
**Hearing before the Subcommittee on Government Operations
Committee on Oversight and Government Reform
House of Representatives**



Oral Statement

Fair Competition in International Shipping

June 16, 2015

**David C. Williams
Inspector General
United States Postal Service**

Mr. Chairman, thank you for the opportunity to discuss this issue. When someone mails a letter or parcel to another country, the sending post receives the postage, but then compensates the destination post for its processing and delivery. Compensation rates, called terminal dues, are negotiated among 192 countries at the Universal Postal Union (UPU) every four years. Each nation gets one vote.

Countries are also free to enter their own customized bilateral agreements for particular mail flows. The U.S. Postal Service has bilateral agreements with Canada Post, China Post, and others.

Historically, inbound terminal dues rates have not covered delivery cost for the U.S. Postal Service and many other posts. Last year, the Postal Service lost \$75 million delivering inbound international mail. Other nations also lose money processing mail for inadequate terminal dues rates.

The explosion in e-commerce is creating new areas of concern. The number of small parcels sent to the United States from China has greatly increased. The Postal Service loses money delivering each of these parcels, and China Post can send them at lower rates than even businesses located here in the United States. For a typical small parcel, the First-Class rate for U.S. businesses is more than \$1 higher than the rate China Post pays under terminal dues. It is unclear how much China Post charges its customers.

To respond to parcel growth and to better cover costs, the Postal Service created the ePacket product in a bilateral agreement with China Post. ePackets are small parcels that receive delivery tracking. In return, China Post pays higher rates than terminal dues.

In a recent audit, we found the Postal Service received 27 million ePackets from China Post in fiscal year (FY) 2012. Each packet lost \$1.10 on average, a negligible improvement of 5 cents compared to the loss under terminal dues rates. In response, the Postal Service explained that it was negotiating a better deal, but it also made clear that substantial rate increases could cause China Post to revert to low UPU terminal dues rates, which treat China as a developing nation in need of price supports.

The UPU is gradually making changes to terminal dues, although progress has been slow:

- A 2012 decision will move China and several other significant economies to the lowest target category for industrialized countries in 2016; however, this will not result in any significant increase in terminal dues rates until 2018. Any damage to U.S businesses will likely have occurred by then.
- More beneficially for the Postal Service, the terminal dues rates it receives from industrialized countries are increasing 13 percent a year from 2014 to 2017. This will bring the Postal Service significant additional

revenue, but make it harder than ever for British or German goods to compete with Chinese products sold here.

The UPU's mission is as relevant as when the institution was created. But, like many enterprises, the UPU system has been greatly disrupted by globalization and the digital age.

- The process is not agile or responsive even to great changes in commerce and economics. It can take years for rates to catch up to changing economic realities.
- Many nations have made significant economic progress, but the process of bringing their rates in line with the terminal dues paid by other developed countries has been slow. Nations still vote on the size and timeframe of terminal dues increases.
- The existence of low terminal dues rates as a default hampers nations' ability to negotiate fair agreements.
- The UPU system involves nation-states providing universal service, but excludes private sector carriers whose importance has grown with the rise of e-commerce.
- Gaps between real mail processing costs and terminal dues are encouraging exploitative new industries that take advantage of low terminal dues rates and undermine national posts.
- An unintended consequence of terminal dues is that the system picks winners and losers, undermining efficient market forces. In the United

States, China has an unfair edge over U.S. businesses. These distortions are even greater in other industrialized countries.

Removing market distortions and ensuring agility take on new importance with the growth in e-commerce and globalization. We want to do additional work in this area. My office will work with your staffs to include the new points raised today.