



The Strong International Push for E-Commerce Shipping Reform

**Many Nations Share U.S. Concerns About Rates,
Slow Pace of Reforms and Urge Major Changes in 2019**

By: Paul Steidler

March 29, 2019

Executive Summary

The international postal system governing the shipment of small packages (4.4 pounds or less) is causing significant financial losses for many countries, distorting markets, and it must be fixed quickly. Postal officials in seven industrialized countries have offered these and other timely observations to the Lexington Institute over the past 10 days.

At issue is the future of the [Universal Postal Union](#) (UPU), the United Nations specialty organization that sets rates and regulations for international mail and packages, through a process known as terminal dues. The current system enables small packages to be sent from China to the United States and other countries at a fraction of the price that it costs to send the same size package domestically.

The Trump Administration has served notice it will leave the UPU on October 17, 2019 unless reforms are made in accordance with an August 23, 2018 [Presidential Memorandum](#). Important steps have also been taken by the Administration and the [Postal Regulatory Commission](#) to self-declare postal rates for international shippers by a January 1, 2020 deadline.

Long before the Administration's actions, however, many countries had deep frustrations with the UPU for the same reasons the Administration identified. The UPU system subsidizes shipments from a handful of large exporters of e-commerce, most notably China, while forcing other countries to pick up these costs. The internationally subsidized postal rates also give Chinese merchants and manufacturers a competitive advantage over those in other countries.

Previous attempts by the UPU to fix this problem have simply not worked and there is a strong desire to see significant and lasting change in 2019. The threatened U.S. withdrawal is focusing unprecedented attention on these matters, with 2019 the apparent make or break year for significant UPU reforms.

As such, the findings from this survey are timely for several reasons.

On April 9 the UPU's [Council of Administration](#) will begin an important meeting to decide what reforms to recommend and how the 192-member body will evaluate them. There are two primary options for the latter, a special convention or ballot voting. Each country has one vote.

We hope that the transparency the seven countries have shown by providing direct, clear and in-depth responses will be emulated throughout future UPU meetings, which have significant importance for worldwide e-commerce. As such, the UPU findings and proposals should be readily accessible in the public domain. Over the years many have expressed frustration with the UPU's lack of transparency.

It will also be important to know the justification that China is using to keep itself designated as a developing country and therefore entitled to generous shipping subsidies.

This bizarre classification for the world's second largest economy has disadvantaged many businesses in the United States and throughout the world.

Finally, given the potential of a U.S. withdrawal from the UPU and potential new agreements with countries individually or collectively, it will be important to have expanded, public dialogue about the concerns and needs of all UPU member countries.

Methodology

We approached twelve countries in the Universal Postal Coalition, an informal organization of UPU member countries that has coalesced to push for major reforms. We asked senior postal officials and/or those with government organizations overseeing the postal service to address five general questions about the UPU.

In-depth responses were received from Brazil, Canada, Costa Rica, Iceland, Ireland, Italy and Norway.

Summary and Highlights of Responses Received

Here are the questions, a summary of the responses received and notable quotes. The full text of these responses can be found in the Appendix.

What are your concerns about the UPU?

All the countries have strong concerns and most responses were quite direct.

“Simply put, too many countries, like Canada and the United States, cannot cover their delivery costs,” said Canada.

Costa Rica has similar concerns and said, “The international remuneration systems generate imbalances and do not reflect the true operating costs.”

Italy had similar observations, saying, “Many countries complain about the loss in remuneration which does not cover the costs for distribution and delivery in their territory and even distorts competition between postal and non-postal operators.”

Ireland raised concerns about the time it has taken the UPU to address these issues, saying, “the arbitrary price cap mechanism introduced 20 years ago results in terminal dues rates that are significantly below the delivery costs of many postal operators.”

Norway is also concerned with the time it has taken the UPU to address these issues, adding, “For many years, member countries have raised concerns that the Terminal Dues payments create economic distortions and result in considerable losses for some

designated postal operators, thus undermining the sustainability of the universal service which the UPU network rely on.”

How has the current UPU system impacted businesses and consumers in your country?

In addition to the significant financial losses that postal operators incur, there are broader economic impacts to jobs and businesses in these countries.

Brazil said, “Equally, it’s worrisome that this situation could cause damage to the competitiveness of national companies, since foreign companies benefit from the low cost of international shipping in their e-commerce operations.”

Ireland was similarly direct: “Low UPU rates distort competition and this is not in the long-term interests of business and consumers. Low UPU rates also give an unfair competitive advantage for international e-commerce businesses based in international markets, particularly Asia.”

In Iceland, the impact on the postal system itself is quite significant, they explained, “The international items are increasingly driving operational costs and heavily influencing the sustainability of the domestic postal network and consequently what service level can be offered to businesses and consumers.”

Norway is also concerned about the jobs impact and said, “The Terminal Dues system also leads to discrimination against businesses and jobs in the destination country, as foreign e-commerce sellers due to the caps system might get preferential rates for distribution of postal goods, putting local businesses at a competitive disadvantage.”

What do you think of a potential US withdrawal?

There are strong and deep concerns about a possible US withdrawal from the UPU.

Italy said: “Member countries need to be aware of the serious risk of failure the Union is running in this extremely delicate phase, since the announced withdrawal by the US which, if confirmed, would most likely generate a domino effect. Consequently, we all must be aware of the would-be huge increase in members’ costs should an alternative postal network be implemented, besides the universal one.”

Ireland said the U.S. leaving would be a “significant loss” and added, “The US has given voice to the concerns about the UPU system that An Post and other postal operators have had for many years.”

Iceland has strong concerns as well and said, “a withdrawal from the UPU by the US would be very negative due to various factors such as risk of higher operational complexity and consequently costs for postal items exchanged with the US.”

Brazil is concerned about a potential U.S. withdrawal: “Brazil is aligned with the United States’ concerns about the current UPU remuneration system (terminal dues). However, Brazil believes that a potential US withdrawal from the UPU is not the best way forward. Without the United States, the debate on these issues in the UPU would be less intense and, in particular, the capacity for negotiation of countries that are undermined by the current system of remuneration would reduce.”

How optimistic are you that your major concerns with the UPU will be resolved in 2019?

The countries are approaching ongoing discussions with the UPU in a positive, constructive manner. They are generally optimistic, but realize a positive resolution is not guaranteed.

Canada thinks an agreement can be reached in 2019, Iceland is “cautiously optimistic,” and Brazil believes that by later this year there will “be beneficial developments on this issue.” Costa Rica believes an agreement “will be really difficult” and yet is also optimistic because of the work on the issue by the U.S. and Canada.

Ireland feels the foundation for change is in place, saying, “There is broad agreement that the current system for calculating remuneration for small packets is not satisfactory and needs to be reformed.”

What else would you like to add?

Canada emphasizes that the concerns from the 30 members of the Universal Postal Coalition are “the same as the ones described in the (U.S.) presidential memorandum.” Brazil says it “hopes that all UPU member countries recognize the urgency of making progress and improvements in the current proposals on the remuneration system, in order to slow down the United States government’s desire to withdraw from the UPU.”

Ireland says, “The UPU is a wonderful organization that unites all the countries of the world to provide a truly global mail delivery service.” Italy wants to see major UPU reforms saying, “this 150-year old organization needs to be modernized, made more efficient and market driven.”

Appendix – Full Text of Responses

Brazil – Correios de Brasil



Respondent/Date:

Francklin Andrade Mattar Furtado

Coordenador-Geral de Gestão de Empresas

Subsecretaria de Unidades Vinculadas
Secretaria-Executiva

(Ministry of Science, Technology Innovation and Communications)

March 20, 2019

What are your concerns about the UPU?

The UPU is the most important multilateral organization in the world postal sector. The UPU role in harmonizing the rules for the provision of international postal services is very relevant for all countries. The "single postal territory" concept makes all Designated Operators the largest logistic network on the planet. But the world has demanded other expertise of the postal industry.

Over the last two decades, the postal operators have been under pressure to evolve more rapidly due to new technologies (replacement of traditional postal services) and by the strength of e-commerce (postal freight is an important cost of this industry). Unfortunately, postal services rules do not yet fully reflect this multifaceted business environment. Thus, UPU will continue to play a relevant role when all member countries quickly reflect this new business reality in the Universal Postal Convention.

How has the current UPU system impacted businesses and consumers in your country?

There are countries that benefit more than others from the growth of international e-commerce, which can be seen as natural in the global business environment. However, a postal operator cannot profit over the loss of another postal operator which is being remunerated below its operating costs. In fact, a Designated Operator cannot be forced to subsidize the operations of another postal operator and thus create a false business environment for e-commerce customers (marketplaces and final consumers). This imbalance is not fair to the postal operator and to the countries.

The international postal network cannot be maintained at the expense of a significant part of the UPU member countries that cannot cover their delivery costs. Likewise, addressees of e-commerce parcels need to be informed that this indirect subsidy to e-marketplaces ultimately causes harm to the Designated Operator of their country. In the end, these losses are absorbed by all citizens (with higher internal postal rates, with additional fees, with logistical limitations, etc.). Equally, it's worrisome that this situation could cause damage to the competitiveness of national companies, since foreign companies benefit from the low cost of international shipping in their e-commerce operations.

What do you think of a potential US withdrawal?

The United States is an important member of the international postal community, either by expressive postal traffic or by the historic contribution of USPS to the advancement of postal services in UPU. Brazil is aligned with the United States' concerns about the current UPU remuneration system (terminal dues). However, Brazil believes that a potential US withdrawal from the UPU is not the best way forward. Without the United States, the debate on these issues in the UPU would be less intense and, in particular, the capacity for negotiation of countries that are undermined by the current system of remuneration would reduce.

From a practical point of view, the US withdrawal would create many difficulties for other countries to maintain the interoperability of postal services with the United States without the support of the multilateral rules stemming from the Universal Postal Convention. In addition, this United States movement may lead other countries to make the same decision, causing irreversible damage to the world postal industry and to the UPU existence.

How optimistic are you that your major concerns with the UPU will be resolved in 2019?

Current UPU studies on the remuneration system show that there are ways to move towards a fairer model. Brazil believes that by 2019 there will already be beneficial developments on this issue. Thus, all member countries should continue to participate in the discussions and contribute to the UPU regulatory environment being more responsive and reflecting the interest of all.

The desire of postal importing countries (as in the case of the U.S. and Brazil) is to have a UPU remuneration system based on self-declared rates. The fastest this decision is made, the better. But even if this model is not approved this year, import postal operators are expected to have more realistic remuneration rates by 2020. And this theme will be the principal focus of the discussions at the next UPU Congress in Abidjan, Ivory Coast, next year. The UPU must continue to move fast and forward!

What else would you like to add?

Brazil hopes that all UPU member countries recognize the urgency of making progress and improvements in the current proposals on the remuneration system, in order to slow down the United States government's desire to withdraw from the UPU. The intensive participation of all UPU members makes the debate richer and stronger, as it creates the necessary counterpoint to the expected change in the *status quo*.

Finally, Brazil believes that UPU needs a plural debate, reflecting the needs of all member countries allowing every postal operator (from importing or exporting country) to develop a sustainable growth and to maintain a fair e-commerce environment. Brazil believes that the postal family should continue to walk together, and so we will remain a strong network and no one is left behind.

Canada – Canada Post



Respondent/Date:

Pierre Morin
Senior Advisor, International Relations
Canada Post

March 25, 2019

What are your concerns about the UPU?

Simply put, too many countries, like Canada and the United States, cannot cover their delivery costs. The longer it takes to address these unsustainable elements of the UPU remuneration system, the more problematic the UPU is seen by cross border stakeholders. Moving to self-declared rates for all postal items containing goods would remedy the problem.

Today, though, the UPU's international reputation as trusted facilitators of trade is being questioned, even though trade opportunities abound.

How has the current UPU system impacted businesses and consumers in your country?

A one-kilogram package sent by a Canadian business to its customers approximately 200 kilometers away in Ottawa costs 12.04 Canadian dollars (CAD) through the post. The remuneration paid for this one-kilogram package by a designated postal operator such as DHL Deutsche Post (Germany), or PostNL (Netherlands) or Royal Mail (United Kingdom), amongst many others would be equivalent to 4.12 CAD (as of 1 January 2018). The pricing distortions are even greater for lightweight items and for those items that must be transported greater distances.

Based on the example above, the shipping cost for this Canadian business is 290% more to send its Ottawa customer the one-kilogram online purchase. And let's not go into ulcer producing examples of postal items from China to Canada!

What do you think of a potential US withdrawal?

Canada does not always agree with the U.S. Administration, but we are 100% aligned with our neighbor to the south on the need to move to self-declared rates. This has been our view for many years, and it is regrettable that the rest of the UPU ignored it for so

long. Now, the UPU membership is faced with the potential exit of the United States from the UPU in October 2019 and they only have themselves to blame for having ignored the problem for too long.

How optimistic are you that your major concerns with the UPU will be resolved in 2019?

I am an optimist by nature and think that we can reach agreement in 2019. At the same time, we must recognize that change will take place within the context of Universal Postal Union rules. There will be a need to include a reasonable notice period for affected stakeholders including designated operators, national regulators, organizations and consumers to name a few. With certainty on agreeing to the end state of a modernized remuneration system, member countries who have been waiting decades to achieve meaningful change may be willing to demonstrate flexibility on the timeline and transitional measures along the way.

What else would you like to add?

The concerns from a growing coalition of 30 countries are the same as the ones described in the (U.S.) presidential memorandum. More and more designated postal operators are not covering their costs to deliver goods. Also, there are fewer and fewer deliveries of nearly cost covering and cost covering documents within postal networks.

Costa Rica – Correos de Costa Rica



Respondent/Date:

Lic. Mauricio Rojas Carfín

Gerente General | Correos de Costa Rica, S.A.

March 22, 2018

What are your concerns about the UPU?

The delay in taking key decisions, the commercial and operational development of the electric commerce has a null progress in terms of regulation and operation of postal operators using the universal postal network, the great differences in postal development hinder improvements to the international postal regulations.

The international remuneration systems generate imbalances and do not reflect the true operating costs.

The difficulty of presenting real reforms to the union given radical positions in many countries.

How has the current UPU system affected businesses and consumers in your country?

If we talk about the remuneration system, it has generated financial imbalances that the company has had to cover given the following scenarios:

1. Late or excessive term of payment of the countries before the obligations of Terminal Expenses.
2. Imbalance with domestic rates.
3. Significant increase in operating expenses and competition with much more expensive internal products.

What do you think of a possible withdrawal from the United States?

It is very unfortunate to arrive at a situation of such a nature, but finally the imbalances and the delay in making key decisions of substantial modifications to the international payment systems, force with all reason, to make decisions of this nature.

How optimistic is that your major concerns with the UPU will be resolved in 2019?

We believe that this will be really difficult, since the decisions of the economic impacts and changes are initially falling on the technical side, this being decisions of a higher political level.

We are optimistic that the joint work of conviction carried out by countries such as Canada and the United States, in which we believe, may motivate reaching a consensus before October.

Iceland – Iceland Post



Respondent/Date:

Kristin Bjorg Kristjansdottir
Iceland Post
Director
International & Regulatory Affairs

March 26, 2018

What are your concerns about the UPU?

From an operator's point of view, Iceland Post's concerns with the UPU are mainly the remuneration for the exchange of postal items in terms of their inadequate level and the inability to adjust them during a Postal Congress cycle at the same time that conditions can change quickly.

How has the current UPU system impacted businesses and consumers in your country?

The UPU remuneration system has an impact by distorting the competitive situation of domestic e-tailers vis-à-vis international e-tailers. The difference in the level of remuneration for inbound postal items and rates available to domestic e-tailers is high enough to sustain a disproportionate demand for goods from international e-tailers. As domestic volumes decline in line with increasing digitization and inbound international volumes continue to grow due to ecommerce, the international items are increasingly driving operational costs and heavily influencing the sustainability of the domestic postal network and consequently what service level can be offered to businesses and consumer.

What do you think of a potential US withdrawal?

From the viewpoint of Iceland Post, a withdrawal from the UPU by the US would be very negative due to various factors such as risk of higher operational complexity and consequently costs for postal items exchanged with the US; risk of other countries following suit resulting in further operational complexities and costs; risk of higher costs of UPU membership on remaining member countries which would then be passed on to the postal operator by increasing the fees paid by the designated operator to the regulator.

Small postal operators are already disadvantaged in bilateral agreements due to limited negotiation power, there is no guarantee that increasing the number of bilateral agreements would lead to more cost covering terminal dues as they would most probably still have the UPU rates as a point of departure and fallback. The issue of cost covering remuneration needs to be addressed at UPU level.

How optimistic are you that your major concerns with the UPU will be resolved in 2019?

Cautiously optimistic. There is a tendency to politicize the issue with reference to the US withdrawal. The issue of cost covering remuneration is however a very real and urgent economic concern for Iceland Post. The serious effects of non-cost covering terminal dues on the sustainability of the postal networks of net importers tends to be minimized in discussions at the UPU level and more weight given to presumed negative effects of cost covering remuneration on the demand for postal services both by consumers and businesses.

Ireland – An Post



Respondent/Date:

Gerard O'Mahony
International Commercial Manager
 An Post

March 26, 2019

What are your concerns about the UPU?

The UPU is a wonderful organization that unites all of the countries in the world to provide a truly global mail delivery service. Through the work of the UPU, developing countries receive much needed support and access to mail delivery services in the more economically advantaged parts of the world.

The UPU rate setting process is quite complex and it uses as its starting point the domestic tariffs of the member countries. However, the arbitrary price cap mechanism introduced 20 years ago results in terminal dues rates that are significantly below the delivery costs of many postal operators. Non cost-oriented tariffs impose a significant financial burden on some postal operators and fundamentally threaten the provision of postal services. For example, a study conducted for An Post by Copenhagen Economics showed that below cost UPU rates reduced An Post's profitability by €20m in 2017.

The simple reality is that postal operators in today's market can no longer afford to subsidize the delivery of international mail. Countries, such as Ireland, that are large importers of mail have a particularly acute problem and find that they are often subsidizing larger, wealthier countries that are exporters of mail. That is why An Post welcomes the work being undertaken by the UPU to examine the remuneration system applying to small packets.

How has the current UPU system impacted businesses and consumers in your country?

The majority of the inbound mail processed by An Post comes from European countries where the EU legislative and regulatory framework ensures cost-oriented pricing. This is largely achieved through Article 13, of Directive 97/67/EC of the European Parliament and the Council, otherwise known as the Postal Services Directive.

Low UPU rates distort competition and this is not in the long-term interests of business and consumers. Low UPU rates also give an unfair competitive advantage to international e-commerce businesses based in international markets, particularly Asia.

What do you think of a potential US withdrawal?

The US has expended a lot of energy to drive the change process and their departure from the UPU family would be a significant loss. The US has given voice to the concerns about the UPU system that An Post and other postal operators have had for many years. It has brought us to the point where action is now being taken to address the long-standing challenges posed by the current terminal dues system.

The UPU is a global organization with considerable diplomatic skills and a track record of delivering change by consensus. We are hopeful that the present situation will be resolved to the satisfaction of all parties, while recognizing the clear need of developing countries, particularly in Africa, to be able to access the postal networks of more economically advantaged countries at affordable terminal dues rates.

How optimistic are you that your major concerns with the UPU will be resolved in 2019?

Clearly the action that the US has taken has brought to the surface the concerns that many countries have. There is broad agreement that the current system for calculating remuneration for small packets is not satisfactory and needs to be reformed. However, we would be cautiously optimistic that small packet rates will increase very soon.

Fundamentally, we support the simple principle that terminal dues rates should adhere to a sustainable cost-to-tariff ratio. The imposition of caps, or similar mechanisms, not only discriminates against net importers of mail but also risks undermining the universal postal service in many countries.

However, until the restrictive cap mechanism is reformed we will not see cost-reflective rates for letters and flats, which means that Ireland will continue to experience significant financial losses on inbound international mail into the future.

What else would you like to add?

We would like to see the UPU continue to work diligently to develop much-needed solutions to reform the current terminal dues system. We need to ensure that the future system is based on a fair cost-to-tariff ratio that ensures the economic viability of all postal operators.

Italy – Poste Italiane

The logo for Posteitaliane, featuring the word "Posteitaliane" in a blue sans-serif font on a yellow rectangular background.

Respondent/Date:

Vincenzo Aurelio

Head of Relations with International Authorities and Organizations

Regulation and Authorities Affairs
Relations with European and International Authorities and Organizations
Poste Italiane

March 22, 2019

What are your concerns about the UPU?

Over the last few years member Countries of the Universal Postal Union have expressed the need for a reform of the remuneration system for cross-border mail. Despite this topic has been widely debated, no agreement as so far been reached in this respect. Many countries complain about the loss in remuneration which does not cover the costs for distribution and delivery in their territory and even distorts competition between postal and non-postal operators.

For this reason, the request for a more effective response is getting more and more pressing amongst many UPU members, asking for a modernization of the current UPU remuneration system. This modernization cannot take place without taking into account the need, not new, but definitely urging at this moment, for a radical change to the current system.

How has the current UPU system impacted businesses and consumers in your country?

In this fast-evolving market, it becomes difficult to ignore the competitive framework, where big global players are driving the change, and to survive as single entities, without adopting a more synergic approach leveraging on common assets and identifying elements of cohesion to elaborate a new, innovating and challenging remuneration system. Member countries need a flexible system, allowing to adapt to the highly competitive market conditions in each country, as well as to ensure cost coverage, margins for bilateral agreements based on a flexible offer, market-oriented approach, as well as abatement of the re-mailing phenomenon, just to mention a few examples.

What do you think of a potential US withdrawal?

Member countries need to be aware of the serious risk of failure the Union is running in this extremely delicate phase, since the announced withdrawal by US, which, if confirmed, would most likely generate a domino effect.

Consequently, we all must be aware of the would-be huge increase in members' costs should an alternative postal network be implemented, besides the universal one

How optimistic are you that your major concerns with the UPU will be resolved in 2019?

Despite many Countries are recognizing the need for a reform of the actual terminal dues system in consideration of the evolution of the postal market mainly due to the e-commerce growth, the positioning of the UPU members is only driven by their commercial balance.

Importers have to cover their costs and need for a fair remuneration, whereas Exporters look for the lowest price to protect/increase their margins. In this context, developed countries are equally divided. The UPC (Universal Post Coalition) with its more than thirty countries is working very hard to keep Members together in order to guarantee the sustainability of the Union through the elaboration of a detailed proposal of self-declared rates as the closest solution to current market needs.

All that said, a resolution can only be reached if the majority of the 192 members agrees. An action of transparent communication needs to be put in place to ensure a responsible decision making process leading to a positive conclusion already in 2019, for the benefit of the whole Postal Community.

What else would you like to add?

The Universal Postal Union (UPU), is the United Nations specialized agency for the postal sector, whose role is setting the rules for cross-border postal exchanges, by defining standards, universal services features and relevant remuneration system (Terminal Dues) amongst Member countries, in order to improve quality of services for customers and, in general, support growth and development of the whole community. However, this 150-year-old organization needs to be modernized, made more efficient and market driven. The concern about remuneration is just a first step ahead: more need to be made yet, well aware this process can only take place in a gradual way.

Norway – Norwegian Communications Authority



Respondent/Date:

Cathrine Grimseid
Senior Advisor
Norwegian Communications Authority

March 22, 2019

What are your concerns about the UPU?

According to the UPU Convention, the designated operators shall have the right to collect payment for the costs incurred for delivery of international mail received. However, the system sets caps and floors, which are not in line with costs and market prices in many countries. Due to the caps system several designated operators are not receiving cost-covering payment for the delivery of international mail in their country.

For many years, member countries have raised concerns that the Terminal Dues payments create economic distortions and result in considerable losses for some designated postal operators, thus undermining the sustainability of the universal service which the UPU network rely on.

How has the current UPU system impacted businesses and consumers in your country?

In recent years cross-border e-commerce has increased rapidly. Terminal Dues that historically were intended to ensure an affordable exchange of letters containing documents are now increasingly used for letter mail containing e-commerce items. As a result, the Terminal Dues system distorts the international flow of letter mail containing goods by incentivizing the shipping of goods from countries that benefit from artificially low reimbursement payments. The Terminal Dues system also leads to discrimination against businesses and jobs in the destination country, as foreign e-commerce sellers due to the caps system might get preferential rates for distribution of postal goods, putting local businesses at a competitive disadvantage.

What do you think of a potential US withdrawal?

Norway is actively working with other member countries to find a solution within the UPU.

How optimistic are you that your major concerns with the UPU will be resolved in 2019?

We hope to find a solution that will ensure sustainability of the international postal network and the unity of the UPU.

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About the Author: Paul Steidler is a Senior Fellow with the [Lexington Institute](http://www.lexingtoninstitute.org), a public policy think tank based in Arlington, Virginia, just outside of Washington, D.C.