Article 43 – Appendices
Appendix 9 – Summary of the Provisions of Article 49

<u>The Revision Mechanism</u>

The revision mechanism applies to mail flows exceeding 150 metric tons per year where the number of items per kilogram (IPK) deviates by more than 20% from the worldwide IPK average of 17.26 IPK for letter post items. An industrialized country (IC) may invoke this upward adjustment if the inbound IPK averages more than 21 from a developing country with the requisite annual mail flow. A developing country (DC) may invoke a downward adjustment through the revision mechanism for its mail stream to an IC when its outbound IPK averages less than 14. Exercise of the revision mechanism results in a new flat rate for terminal dues based on a calculation that has both per item and per kilogram components. Once exercised, the new flat rate remains in force for a period of at least one year.[1] Relevant to the current study, the revision mechanism allows an industrialized country's postal administration to increase terminal dues rates for inbound letter post from developing countries (DC) that is predominately composed of lightweight (relatively expensive to deliver) pieces.[2]

Based on FY 2000 mail flows, only 13 of 160 developing countries reporting non-zero flows had annual flows to the US in excess of 150 metric tons that would potentially allow the application of the revision mechanism. Nine of these 13 countries had an estimated IPK of 21 or greater for FY 2000. Three of the remaining five countries sent mail to the US with an average IPK value of less than or equal to 14.

[1] The revision mechanism is 0.14 SDR per item plus 1.000 SDR per kilogram. Note that this is lower than the rate for which the US is compensated for inbound flows from other industrialized countries, 0.147 SDR per item plus 1.491 SDR per kilogram. There is a critical difference between the application of the revision mechanism versus industrialized country terminal dues. The revision mechanism, once invoked locks in a new flat rate per kilogram for a period of 1 year, during which the actual items (or equivalently IPK) do not affect the rate. Industrialized country terminal dues are based on an actual accounting of items for the settlement year and affect the rate as per the formula. The implications of the revision mechanism are described in detail in Section 6.

[2] For example, the rate in SDR for a 1-ounce letter paying the current developing country terminal dues rate is 0.10, but for an industrialized country, the rate for letter mail to the US is 0.19, almost twice as much. By 3 ounces, the DC terminal dues are higher than the IC rate, a point that will be discussed later (at higher resolution, the switchover point is found to occur at 2.7 ounces). The following table illustrates some specific comparisons for mail to the US. Note that under the revision mechanism for higher than average IPK, DC rates are always less than IC rates for the IPK that is the basis of the revision mechanism, but for mail under 2.7 ounces, the ratios of IC rates to DC rates are reduced.

Weight (oz)	IPK	DC	IC	Ratio IC to DC	DC RM	IC	Ratio IC to DC RM
0.5	71	0.05	0.17	3.46	0.15	0.17	1.09
1	35	0.10	0.19	1.95	0.17	0.19	1.12
2	18	0.19	0.23	1.19	0.20	0.23	1.18
3	12	0.29	0.27	0.94	0.23	0.27	1.22

The Bulk Mail Option

The revision mechanism and system harmonization mechanism are based on country-level characteristics (i.e., country-level mail flow thresholds, country-level IPK) and when applied affect all subsequent mail over certain thresholds until retracted. In contrast, the bulk mail option provides an adjustment to developing country terminal dues rates paid to industrialized countries based on bulk mailings from a single mailer. When a single mailer from a developing country sends 1,500 or more pieces in a single day to an industrialized country (or 5,000 or more pieces over a two-week period), industrialized country rates may be applied under the bulk mail option to that specific mailing.

The System Harmonization Mechanism

The system harmonization mechanism can be applied to mail flows from developing countries to industrialized countries if:

1. the annual flow exceeds 50 metric tons, and
2. the specified mail flow growth thresholds are also exceeded. [3]

The growth thresholds have been established as proxies for abnormal growth in mail flows from developing countries under the new two-tier system. Such abnormal flows might be caused by undetected remail. For mail flows over the threshold, the developing countries are required to pay terminal dues based on industrialized country rates.[4] As is discussed in Section 6 this provision could be especially effective for minimizing the impact of uneconomic ABC remail through specific countries over the threshold by removing the arbitrage gap that currently exists for light weight mail tendered from developing countries. However, such mail could be diverted by remailers through other administrations not operating under the system harmonization mechanism.

3 The calculation of weight thresholds are specified under Article RE 1010 of "Letter Post Regulations and Final Protocol," UPU, 2000. They are described in detail in Section 6.

[4] If the receiving industrialized country has already applied the revision mechanism to flows from a developing country, then the system harmonization mechanism cannot also be applied.