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## The future of postal eCommerce, or the 3rd extraordinary UPU congress

The Universal Postal Union (UPU) held a historic 3<sup>rd</sup> extraordinary congress in Geneva last month in order to redefine their 50-year-old terminal dues system. What may sound like a small technicality is actually crucial for the future development of postal eCommerce. How is that? We explain more below.

A year ago, the UPU held its 2<sup>nd</sup> extraordinary congress in Addis Ababa in order to discuss measures to ensure its financial sustainability: The existing terminal dues system – which determines how much the destination post can charge the origin post for their last mile delivery services - is causing strong financial damages in countries importing eCommerce from developing countries. According to the traditional system, the latter pay close to nothing for last mile delivery. The result of last year's congress was therefore not satisfactory for many countries,

namely for the USA, who then announced their intention to leave the UPU if a fairer solution was not developed.

UPU considers a 4-tier country classification: Group 1 takes in developed countries such as Sweden, Switzerland or USA, whereas on the opposite end, group 4 takes in underdeveloped countries. On the basis of postal services being a universal right, terminal dues were defined on a solidarity principle, where the contribution of countries in groups 1 and 2 would be higher than those in 3 and 4. This means, the delivery rates that countries in groups 3 and 4 have to pay are often symbolic.

In the pre-eCommerce world where one letter would generally trigger another letter as a response, this system was balanced, but e-Commerce has changed the rules of the game. Now importing countries subsidize, so to say, the free shipping advertised by e-tailers exporting from level 3 and 4 countries. Over the years, many nations have started to see government coffers show red figures and have started raising flags to UPU.

### **What were the options?**

For the voting, UPU presented 3 different scenarios that were proposed by its members:

OPTION A would accelerate changes in the terminal dues schedule, allowing a faster reclassification of countries into higher groups as their economies evolve. This was the most conservative option and the one preferred by China, initially.

OPTION B would allow nations to self-declare their rates for in-bound packets, but could be no higher than their domestic rates. This was the preferred option of countries such as USA, Canada, Iceland, Brazil, Norway, Argentina or Australia.

OPTION C was a hybrid solution initiated by France, Germany and Japan. This option tried to encompass self-declaration of rates in certain import volume scenarios with a protection for non-ecommerce exporter countries. It also presented a set of increase caps and a phasing period.

### **Where are we now?**

Swiss WorldCargo had the opportunity to witness this future-changing congress in Geneva. During the first day, Option B – the furthest away from status quo – was thoroughly discussed. In order to make the option fairer, South Africa and Cuba proposed certain modifications which brought this option closer to C. With 57 votes for and 78 against it, the members disregarded Option B by the end of the first session.

In an interesting turn of events, day two dawned with a new option on the table: OPTION V – for Victory. In a brilliant display of diplomacy, UPU's director General, Bishar Abdirahman Hussein, coordinated overnight discussions with the members to mutually agree on a new option that would embrace the needs of all parties. Option V presents itself as an enhanced version of OPTION C, where thresholds are included to protect low volume, developing countries from the impact of the swift reform while minimizing loss for high import countries.

Starting 1 July, 2020, the United States will be allowed to self-declare its rates for letter post E format items. Other countries will move to self-declared rates over a five-year period. These must be reciprocal and applicable to all countries, but bilateral agreements may be agreed on on top, and they would supersede the public self-declared rates. Groups 2, 3 and 4 with less than certain volumes are not required to participate in this system. Option V counts as well, with a ramp-up period and other limitations to minimize price shock.

The auditorium unanimously hailed Option V as a brilliant compromise: "Option V stands for victory, but it is your victory," Hussein stated during the closing session. "You came together, and you showed a sense of responsibility,

and you proved this Union is resilient.” How will these changes affect the global eCommerce macro trends? Will an increase on the terminal dues translate into a decrease of international eCommerce shipments or will it be absorbed by the buyers? Will the industry tend to stock goods closer to their final customers? Hard to predict. Come what may, Swiss WorldCargo aims to stay on the pulse of times and will remain a close partner to the postal industry to cater for their traditional business and eCommerce.



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