

**For discussion
on 26 June 2006**

Legislative Council Panel on Economic Services

Postage Revision for Certain International Bulk Mail Services

Purpose

This paper seeks Members' views on the plan of the Postmaster General (PMG) to revise the postage of certain international bulk mail services.

Background and Considerations

2. The Post Office (PO) is operated as a trading fund pursuant to a Legislative Council resolution under the Trading Funds Ordinance. The PMG as the general manager is required by the Ordinance to manage the Post Office Trading Fund with the objective of meeting costs out of the income of the trading fund.

3. It is the Government's policy that fees and charges should in general be set at levels sufficient to recover the full cost of providing the services. The PO has conducted a costing exercise for 2006/07. The result shows that since the Universal Postal Union (UPU) has increased the terminal dues¹ for 2006-2009 and Japan and Thailand have invoked the Bulk Mail Option Rate² on bulk mail posting from Hong Kong, the PO has incurred deficits for bulk bag service to all destinations and bulk posting of light-weight air mail items to Japan and Thailand. At present, a handful of commercial mailers account for over 80% of the usage of these services. In order to avoid subsidizing this small number of commercial mailers which would otherwise put pressure on the PO's overall finances and the postage of other services, the PMG plans to

¹ "Terminal dues" is the charge collected by postal administrations at destination from postal administrations at origin at a level fixed by the UPU for processing the mail sent to them for delivery.

² Under the international terminal dues system, terminal dues are generally calculated on a per kilogram of mail items basis. If the relevant mail items are of relatively light-weight, the postal administrations at destination will need to process more mail items for each kilogram of mails received and there will be more delivery addresses. The UPU authorizes destination postal administrations to impose at their discretion a "Bulk Mail Option Rate" to pass back to postal administrations at origin the increase in processing cost.

introduce the following postage revisions with effect from 14 August 2006 –

Bulk Bag service to all destinations

- (a) Bulk bag service is restricted to the posting of newspapers, periodicals, books, pamphlets and maps. With the increase in the terminal dues for 2006 to 2009 leading to about 26% increase in terminal dues payment for this service, the current postage of bulk bag service cannot even cover the corresponding terminal dues payment, not to mention conveyance charges and the PO's own operating costs. Maintaining the existing postage will result in an estimated annual deficit of around \$16 million for this service. The PMG plans to increase the postage of this service by between 4% and 100% depending on the per item weight of the mail items in the bulk bag and the destination, as detailed in **Table A of the Annex**. Over 99.5% of bulk bags handled by the PO contain items weighing 50g to 2kg each and the applicable increases for them are between 4% and 16%. In considering the postage increase, the PMG has taken into account that the relatively heavy mail items received under this service will reduce its terminal dues payment for other outward mail items by \$14 million³. With the proposed postage revision and taking into account such savings in terminal dues for other outward mail items, the PO will be able to provide the service without cross-subsidy from other services.

Bulk posting of light-weight air mail items to Japan and Thailand

- (b) Under the international terminal dues payment system, bulk posting refers to posting of 1 500 items or more per day or 5 000 items or more over a two-week period to addressees in the same country by a single mailer. Japan and Thailand have invoked the Bulk Mail Option Rate, which is around 30% to 300% higher than the standard rate in 2005, on all bulk posting of items weighing less than 50g from Hong Kong, and

³ Under the international terminal dues payment system, postal administrations at origin are entitled to reduce the terminal dues payment if the yearly overall average number of mail items per kilogram sent is less than 13. The relatively heavy items sent through the bulk bag service will help reduce the overall average number of items per kilogram sent by the PO.

the existing postage of bulk posting service to these destinations cannot cover the corresponding terminal dues payment. The PO will incur an estimated annual deficit of \$25 million for this service if the postage remains unchanged. The PMG plans to increase the postage of bulk posting of light-weight air mail items to Japan and Thailand by between 23% and 78% depending on the weight per item and the destination, as detailed in **Table B of the Annex**. The planned postage increase will enable the PO to achieve full cost recovery for this service.

Bulk posting of light-weight surface mail items to Japan and Thailand

- (c) Currently, mailers make bulk posting of light-weight items primarily through air mail and there is no specific charging scale for bulk posting sent through surface mail. Increasing the postage of bulk air mail service to Japan and Thailand may result in mailers making bulk posting of light-weight items through surface mail. Therefore, the PMG plans to introduce a new charging scale for bulk posting of light-weight surface mail items to ensure that the relevant revenue can cover the Bulk Mail Options Rate invoked by Japan and Thailand, as well as the other costs of the PO. The PMG plans to introduce the new charging scale on a full cost recovery basis, as detailed in **Table C of the Annex**.
4. In future, if other international bulk mailers use Hong Kong as a base to post large quantity of light-weight mail items to other destinations causing the recipient postal administrations to invoke the Bulk Mail Option Rate on the PO, the PMG will revise the bulk mail postage to these destinations as appropriate to achieve cost recovery.

Efficiency Initiatives

5. The PO has implemented a number of productivity improvement measures to enhance cost efficiency. Its savings under the Enhanced Productivity Program have exceeded the Government's target every year since the introduction of the program. The achievement, however, has minimal impact on the PO's costs in providing the above services as around 90% of them consist of payments of terminal dues and conveyance charges.

Financial Implications

6. The planned postage revision is expected to generate additional annual revenue of around \$29 million, which represents about 4% of the total outward letter mail revenue of the PO. The concerned revenue will be credited to the Post Office Trading Fund.

Consultation

7. The above postage revision plan has no direct impact on the public. It affects only a small number of publishing companies and commercial mailers. The PO has consulted the Society of the Publishers in Asia and the Hong Kong Direct Marketing Association. The two organizations have no objection to the proposed postage revisions.

Economic Development and Labour Bureau
20 June 2006

Postage Revisions for Certain International Bulk Mail Services
(with effect from 14 August 2006)

Table A : Planned New Postage Rates for Bulk Bag Service to All Destinations

	Zone 1 (Asia, except Japan)			Zone 2 (All other destinations)		
	Current Postage (HK\$)	New postage (HK\$)	Increase (HK\$)	Current Postage (HK\$)	New postage (HK\$)	Increase (HK\$)
Per item	\$0.6	\$0.8	\$0.2	\$0.6	\$0.8	\$0.2
Plus						
Per kilogram	\$30	\$31	\$1	\$31	\$33	\$2
Minimum postage per item	\$1.2 ¹	\$2.4²	\$1.2	\$1.3 ¹	\$2.5²	\$1.2

Over 99.5% of bulk bags handled by the Post Office contain mail items with weight per item being in the range of 50g to 2kg. The postage increases for this range are between 4% and 16%.

¹ The minimum rate will be triggered if the average weight per item is less than 20g.

² The minimum rate will be triggered if the average weight per item is less than 50g.

Table B : Planned New Postage Rates for Bulk posting of Light-weight Air Mail items to Japan and Thailand³

Weight Per Item Not Exceeding	Japan			Thailand		
	Current Postage (HK\$/item)	New postage (HK\$/item)	Increase (HK\$/item)	Current Postage (HK\$/item)	New postage (HK\$/item)	Increase (HK\$/item)
20g	\$2.3	\$4.1	\$1.8 (78%)	\$1.7	\$2.7	\$1.0 (59%)
30g	\$2.9 or \$95/kg ⁴	\$4.6	\$1.8 (61%)	\$2.4 or \$75/kg ⁴	\$3.1	\$0.9 (38%)
40g	\$3.2 or \$95/kg ⁴	\$4.9	\$1.7 (53%)	\$2.7 or \$75/kg ⁴	\$3.4	\$0.7 (26%)
50g	\$3.5 or \$95/kg ⁴	\$5.2	\$1.7 (49%)	\$3.0 or \$75/kg ⁴	\$3.7	\$0.7 (23%)

Table C : Planned New Postage Rates for Bulk posting of Light-weight Surface Mail Items to Japan and Thailand³

Weight Per Item Not Exceeding	Japan			Thailand		
	Current surface mail postage (HK\$/item)	New Postage Applicable to Bulk Posting (HK\$/item)	Difference (HK\$/item)	Current surface mail postage (HK\$/item)	New Postage Applicable to Bulk Posting (HK\$/item)	Difference (HK\$/item)
20g	\$2.5	\$3.6	\$1.1 (44%)	\$1.9	\$2.5	\$0.6 (32%)
30g	\$4.4	\$3.8	-\$0.6 (-14%)	\$4.1	\$2.7	-\$1.4 (-34%)
40g	\$4.4	\$4.1	-\$0.3 (-7%)	\$4.1	\$2.9	-\$1.2 (-29%)
50g	\$4.4	\$4.5	\$0.1 (2%)	\$4.1	\$3.1	-\$1.0 (-24%)

³ Currently, mailers are required to pre-sort their mail items by weight and by destination. The Post Office plans to offer an optional sorting service at a handling fee of \$5 per kg.

⁴ The lower postage applies.