AE MicroMacro – China

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US successful push for global postal fees reform

What happened? On September 25 Universal Postal Union (UPU) agreed to reform its fee structure under a proposal by the United States and averted the United States leaving the organization. The agreement was clinched in negotiations among 34 countries including China. From January 2021 US would be allowed to begin imposing "self-declared rates" for distributing foreign mail in the US territory regardless of the general UPU rates.

Who is involved? Currently UPU has 192 member states and is a specialized agency within the United Nations acting as a forum for member nations to negotiate postal matters, including the rules for international mail exchange and related fees. The negotiations were triggered by the US over discounts (effectively subsidies) imposed by the UPU, that allow China and some other nations to ship products into the U.S. at cheaper rates than American companies receive to ship domestically. In October last year Trump administration threatened to leave the organization and decided to initiate the withdrawal process after a proposal of reforms were rebuffed at the UPU Congress in Addis Ababa. China as a developing nation is by far the biggest beneficiary of the system of actual subsidies.

Why it matters? Chinese online platforms e.g. AliExpress offer extremely cheap or even free of charge shipments of products to many countries while shipments to China are much more expensive. The difference is in fess paid by different countries for mail or parcel delivery within the territory of another UPU member. The higher cost of sending items to China puts foreign sellers mainly from the SME sector at great disadvantage comparing to their Chinese peers. Moreover, the current UPU system greatly facilitates cross border e-commerce imports from China at the expense of domestic US or European platforms and smaller domestic vendors, who lose market and customers in favor of the Chinese competitors. The items bought on Chinese platforms are often declared as gifts or undervalued to avoid VAT and custom duties.

Big picture. Reform of the UPU international mail rates system is one of in the many thorny issues that fuel US–China trade frictions. Trump's success can encourage other countries to push for change in rules that benefit China as many national agencies and organizations express dissatisfaction with the current state of affairs. In Europe Nordic countries are among the sharpest critics of the current rate system Business associations from various European countries have recently again requested actions from the EU officials to reform the UPU system due to its distortive impact on competition. Two Polish business associations were among signatories. If more countries will push for using the self declared rates or if the system rates is reformed it will influence the cost of international mail and the flow of e-commerce shipments from China can decrease.

Why it matters for Poland?

The Polish trade deficit with China grows steadily. Over 50% of online users in Poland declare purchasing goods from foreign shops or platforms in e-commerce channel and 58% of this group buys in China. In 2017 Polish Post has signed agreement on cooperation with the China Post, later built new sorting facilities and developed the network of processing an delivery services. The goal is to increase revenues not only form services in Poland but to become a regional CEE hub for processing and delivering parcels from China. Polish Post operations are partially based on the global UPU system that benefits China The rising pressure on UPU system reform can lead to the removal of the subsidy system and in result to the smaller flow of e-commerce shipments from China. It can have impact on Polish Post revenues from the China related operations.