COUNCIL OF ADMINISTRATION

Committee 2 (Universal Service Obligation, Regulatory Affairs and Postal Regulation)

Resilience of the UPU in the event of a major withdrawal

Memorandum by the International Bureau
(Agenda item 11)

1 Subject	**References/paragraphs**
Summary on the impact analysis, stress test and potential solutions.	§§ 1 to 39 and Annex 1
2 Decision expected	
Take note of this report and provide any comments.	

I. Context

1 On 17 October 2018, the United States of America announced its intention to withdraw from the Universal Postal Union, a 192-country organization of the United Nations system with a 145-year history. The key reason invoked was a disagreement with some provisions of the settlement system for international letter-post exchanges, usually known in postal jargon as the terminal dues system. The latter is directly linked to the UPU-adopted Universal Postal Convention, and constrains member countries to apply certain pricing measures and compensation mechanisms for incoming international mail. As per the rules of the UPU, the United States has a one-year notice period; if current negotiations were to prove unsuccessful, the country would be expected to fully withdraw from the organization on 17 October 2019.

2 These new developments come at a time at which both the UPU and the wider postal sector face significant challenges, owing to macro-trends such as digitalization, liberalization, and changing citizen needs. Considering the importance of the United States for the global economy, the postal sector and the UPU, this withdrawal would undoubtedly have a substantial impact, both in the short and long term. In all likelihood, it might only be absorbed by triggering a substantial transformation of the organization.

3 This document aims primarily to provide further clarity on the meaning of this critical development, evaluating the capacity of the UPU to withstand the test and devising potential avenues for the transformation needed. The information contained in this document is extracted from a much larger in-depth, independent analysis undertaken by the International Bureau (IB). The purpose is neither to question any decisions made by member countries, nor to provide a study on existing settlement/remuneration systems.

4 The document is structured as follows: following the present introduction, the second section contains information on the footprint of the United States in the global economy, the postal sector and the UPU; the third presents an assessment of the short-to-medium term impact of the withdrawal on the UPU, the United States and other member countries; the fourth outlines the main scenarios for the long term; the fifth sketches indications on what could be done to enable the UPU to prevent and/or mitigate the withdrawal of a member country; this is followed by a conclusion and proposed next steps. In addition, several summary tables are provided in Annex 1 to convey the key takeaways from the document.

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II. The footprint of the United States in the global economy, the postal sector and the UPU

The United States and the global economy

5 The United States is the world's largest economy in terms of gross domestic product (GDP), representing 20.51 trillion USD, or 15% of global economic output. The country has experienced robust GDP growth over the past few years, expanding by 2.9% in 2018, i.e. above the average rate of 2.4% reached by advanced economies, according to the International Monetary Fund (IMF). This performance is partly due to fiscal stimulus measures. As these ease out, growth is expected to slow down and reach 2.5% in 2019.[1] Moreover, although the recent performance has brought record low unemployment (4% in 2018, the lowest since 1969), the fiscal deficit has also increased, putting pressure on public spending.

6 Furthermore, trade tensions have been mounting, with the implementation and/or threat of tariffs by major economies and retaliatory measures taken by others. As highlighted by the IMF's research, a stronger political stance against trade openness is causing uncertainty among economic agents, which may thus defer their investment decisions – a factor that hampers GDP growth.[2]

The United States and the postal sector

7 The increasing trade tensions worldwide have also had repercussions on the postal sector, as witnessed by the United States' announcement of its intention to withdraw from the UPU. A preliminary analysis of postal international exchanges recorded through UPU systems shows that the net weight traded by DOs has become increasingly unbalanced. The United States continues to be one of the largest postal exporters worldwide, but its net postal trade balance[3] is negative, unlike some large countries in Asia and Europe.

8 Moreover, the group of leading postal trade actors resembles that of operating revenues, with the top five earners among DOs also displaying very large trade volumes, i.e. China (People's Rep.), Germany, the United States, France and Japan. However, probably because the international segments represent only a fraction of the business of DOs, the skewness observed in the cross-border trade does not affect the distribution of total operating revenues. Yet, one factor in common to all these countries is the extent of the transformations faced by the postal sector.

The UPU as a UN system organization for the postal sector

9 As challenges to the sector have mounted and pressure on funding has increased, the UPU has attempted a number of changes over the past few decades. For instance, it has consistently increased its reliance on extrabudgetary funding in order to compensate for the effects of the long-standing "zero nominal growth" approach weighing on the organization's regular budget, whose share in total funding has decreased to 56% (2019).

10 However, these progressive adjustments may not have been sufficient *vis-à-vis* the magnitude of the transformations in the postal sector, with a simultaneous increase in the demand for UPU services. Indeed, the organization's main risks today still revolve around two self-fulfilling topics: relevance and funding. With a total annual budget that is equivalent to less than 0.02% of the total operating revenues of DOs worldwide (42.86 million SDR vs 243.7 billion SDR in 2017), the UPU may not have all the means to respond to all the needs of its traditional stakeholders. At the same time, it is prevented from serving the entire postal sector, thus depriving it from new sources of revenue and relevance.

11 In addition to being an organization for the postal sector, the UPU remains a specialized agency of the UN system. The latter includes other organizations of a technical nature and/or with ties to specific sectors,

[1] Source: IMF (2019), World Economic Outlook Update, January 2019, available at www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019

[2] Source: International Monetary Fund, downloaded from the IMF Blog, under article "5 Charts That Explain the Global Economy in 2018", available through at blogs.imf.org/2018/12/20/5-charts-that-explain-the-global-economy-in-2018/

[3] Calculated using the following formula: Net postal trade balance = ([Weight Exported] - [Weight Imported]) / ([Weight Exported] + [Weight Imported]) * 100. Moreover, exports, imports and balances calculated through this formula only refer to transactions between DOs.

such as the International Civil Aviation Organization (ICAO), the International Maritime Organization (IMO), the International Telecommunication Union (ITU) and the World Intellectual Property Organization (WIPO).

12 Unlike the UPU, these agencies have achieved their transition, with greater representativeness of all the stakeholders that compose their respective (liberalized) sectors. In addition, with 261 staff (as at December 2018) and revenues of 68 million CHF, the UPU is dwarfed by the IMO (300 staff; 82 million CHF), ICAO and ITU (around 700 staff; 207 million CHF and 179 million CHF, respectively), as well as WIPO (1,534 staff; 413 million CHF).[4] Furthermore, none of these other organizations has yet seen a large member formally announce its intention to withdraw.

The United States and the UPU

13 In addition to coming at a time of already sizeable challenges for the UPU, the October 2018 announcement by the United States was a major reversal of fortunes, considering the historic involvement of the country in the organization.

14 Indeed, throughout the UPU's 145-year history, the US has always been very active, supporting all major transformations and actively engaging in the work of governing bodies. The country is currently a member of the Postal Operations Council, in which it chairs Committee 1 (Supply Chain Integration) as well as two standing groups (Postal Security Group and ICAO–UPU Contact Committee). It is also an observer to the Council of Administration and a permanent member of numerous UPU user-funded subsidiary bodies (e.g. the EMS Cooperative). Moreover, one of the UPU's former Directors General (1995–2004), Mr Thomas E. Leavey, is an American citizen.

15 From a financial perspective, the footprint of the United States in the UPU is also considerable. The country pays (on a timely basis) 50 units per year to the organization's regular budget, representing approximately 2.8 million CHF. It also contributes financially to numerous user-funded bodies, in addition to providing roughly 3 million CHF per year to the Quality of Service Fund (QSF). Furthermore, large donors based in the United States finance highly visible projects run by the UPU, such as those related to financial inclusion, funded by the Bill & Melinda Gates Foundation and Visa (approximately 4 million CHF in total).

III. Direct impact of the withdrawal on the UPU, the United States and other countries

Criteria for measuring the direct impact

16 For each UPU activity, the direct impact of a US withdrawal on the UPU has been rated according to the following scale: a) low, i.e. no substantial impact in any aspect (programmatic, financial or legal); b) medium, i.e. a substantial impact in one aspect (programmatic, financial or legal); or c) high, i.e. a substantial impact in more than one aspect (programmatic, financial or legal). The programmatic impact is considered substantial if it prevents the implementation of at least 90% of the deliverables associated with the activity in question, in line with the 2017–2020 Istanbul World Postal Strategy and Business Plan. For the financial impact, it is deemed substantial if it generates a shortage above 0.5% of the total UPU budget (i.e. 325,000 CHF). Regarding the legal impact, it is assessed with regard to impediments to the continuation of ongoing work.

17 The direct impact of a withdrawal on the United States itself and on other member countries has been rated according to the following scale: a) low; i.e. no substantial impact for any national stakeholder (government and regulator, DO, other market players or consumers); b) medium; i.e. a substantial impact for one national stakeholder (government and regulator, designated operator, other wider postal sector players or consumers); or c) high; i.e. a substantial impact for more than one national stakeholder (government and regulator, DO, other wider postal sector players or consumers). The impact on any given stakeholder is deemed substantial if no alternatives exist to replace, at a reasonable cost, the current product derived from membership in the UPU.

18 Overall, the impact is understood to be *ceteris paribus* ("all things equal"), i.e. based on the assumption that none of the underlying conditions would change. Moreover, the figures presented below constitute esti-

[4] Figures based on available data on the organizations' websites or published financial statements up to March 2019.

mates based on the most accurate information available. Should new elements be communicated and/or discovered by the IB, some of the direct ramifications may need to be revised accordingly. Table 2 in Annex 1 provides further details on the direct (short-term) impact on the UPU, the United States and other countries.

Direct impact on the UPU

19 For the UPU, a US withdrawal would directly impact all of the organization's activities, although not with the same intensity. The hardest hit areas would be those associated with treaties, settlement systems, consulting and capacity building, information technology solutions, standards, data storage and protection, as well as general secretariat and support activities. The overall shortfall in funding would also be substantial, with an estimated total of 8,064,550 CHF no longer available to the UPU, or 5,064,550 CHF if we exclude 3,000,000 CHF in annual payments to the QSF. Of this total amount, 2.8 million CHF relates to the regular budget (1st pillar), and the rest is extrabudgetary (2nd and 3rd pillars).

Direct impact on the United States

20 For the United States, the direct impact of a withdrawal from the UPU would fall mostly on the country's designated operator (the United States Postal Service – USPS). In some cases, however, other stakeholders in the country, including governmental authorities, might also be affected. This is the case for instance in the area of customs, security and transport, in which US authorities have traditionally resorted to the UPU to channel their practices and standards on how to combat global threats. In principle, a withdrawal would also be immediately detrimental to the United States' capacity to seek and obtain advice (including legal) on the implications of their dealings with other countries regarding postal matters. Furthermore, the country would no longer have access to the multilateral framework and the negotiation platform that the UPU represents. Financially, the savings would be inversely proportional to the shortage of funding caused on the UPU as a consequence of the withdrawal.

Direct impact on other member countries

21 For other member countries, the direct impact of the withdrawal would also fall disproportionately on their designated operators (DOs). Moreover, there would be instances in which the governmental authorities of these countries would be affected. The areas of customs, security and transport are examples worth highlighting, as are other activities such as the multilateral framework provided by the IB, the technical assistance funded by the United States (e.g. through the QSF or major donors), the capture and analysis of data, as well as several forms of support. Financially, all other member countries would in principle also need to cushion the immediate shortfall in funding, i.e. 8,064,550 CHF, owing to the constitutional principle of financial solidarity, as well as seeing their shared exposure to the long-term liabilities of the UPU automatically increase.

IV. Long-term scenarios

22 Beyond its direct impact, the withdrawal would also have long-term consequences. Even though these are more difficult to quantify, it is possible to analyze the key factors that might underpin the decision of a given member country to withdraw and the ability of the UPU to withstand it.

Drivers behind the decision of a given country to withdraw

23 For a country considering a withdrawal, relevant factors may, *inter alia,* include strong ties with potential "leavers" (e.g. macroeconomic and geopolitical links, funding of technical assistance projects), similar challenges (e.g. a difficult financial situation of the government, an embattled DO or a large postal trade deficit), or views on the current value of UPU products and services (e.g. the existence of relevant alternatives).

24 The outcome could be influenced by the same indirect and direct factors behind the United States' decision to withdraw, such as rising voices in favour of sovereignty and higher tariffs on trade, a rising multipolar world, a paradigm shift in global politics, domestic and regional anti-monopoly drives, a rejection of the UPU's terminal dues system, difficulty achieving success in negotiations in a reasonable amount of time, as well as the UPU's continued DO-centric approach.

25 The behaviour of stakeholders directly involved in dealing with the current situation may also build new conditions for the withdrawal of future members. Indeed, in the months that followed the announcement by the

United States, numerous (formal and informal) inquiries were received by the IB from delegates, who have attempted to estimate the legal and practical feasibility of maintaining “business-as-usual” relations between their DOs and USPS on specific UPU activities (e.g. regarding EMS or the usage of IMPC codes), thus translating a preference for adopting short-term fixes and a commercial view to the wider problem posed by the withdrawal of a large member from an intergovernmental organization.

26 In the same vein, several delegations have been pushing forward the idea of a substantial cut in current UPU costs to compensate for the financial loss of the US’s withdrawal, thus revealing a perception that the organization is a large machine with substantial overcapacity that could be trimmed down without compromising basic services. As shown above, the UPU’s budget (less than 0.02% of total DO revenues) and size does not leave a large margin for such measures to bear fruit.

27 Furthermore, even though several months have elapsed since the United States communicated its decision to withdraw, no country has yet stepped in to reaffirm in an ostensive, clear and formal manner its commitment to protecting the multilateral framework represented by the UPU, even in the event of an effective US withdrawal in October 2019.

Drivers behind the UPU’s ability to withstand the withdrawal of a member country

28 It might be said that the organization’s ability to withstand the withdrawal of a member country is potentially determined by operational, financial and value-perception factors. These may include, *inter alia,* the disruption in the provision of products and services provided by the UPU, the direct financial impact of any withdrawal, the ability of the organization to generate additional revenues and/or to compensate for lost contributions, the cost of the withdrawal for any country, as well as the reduction in value of a specific product or service as a consequence from members deciding to withdraw (e.g. standards no longer used by a major trading partner or data no longer captured).

Key long-term scenarios

29 Based on the factors highlighted above, it is possible to construct and test a model to estimate the likelihood of the United States effectively withdrawing in October 2019, of other member countries following suit, and of the UPU’s ability to withstand the impact. However, refinement of the corresponding estimates would require further data collection.

30 Therefore, at this stage, the factors will be considered in a more general manner in order to draw a first version of key scenarios of reference for the long term. The most likely ones appear to be the following (see the tables in Annex 1 for further details):

- Scenario 1 – the United States exits; other countries follow; the UPU potentially collapses;
- Scenario 2 – the United States exits; all other countries remain; the UPU survives;
- Scenario 3 – the United States remains, triggering substantial changes to the UPU.

V. Potential solutions

31 Once the key scenarios for the long term have been identified, it is necessary to build a framework to stress test the ability of the UPU to ensure continuity of its operations in the event of a member country’s withdrawal. This can be done through a model, which can articulate the actions to be undertaken in order to prevent and – in the event that any of the scenarios materialize – mitigate the most adverse impacts for the organization.

32 The IB has conceived such a stress-test model by constructing an indicator of solvency, determined by the following factors: the probability of countries choosing to remain; the number of countries participating financially in the UPU; the level of financial contributions from these countries; other positive cash flows (e.g. from the sales of products and services) and negative cash flows (e.g. operational costs).

33 Based on this model, a member’s withdrawal can only be compensated by seeking to influence the variables outlined above, i.e. increasing the probability of member countries remaining (increase cost of exit, increase benefits to member countries); expanding the concept of members and increasing their number (ITU

business model); increasing other positive cash flows (WIPO model); reducing negative cash flows (downsizing model); or increasing the contribution of remaining member countries.

34 These measures are not necessarily mutually exclusive. However, they all require a number of preconditions to succeed and, beyond a certain threshold, they may prove counterproductive. Indeed, given the impact of a withdrawal (i.e. 8,064,550 CHF for the United States only, and potentially much more if other large countries follow), absorbing the shortage through cost-cutting alone would be almost impossible in an already relatively small organization. The focus should thus preferably be placed on prevention and mitigation measures, especially those turned towards growth and fee-paying models.

VI. Conclusion

35 As mentioned in the introduction, the decision by the United States to announce its intention to withdraw from the UPU constituted a ground-breaking event coming from one of the organization's most active (founding) members.

36 For all its risks, this development has nonetheless brought a unique opportunity for the UPU to address long-deferred structural issues that had been undermining its relevance and funding over past decades. Indeed, as both national and international markets have been liberalized, in a wide range of industries, including the postal sector, the UPU may have retained a superseded mode of functioning, while other UN agencies facing similar issues have all finalized their own transitions.

37 Therefore, in order to be more relevant as the UN agency for the postal sector, the UPU needs to strengthen its links with all market participants, many of which are still not fully represented in the organization. In doing so, the UPU can also better fulfil the needs of governments and regulators, and thus fully play its role as a forum, a provider of technical solutions and a knowledge centre for the wider postal sector.

38 In that context, all the prevention and mitigation measures advocated in this document would gain from being perceived as opportunities rather than as disruptions to "business as usual". Indeed, they have the potential to transform the organization for the better. In any event, considering the magnitude of the challenges ahead, there are few options left.

39 In order to move forward on this matter, the Secretary General will convene a meeting with high-level government representatives to set out the current situation, and explain the existential threats faced by the UPU and the range of solutions available.

Berne, 29 March 2019

Bishar A. Hussein
Secretary General

Summary tables on diagnosis and potential solutions

Table 1 – Background information

	UPU	*United States*	*Other member countries*
Share of global economy	N/A	15%	85%
Revenues as a % of total DO revenues (total = 243.7 billion SDR in 2017)	0.02%	21%	79%
Regular budget (total = 37,235,000 CHF)	100%	6%	94%

Table 2 – Direct impact and main outcomes (short term)

UPU activities		*UPU*	*US*	*Other member countries*
1 – Events/meetings of technical working groups	Impacts	Programmatic and financial impact on Consultative Committee (CC); Direct Marketing Advisory Board (DMAB); CA and POC secretariats; sustainable development	No single access anymore to other countries or to the secretariat, with the need to recreate the links and the services through bilateral partnerships and/or private alternatives	Reduced usefulness of the events, meetings and secretariat in resolving issues involving the US; plus, financial impact to be cushioned in relation to the CC and the DMAB
	Main outcomes	No possibility to benefit from US contributions at meetings	– US no longer able to obtain secretariat support or participate in any meetings of the UPU – Automatic loss of US membership in the POC – Attendance by its former DO at such meetings only potentially possible as an ad hoc observer	No possibility to benefit from US contributions at meetings

UPU activities		*UPU*	*US*	*Other member countries*
2 – Treaties and international agreements	Impacts	Programmatic and legal impact, through the exit of the US from the UPU's international postal services and associated solutions (incl. postal payment services)	US no longer part of the treaties that underpin the UPU's international postal services and their associated solutions (incl. postal payment services)	For any dealings with the US, market participants will no longer be able to rely on treaties that underpin both the UPU's international postal services and their associated solutions (especially the Universal Postal Convention)
	Main outcomes	– US no longer a member of the UPU or any associated legal frameworks – Loss of potentially qualified talent for the UPU, since US citizens domiciled on US territory will no longer be recruitable as UPU staff	– UPU-defined international postal services no longer exist for/with the US; definitions of such services, their associated regulations and relevant inquiry/liability/prohibition provisions no longer apply – Any former international postal traffic to/from the US to be considered as cargo (i.e. no longer benefiting from UPU forms/regulations and WCO-defined customs facilities under the Kyoto Convention) – UPU-regulated remuneration no longer applies – USPS no longer a DO – Transit of international postal items no longer possible through US territory – All US and foreign ETOEs/IMPCs on US soil automatically revoked (article 13 of the Convention) – Stamps issued by the US are no longer "postage stamps" for international postal services (article 6 of the Convention)	No possibility to exchange international postal items with the US under UPU rules (cargo applies) – see also middle column

UPU activities		*UPU*	*US*	*Other member countries*
2 – Treaties and international agreements (cont.)			– UN member states of Marshall Islands, Micronesia (Federated States of) and Palau no longer part of the UPU network (as their international postal services have been ensured by the US) – Recruitment, as new UPU staff, of US citizens domiciled on US territory no longer possible (only if they are domiciled in other UPU member countries)	
3 – Settlement systems	Impacts	Programmatic and legal impact on the remuneration systems; plus funding shortage for UPU*Clearing	USPS no longer able to rely on the UPU's remuneration systems and associated tools, including UPU*Clearing for dealings with UPU member countries	DOs no longer able to use the UPU's remuneration systems and associated tools, incl. UPU*Clearing, for transactions with the US; plus, need to cushion funding of UPU*Clearing
	Main outcomes	US-related contributions no longer due	Automatic loss of membership in UPU*Clearing; USPS no longer able to access that facility	Other DOs no longer able to clear international postal transactions with the USPS under UPU*Clearing
4 – Consulting and capacity building	Impacts	Financial impact on QSF; financial inclusion and security; programmatic impact on customs, security and transport	No access anymore to technical solutions in operational matters, e.g. EMS, transport, customs and quality-of-service improvement; legal impediments for US-based donors in capacity-building projects	DOs no longer able to use operational consulting for transactions with the US; capacity-building projects funded by US-based donors stopped/cancelled; funding shortage in QSF, financial inclusion and security
	Main outcomes	US-related QSF contributions no longer due	US ceases being a QSF contributor (and, as the case may be, beneficiary of regional/global QSF projects)	Immediate impact on US-related QSF contributions, thus leading to decreased scope for QSF projects

UPU activities		*UPU*	*US*	*Other member countries*
5 – IT solutions	Impacts	Programmatic and legal impact on Telematics Coop., EMS Coop., .POST Group, GMS; financial impact on Telematics Coop., EMS Coop., .POST Group and GMS	No access anymore to IT solutions through the PTC, EMS, GMS and other quality of service reporting tools	DOs no longer able to use IT solutions through PTC, EMS, GMS, etc., for transactions with the US; funding to be absorbed related to the Telematics Coop., EMS Coop., GMS and .POST
	Main outcomes	US-related contributions no longer due	US governmental authorities and DO cease having access to any UPU IT solutions	Interactions with the US under UPU IT solutions no longer possible
6 – Standards	Impacts	Programmatic and legal impact on all standardization activities, with the deactivation of IMPC codes and EMS for all US-related transactions; plus direct funding shortage for EMS and WNS	No access anymore to IMPC codes, EMS and other standards when transacting with UPU member countries; no possibility anymore to promote and enforce standards and certification in areas such as security	DOs no longer able to use IMPC codes, EMS and other standards when transacting with the US; challenges in complying with US standards in areas such as security; funding to be absorbed in EMS and WNS
	Main outcomes	US contributions to UPU standardization activities cease to exist	Automatic revocation of IMPC codes for any US and foreign ETOEs/IMPCs on US soil	Interactions with the US on the basis of UPU standards for international postal services no longer applicable/possible
7 – Data storage and protection	Impacts	Programmatic and financial impact on POST*Net, with a sizeable portion of the traffic no longer captured	No possibility anymore to record transactions between the US and other countries through UPU systems	No possibility anymore to record transactions between the US and other countries through UPU systems; absorption of financial impact on POST*Net
	Main outcomes	US-related international postal traffic no longer visible/part of POST*Net	US governmental authorities and DO cease having access to any UPU IT solutions; associated data stops being processed	Interactions with the US under UPU IT solutions no longer possible
8 and 9 – Focused analysis, research and insights on market trends	Impacts	Programmatic impact owing to the reduction of available data for analysis, due to the reduction in the size of captured data	With reduced data, analysis of bilateral flows would be impaired, thus reducing the understanding of these flows	With reduced data, analysis of bilateral flows would be impaired, thus reducing the understanding of these flows
	Main outcomes	US-related international postal traffic no longer visible/part of POST*Net; associated data no longer available; decreased UPU capacity to study/anticipate trends	US governmental authorities and DO cease having access to any UPU IT solutions; associated data stops being exchanged/processed	Interactions with the US under UPU IT solutions no longer visible/part of POST*Net

UPU activities		*UPU*	*US*	*Other member countries*
10 – General support or other activities	Impacts	Programmatic and financial impact on all areas. Shortage of funding for the regular budget and for the English Translation Service	No access anymore to support services, including legal, logistics, executive office, etc., in the dealings with other UPU member countries regarding postal matters	No access anymore to support services, including legal, logistics, executive office, etc., in the dealings with the US regarding postal matters. Absorption of funding for the regular budget and for the English Translation Service
	Main outcomes	US financial contributions no longer provided; potential impact on general UPU activities	US no longer able to access any UPU support services	Other member countries required to cover financial shortfall or risk impairing UPU activities even further; assistance no longer provided on any matters associated with the US

Table 3 – Long-term scenarios

	UPU	*US*	*Other member countries*
Scenario 1 – the US exits; other countries follow; the UPU potentially collapses	– More countries decide to withdraw, due to a refusal to commit financially and/or a tendency to allow access/DO-driven ”business as usual” without membership – “Bankruptcy” of the UPU; staff no longer paid; Provident Scheme payments disrupted – UPU products and services no longer provided, disrupting postal supply chains	– Initially: savings on the costs of membership, as well as on obligations for liabilities; continuation of USPS–other DO cross-border transactions – Following the eventual collapse (or disruption) of the UPU: a long-term disruption in performance and traffic, until alternatives to UPU standards and systems are developed	– Initially: continuation of USPS–other DO cross-border transactions – Following the eventual collapse (or disruption) of the UPU: a long-term disruption in performance and traffic, until alternatives to UPU standards and systems are developed
Scenario 2 – the US exits; all other countries remain; the UPU survives	– Thanks to increased contributions, the UPU survives but needs to (a) streamline structures, (b) review its products and services, (c) open them to the whole sector, (d) review the funding model – Staff is trained to respond to new demand and needs – UPU products and services provided with better cost coverage and greater impact	– Initially: savings on the costs of membership, as well as on obligations for liabilities – No more USPS–other DO transactions under the existing framework, raising the need for bilateral agreements and indirect alignment with UPU standards – Disruption in bilateral postal exchanges involving the US	– Absorption of any shortage in funding caused by the US’s withdrawal – The UPU is driven to service the entirety of national postal markets (i.e. not only DOs) – Countries refrain from using alternatives to UPU solutions, owing to the need to receive a return on their newly made investment in the organization

	UPU	*US*	*Other member countries*
Scenario 3 – the US remains, triggering substantial changes to the UPU	– The UPU is fully reshuffled, along the same lines as points (a) to (d) above, with a greater focus on fee-paying models – Same as above for staff and products and services	– Reaffirmed engagement in a transformed organization – All national market participants can benefit from what the organization has to offer; countries resort to UPU solutions instead of using alternatives; traffic increases – Users pay directly for services consumed	– Reaffirmed engagement in a transformed organization – All national market participants can benefit from what the organization has to offer; countries resort to UPU solutions instead of using alternatives; traffic increases – Users pay directly for services consumed

Table 4 – Measures, key success factors and limitations[1]

Measure	*Key components*	*Key success factors and limitations*
1 – Increase the probability of members remaining (increase cost of exit, increase benefits to members)	– Raise awareness with stakeholders at the highest level of government on (1) the potential chain reaction that could be caused by a withdrawal, bringing down the entire system, (2) the systemic risk faced by the UPU and the international postal system and (3) the negative socio-economic externalities of scenario 1 – Ensure that the principle of "UPU-based" interactions between DOs of member countries and other entities of non-members is formally rejected – Ensure that access to UPU products and services remains restricted to all postal sector entities, but only of member countries – Consider introducing "severance" fees, and payment of liabilities to be settled before leaving the organization	– To succeed, this measure needs to target, at the highest possible level (e.g. heads of state/government), potential "leavers" and those countries with which they share strong ties, similar challenges or views on the current value of products and services – However, any outreach activity needs to be executed in a coordinated manner and following a strict plan. Any attempt by the IB to conduct negotiations at lower levels than General Management or on behalf of particular countries should be proscribed – In the whole process, confidentiality of information is also critical

[1] The solutions presented here correspond to a stress-test model, which can be expressed as follows: there is a latent random variable (Solvency, S) whose expectation is defined by $E(S) = \sum_{i=1}^{N} P(Member\ i\ remains) * Cont(Member\ i) + OtherPositiveCashFlows - NegativeCashFlows$, and where N is the number of members participating financially in the UPU, *P(Member i remains)* is the probability that member *i* remains and Cont() is the level of contributions from the latter. The existence of the UPU revolves around the following inequality: E(S)>c, with c being the critical solvency threshold. If one member leaves the UPU, the impact on the expected solvency E(S) is "–Cont(Member i)". This reduces the expected value, bringing it closer to the critical threshold.

Measure	*Key components*	*Key success factors and limitations*
2 – Increase the number of members (ITU business model)	– Accelerate the opening up of UPU products and services, in order to quickly generate additional revenue to compensate for any losses incurred from membership loss – Prepare and implement a contingency plan, which includes reviewing the organization as per points (a) to (d) mentioned in scenarios 2 and 3 (table 3) – Set targets for the expansion of membership, based on a financial projection of the additional revenues required – Conduct outreach activities to attract new members (this should only be started after the step above)	– A key success factor for this measure is the ability to conceive, produce and distribute the idea of extended membership. Selling the idea before it is ready should be proscribed, in order to prevent any possibility of disappointing new stakeholders – Another success factor is the ability of the organization, its staff and its current direct stakeholders (e.g. CA and POC delegates) to recognize the need for drastic change and to embrace it
3 – Increase positive cash flows (WIPO model)	– Same as above – In addition, draft development plans for each of the UPU's product categories, including elements of addressed and unaddressed demand, expected revenues and costs, and required contributions for servicing assets and liabilities	– Same as above
4 – Reduce negative cash flows (downsizing model)	– Prepare and (once the scenario materializes) implement a contingency plan, which includes descaling the organization (in financial and human resources) to a minimum functionality level to ensure continuity in operations	– Owing to the size of the impact (i.e. 8,064,550 CHF for the US only, and potentially much more if large countries follow), absorbing the shortage in resources through cost-cutting alone would be almost impossible in an organization with a budget that is equivalent to less than 0.02% of total DO revenues. The focus should therefore be put preferably on the prevention measures, especially those turned towards growth and fee-paying models
5 – Increase the contribution of remaining members	– Prepare and (if the scenario materializes) implement a contingency plan, which reaffirms and extends the solidarity principle, with member countries having to raise their contributions both to the regular budget and to extrabudgetary funds in order to offset the financial loss resulting from the withdrawal of a member	– This option may also have a negative effect, because it gradually decreases the net benefits of remaining members, thus creating new incentives to exit