Certain Public Postal Operators
"Agreement for the Remuneration of Mandatory Deliveries
of Cross-Border Mails (REIMS II)"
31 October 1997

[Text which is *italicized and underscored* indicates matter which the Parties marked "denotes the deletion of information which constitutes a business secret" and excluded from the non-confidential version. Retyped. Page numbers in boldface indicate pages of the confidential version.]

Agreement for the Remuneration of Mandatory Deliveries of Cross-Border Mails (REIMS II)

made and entered into this 9 of July by and among the parties listed hereafter (collectively the "*Parties")*

List of the Parties

Austrian Post	Austria
Post Danemark	Denmark
Finland Post Ltd	Finland
La Poste	France
Deutsche Post AG	Germany
Hellenic Posts ELTA	Greece
Post and Telecom Iceland Ltd	Iceland
Ente Poste Italiane	Italy
Norway Post	Norway
Correos y Telegrafos	Spain
The Post Office	United Kingdom

Witnesseth:

- WHEREAS, the Parties are public postal operators, being postal administrations within the meaning of the Universal Postal Union's Constitution and the Universal Postal Convention (the “UPU Convention”), or private postal operators of a mandatory universal delivery service obliged and/or willing to make this service available to the other Parties and
- WHEREAS, as public postal operators the Parties are under an obligation to accept and delivery cross-border mails that they receive from each other, and
- WHEREAS, terminal dues payable under Article 49 of the 1994 UPU Convention do not always reflect the costs incurred by the Parties in delivering such cross-border mails, and
- WHEREAS, the Parties wish to compensate each other fairly for the costs of delivering cross-border mails, they desire to establish between them a system for the remuneration of mandatory deliveries of cross-border mails which better compensates them for the costs they incur, and
- WHEREAS, the Parties consider that the costs they incur in delivering cross-border mails are best reflected in a percentage of their Domestic Tariffs, and
- WHEREAS, the Parties consider that 80 per cent of their Domestic Tariffs is an appropriate percentage to use, and
- *WHEREAS, the Parties consider that this tariff should be increased, in countries where postal services are liberalised, where a uniform tariff is applied all over the country and where VAT is applied to domestic postal services, by a percentage equivalent to half the rate of VAT applicable to such services supplied domestically, such increase compensating the higher proportion of less profitable services in the activity of the operator, and*
- WHEREAS, the Parties wish to make all other mail services available to each other, on the same basis as domestic customers, and
- WHEREAS, the Parties wish to improve the Quality of Service for cross-border mail, and
- WHEREAS, the Parties wish to encourage Sending PPOs to prepare and present the mail in a manner which will speed up the operational processes in the Receiving PPO's country to result in quicker delivery and/or ensure savings, and
- WHEREAS, the Parties wish to give incentives for the Receiving PPOs to give cross-border mail a very high Quality of service, and
- WHEREAS, the Parties thereby will be able to offer improved cross-border mail services to the consumer, and
- WHEREAS, the Parties recognise that changes in the remuneration system between PPOs are bound to have an impact on the market, and
- WHEREAS, the Parties consider that the difference in Quality of Service between Priority and Non-Priority Mail should be reflected in the level of Terminal Dues, and
- WHEREAS, the Parties wish to establish a system that takes into account the customers' interests, in particular by spreading the effects of changes in the remuneration system over a Transitional Period, and
- WHEREAS, the Parties believe that this Transitional Period should be shorter than the one provided for in their earlier Agreement for the Remuneration of Mandatory Deliveries of Cross-Border Mails of 13 December 1995, so that Terminal Dues are brought into line with EC competition law requirements as quickly as possible, and
- WHEREAS, there will be no need to apply Articles 25 and 49 § 4 of the Universal Postal Convention among the Parties after this transitional period, and
- WHEREAS, in its resolution of 7 February 1994 the Council recognised the necessity of granting protection against deflections of trade based on abuse of the system; it will be each

[/3] Party's decision whether to apply Articles 25 and 49 § 4 of the UPU Convention or other relevant provisions in order to protect itself against such abuses from outside the system.

Now, therefore, the Parties hereby agree as follows:

Article 1: Definitions

All terms beginning with a capital letter in this Agreement (including the Annexes) are either defined in Annex 1 to this Agreement or defined in the body of this Agreement and referred to in Annex 1.

Article 2: Remuneration for the Delivery of Cross-Border Mails (Terminal Dues)

2.1 Scope of the Agreement

This Agreement covers mail items, as defined in Article 8 of the UPU Convention with the exception of M bags which continue to be covered by said Convention.

2.2 A Party (the "Receiving PPO") that receives cross-border mail items from another Party (the "Sending PPO") for delivery in its territory shall receive remuneration ("Terminal Dues") as determined in the following paragraphs.

2.3 Priority Mails

The Terminal Dues for Priority Mail items presented in mixed bags (which may contain letters, other flat items of mail and/or packets within or along the formats set out in Annex 2) shall be 80 per cent of the Receiving PPO's Domestic Tariff excluding VAT

In countries where postal services have been fully liberalised, where a uniform tariff is applied all over the country and where VAT is applied to domestic postal services, by a percentage equivalent to half the rate of VAT applied to domestic services, the Domestic Tariff to be used for the calculation of Terminal Dues shall be increased by a percentage equivalent to half the rate of VAT, subject to a maximum of 12.5%.

The preceding paragraph will be reconsidered if a European authority decides that VAT is to be applied before 31 December 1998 to postal services throughout the European Union.

Before 31 December 1998, the Parties will decide whether to introduce economic adjustment to the Domestic Tariff, e.g. a norm costs model, to ensure that the Terminal Dues are correctly linked to costs.

2.4 Non-Priority Mails

The Terminal Dues for Non-Priority Mail shall be 10% less than the terminal dues payable for Priority Mail pursuant to Article 2.2. *In the case of Non-Priority Mail delivered by Royal Mail, until 31 December 2000, the Terminal Dues shall be 5% less than the Terminal Dues payable for Priority Mail. Before 31 October 2000, Royal Mail shall submit to the Board a new offer for the Terminal Dues payable as of 1 January 2001.*

The following Parties, as Receiving PPOs, are authorised to treat all incoming mail as Priority Mail and, if they choose to do so, shall receive the Terminal Dues payable for Priority Mail and, if they choose to do so, shall receive the Terminal Dues payable for Priority Mail: The Post- Iceland, Entreprise des Postes et Télécommunications, Hellenic Posts ELTA (only until 31 December 2003) and Correos y Telegrafos (only until 31 December 2005).

2.5 Prepared Mails

The receiving PPO may offer discounts on the Terminal Dues to the Sending PPO for any preparation of mail which will speed up the operational processes leading to delivery, or which will provide savings as, for instance, presentation in trays, segregation by Office of Exchange, machine-readable items, pre-sorted items, etc. Each Receiving PPO must offer the same discounts to all Sending PPOs when equal conditions are met. **[/4]**

Each party shall inform IPC by 31 December 1998 of the rates and conditions of discounts which it will offer Sending PPOs for their prepared mail.

2.6 Access to Domestic Rates

A Sending PPO may choose to avail itself of any of the Receiving PPO's generally available domestic rates at the conditions the Receiving PPO makes available to its domestic customers.

In order to facilitate this access, which is an integral part of the Agreement, the Parties shall:

- deliver the various types of mail supplied by another Party, and in particular newspapers, magazines, advertising material, bulk mail, on the same conditions and at the same tariffs as those they offer domestic customers;
- relax domestic regulations for other Parties, when these regulations, in particular ones not related to costs, applied to other Parties, are not justified and could, in practice, bar them from access to domestic rates. *With the strong support of all Parties and with the aim of reducing the financial impact of this Agreement and to service customers better, Royal Mail will spearhead efforts to harmonise access conditions to each country's domestic services. A report will be presented to the Board in October 1997, with the objective that domestic service(s) provided under harmonised access conditions be operational from 1 January 1998.* If discriminatory obstacles are identified by IPC, the Parties will use their best efforts to remove them, if necessary in cooperation with the relevant competent authorities.

When a new disposition has the effect of limiting access, the injured Party may have recourse to arbitration pursuant to Article 15.

IPC manages a data base with all rates and conditions made available by the Parties to their customers. The Parties undertake to give IPC the necessary data.

2.7 *Special Services and Categories of Mail*

A Receiving PPO will not receive any additional remuneration for the performance of special services within the meaning of Articles 16 through 24 of the UPU Convention (such as registered forms, insured items, etc.).

2.8 Linear Tariffs

Since, for operational reasons, it is not feasible to do weight step sampling. Domestic Tariffs shall be converted into linear tariffs pursuant to the provisions set out in Annex 2.

2.9 Calculation and Payment of Terminal Dues

Terminal Dues will be calculated on the basis of gross flows between two PPOs, not just on an imbalance of flows between them. However, settlement may take place on a net financial basis. The methods of calculation and payment of Terminal Dues will be set out in the a document entitled "Calculation and Payment of Terminal Dues". The Board can amend this document following consultation with the Parties.

2.10 Changes in Domestic Tariff

The Parties remain free to change their respective domestic rates. However, any modification of the Domestic Tariff by a Party will only be taken into account for the calculation of new Terminal Dues if the new Domestic Tariff is communicated to IPC and applied at the latest by 1 September of the year preceding the application of the new Terminal Dues rates. *IPC will inform the other Parties before 1 October of the new Terminal Dues.*

2.11 Terminal Dues and Non-Discrimination

Subject to the application of Article 3.3 (Quality of Service penalties) *and certain provisions in Annex 4*, each Party shall apply the same rates of Terminal Dues to all other Parties. **[/5]**

Article 3: Quality of Service incentives

3.1 There will be a triple system of Quality of Service incentives:

- Special, ambitious Quality of Service penalties are established for cross-border mail;
- Individualised penalties reducing Terminal Dues will apply to a Receiving PPO when these Quality of Service standards are not met in the relation between this PPO and a particular Sending PPO.
- In certain cases set out in the Appendices to Annex 4, increases in Terminal Dues will be conditional on a Receiving PPO achieving certain Quality of Service standards.

3.2 A Receiving PPO shall afford incoming Priority Mail a Quality of Service which conforms to the standards set out in Annex 3. The Parties will use their best efforts to negotiate Quality of Service Standards for Non-Priority Mail.

3.3 From 1 January 1998, penalties reducing Terminal Dues will apply to Priority Mail corresponding to the percentage of the Quality of Service standard achieved by each Party, as set out in the curve in Annex 5 (the maximum penalty being 50% of the applicable Terminal Dues). The penalties shall be calculated on the basis of the Quality of Service achieved in the relation between each Sending PPO and Receiving PPO *after the Board determines that this is feasible. Until then, the penalties shall be calculated on the basis of the Quality of Service globally achieved by each receiving PPO. IPC will study this problem and present a proposal to the Board before 31 October 1998.*

3.4 *These penalties will be deducted when the accounts are settled. The penalties will be calculated provisionally pursuant to the provisions set out in Annex 4. They will be adjusted and a final settlement will be made once the actual Quality of Service performance has been determined by IPC.*

3.5 All Parties shall participate in the quality of Service diagnosis systems that are set up and/or will be set up by IPC. Such system shall inter alia measure the performance of each Receiving PPO against the standards set out in Annex 3. The Parties agree that IPC's Quality of Service diagnostic system(s) will be the basis for Quality of Service measurement under this Agreement.

3.6 *Irrespective of the above, Terminal Dues after penalties, if any, shall never be lower for Priority and Non-Priority Mail than the current CEPT rate of Terminal Dues, namely 1.491 SDR per kg + 0.147 SDR per item, except in countries where 80% of the Domestic Tariff of the Receiving PPO is lower than the current CEPT rate; in such countries, Terminal Dues shall never be lower than 80% of the Domestic Tariff.*

Article 4: *Operational Procedures*

All operational procedures, including the methods of measuring and sampling flows of cross-border mail, that are applied by the Parties are set out in a document entitled "Operational Guide".
The Board can amend this document following consultation with the Parties.

Article 5: Interface

Articles 25 and 49 § 4 of the UPU Convention shall not be applied by a Party against another Party after the Transitional Period.

Article 6: Transitional Period

In order to allow all affected interest, particularly those of the customers, to accommodate themselves to the new system, there will be a Transitional Period, the details of which are set out in Annex 4. **[/6]**

Article 7: ***Challenge of a decision of the Board***

A Party may challenge a decision of the Board taken pursuant to this Agreement. In such a case, to become effective, the decision must be approved by a majority of the Parties.

Article 8: ***Cost Sharing***

All Parties will contribute to IPC's cost of managing the REIMS system. Their respective shares shall be calculated according to the same principles as the IPC membership fees. Each year IPC will determine each Party's contribution.

Article 9: **Membership**

All operators (public or private) of a mandatory, universal postal service can accede to this Agreement, provided that they have or contract to have an obligation to provide this service to the other Parties, and that they comply with all the terms of this Agreement.

Article 10: **Accessions**

In order to accede to this Agreement, the acceding party shall inform IPC of its intention and execute a Deed of Accession in the form of Annex 6.

The accession is subject to approval by the Board. *Following consultation with the Parties, the Board is empowered to amend the Annexes to include the acceding party.*

If approved by the Board, the accession shall be effective and the provisions of this Agreement shall be applicable between the acceding party and the Parties as of 1 January of the year following the deposition of the Deed of Accession.

Any party to the earlier Agreement for the Remuneration of Mandatory Deliveries of Cross-Border Mails of 13 December 1995 that executes a Deed of Accession by 31 December 1997 shall become a Party to this Agreement upon delivery of this Deed of Accession to IPC. Board approval shall not be required in this case, and this Agreement shall immediately become applicable between the acceding Party and the other parties.

Article 11: **Term and Termination**

11.1 This agreement shall enter into force on 1 October 1997, with the exception of Correos y Telegrafos of Spain for which it will enter into force on 1 January 1998. However, *subject to the following clarifications,* Articles 2 to 6 of the earlier Agreement for the Remuneration of Mandatory Deliveries of Cross-Border Mails of 13 December 1995 shall continue to apply between the Parties and shall take precedence over the corresponding provisions in this Agreement until 31 December 1997. *Until this date, for those Parties offering Saturday delivery for their domestic mail, Saturday will be considered as a working day, and the margin for the interpretation of the Quality of Service diagnostic results will be 1%.*

11.2 This Agreement is entered into for an indefinite period of time. Any party may withdraw from this Agreement at any time after its entry into force *by depositing a notice of withdrawal with IPC, who will then inform the other Parties.* Such withdrawal shall only take effect at the end of the first full calendar year following the notice of withdrawal.

11.3 *If in the opinion of a Party a final decision of a competent EU authority concerning this Agreement or affecting cross-border mail poses a threat to this Party's vital interest, the Party may withdraw from the Agreement by giving 6 months notice to the end of a calendar month.*

11.4 *It is a condition precedent that The Post Office has signed this Agreement by 15 September 1997. If The Post Office has not signed this Agreement by that date, the Agreement shall not enter into force.* **[/7]**

Article 12: **Annexes - Entire Agreement**
The Annexes referred to in this Agreement are an integral part of this Agreement. This Agreement, together with the Annexes thereto, constitutes the entire agreement and understanding between the Parties.

Article 13: **Headings**
Headings in this Agreement are inserted for convenience only and are not to be considered part of this Agreement.

Article 14: **Assignment - Successors**
This Agreement may not be assigned by any Party without the prior written consent of the other Parties. All the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of the Parties and their respective successors.

Article 15: ***Arbitration***
Any disputes arising out of or in connection with this Agreement shall be referred to the chief executive officer of IPC, who shall propose a solution within a period of one month. If the chief executive office of IPC does not propose a solution within this period, or if his solution is not accepted by all Parties involved in the dispute within a further period of one month, the case shall be finally and bindingly decided by an arbitration committee ("the Arbitration Committee"). The Arbitration Committee shall consist of three individuals, a chairman and two members, independent from the Parties involved in the dispute. Each party or group of Parties shall appoint an arbitrator within a further period of one month. If any of the Parties to the arbitration fails to do so, the Board shall appoint an arbitrator within a further month.
The two arbitrators thus appointed shall have one month to appoint a third arbitrator to chair the Arbitration Committee. If they fail to do so, the Board shall appoint this third arbitrator within a further month.
The Arbitration Committee shall use its best efforts to render its decision within two months of its constitution. Its decision will be binding on the Parties involved in the dispute. The arbitration proceedings shall be conducted in the English language. The Arbitration Committee shall decide which Party or Parties shall bear its costs and those of IPC.

Article 16: **Amendment**
This Agreement may be amended by the Parties at any time, but only by an instrument in writing duly executed on behalf of each of the Parties.

Article 17: ***Language***
If this Agreement is executed in two or more language versions, the English language version shall take precedence in the case of dispute.

Article 18: **Governing Law**
This Agreement shall be governed by and construed in accordance with the laws of the Netherlands. **[/8]**

In witness whereof, the Parties have caused this Agreement to be duly executed and delivered as of the date first above written.

[signed]
Dr Roman Mandl, Head of Letters & Bulk Mail Dept.
Post und Telekom - Austria

[signed]
Mr. Helge Israelsen, Chief Executive Officer
Post Danmark

[signed]
Mr. Jörn Allardt, Director International Mail
Finland Post Ltd.

[signed]
Mr. Bruno Rosellini, Directeur du Courrier International
La Poste - France

[signed]
Dr. Klaus Zumwinkel, Chief Executive Officer
Deutsche Post AG - Germany

[signed]
For Mr. Athanassios Dimitrakopoulos, Director General
Hellenic Posts ELTA - Greece
Yves Cousquer (Special Proxy)

[signed]
For Mr Guomundur Björnsson, General Manager & CEO
Post and Telecom Iceland Ltd
Helge Israelsen (Special Proxy)

[signed]
Mr Enzo Cardi, Chairman of the Board
Ente Poste Italiane - Italy

[signed]
Mr John Hurlen, Director
Norway Post International
Norway Post

[signed]
Mr. José Ramon Esteruelas, Director General
Correos y Telegrafos - Spain

[signed]
For Mr. John Roberts, Chief Executive Office
The Post Office - United Kingdom
Helge Israelsen (Special Proxy) **[/9]**

LIST OF ANNEXES

Annex 1: Definitions

Annex 2: Linear Tariffs

Annex 3: Quality of Service standards

Annex 4: Transitional Period

Annex 5: Quality of Service Penalties

Annex 6: Deed of Accession **[/10]**

ANNEX 1: Definitions

Arbitration Committee
Has the meaning attributed to it in Article 14.

Agreement
Agreement for the Remuneration of Mandatory Deliveries of Cross-Border Mails (REIMS II).

Board
Board of IPC.

Cap Parties
PPOs subject to the Cap System.

Cap System
System described in Annex 4 - Appendix 1.

CEPT
European Conference of Posts and Telecommunications

CET - Critical Entry Time
The latest acceptable time of delivery at the platform of an Office of Exchange or an airmail unit equipped with sensor gates, permitting delivery the next working day.

CTT - Critical Tag Time
The latest time at which the transponder must go through the sensor gates, permitting all items received to be delivered the next working day.

Deed of Accession
Deed to be executed by an operator of a Postal Service wishing to accede to the Agreement.

Domestic Tariff
Undiscounted tariff at which a PPO offers its first class letter service to the general public at published prices in its country.

IPC
International Post Corporation

LAT - Latest Arrival Time
The latest acceptable time of touchdown, permitting delivery of received airmail items the next working day.

New Flows
Has the meaning attributed to it in Annex 4 - Appendix 1.

Non-Priority Mail
All mail that is not Priority Mail.

Office of Exchange
A postal sorting office which specialises in receiving and sending cross-border mail.

Operational Guide
Document setting out all operational procedures applied by the Parties as referred to in Article 4.
[/11]

Organic Growth
Organic Growth (OG) has the meaning attributed to it in Annex 4 - Appendix 1.

Parties
The parties having entered into or acceded to the Agreement.

Postcards
Rectangular cards, not containing any message or correspondence of a commercial nature, circulating à découvert, i.e. not enclosed in an envelope.

Priority Mail
Mail designated by the Sending PPO as priority and to which the targets of Annex 3 apply.

PPO
Public Postal Operator. This can be a public postal administration within the meaning of the UPU Constitution and the UPU Convention, or a private postal operator of a mandatory, universal postal service.

Quality of Service
A high number of incoming cross-border mail items delivered on the working day following their being handed over to the Receiving PPO in Europe or on the second working day following their being handed over to the Receiving PPO in North America.

Quality of Service Guide
Document setting out, inter alia, rules and procedures relating to the determination of Quality of Service performance as referred to in Annex 3.

Quality of Service Diagnostic Systems
Systems set up by IPC to measure and diagnose the Quality of Service provided by Receiving PPO.

Receiving PPO
Has the meaning attributed to it in Article 2.2.

REIMS
Remuneration of Mandatory Deliveries of Cross-Border Mails.

SDR
Special Drawing Rights used by the International Monetary Fund.

Sending PPO
Has the meaning attributed to it in Article 2.2.

Stock
Has the meaning attributed to it in Annex 4 - Appendix 1.

Terminal Dues
Has the meaning attributed to it in Annex 4.

Transitional Period
Has the meaning attributed to it in Annex 4.

UPU Convention
The Universal Postal Convention. **[/12]**

ANNEX 2: Linear Tariffs

1. Introduction

As it is currently impossible to achieve samplings giving the number of items in each weight step, a system of linear tariffs by format has been selected.

Furthermore, in order to protect the first weight step revenue, a "standard" structure by format has been used as a reference.

2. Formats

The formats definition is set out in Appendix 1.

3. "Standard" Structure

IPC developed a "standard" structure based on the format of incoming cross-border mail. This standard structure is presented in Appendix 2.

4. Linear Tariffs

The "least squares" statistical method has been used to calculate the linear tariffs.

Using this method, a system with two components is obtained:

-a rate per kilo;

-a rate per item.

The least squares formula is presented in Appendix 3. **[/13]**

ANNEX 2 - APPENDIX 1: Formats Definition

Letters

Abbreviation:	*P*
Length (mm):	*140-245*
Width (mm):	*90-165*
Thickness (mm):	*=<5*
Maximum Weight (g):	*100*

Flats

Abbreviation:	*G*
Length (mm):	*245-381*
Width (mm):	*165-305*
Thickness (mm):	*=<20*
Maximum Weight (g):	*500*

Packets

Abbreviation:	*E*	
Length (mm):	*}*	
Width (mm):	*}*	*In accordance with Article 8 §8 of the UPU Convention*
Thickness (mm):	*}*	
Maximum Weight (g):	*Books - Pamphlets: 5000*	
Other Items:	*2000* **[/14]**	

ANNEX 2 - APPENDIX 2: Standard Structure

LETTERS

Weight steps (g)	Weight (kg)	Items	Average Weight (g)	Weight %	Items %
20	604.1	56721	~~10.65~~ 10	60.42	83.01
~~50~~	331.4	10735	~~30.87~~ 35	33.14	15.71
~~100~~	64.4	878	~~73.38~~ 75	6.44	1.28
All	999.9	68336	14.63 (x)	100.00	100.00

FLATS

Weight steps (g)	Weight (kg)	Items	Average Weight (g)	Weight %	Items %
~~20~~	65.9	4336	~~15.20~~ 10	6.59	31.43
~~50~~	131.4	3363	~~39.07~~ 35	13.14	24.38
~~100~~	229.9	3001	~~76.60~~ 75	22.99	21.75
~~250~~	382.4	2477	~~154.35~~ 175	38.24	17.96
~~500~~	190.3	618	~~307.96~~ 375	19.03	4.48
All	999.9	13795	72.48 (x)	100.00	100.00

PACKETS

Weight steps (g)	Weight (kg)	Items	Average Weight (g)	Weight %	Items %
20	1.6	160	10.00	0.16	5.57
50	9.8	234	~~41.93~~ 35	0.98	8.15
100	30.3	373	~~81.13~~ 75	3.03	12.99
250	128.6	694	~~185.22~~ 175	12.86	24.17
500	301.1	824	~~365.42~~ 375	30.12	28.70
~~1000~~	296.2	415	~~713.77~~ 750	29.63	14.45
~~2000~~	232.2	171	~~1357.64~~ 1500	23.22	5.96
All	999.8	2871	348.24 (x)	100.00	100.00

[/15]

ANNEX 2 - APPENDIX 3: Linear Adjustments - Least Squares Method

Statistical serial with 2 quantitative variables:

Presentation:	*X = xi x1*	*x2*	*...*	*xN*
	Y = yi y1	*y2*	*...*	*yN*

Straight Line: *y = ax + b*

Director Coefficient:

a =
f1(x1-x) (y1-y) + ... + fN (xN-x) (yN-y)
---
f1 (x1-x) (x1-x) + ... + fN (xN-x) (xN-x)

f= *weight step frequency*

x1 .. xn: *item average weight (in each weight step)*

x: *item average weight (all weight steps mixed)*

y1 .. yn: *item revenue for each weight step*

y: *item average revenue (all weight steps mixed)*

a: *Weight component*
"a" is the price for 1g. Calculation for 1 kg by applying the 80% rate (80% of inland tariffs is used as a proxy for cost)

b: *Item component*
b = y - ax with application of the 80% rate **[/16]**

ANNEX 3: Quality of Service Standards Imposed on Receiving PPOs

The Quality of Service standard is defined as the percentage of incoming cross-border mail from a particular sending PPO which has to be delivered by a specified working day after the day of arrival (J) in the office of exchange of the Receiving PPO. For those Parties offering Saturday delivery for their domestic mail, Saturday will be considered as a working day. The Receiving PPO must set the following times, after which delivery the next working day is not feasible: Latest Arrival Time (LAT), the Critical Entry Time (CET), and the Critical Tag Time (CTT).

The list of LATs, CETs and CTTs, drawn up by IPC, and the rules to be applied in their application, in order to determine Quality of Service performance will be part of the "Quality of Service Guide." The Board can amend this document after consultation with the Parties.

The Quality of Service standards which are divided into three groups are set for all the Receiving PPOs according to the following tables, without any margin of interpretation.

Public Postal Operators	**STANDARDS**			
	1998		1999 and 2000	
Group A AT-DK-NO-FI-IS-IE-LU-BE-NL-SE-CH	J + 1	90%	J + 1	95%
Group B DE-FR-IT-PT-UK	J + 1	85%	J + 1	90%
Group C ES-GR	J + 1	80%	J + 1	85%

Subject of the prior agreement of the Board of IPC, the PPOs in Group C may establish a premium service with a tariff higher than their traditional first class service, in order to achieve the Quality of Service standard. This tariff will then be used as the Domestic Tariff, and the PPO concerned placed in Group B.

Any new Party to the Agreement will be placed in one of the three groups and, where applicable, subgroups by the Board of IPC.

The grouping and the standards will be reviewed and renegotiated before 31 December 2000. To this end, IPC will submit a report to the Board before 31 October 2000. The Parties shall then use their best efforts to agree on a revised grouping and standards with the aim of improving the Quality of Service, taking into account their respective domestic Quality of Service standards and applicable EU regulations. **[/17]**

ANNEX 4: Transitional Period

1. In order to ease the transition from the current system of Terminal Dues o the REIMS system, there will be a transitional period (the “Transitional Period”) which will*, except for those Parties to which special Terminal Dues rules apply pursuant to one of the Appendices to this Annex,* end on 31 December ~~2000~~ *1999*.

2. In 1998 the 80% rate set forth in the first paragraph of Article 2.3 shall be replaced by ~~60%~~ 55%, in 1999 by ~~70%~~ 65%, in 2000 by 70%, *in 2001 by 80%*.

3. For the calculation of Terminal Dues in 1998 and 1999, changes in a Party's Domestic Tariff will not be taken into account, so that until 31 December 2000 Terminal Dues will be calculated on the basis of the Domestic Tariffs communicated to IPC and applied at the latest by 1 September 1997.

4. *Pursuant to Article 3.4, the penalties will be calculated provisionally, so that they can be deducted when the accounts are settled. The penalties will be adjusted and a final settlement will be made once the actual Quality of Service performance has been determined by IPC.*
The provisional penalties to be deducted from the Terminal Dues in 1998 will be calculated by IPC on the basis of the average of the results of the variance analysis for the second half of 1996 and the diagnostic system for the first half of 1997.
The provisional penalties to be deducted from the Terminal Dues in 1999 and thereafter will be calculated by IPC on the basis of the results of the diagnostic system for the second half of the year N-2 and the first half of the year N-1.
The final settlement of accounts for a year N will be made in the first quarter of the year N+1 based on the Receiving PPOs' actual performance during the year N.

5. *As set out in Article 3.6, Terminal Dues after penalties shall never be lower than the current CEPT rate of Terminal Dues, namely 1.491 SDR per kg + 0.147 SDR per item, except in countries where 80% of the Domestic Tariff of the Receiving PPO is lower than the current CEPT rate; in such countries, Terminal Dues shall never be lower than 80% of the Domestic Tariff. However, in 1998 and 1999, the current CEPT rate shall constitute the minimum even in countries where 80% of the Domestic Tariff of the Receiving PPO is lower than the current CEPT rate.*

6. *The below-listed Parties are in a special situation, which makes it impossible to apply the normal Terminal Dues system to them as of 1 January 1998. In their case, the Cap System described in Appendix 1 to this Annex will apply as well as the country-specific rules provided in the other Appendices to this Annex:*

Hellenic Posts ELTA (Greece):	*Appendix 2*
Ente Poste Italiane (Italy):	*Appendix 3*
Correos y Telegrafos (Spain):	*Appendix 4*

[/18]

ANNEX 4 - APPENDIX 1: The Cap System

The Cap System is designed to ensure that Parties subjected to it (Cap Parties), as Sending PPOs provisionally paying lower Terminal Dues, are not in a position to abuse this advantage as against the other Parties.
To achieve this, their outbound mail towards the other Parties is divided into 3 categories: Postcards, Stock and New Flows.

1) Postcards: Postcards are not subject to the Cap System, as this category is unlikely to create abuses of lower Terminal Dues. Postcards may thus increase in volume and still enjoy the lower Terminal Dues provided in the respective concessions.

2) Stock: Stock comprises all mails other than Postcards, i.e. Priority Mail, Non-Priority Mail, mail prepared pursuant to Article 2.5 and mail sent under Article 2.6.
To determine the volume of Stock, all receiving PPOs shall evaluate the number of Postcards received from each Cap Party.
This evaluation shall be made each year along the operational procedure referred to in Article 4 of the Agreement (measuring and sampling flows). A rate of Organic Growth (OG) shall be applied to the Stock as provided for in Appendices 2 et seq.

3) The New Flows: The volume of mail (number of items) beyond the volume of Stock after application of the rate of Organic Growth (if any).

In each relation between each Cap Party as Sending PPO and the other Parties as Receiving PPOs, the Stock and the New Flows shall be calculated as shown in the attached example.

Appendices 2 et seq., each permitting a Sending PPO to pay lower Terminal Dues, will establish:
- *the year of reference for the starting Stock;*
- *the rate(s) of Organic Growth;*
- *the length of the period during which the special rules will apply;*
- *the rates of Terminal Dues, increases of Terminal Dues, and conditions of these increases to be applied to Postcards, Stock and New Flows.***[/19]**

ANNEX 4 - APPENDIX 1 (cont.): The Cap System - Example
Relations between Parties A (Outbound) and B (Inbound) - 1997 - Example (in million items)

		1997				1998			
	{Col 1}	{Col 2}	{Col 3}	{Col 4}	{Col 5}	{Col 2}	{Col 3}	{Col 4}	{Col 5}
	Lines of flow	Stock 1996	Volume	New Flows	New Stock	Stock 1997	Volume	New Flows	New Stock
{Row a}	Level 1	20	15	3.3	11.7	11.7	13	1.1	11.9
{Row b}	Level 2	–	3	0.7	2.3	2.3	3	0.3	2.7
{Row c}	Non-priority	–	5	1	4	4	5	0.4	4.6
{Row d}	Subtotal	20	23	5	18	18	21	1.8	19.2
{Row e}	Level 3	–	4	–	4	4	5	–	5
{Row f}	Total	20	27	5	22	22	26	1.8	24.2
{Row g}	Theoretical New Stock after OG		22				24.2		
{Row h}	Total New Flow		5				1.8		

Explanation: x (agreed percentage of OG) = 10%

Theoretical New Stock after OG = (Stock 96) * (1+x) or {g3} = {f2} * (1+0.1) or 22 = 20 * 1.1

Total New Flow = Total Volume - Theoretical New Stock after OG or {h3} = {f3} - {g3} or 5 = 27 -22

New Flow = Volume* $\frac{\text{Total New Flow}}{\text{Subtotal Flow}}$ or (idem for Rows a, b, c) $\{a4\} = \{a3\} * \frac{\{h3\}}{\{d3\}}$ or $3.3 = 15 * \frac{5}{23}$

New Stok = Volume - New Flow ≥ 0 or {a5] = {a3}- {a4} or 11.7 = 15 - 3.3

(idem for Rows a, b, c, d, f)

[/19]

Note: *In the case of the Cap Party as Party A, in a given year, the volumes of {Col 5}, New Stock, will be applied reduced Terminal Dues under the terms of A.1.d in Appendices 2 et seq.*

The volumes of {Col 4}, New Flows, will be applied normal REIMS Terminal Dues for the stream concerned.

In both cases, with the exception of mail presented pursuant to Article 2.6 (access to domestic rates).

The Postcards, which are not included in the Stock, in order to free their growth, will be subject to the same Terminal Dues as the Stock.**[/20]**

Annex 4 - Appendix 2: GREECE

A. *Outbound mail from Greece*

1. *Relations with Parties not subject to Appendices 2 et seq.*
A cap system will be applied to mail from Greece along the following dispositions:

   a. *From 1 January 1998, the number of Postcards will be evaluated along operational procedures referred to in Article 4 by each Receiving PPO.*

   b. *The volume of mail excluding Postcards calculated in (a) above and including all other flows (Priority Mail, Non-Priority Mail, mail prepared pursuant to Article 2.5 and mail sent under Article 2.6) will be considered as the starting Stock of mail for the year 1998.*

   c. *This Stock will include each subsequent year an Organic Growth (OG) of 5%.*

   d. *For Priority Mail pursuant to Article 2.3 in each format the number of items equal to or lower than the number sent by Hellenic Posts ELTA within the Stock of the preceding year, and the Postcards, will be applied Terminal Dues at the following level, as a percentage of Domestic Tariffs of the Receiving PPOs:*

Year	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
% of Domestic Tariff of the Receiving PPOs	*40%*	*45%*	*50%*	*60%*	*70%*	*80%*

   If the application of the above percentages would have the result that Hellenic Posts ELTA would pay higher Terminal Dues than other Parties not subject to the specific rules set out in Appendices 2 et seq., Hellenic Posts ELTA will only have to pay the level of Terminal Dues payable by these other Parties.

   e. *For Priority Mail pursuant to Article 2.3, in each flow of mail and in each format, the number of items (the New Flows) higher than the Stock of the preceding year calculated in (c) above (the Stock) will be applied Terminal Dues along the normal rules of the Agreement.*

   f. *The other flows of mail (Non-Priority Mail, mail prepared pursuant to Article 2.5 and mail sent under Article 2.6) will follow the same rules for the Stock and the New Flows and, to the extent that their Terminal Dues are calculated on the basis of Terminal Dues applicable to Priority Mail pursuant to Article 2.3 (i.e., not in the case of mail sent under Article 2.6), they will follow the same rules for the calculation of their Terminal Dues.*

2. *Relations with Parties subject to reduced Terminal Dues*
There will be no Cap System applied to mail from Greece towards these Parties, and all outbound Greek mail will be applied Terminal Dues along the rules applied to these Parties as Receiving PPOs, as described in the Appendix relating to the respective Party.

B. *Inbound mail to Greece*

   a. *Progressively increased Quality of Service targets are set for Hellenic Posts ELTA, which will trigger, if achieved, increases of Terminal Dues payable to Hellenic Posts ELTA by the other Parties.*

   The targets and rates of increase are shown in the table below:

Year	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
Q'S Target:	*50%*	*60%*	*70%*	*80%*	*85% **	*85% **
Terminal Dues increase:	*7%*	*10%*	*15%*	*15%*	*20%*	*Final Jump*

** = Group C* **[/22]**

b. *The curve of Annex 5 applies when Terminal Dues for Greece reach 80% of the Greek Domestic Tariff, and at the latest on 1 January 2003.*

C. *End of the Compromise*

Hellenic Posts ELTA may terminate the present compromise and join the normal Terminal Dues system of the Agreement n the following 1 January by giving three months notice to IPC. **[/23]**

ANNEX 4 - APPENDIX 3 : ITALY

A. Outbound mail from Italy

1. Relations with Parties not subject to Appendices 2 et seq.
A cap system will be applied to mail from Italy along the following dispositions:

a. From 1 January 1998, the number of Postcards will be evaluated along operational procedures referred to in Article 4 by each Receiving PPO.

b. The volume of mail excluding Postcards calculated in (a) above and including all other flows (Priority Mail, Non-Priority Mail, mail prepared pursuant to Article 2.5 and mail sent under Article 2.6) will be considered as the starting Stock of mail for the year 1998.

c. This Stock will include each subsequent year an Organic Growth (OG) of 5%.

d. For Priority Mail pursuant to Article 2.3, in each format the number of items equal to or lower than the number sent by Italy within the Stock of the preceding year, and the Postcards, will be applied Terminal Dues with the following rates of increase:

- *if the Quality of Service targets of the Receiving PPOs are reached, the annual rates of increase provided for in the earlier Agreement for the Remuneration of Mandatory Deliveries of Cross-Border Mails of 13 December 1995, i.e., +15% in 1998, +20% in 1999 and 2000;*
- *if these Quality of Service targets are not reached, +5% in 1998, and +7% in 1999 and 2000 if the Quality of Service of the Receiving PPOs for the year in question has progressed:*
  - *by 10 percentage points or more over its former annual performance if this performance*
  - *was under or equal to 55% (for example, going from 31 % to 41 % or more),*
  - *by 5 percentage points or more over its former annual performance if this performance was between 55% and 80% (for example, going from 62% to 67% or more);*
  - *by 3 percentage points or more over its former annual performance if the performance was equal to or above 80% (for example, going from 81% to 84% or more);*
- *the above increases shall not raise Terminal Dues to a level higher than, for each Receiving PPO, the Terminal Dues payable to the Receiving PPO in question by the other Parties not subject to the specific rules set out in Appendices 2 et seq.;*
- *on 1 January 2001, a final increase of Terminal Dues will be applied, if any, so that Ente Poste Italiane will pay the normal Terminal Dues under this Agreement.*

e. For Priority Mail pursuant to Article 2.3, in each flow of mail and in each format, the number of items (the New Flows) higher than the Stock of the preceding year calculated in (c) above (the Stock) will be applied Terminal Dues along the normal rules of the Agreement.

f. The other flows of mail (Non-Priority Mail, mail prepared pursuant to Article 2.5 and mail sent under Article 2.6) will follow the same rules for the Stock and the New Flows and. to the extent that their Terminal Dues are calculated on the basis of Terminal Dues applicable to Priority Mail pursuant to Article 2.3 (i.e., not in the case of mail sent under Article 2.6), they will follow the same rules for the calculation of their Terminal Dues.

2. Relations with Parties subject to reduced Terminal Dues
There will be no Cap System applied to mail from Italy towards these Parties, and all Outbound Italian mail will be applied Terminal Dues along the rules applied to these Parties as Receiving PPOs, as described in the Appendix relating to the respective Party.

B. Inbound mail to Italy
The rules set out in point A.1.d above shall also apply to inbound mail to Italy from the other Parties without any Stock. ***[/24]***

C. *End of the Compromise*

Ente Poste Italiane may terminate the present compromise and join the normal Terminal Dues system of the Agreement on the following 1 January by giving three months notice to IPC. ***[/25]***

ANNEX 4 - APPENDIX 4: SPAIN

A. Outbound mail from Spain

1. Relations with Parties not subject to Appendices 2 et seq.
A cap system will be applied to mail from Spain along the following dispositions:

a. From 1 January 1998, the number of Postcards will be evaluated along operational procedures referred to in Article 4 by each Receiving PPO.

b. The volume of mail excluding Postcards calculated in (a) above and including all other flows (Priority Mail, Non-Priority Mail, mail prepared pursuant to Article 2.5 and mail sent under Article 2.6) will be considered as the starting Stock of mail for the year 1998.

c. This Stock will include each subsequent year an Organic Growth (OG) of 5%. This Organic Growth will be increased by a further 5% in one of the years 1999, 2000 or 2001 at Correos y Telegrafos' choice.

d. For Priority Mail pursuant to Article 2.3, in each format the number of items equal to or lower than the number sent by Correos y Telegrafos within the Stock of the preceding year, increased as set out in (c) above, and the Postcards, will be applied Terminal Dues with the following rates of increase:

- *for 1998, the current CEPT rate;*
- *if the Quality of Service targets of the Receiving PPOs are reached, for 1999 and 2000, +10% each year;*
- *if the Quality of Service targets of the Receiving PPOs are reached, for 2001 to 2003, +15% each year;*
- *the above increases shall not raise Terminal Dues to a level higher than, for each Receiving PPO, the Terminal Dues payable to the Receiving PPO in question by the other Parties not subject to the specific rules set out in Appendices 2 et seq;*
- *from 2004 to 2006, each year, one third of the remaining difference in absolute terms between the level reached in 2003 and the normal Terminal Dues rate under this Agreement (80% of the Receiving PPO's Domestic Tariff, so that this normal Terminal Dues rate is reached on 1 January 2006).*

e. For Priority Mail pursuant to Article 2.3, in each flow of mail and in each format, the number of items (the New Flows) higher than the Stock of the preceding year calculated in (c) above (the Stock) will be applied Terminal Dues along the normal rules of the Agreement.

f. The other flows of mail (Non-Priority Mail, mail prepared pursuant to Article 2.5 and mail sent under Article 2.6) will follow the same rules for the Stock and the New Flows and. to the extent that their Terminal Dues are calculated on the basis of Terminal Dues applicable to Priority Mail pursuant to Article 2.3 (i.e., not in the case of mail sent under Article 2.6), they will follow the same rules for the calculation of their Terminal Dues.

2. Relations with Parties subject to reduced Terminal Dues
There will be no Cap System applied to mail from Spain towards these Parties, and all outbound Spanish mail will be applied Terminal Dues along the rules applied to these Parties as Receiving PPOs, as described in the Appendix relating to the respective Party.

B. Inbound mail to Spain

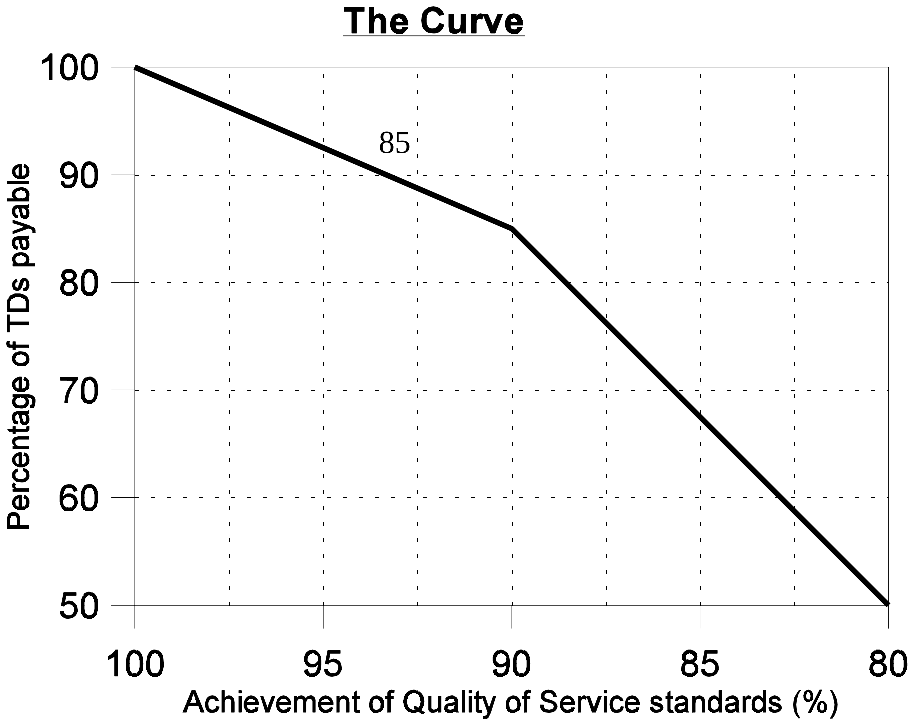
a. The other Parties will send their mail to Correos y Telegrafos in application of EU expected postal regulations, and Spanish postal law. ***[/26]*** *b.* *For Priority Mail pursuant to Article 2.3 received, Correos y Telegrafos will be paid the current CEPT rate as long as this rate remains higher than 80% of the Spanish inter-urban Domestic Tariff (i.e., the tariff payable for mail exchanged between two cities).*

C. *Quality of Service*
Spain will be placed in Group C of Annex 3.
Correos y Telegrafos will receive the current CEPT rate increased by 5% if it reaches the Quality of Service targets set for its group.

D. *End of the Compromise*
*Correos y Telegrafos may terminate the present compromise and join the normal Terminal Dues system of the Agreement on the following 1 January by giving three months notice to IPC.***[/27]**

Annex 5: Quality of Service Penalties

Reductions to be applied to Terminal Dues when the Quality of Service standards have not been met



[/28]

ANNEX 6: Deed of Accession to the REIMS II System

THE "ACCEDING PARTY"

requests admission to the REIMS II system, effective from ________________________
DATE

The Acceding Party undertakes to respect all the provisions of the REIMS II Agreement.

The Acceding Party attaches to this Deed of Accession:

- Proof of the undersigned's authority to represent the Acceding Party;
- Proof of the Acceding Party's obligation to provide a mandatory, universal postal service for the country of ________________
- Proof of the Acceding Party's obligation to provide such service to the Parties, failing which an undertaking to this effect that, upon acceptance by the Board of IPC, will become a part of the REIMS II Agreement.

Signed at ___________________ On ____________________________