POC.

STRATEGIC PLANNING

The Strategic Planning Group reviewed the progress made by its four Teams, which cover results-based management, scenarios for the near-term future of postal markets, communications, and preparation of the strategic plan to be adopted at the 2008 UPU Congress, the Nairobi Postal Strategy.

The Group approved modifications to the Bucharest Strategy Report Cards, whose purpose is to measure attainment by individual member countries and postal administrations of the goals in the current UPU strategic plan – the Bucharest World Postal Strategy. The Results Based Management Team continued work to develop a workable measurement to gauge progress made by member countries in aligning costs more closely to terminal dues as well as an indicator to measure the effectiveness of member countries in establishing national structures for communication with stakeholders. These annual report cards, once adopted, should ultimately lead the UPU to set more realistic, measurable and attainable goals in its quadrennial strategic plans.

Also approved was a Results Based Management Team proposal to distribute a survey to UPU member countries to seek their views regarding UPU strategic and budgetary priorities for the 2009-2012 period. The views collected will be used to determine the objectives to be included in the Nairobi Postal Strategy.

The Scenarios Team presented a new draft of its document "The Future of the Postal Sector in a Changing Global Environment" that had been revised to include comments made at the April 2006 POC and responses to the Team's questionnaire on market trends and future postal developments. A further revised version of this document, which will reflect results of the Dubai Strategy Conference, will be presented to the 2007 POC session.

Near the close of the meeting, a representative from Russia announced that Russia Post plans to use the Pochtovaya Troika Conference, a biennial event held normally in late June in Saint Petersburg, as a platform to generate interest and ideas for strategic planning within the UPU. The Group welcomed this initiative by Russia.

The Group also reviewed the agenda and preparations for the November 2006 UPU Strategy Conference in Dubai and expressed satisfaction with the status of arrangements.

CONSULTATIVE COMMITTEE

Charles Prescott of the Direct Marketing Association chaired the fifth meeting of this mainly private sector Consultative Committee (CC). Along with a review of past activities, preparations for the Dubai Strategy Conference and membership issues, the Committee approved a proposal to evaluate existing models for cross-border change of address systems and explore their implications with respect to the universal postal obligation and within liberalized markets. The

CC also reviewed a report by the World Blind Union on a worldwide survey on exemption from postal charges and calling for improvements from the postal sector in facilitating and widening the scope of national free postal services for the blind. Further, the CC heard presentations from three new organizations interested in its work and relevant to the postal sector, including the World Savings Bank Institute, the International Consumer Protection and Enforcement Network, and Xplor International. Membership dues were increased to CHF 3,000 for 2007.

COUNCIL OF ADMINISTRATION PROJECT GROUPS

Acts of the Union Project Group

The Acts of the Union Project Group approved draft definitions of “member country” and “designated operator” for use in the UPU Acts and confirmed the results of an email consultation on the substitution of the term “postal administration” with respect to the articles of the Convention. These definitions are as follows:

- Member country: a country that fulfils the conditions of article 2 of the UPU Constitution, including any governmental authorities or services responsible for discharging the obligations arising from the Acts of the Union. (Article 2 concerns UPU membership and the nature of member countries.)
- Designated operator: any governmental or non-governmental entity officially designated by the member country to operate postal services and to fulfil the obligations arising out of the Acts of the Union on its territory.

The Project Group also reviewed the Postal Financial Services Agreement, the Letter Post Regulations, the Parcel Post Regulations, and the Postal Financial Services Regulations for the purpose of replacing the term “postal administration” with “member country” or “designated operator” wherever this term appears. In its report to Committee 2, the Project Group proposed that the POC should express its views on the replacement of “postal administration” throughout the UPU Acts, since the Regulations fall under the POC’s.

Structure and Constituency of the Union Project Group

At its October 13 meeting, the “Structure and Constituency of the Union” Project Group focused its attention on reviewing and commenting on a document describing two suggested models for a new UPU structure.

In both models, Congress would remain the supreme body of the UPU, retain its current treaty-making functions and continue to direct the activities of the subordinate bodies, i.e., the Councils and IB. During the discussion about Congress, member countries expressed views about whether Congress should continue to be held in different countries or should instead be held only in Switzerland, the host country of the IB. Most speakers tended to prefer the current arrangements for selecting the venue for Congress. The IB was asked to produce a document that would provide information about the comparative advantages and disadvantages of the two options, taking into account budgetary as well the cultural, political and organizational aspects of the issue.

In the first model for an alternate UPU structure described in the document, a new Council would be responsible for the affairs of the UPU between Congresses. This Council would

essentially be the same as the current CA, but would have additional authority to adopt the Regulations drafted by a new entity composed of designated operators. This new designated operators entity would be composed of member countries elected by Congress, but the heads of delegation would be operators designated under article 2 of the Convention to fulfill the obligations of the member countries under the Acts. This new entity would be much like the current POC except that it could not adopt regulations, but would instead draft them for approval by the other council.

Under the second model, Congress and the Council would be the same as in the first model, but there would be several designated operator entities organized around the services provided. The model suggests three such entities organized around mail services, postal payment services and electronic postal services.

The Group did not reach any conclusions, but decided to report its discussions to Committee 1 for further discussion.

Terminal Dues Governance Issues Project Group and Classification Ad Hoc Group

The Terminal Dues Governance Issues Project Group discussed the POC terminal dues work, classification of countries for the Quality of Service Fund (QSF) and Ukraine's proposal on taxation of terminal dues revenues. The Classification ad hoc Group considered papers on postal development indicators, country classification and the Ukraine proposal.

The Project Group discussed the status of the terminal dues work in the POC, including the terminal dues workshop. The group endorsed the conditions for the future terminal dues system that had been ranked by the countries participating in the workshop and noted the need for additional cost data to support the analysis of cost-based terminal dues for the future system. Issuance of a simplified cost questionnaire before the end of 2006 was also discussed.

Regarding the classification of countries for the QSF, the Project Group decided to send the request by Azerbaijan to receive additional QSF resources to Committee 2 for decision although the earlier meeting of the ad hoc group had not endorsed the request. If accepted, Azerbaijan would receive the 16.5 percent QSF supplement for 2007. The IB was instructed to update the list of Least Developed Countries (LDCs) in line with the expected decision of the UN General Assembly (UNGA). If the UNGA adopts the updated list, Papua New Guinea would be added to the list of LDCs and Samoa would be removed from the list.

Work in the area of postal development indicators progressed and will combine macro-economic indicators, such as per capita Gross National Income (GNI) with postal-specific indicators, such as mail volume per capita. The Policy Work Group (WG 13) of the Terminal Dues Project Group is to recommend up to five postal development indicators related to access to postal services and the ability to receive mail.

Ukraine presented a revised proposal on the issue of exempting terminal dues revenues from taxation that was in line with the language of a similar clause (Article 6.1.3) in the Melbourne International Telecommunications Regulations. Several countries again spoke against the proposed text stating that taxation is the purview of national governments and beyond the scope of UPU's jurisdiction. The proposal was sent to Committee 2 for decision.

WTO Issues Project Group

The WTO Issues Project Group reviewed the group's objectives as established by the Bucharest Congress, which include securing cooperation between the UPU and WTO, seeking compatibility of UPU and WTO rules, and monitoring developments in trade in services. Director General Edouard Dayan commented on his April 2006 meeting with WTO Director General Pascal Lamy and encouraged continuing cooperation between the WTO and UPU. The Chair also highlighted the April 2006 approval of ad hoc observer status for the UPU in the WTO Council for Trade in Services meetings in which postal matters are on the agenda.

A representative of the WTO Secretariat updated the Project Group on the status of the WTO Doha Round negotiations. In late July, the WTO suspended the negotiations covering market access in agriculture, industrial goods and services. Prior to the July 2006 suspension of Doha Round negotiations, the services negotiations were moving forward with members preparing to submit revised services offers by the end of July deadline. The WTO representative highlighted ongoing efforts by key players including the United States and WTO DG Lamy to resume negotiations.

The Chair (Malaysia) presented a summary of an Asian Pacific Postal Union seminar on WTO issues held in Kuala Lumpur on May 8 of this year. More than 100 participants from 18 countries participated in the seminar, which covered WTO issues concerning the postal sector and General Agreement on Trade in Services (GATS) principles.

The IB gave an update on a World Trade Institute study commissioned by the UPU to review the implications of GATS and the Doha Round negotiations on the provision of postal services. Although the study had not been completed, Christian Pitschas of the World Trade Institute presented the preliminary findings to the Group and discussed the core GATS principles of MFN (Most Favored Nation) and national treatment, the four modes of supply, specific commitments, domestic regulation, and the Doha Round proposals on the classification of postal, courier and express delivery services. The IB agreed to a U.S. request to allow members to review and submit comments on the draft report prior to its publication.

UPU Budget Working Party

The Bucharest Congress asked the CA Finance Committee to establish a working party to further study the issue of reductions in member country contribution classes and to improve the system of mandatory contributions to the UPU regular budget. The working party, chaired by Hungary, considered the results of the questionnaire on the system of mandatory contributions to which 91 member countries had replied.

A large majority of countries were in favor of Congress formally approving any request for a reduction in contribution class, as well as limiting the duration of these reductions. Over half of the countries were opposed to limiting reductions to only those countries that experienced a natural disaster, civil war or other conflict. More than half also agreed that provisions should be established for temporary increases in contribution class, with greater decision-making authority over how the increased contributions would be used. Finally, a large majority of the countries was opposed to strengthening the system of automatic sanctions. The working party will meet again during the next POC and plans to submit draft Congress resolutions and proposals to the 2007 CA.

Committee 1 considered the reports of the January and June 2006 meetings of the Structure and Constituency of the Union Project Group and focused on brainstorming reform ideas. The Committee approved the Project Group's work plan and a questionnaire to solicit the views of UPU stakeholders on reform of the Union. The Committee also approved a report of the Allocation of Responsibilities Project Group, which contained the Project Group's objectives and work plan.

COMMITTEE 2: REGULATORY ISSUES

CA Committee 2 considered reports of its four project groups: Acts of the Union (see separate report), Universal Postal Service, WTO Issues, and Terminal Dues Governance Issues. Other items on the agenda included discussions on increasing Consultative Committee (CC) membership and the CC interest in regulatory issues, cooperation with the business community, Extraterritorial Offices of Exchange (ETOE), and the role of postal regulators.

The Universal Postal Service Project Group reviewed the survey on fulfillment of universal postal service obligations in five key areas and discussed the pilot project for Africa to define a universal postal service model. Regarding the work of the WTO Issues Project Group, Committee 2 was informed that the UPU has now become an ad hoc observer at WTO meetings concerning postal affairs. The Chairman stressed the importance of the involvement of postal experts in WTO discussions.

The Terminal Dues Governance Issues Project Group presented its report (see separate report). Committee 2 approved the request by Azerbaijan for additional QSF resources for 2007. The IB will also update the list of LDCs in line with the expected decision of the UNGA. Regarding Ukraine's proposal on exempting terminal dues revenues from taxation, the Committee heard divergent points of view, took a vote and rejected the proposal (with five votes in favor).

Committee 2 considered two documents prepared by the IB on regulatory and operational questions related to ETOEs and instructed the IB to present a comprehensive document to the 2007 POC to obtain comments and suggestions on various operational issues. The IB will then present a document to Committee 2 at the CA session next year that should include the views of the POC and, if necessary, proposals for decision by the CA or the Nairobi Congress.

COMMITTEE 3: FINANCE

Committee 3 approved the 2007-2008 UPU Programme and Budget, the total amount of which is 71,400,000 Swiss Francs, the same amount as the previous programme and budget, and approved the Union's extra budgetary accounts. As the total number of contribution units paid by member countries to the UPU programme and budget has declined, the Committee approved an increase in the value of the UPU contribution unit, which is now set at 39,990 Swiss Francs.

The Committee noted with concern the growth of arrears owed to the Union, and urged the International Bureau to step up efforts to collect arrears from debtor member countries.

The Committee heard a report by an ad hoc group it had formed two years earlier to study the UPU's system of mandatory contributions, specifically how to limit further reductions in contribution class, encourage member countries to increase their contribution class; and devise a system of *temporary* contribution class reductions. Results of a survey issued by the group showed that a clear majority of member countries want Congress to retain the authority to approve reductions in contribution class, and most prefer limiting these reductions to a maximum of four years. Most member countries favor putting in place a system of temporary increases in contribution class, while most see no real need to strengthen the UPU's current system of automatic sanctions applied to member countries in arrears. The ad hoc group will continue its work and will also on study of the issue of zero nominal growth.

POSTAL OPERATIONS COUNCIL MEETINGS

TERMINAL DUES PROJECT GROUP AND TERMINAL DUES WORKSHOP

The Terminal Dues Project Group reviewed the results of the terminal dues workshop, as well as reports from its three project teams. The terminal dues workshop was well attended by more than 150 participants from over 75 countries. The workshop was designed to gather member country views on the conditions to be fulfilled, as well as an initial system design for the future terminal dues system. There was agreement on several aspects of the initial system design, including the principle of two or three classes of countries, but more flexibility was requested in some areas, such as format separation and the two service levels (priority and non-priority). The project teams will take these views into account in developing a more concrete proposal (or proposal options) for consideration and endorsement at the 2007 POC session.

PT 1 Terminal Dues Model Project Team

PT 1 presented reports from the March 2006 and October 2006 meetings, in addition to several key documents developed by the four work groups that report to PT 1.

- Canada, co-chair of the Studies Work Group (WG 11), presented the progress of its work on collecting data on mail volumes, domestic tariffs, and costs.
- Germany, co-chair of the Methodologies Work Group (WG 12), reported on the work on methodologies to convert domestic tariffs or costs into terminal dues, the impact of SDR exchange rate fluctuations, and the value added tax issue. Concerning the methodologies, several countries commented on the initial recommendation to differentiate terminal dues by format and by priority/non-priority services. Some countries were in favor of full format segregation and the split between priority and non-priority service, while others felt more flexibility is required due to cost impacts. A discussion on the need for caps and floors in the future system also gave rise to divergent views.
- Great Britain, co-chair of the Policy Questions Work Group (WG 13), reported on transition planning, Postal Development Indicators, market conditions and member requirements, and the conditions for the future terminal dues system.
- Romania, co-chair of the Direct Access Work Group (WG 14), presented its work on improvement activities and direct access promotional work.

PT 2 Statistics and Accounting Project Team

PT 2 concentrated its attention on the introduction of the “quality of service link to terminal dues” and its impact on terminal dues accounting.

Great Britain described a model for cost-benefit analysis for IPK (Items Per Kilogram) sampling using cost and volume data obtained during the last Congress cycle and agreed to update the model using the data obtained from the latest cost and flow studies.

Malaysia and Estonia gave presentations on their experience using the IPS (International Postal System) accounting module, which highlighted the advantages of the software as well as functions needing improvement. The Postal Technology Centre informed the Team about future upgrades to the module which will take into account several recommendations by Malaysia and Estonia. The IB also made a presentation on work under consideration for the automation and exchange of accounting information online between partner administrations. The system proposed was favorably received and the Team asked for updates on future work.

QUALITY OF SERVICE FUND

In addition to its regular quarterly meeting, the QSF Board of Trustees hosted a seminar on October 13 on concerns and questions of member countries and postal managers regarding the Fund.

Seminar attendees heard presentations by QSF Board members describing the organizational structure and operation of the Fund. Board members explained that in the work to update the Deed of Trust to take account of Bucharest Congress decisions, they had also revised the Fund's Financial Management Manual and Project Management Manual. Simplification of project submission procedures in the latter document greatly reduced the paperwork involved in project proposals. In cooperation with several committed countries and Restricted Unions, the Board and QSF Secretariat at the IB had also arranged to hold seven separate regional workshops in 2005 and 2006 where experts explained changes to QSF and terminal dues arrangements to 183 postal managers representing 110 countries.

Other initiatives taken by the Board of Trustees and the QSF Secretariat raised at the seminar included the catalog of model projects, the publication of extensive information on the QSF webpage at www.upu.int, a proposed newsletter and the introduction of an annual prize or award for the best implementation of a QSF project.

Since its inception, the QSF has disbursed over \$45 million to postal administrations, and the Fund now generates about \$15 million per year. As one Board member noted, perhaps the biggest challenge for the Trustees in the coming months and years will be how best to measure the effectiveness of projects, either individually or collectively.

COSTING AND PRICING PROJECT GROUP

The introduction of cost accounting systems by postal administrations was a central priority of the 1999 Beijing Congress and confirmed by the Bucharest Congress. Following up on Bucharest decisions, the IB developed a business plan for implementing cost accounting systems in countries that do not currently have such systems which was presented to the Costing and Pricing Project Group. This business plan summarizes the general objectives of cost accounting, sets targets for its implementation in postal administrations and defines strategies to be implemented.

Thus far, 14 countries have benefited from UPU assistance in acquiring cost accounting systems. Of these, five have a system up and running, eight have operational databases but have not yet acquired accounting software, and one country is developing its own IT application.

The IB has also begun the process of assembling regional deployment teams, and will prepare a deployment plan once the teams are formed and funding is available.

The IB also presented its research findings in the area of pricing in developing countries. The research focused on the distinction between countries that deliver their mail to rented P.O. boxes compared with those that provide home delivery.

POSTAL ECONOMICS PROJECT GROUP

The Postal Economics Project Group heard several presentations addressing the specific problems of mail delivery in Africa. One of these presentations discussed the status and development of the mail delivery system in Senegal including the implementation of franchising. A case study of Niger using Dynamic Systems modeling was presented by the Swiss Federal Institute of Technology working in cooperation with the IB. The economic analysis presented by the IB offered an explanation of why domestic mail volume in Sub-Saharan Africa is so low (3.4 letters per inhabitant in 2004) and possible strategies for increasing domestic mail volume. The IB found that there is a potential for developing countries to increase their mail volume by increasing the number of reachable addresses because the value of using postal services exponentially increases with the number of reachable addresses.

The IB also found that Sub-Saharan African countries could increase the development of their letter-post service by moving towards a delivery system where the cost of receiving mail is free (i.e. free P.O. boxes or home delivery).

Additionally, the IB presented some postal statistics based on 2005 data and put forth a draft resolution that emphasizes the importance of postal statistics and urges countries to cooperate with the IB and supply requested data.

QUALITY OF SERVICE

Quality of Service Monitoring Subgroup

The main focus of the Quality of Service Monitoring Subgroup is to develop a global monitoring system for the “quality of service link to terminal dues” regime which is expected to become operational soon after the 2008 Nairobi Congress. Major challenges for the Subgroup include developing achievable timelines for the rollout of the system and obtaining 2007 POC approval for the monitoring system concept, the latter of which will require issuance of a tender to select a system administrator and external contractors to hire, train and manage panelists. Subgroup members ventured that nine months would be sufficient for the proposed tender process (three months for preparation and publication of the tender documents and six months for bidding and selection). The IB cautioned, however, that this solicitation would have to follow UN procurement practices which may cause bureaucratic hurdles and delays. Another issue the Subgroup tackled is the problem of how to calculate quality scores given the large differences in flows between L1 and L2 countries. (Basically, L1 countries are developed countries and high-volume developing countries, while L2 countries are those that do not fit these criteria.) Other discussion focused on how to stagger countries joining the system from January 2009 given the large number of required equipment installations. New high-volume L1 countries such as China, India and Russia have several exchange offices and may require more time for installations.]

PT 3 Quality of Service Link Project Team

The Quality of Service Project Team discussed appeals submitted by the U.S. Postal Service and Royal Mail regarding their terminal dues Quality Link scores. International Post Corporation (IPC) summarized the investigation process conducted by the contractor, IBM Consulting, and indicated that USPS had achieved the 85% target after a detailed analysis of poorly performing panelists. PT 3 recommended that USPS should receive the bonus and requested a re-issuance of the IB Circular with the revised rates. Despite a boost in the total score achieved by removing questionable items from New Zealand, Royal Mail's score remained below the 85% target. Royal Mail, which argued that IPC managers did not review the appeal as thoroughly as they should have, asked for a reevaluation of Royal Mail's Quality Link scores.

As for new IC System participants, Brazil and Jamaica confirmed their commitment to join the Industrialized Country (IC) system in 2007, while Ukraine will enter the arrangement in 2008. Much discussion revolved around the precision rate for Brazil and other new countries joining the system. To date, the accepted precision has been 1.5 percent (e.g. a margin of error of +/- 1.5%), but the United States argued that given the uncertainty of Brazil's score, the precision could be less in the first year. This would initially reduce the number of required transponders from the United States and other high-volume countries. Several PT 3 members disagreed, but IPC stated that the precision could be relaxed on some flows with high scores. In other business, the IB discussed plans to create comprehensive Manuals for the IC and Global Systems. USPS presented a revised concept paper on a proposed validation authority for the Global System which would consist of an elected 'Global System Board' (GSB) and an appointed group of experts called the Validation Committee. An extensive paper on this subject will be presented at the February meeting of PT 3.

IATA-UPU CONTACT COMMITTEE

The IATA-UPU Contact Committee started its deliberations with a presentation by Great Britain on current post-airline EDI issues, including the industry proposal to electronically "map" the postal CN 38 delivery bill to the airline industry airway bill, modifying the CARDIT-RESDIT messaging to accommodate a postal-built Unit Load Device, and updating the RESDIT standard to allow sending RESDIT in the absence of CARDIT. This last modification would be especially applicable for identifying exceptions, since it would allow reporting a mishandled or out-of-course receptacle and enable an airline to receive payment for transporting a receptacle it was not consigned. The IB made a presentation on the Transport International Postal System (TRIPS) developed by the PTC as a solution for airlines to send RESDIT messages, print substitute consignment documents and labels, and manage mail allocation to aircraft.

IATA discussed the possible expansion of the IATA Mail Handling Guide for airlines, to include more information about CARDIT/RESDIT, ground handling, and other technical issues affecting airlines. Other issues could be included in an improved Guide, such as empty mail bag procedures, identifying the postal entity responsible for transport payment, re-labeling responsibility and costs, and follow-up procedures for delinquent payment by postal administrations. IB officials informed IATA that they often receive complaints that a ground handler has presented a bill for services rendered to the postal administration of destination. IATA indicated that bills of this nature should be referred to the serving airline for resolution. The United States reminded the group that significant instances where ETOE facilities use U.S. mail transport equipment for ETOE traffic cause the USPS to be billed inappropriately for the return

of empty equipment. IATA acknowledged that ETOE issues in general needed further clarification and understanding within the industry.

CUSTOMS SUPPORT PROJECT GROUP

The Chair presented the Support Group's Customs vision and mission statement for the UPU and the accompanying 2006-2008 Customs work program. The IB followed with an analysis of issues related to non-compliance with customs declarations and the implications for postal operators, and proposed measures for improving compliance. Canada and Great Britain also provided information on this topic leading to an analysis of options for postal administrations seeking to return items due to incomplete customs declarations.

Belgium updated the CSPG on progress of its subgroup tasked with revising the UPU's List of Prohibited Articles. CSPG members discussed the budgetary and technical difficulties associated with development of an electronic version of this list, including the unanticipated high costs of obtaining an electronic database of HS Codes from the WCO. The CSPG agreed to raise this issue in the CA plenary session and the WCO-UPU Contact Committee.

Germany provided an update to the group on changes in the European Commission's (EC) security requirement for electronic pre-notification of imports. Currently, the security requirement does not require item/piece level information on mail dispatches. However, the EC plans to require European posts to calculate duties on mail imports and submit customs data electronically to their national customs authority in the future.

Great Britain provided an update on the UPU members' electronic customs information (ECI) project. The IPC project group (MEDICI) is now testing technical standards for ECI and reviewing options for the development of ECI data systems, and the Custom Data Interchange Group (CDIG) is examining technical issues related to the development of standards for ECI messages. Canada provided an overview of regulatory and policy issues associated with provision of ECI. The CSPG will seek input from other UPU groups and may need to address some of these issues through changes in the UPU Acts.

In closing, PSAG provided an oral report on its custom-related security initiatives and the plan to develop a compendium of minimum security standards and procedures for facilitating the overall security of the international mail transportation network.

WORLD CUSTOMS ORGANIZATION-UPU CONTACT COMMITTEE

The WCO-UPU Contact Committee meeting opened with a discussion of measures proposed by UPU members for improving compliance in providing accurate and complete customs declarations. Suggestions for compliance included the greater dissemination of examples of properly-completed forms and new acceptance procedures at the postal counter.

The IB presented information on the UPU's efforts to develop the "Postal Export Guide," a database containing UPU customs-related information and publications. An electronic database of information based on the UPU List of Prohibited Articles, coupled with an updated list of Harmonized System codes, will serve to promote accurate and complete customs declarations and reduce instances of prohibited items sent in international mail. The IB noted that the

development of this Postal Export Guide is being hindered by a high fee requested by WCO for providing IB developers with an electronic database of Harmonized System Codes. The WCO will consider this issue further upon review of information from the IB regarding the specific applications it envisions for employing the WCO Harmonized System database.

Great Britain provided an update on a project regarding electronic customs information. An IPC project group called MEDICI is now testing technical standards for electronic customs information and looking at solutions for the development of systems to provide customs data electronically. Great Britain also discussed its capacity-building initiatives for electronic customs transmissions with the postal administration of South Africa.

The IB reported on customs-related security initiatives by the PSAG Interagency Project Group on Dangerous Goods, and Global Mail Security Working Group's program for international airport mail security reviews. The IB further noted Canada's efforts to develop a compendium of minimum standards and procedures for facilitating the overall security of the international mail transportation network.

The WCO commended the UPU for its efforts, and indicated that these initiatives are positive steps that should ultimately be included in the WCO Framework of Standards to Secure and Facilitate Global Trade.

POSTAL SECURITY ACTION GROUP

The Postal Security Action Group, chaired by the United States, met on 10 October and took note of several presentations by the following PSAG Working Groups on the status of their work and future focus:

UPU–PSAG Interagency Project Group on Dangerous Goods

This Project Group recently conducted an analysis of the carriage of category A infectious substances by postal administrations and determined that the handling of these substances in the international post would pose a serious and unnecessary risk for the safety and security of postal employees, customers and the general public. The Group also completed a publication developed with the assistance of the International Atomic Energy Agency to guide Posts in the monitoring of radioactive materials transported in international mail.

West African Fraud Working Group

A representative of the Working Group recently visited Ghana to assist in the efforts of Ghana Post and the relevant law enforcement agencies in that country to combat increasing Internet and mail fraud schemes originating in West Africa. Sharing of intelligence information and coordination among Group members has led to the successful seizure of numerous mail pieces containing counterfeit financial instruments.

Global Mail Security Working Group

The International Airport Mail Security Review Program evolved under the direction of the Global Mail Security Working Group and has served as the industry standard for gauging mail security initiatives implemented at airports worldwide. During 2006, PSAG conducted international airport reviews in Hong Kong, the Philippines, Frankfurt, and Lisbon. PSAG

members have also assisted in numerous regional reviews conducted by the security groups in the Restricted Unions. The Working Group recently developed an Airport Mail Security Coordinators Training Course and certification process, which provides training and certification for security personnel in the identification and mitigation of security and operational deficiencies at airport transit locations.

Due to the Bucharest Congress Resolution C 57, which urges all UPU member posts to ensure the posts are not used for money laundering or terrorist financing activities, the PSAG has been accepted as a participating member of the Interpol Money Laundering Working Group. Other members include representatives from Interpol, the International Monetary Fund, the United Nations Office on Drugs and Crime, the Basel Committee on Banking Supervision, the Offshore Group of Banking Supervisors, New Scotland Yard, as well as various financial intelligence units worldwide.

EMS WORKSHOP AND EMS PAY-FOR-PERFORMANCE FORUM

The EMS Cooperative held a workshop to share developments in the EMS sector and hear updates on EMS Cooperative activities since the April 2006 General Assembly and best practices of its members.

At this workshop, EMS Board members presented proposed changes to the EMS Statutes that will allow the solicitation for the delivery of EMS items in countries where the current EMS delivery provider is not performing at a level consistent with expectations. There was considerable discussion on this topic and the EMS Board will review the input of the members before putting the final recommended changes to a postal ballot of the members.

EMS Pay-for-performance Forum

The EMS Pay-for-Performance Forum, which met on October 10, offered an opportunity to discuss the status of introduction of the EMS Pay-for-performance Plan among Cooperative members. The EMS business plan now makes participation in the Plan mandatory for most operators.

The Forum reviewed the performance and accounting reports so that members better understand how to view the reports. All members with validated delivery standards receive these reports, but few appear to use them and some are not familiar with the reports at all. The EMS Unit reviewed each monthly diagnostic report and flat files to show how the reports could be used to help members improve their service and understand where problems lie. Six additional members have joined the Pay-for Performance Plan since April, raising the number participants to 25. At this meeting, Canada, Colombia, El Salvador, and Sweden agreed to join the Plan in January 2007.

TELEMATICS COOPERATIVE

The UPU Postal Technology Centre (PTC) reported the following 2006 accomplishments and activities to the Telematics Cooperative User Groups:

- About 82% of the world's postal administrations with track-and-trace capability use PTC mail technology products – implementations included Canada and France, with strong further interest by other industrialized countries.
- A Customer Satisfaction Questionnaire sent to users of PTC applications – over 75% of responses were “satisfied” or “very satisfied”.
- Development activities including a new release for IPS and plans to migrate IPS to “.Net” technology.
- Publication of a new *Support Services Handbook* describing technical assistance, support service, and contact information.

In other developments related to the work of the Telematics Cooperative, participants heard the following reports and proposals:

- The PTC proposed that its website be used for change request management and to provide a repository of IPS “add-on” developments.
- An IFS *Return On Investment* analysis showed decision points an administration should consider when investigating implementation of IFS.
- Italy has worked with Microsoft to develop a client plug-in for the digital postmark service that will connect MS Office 2007 to any UPU S43-3 compliant digital postmark server. A September 2006 workshop in London successfully demonstrated the “live” plug-in connecting to the Canada S-43 server. The PTC is investigating deployment models of the plug-in for other AESUG countries, and will manage the completion of plug-in development and testing, conduct a beta test, and host a “Yellow Pages” directory of all S43-compliant postal administrations for central registration. The PTC is preparing to submit to the Standards Board a proposal for the digital postmark visual layout standard to define the exact data that must be displayed as well as a logo indicating conformance to S43-3.
- Brazil presented outcomes from their practical experience with Quality Control System for Mail (QCS-m), which is used daily to facilitate operations planning and to monitoring EMS delivery and tracking and transmission performance.

The Telematics Cooperative General Assembly will next meet during the 2007 POC session.

Electronic Products and Services

The Electronic Products and Services Group (EPSG) conducted a strategic roundtable on postal e-services industry issues.

An EPSG sub-group had been tasked with developing a postal sector electronic services strategy. Canada presented *The UPU e-Services Strategy – A Discussion Paper*, a summary of the team's work to date and the basis for the final strategy to be presented to the 2007 POC. The paper examines the following aspects of electronic services:

- Changing market conditions in the postal sector and the impact of digital messaging and commerce technologies.
- Strategic positions being taken by Posts in the digital space and the type of innovations being implemented.
- “.Post” Top Level Domain opportunity as a strategic enabler to help the postal sector develop a unique role on the Internet.
- Potential medium-term vision for a Post that adopts the multimedia trusted intermediary strategic goal.
- Potential role of the UPU in the development of postal electronic services with short- and medium-term developments.

The strategy team concluded that commerce and communications markets are evolving and that future customer demand will focus on integrated physical and electronic services. As posts independently develop strategic positions in the electronic area, interoperability and branding will be key. The team recommended that the UPU take the action necessary to foster industry leadership for the posts, enhance knowledge exchange between posts and key stakeholders to facilitate innovation and best practices, sponsor the development of next-generation networks, and act as a single point of liaison for partnership discussion with governments and non-government organizations.

The Chairman concluded the meeting by suggesting a short-term “e-strategy roadmap” consisting of a 2-week period for further comment on the strategy paper, Dubai conference preparation, stakeholder review, and preparation for presentation to the POC.

STANDARDS BOARD

At this Standards Board (SB) meeting – the last to be chaired by Chief Technology Officer Charles Bravo of USPS – the following topics attracted the most interest:

- Solid progress on longstanding issues on data exchange between posts and airlines, specifically on adding data to the “CARDIT” and “RESBIT” messages, such as “air waybill number” and a means to identify “nested receptacles” within airline containers.
- Work to establish an electronic standard for transmission and formatted presentation of name and address information on a mail piece. This will become a new UPU S series standard when finished.
- Examination of the S8 standard, which identifies “dispatches,” revealed some differences between regulations and the standards. The SB will draft proposal regulations for the next POC to clarify the matter.

- The SB invitation to a forum on “RFID and other related technologies” in December at the IB. All administrations, Restricted Unions, CC members, and members of the SB working groups were invited to attend.

PARCELS

Since the 2004 Bucharest Congress, the Parcels Group has carried out its work through four Subgroups, which are responsible respectively for rates, services, customers and delivery networks.

The Rates Subgroup continued its work on studying possible adjustments to parcel inward land rates, which are the payments made to the country of destination for delivery of parcels. The Bucharest Congress had decided to introduce a system of inward land rates based on five main service features provided by the destination administration (also known as the parcels “bonus” system). Under the system, postal administrations receive a base payment of 71% of their inward land rate, while provision of the five service features (which concern tracking, home delivery, liability, signature upon delivery and publication of service standards) award destination administrations with compensatory “bonus” payments. In early 2007 the Rate Subgroup will propose adjustments to the bonus features as well as indicative measurements for bonus payments based on the outcome of the questionnaire to reflect members’ expectations. The April 2007 POC is expected to accept and approve the changes to these features which will go into effect on January 1, 2008.

The focus of the work of the Services Subgroup is to put in place a system for measuring parcel quality of service afforded by UPU member postal administrations. The Subgroup reported that it had received bids from the two providers of parcel performance measurement systems. The Parcels Group accepted the Subgroup’s recommendation establishing the criteria for selecting a provider and decided that the IB shall make the selection of the provider since it is the legal entity authorized to make UPU budget disbursements to pay for the parcel performance reports.

The Customers Subgroup reviewed the work carried out with IPC to further develop the “Cricket” web-based call center system now used by 14 administrations. Users will shortly be contacted to agree to pay for the system for 2007. In addition, agreement will be sought on the oversight of the project, as the IPC is not part of the UPU and there are legal concerns about the ability to mandate the use of a non-UPU product or service to UPU members.

The Delivery Networks Subgroup submitted a status report on parcel features under the revised parcel inward land rate payment and bonus structure as well as draft working notes for proposals on this subject for submission to the 2008 Nairobi Congress. The parcel features described in the document concern mainly delivery standards, transmission of data, use of bar codes and use of the Cricket inquiry application.

DEVELOPMENT COOPERATION ACTION GROUP

The Development Cooperation Action Group reported on implementation of its 2005-2008 development program, which this past year included 23 regional and 18 national multi-year integrated projects. The IB reported on the implementation of the training program in 2006,

noting that group-training activities had been carried out in all regions and that five Web-based distance learning training courses had been organized. The IB submitted a progress report on the rollout of the Integrated Postal Reform and Development Plan Project (IPDP). After its pilot phase, the IPDP consolidation provides for the implementation of a plan to train experts (including regional advisers) in workshops so that they are able to apply IPDP projects in their countries. The IB formulated a regional development plan based on the principles of integration and regionalization. It proposed the African continent as the pilot region for regional development plan formulation and implementation. The aim is to improve and measure quality of service, develop the postal network, and diversify services. Lastly, the IB submitted a draft resolution on the provisional suspension of UPU assistance to developing countries under automatic sanctions for non-payment of dues.

POSTAL DEVELOPMENT ACTION GROUP

Discussions in the meeting of the Planning Team of the Postal Development Action Group revolved around the work plans over the next two years. An update was presented on the work being done to evaluate the proposal for the development of a postal investment bank using QSF deposits. The Team discussed the report from the consultant, agreed that the report was inadequate and that alternative resources will be needed to complete the research so that solid recommendations can be developed. The Team also discussed strengthening relations with Restricted Unions, the survey of twinning projects, and the PDAG communications plan. The PDAG general meeting provided members with an update of the work being done by the Team. The meeting also included presentations from UPU consultant Graeme Lee on methods for obtaining funds from financial institutions, and from Tim Walsh of Pitney Bowes and Jose Anson of the IB on economic development.

POSTAL FINANCIAL SERVICES GROUP

The Postal Financial Services Group's plenary included updates by the Chairman of the Subgroups and Ad Hoc Groups as well as presentations updating the participants on the work of the IB in this area. The United States encouraged the PFSG to initiate an annual stocktaking and report of current:

- Financial services products offered by postal administrations;
- Equivalency of legislation, regulation and supervision of postal financial services providers with private sector providers regulated by an independent authority with special focus on:
 - Accounting and audit standards;
 - Solvency regulation, reinsurance and risk management;
 - Market conduct protections for consumers; and
 - Corporate governance standards.

Worldwide Electronic Payment Network

The UPU held a Worldwide Electronic Payment Network Round Table on March 30 whose purpose was to draft strategies for the UPU's worldwide electronic payment network. The UPU's role in building a WEPN and the needs of customers and countries was discussed and included presentations on regional developments.

Participants heard a progress report on the creation of the WEPN. The ongoing activities include the drafting of a multilateral agreement; development of a UPU clearing and settlement system; and extension of the UPU International Financial System (IFS) network. The development of a multilateral agreement and the UPU clearing and settlement system were identified as two prerequisites for the creation of a worldwide electronic postal payment network. Each of these issues is being handled in separate groups of experts working under the framework of the Postal Financial Services Subgroup 3. The draft multilateral agreement and specific proposals for the UPU clearing and settlement system will be submitted to the 2007 POC session.

Subgroup 1: Improvement of Quality

This Subgroup discussed ensuring quality standards for postal payment services, establishing a service quality monitoring system, and combating money laundering. Randy Miskanic, the UPU Security Specialist on detail from USPS, discussed worldwide efforts to combat money laundering and terrorist financing. The United States suggested that the Subgroup should develop a formal relationship with the Financial Action Task Force on Anti-Money Laundering. A formal proposal in this regard will be submitted to the 2007 POC. Activities in the field of combating money laundering and terrorist financing are to be coordinated with the Postal Security Action Group. The United States also encouraged the Subgroup to initiate a study to identify areas where the UPU's remittance network needs further work to meet domestic requirements, that is, money laundering reporting and terrorist financing compliance.

Subgroup 2: Business Cooperation

This Subgroup focuses on three areas of interest: cooperation with the World Bank, World Savings Bank Institute, and other similar institutions; programs for exchange of staff and information; and business cooperation on sales of trust funds, ATM connections, and the like.

The United States suggested that this Subgroup should formalize its relationship with the Financial Stability Forum with a view to initiating a joint effort on “Minimizing Risks: a study of the economic impact of sales of financial services products by postal administrations.” The United States also suggested that the Subgroup should work with the World Bank and the IMF to ensure that sales of financial services products by postal administrations are included in their Financial Sector Assessment Programs.

Subgroup 3: Promotion of Electronic Payment Services

This Subgroup discussed the results of the questionnaire on Postal Financial Services and the work of the two teams of experts (multilateral agreement and clearing and settlement systems). The group reviewed its objectives for 2007-2008, which include developing a strategy to promote postal payment services by electronic means within the UPU; promoting those services; and the development of a guide for the implementation of electronic payment services. The Subgroup is also working to organize a workshop in 2007 on the best practices for promotion, marketing and training of Postal Electronic Payment Services. There was also some discussion within the group on the definitions proposed by the UPU on “electronic payment service” and branding of UPU’s electronic payments system to include a logo for countries to use in marketing and sales campaigns. The group directed the IB to continue researching the state of the market and the environment to refine its recommendations in April 2007. The United States also encouraged this group to request that the IB further elaborate their current stocktaking of the current status of existing postal payment services and services to include identification of adequate coverage by private-sector remittance networks and areas where private-sector remittance networks are insufficient or cost-prohibitive and identify barriers to entry and unnecessary regulatory barriers. The United States also encouraged this group to identify other networks for integration with the IFS system, including private-sector networks.

Ad hoc Group 1: UPU-Eurogiro Cooperation

This group is responsible for cooperation between the UPU’s IFS network and Eurogiro. The United States suggested that this Group should identify other networks for integration with IFS including private-sector networks.

Ad hoc Group 2: Promotion of financial accounting and account-based services

Participants discussed a draft plan for a workshop whose purpose is to encourage postal administrations to enter the retail banking market and which is being organized by a Director at Deutsche Postbank currently on detail to the UPU. Workshop participants are expected to be ministers responsible for postal issues. The Group accepted U.S. suggestions that banking and insurance supervisors should be invited to the workshop and that the premise of the event should not be that each postal administration should automatically enter the financial services market. (A cost-benefit analysis is needed first to determine if this market is already adequately served by the private sector and, if not, perhaps postal administrations should simply distribute private-sector products selected in an open and transparent bidding process.)

Ad hoc Group 3: UPU PFS Acts and Publications

This Group is currently revising the Postal Payment Services Agreement on the basis of proposed amendments. Following a discussion regarding inclusion of anti-money laundering language in the agreement, participants were informed by the IB Legal Advisors that the group was unable to fashion proposals because these needed to come directly from individual

countries to the POC. The Chairman then encouraged countries to make amendment proposals to the POC and particularly encouraged interested countries to make proposals regarding the inclusion of anti-money laundering language in the Agreement.

GLOSSARY OF ABBREVIATIONS AND TERMS

<i>Abbreviation or term</i>	<i>Full name or explanation</i>
CA	Council of Administration
CC	Consultative Committee
CPC	Central Product Classification
DC	Developing Country
DMA	Direct Marketing Association
ECOSOC	UN Economic and Social Council
GATS	General Agreement on Trade in Services
IB	IB (the UPU secretariat in Bern, Switzerland)
IPC	International Postal Corporation
IFS	An application developed by the UPU Postal Technology Centre for postal financial services.
IPS	International Postal System - An application developed by the UPU Postal Technology Centre used to track and account for international mail exchanges.
IT	Information Technology
LDCs	Least Developed Countries (ECOSOC classification)
MOU	Memorandum of Understanding
NCCs	Net Contributor Countries (UNDP classification)
POC	Postal Operations Council
PSAG	Postal Security Action Group
PTC	Postal Technology Centre
QSF	Quality of Service Fund
TRAC 1	UNDP classification of developing countries
UNDP	United Nations Development Program
UNGA	United Nations General Assembly
UPU	Universal Postal Union
USPS	United States Postal Service
WCO	World Customs Organization
WTO	World Trade Organization

U.S. DELEGATION TO THE OCTOBER 2006 COUNCIL OF ADMINISTRATION

Name	Position
Gerald Anderson	Deputy Assistant Secretary of State, Bureau of International Organization Affairs, Department of State
G. Dennise Mathieu	Director, Office of Technical Specialized Agencies, Department of State
Dennis Delehanty	Office of Technical Specialized Agencies, Department of State
Michael Regan	Executive Director, International Postal Affairs and Chairman, Postal Operations Council
Lisa Carle	Counselor for International Economic Affairs, Department of State
Elizabeth Kiingi	Attorney Adviser, Office of the Legal Adviser, Department of State
Carol Henninger	Office of Multilateral Trade Affairs, Department of State
Ruth Goldway	Postal Rate Commissioner
Louisa Marinaccio	Office of Finance, Department of Commerce
Kathy Clendenin	Economist, Postal Rate Commission
William Alvis	Attorney
Patricia Barnwell	Program Manager, International Postal Development
Clayton Bonnell	Program Manager, Intelligent Mail
Charles Bravo	Senior Vice President, Intelligent Mail and Address Quality
Peter Chandler	International Postal Affairs Specialist
Richard Domros	Postal Inspector
Lea Emerson	Program Manager, UPU Policies
L.R. Heath	Chief Postal Inspector
David Hamilton	Business Systems Manager
Brian Hutchins	Program Manager, EMS
Ruth Jones	Program Manager, Intelligent Mail
Harold Lane	Inspector-in-Charge, International Affairs Group, Inspection Service
Bruce Marsh	International Postal Affairs Specialist
Flori McClung	Program Manager, POC Chairmanship
Eliane Wittman	Program Manager, POC