



# International Postal Service, Remuneration and Regulation

Final Report

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15 October 2020



DG GROW

**EUROPEAN COMMISSION**

Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs  
Directorate GROW E — Services in the Single Market and Digitalisation  
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# **International Postal Service, Remuneration and Regulation**

Final Report

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PDF	ISBN 978-92-76-27174-1	doi:10.2873/649900	ET-06-20-141-EN-N
Print	ISBN 978-92-76-27173-4	doi:10.2873/482772	ET-06-20-141-EN-C

*Printed by WIK-Consult GmbH in Germany*

Manuscript completed in October 2020

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Luxembourg: Publications Office of the European Union, 2020

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## **ABSTRACT**

Cross-border e-commerce has boosted postal imports of low-value consignments from the Asia-Pacific region to the EEA Member States. The significant growth in imports of low-value consignments particularly from China challenged designated operators and customs authorities in the single market. This study by WIK-Consult explores the development of international postal services in the EEA, assesses the impact of UPU terminal dues and self-declared rates on designated operators, and examines import models for international e-commerce consignments along with the requirements and procedures concerning VAT, customs and security regulations.

The assessment is based on extensive desk research and intensive stakeholder interaction. Online surveys and interviews were conducted among EEA designated operators, national regulatory authorities and ministries, and national customs authorities gathering input from practical and regulatory perspectives regarding the expected changes and challenges involving international postal services.

The study concludes that the provision granting designated operators the right to 'self-declare' terminal dues rates for the delivery of imported e-commerce goods will reduce the distortions under the current system, while the reforms in customs and import VAT regulations are a step in the direction towards levelling the playing field between postal and express operators, as well as between EU and non-EU e-retailers and online marketplaces. While this represents significant progress, some challenges are expected to persist.

## **RÉSUMÉ**

Le commerce électronique transfrontalier a stimulé les importations de paquets de faible valeur en provenance de la région Asie-Pacifique vers les États membres de l'EEE. La croissance importante des importations de paquets de faible valeur, notamment de la Chine, met au défi les opérateurs désignés et les autorités douanières sur le marché unique. La présente étude, réalisée par WIK-Consult, analyse le développement des services postaux internationaux dans l'EEE, évalue l'impact des frais terminaux et des taux autodéclarés dans le cadre des règles UPU sur les opérateurs désignés et examine les modèles d'importation pour les envois internationaux du commerce électronique ainsi que les exigences et les procédures concernant la TVA, les douanes et les réglementations en matière de sécurité.

L'évaluation se fonde sur des recherches documentaires extensives et sur une interaction intensive avec les parties prenantes. Des enquêtes en ligne et des entretiens ont été menés parmi les opérateurs désignés de l'EEE, les autorités nationales de réglementation et les ministères, ainsi que les autorités douanières nationales, afin de rassembler des éléments concernant les perspectives pratiques et réglementaires concernant les modifications et les difficultés attendus pour les services postaux internationaux.

L'étude conclut que la disposition accordant aux opérateurs désignés le droit « d'autodéclarer » des frais terminaux pour la livraison de marchandises du commerce électronique importées réduira les distorsions existantes dans le cadre du système actuel, alors que les réformes des réglementations douanières et en matière de TVA constituent un pas dans la direction de l'uniformisation des règles du jeu entre les opérateurs postaux et ceux express, ainsi qu'entre les détaillants du commerce électronique de l'UE et hors Union européenne et les marchés en ligne. Bien que ceci constitue un progrès important, certaines difficultés devraient persister.



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## Country abbreviations

Abbreviation	Country
AT	Austria
BE	Belgium
BG	Bulgaria
CH	Switzerland
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HR	Croatia
HU	Hungary
IE	Ireland
IS	Iceland
IT	Italy
LI	Liechtenstein
LT	Lithuania
LU	Luxemburg
LV	Latvia
MT	Malta
NL	Netherlands
NO	Norway
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovak Republic
UK	United Kingdom
CN	China
HK	Hong Kong
US	United States

## Abbreviations

Abbreviation	
AEO	Authorised Economic Operator
B2C	Business to Consumer
CA	Council of Administration
CD	Customs Declaration
CDS	Customs Declaration System
CO	Customs Office
CP	Customs Procedure
CPC	Customs Procedure Code
CSR	Community System of Reliefs, Regulation 1186/2009/EC
CUSITM	CUStoms ITeM pre-advice message between DOs and customs (based on ITMATT)
CUSRSP	CUStoms ReSPonse message
DO	Designated Operator
EAD	Electronic Advance Data
EC	European Commission
ECA	European Court of Auditors
EDI	Electronic Data Interchange
EEA	European Economic Area
EI	Electronic Interface / Platform
EMS	Express Mail Service
ENS	Entry summary declaration
EO	Economic Operator
EPG	E-Parcel Group
ETOE	Extra-Territorial Office of Exchange
EU	European Union
EU-27	European Union without UK (after the Brexit)
EU-27brex	European Union without UK (after the Brexit)
GMV	Gross Merchandise Value
GPM	Global Postal Model
IB	International Bureau (UPU)
ICS1	Import Control System 1
ICS2	Import Control System 2
IMPC	International Mail Processing Code
IOSS	Import One Stop Shop
IPC	International Post Corporation
IPK	Items per Kilogramme
ITMATT	ITeM ATtribute pre-advice message exchanged between Designated Operators

Abbreviation	
LVCR	Low Value Consignment Relief
MOSS	Mini One Stop Shop
NIS	National Import System
NRA	National Regulatory Authority
OECD	Organisation for Economic Cooperation and Development
OSS	One Stop Shop
PDDP	Postal Duty Delivery Paid
PLACI	Pre-loading Advance Cargo Information
POC	Postal Operations Council
REIMS	Remuneration for the Exchange of International Mails
SDR	Special Drawing Right
TBE	Telecommunications, Broadcasting and E-commerce
VAT	Value Added Tax
UCC	Union Customs Code, Regulation 952/2013/EU
UCC-DA	Commission Delegated Regulation 2015/2446/EU
UCC-IA	Commission Implementing Regulation 2015/2447/EU
UPU	Universal Postal Union
USP	Universal Service Provider (national postal operator)
USPS	United States Postal Service
WCO	World Customs Organisation

## Executive Summary

1. Global e-commerce has dynamically grown and cross-border e-commerce plays a significant role, promoted by international online market places. EEA consumers increasingly make cross-border purchases from sellers within and outside the EEA. China, the UK and Germany are the most preferred e-commerce destinations for European consumers' cross-border shopping.
2. Consumer surveys indicate that during the last five years cross-border online sales of Chinese e-retailers or Chinese platforms have grown more than other foreign e-commerce markets in terms of the number of e-commerce purchases in Europe (notably Germany and the UK) and outside Europe (the United States). This growth is driven by the considerable presence of Chinese e-retailers on international platforms like Amazon, Wish and AliExpress. In particular, the platform Wish attracts Chinese online sellers who only compete in low-price products made possible by low manufacturing and especially by low shipping costs from using China Post for cross-border delivery.
3. Cross-border e-commerce has boosted postal imports of low-value consignments from the Asia-Pacific region to the industrialised Member States in Europe and North America. This growth in imports of low-value consignments particularly from China challenged designated operators and customs authorities in the single market:
  - The compensation for the delivery of these cross-border items paid by the dispatching designated operator to the designated operator in the destination country (UPU based terminal dues) did often not cover the handling and delivery costs.
  - Postal customs clearance of low-value consignments is mostly paper-based and checks for compliance with the customs and VAT (value added tax) rules by customs authorities in the country of destination are based on sampling. This created incentives for non-EU online sellers for false postal customs declarations resulting in VAT and customs fraud. Moreover, this channel was increasingly used to import merchandise that do not comply with intellectual rights (counterfeit), product safety rules and security rules (e.g. for air transports).

Low delivery costs and the VAT relief for low-value consignments benefit online sellers in China and distort competition in the EU e-commerce and retail markets. Additionally, the import of unsecure and illegal merchandise harms EU consumers.

### International postal services and import models for e-commerce consignments

4. The primary transport mode for non-EEA e-commerce consignments to the EEA is by air. Air transport is roughly estimated to account for over 95% of all addressed e-commerce consignments. However, where e-commerce fulfilment emanates from EU warehouses the role of sea and rail is vital for importing in bulk for later fulfilment of e-commerce orders.



**Methodology:**

This study was carried out between July 2019 and October 2020. It is based on extensive and in-depth desk research regarding the international postal remuneration system, e-commerce and postal e-commerce flows, and customs and import VAT for low-value consignments.

For this study, WIK interacted extensively with stakeholders including

- In August 2019, WIK-Consult conducted an experts workshop on 'Future postal relations between EU and the USA in the event that the USA withdraws from the UPU', held at Frankfurt airport on 27 August 2019;
- An important pillar of data collection and stakeholder involvement for this study was a stakeholder survey (December 2019 – February 2020) which was sent out to three groups of stakeholders:
  - Regulators and ministries in all EEA Member States and the UK;
  - designated operators (DO) in all EEA Member States and the UK;
  - customs authorities in all EEA Member States and the UK.
- WIK introduced the study at a public stakeholder workshop on 17 September 2019 and at the Postal Directive Committee on 4 December 2019 and provided an short study update to the Postal Directive Committee on 18 June 2020. On 22 September 2020, WIK hosted the second public stakeholder workshop as Webex conference with more than 150 participants to present and discuss the draft results of the study.
- WIK was in close contact with many stakeholders personally at UPU meetings, by phone and video calls, email exchange with designated operators, express carriers, e-commerce associations and experts of DG TAXUD.

5. Air freight contributes less than 1% of the total tonnage of all EU imports but accounts for 25% of the Euro value of all imports from outside the EU in 2019. In contrast, imports from non-EU countries transported as postal consignments accounted for less than 0.01% of the total tonnage and for around 0.1% of the Euro value of all EU imports in the same year. Overall, available trade statistics indicate that EU consumers' share of cross-border e-commerce consignments to total imports still appears to be extremely small in weight and relatively small in value, especially if transported as postal consignment. Nonetheless, the risks of undervaluation and incomplete data regarding e-commerce consignments in the air (express operators) and in the postal stream are rather high.
6. The international postal system has primarily become a system for the distribution of international e-commerce goods. Key players in the delivery chain are designated operators as well as associated consolidators that transport and deliver documents and packages (small packets and parcels) in accordance with rules established by the UPU. WIK estimates that 80% or more of e-commerce consignments distributed via the international postal system are conveyed as 'letter post' (international postal service for items weighing less than 2 kg) with the remainder distributed via 'parcel post' (service for items weighing up to 20 kg or more). Within letter post, goods and other 'E-format items' (goods and documents in packets) accounted for about 58% of international letter post volume and 86% of the weight in 2018.

7. The international postal system is dominated by six designated operators (CN/HK, DE, FR, NL, UK, US) that appear to account for at least 70% of outbound international E-format items. Roughly half (or more) of postal e-commerce items received in the EEA appears to originate in China and is conveyed to EEA Member States via China Post and a variety of other postal channels including ETOE operations and sales agents (re-mail) of major EEA designated operators.
8. Only highly approximate estimates are possible for the volume and distribution of the international postal services of the EEA Member States and for the world generally. Publicly available data is incomplete and difficult to interpret due to several factors.
  - The largest designated operators have become highly commercialised businesses operating in a fiercely competitive e-commerce market, and they are often unwilling to reveal what they consider to be commercially sensitive information.
  - For several major international designated operators, traditional concepts, such as outbound and inbound postal services, no longer reflect actual operations. Even when available, overall operating statistics are difficult or impossible to interpret.
  - Parcel market data collected by national regulators does not correspond to traditional UPU concepts and remuneration systems.
  - At a global level, available outbound and inbound volume statistics are so incomplete and inconsistent that even the total global volume of letter post cannot be estimated with reasonable accuracy.
9. Having the shortcomings of data quality in mind, the outcome of the WIK survey among national regulatory authorities, ministries and designated operators confirms the general trend of declining international letter post and a growing number of international small and light-weight packets.
  - Between 2013 and 2018 export letter post (outbound cross-border letter post including intra-EEA export letter post) declined more than six per cent per year on average in the EEA (EU-28, Norway and Iceland). With an estimated 2.3 billion items (2018), it accounts for less than four per cent of total letter post volume. Thereof, 80% is exported by designated operators (1.8 billion items).
  - During the same period, import letters declined only slightly: less than one per cent per year on average and reached 2.6 billion items in 2018, of which 95% was delivered by designated postal operators. The share of small packets ('E-format') in letter post imports of designated operators has doubled between 2013 and 2018, from a fifth to more than 40%. This indicates that, at EEA level the increase in imported e-commerce packets via the international letter post stream has partly compensated for the decline in import letters.
  - While international letter post between EEA Member States (intra-EEA) account for nearly two-thirds of total import letter post (including packets) more than half of imported packets came from origins outside the EEA. In comparison, 80% of extra-EEA import packets originates from China. WIK estimates that approximately 400 million packets were imported from China or Hong Kong in 2018.
10. Designated operators in the EEA face more competition in the collection of export letter post than in the delivery of import letter post in their home countries. The main competitors in export letter services are usually other European designated operators that have launched extraterritorial offices of exchange (ETOE) in those European countries with significant letter post exports (particularly in France, Germany, the Netherlands and the UK).

11. With growing cross-border e-commerce between regions, different import models emerged. Whereas the online order is placed either on an online market place or on a non-EU web shop, the physical flow of the ordered goods depends on where these goods are actually stored at the time of purchase – outside or inside the EU. WIK differentiates two basic import models for non-EU e-commerce consignments: (1) Fulfilment in the country of origin and delivery ‘direct to the consumer’, and (2) Transport of merchandise as bulk consignments via air, sea or rail from non-EU destinations to EU warehouses for final dispatch to consumers.
12. The ‘Direct to consumer’ model has been the standard import model for addressed international e-commerce consignments. According to UPU estimates, around 70% of low-weight (under 2 kg) e-commerce consignments are distributed via the international postal system i.e. delivered by designated operators. The market position of the international postal system in the over 2 kg market is much less favourable.
13. At the early stage of cross-border e-commerce, when the number of e-commerce consignments was fairly low, non-EEA online sellers mainly used either the ‘cheap’ international postal system or ‘expensive’ international express operators for cross-border delivery of e-commerce consignments. Quality of service, reliability and transparency (tracking & tracing) of the delivery process were fairly low in the international postal system (depending on the designated operators involved), whereas it was much more advanced at international express operators.
14. With growing cross-border e-commerce, an increasing variety of global customs clearance regimes, and the tightening of national customs procedures and rules for international e-commerce consignments, more sophisticated and commercial import models have emerged. This created scope for cross-border delivery services that cover service areas between the low-quality cheap international postal services and the high-quality expensive express services, and that are more oriented to the specific needs of e-retailers. For the purposes of this study, WIK classifies three types of consolidators:
  - ‘Consolidators that are associated with designated operators for final delivery’ (postal import channel) are either operated as ETOEs or as sales agents. The vast majority of ETOEs are operated by designated postal operators from an industrialised country (e.g. PostNL, La Poste, Deutsche Post DHL, bpost and others) in other non-EEA industrialised countries (Group I and Group II like the UK, the United States and Singapore). Sales agents associated with EEA designated operators by ownership (e.g. Spring, Asendia etc.) or by contract (e.g. B2C Europe) have branches in countries with significant e-commerce sales to other EEA Member States that do not allow the establishment of ETOEs in their territory (e.g. China / Hong Kong). These agents take care of the international transport goods to the EEA while the designated operators in the EEA countries of destination are responsible for the postal customs and VAT clearance.
  - ‘Consolidators that are not associated with designated operators’ are freight forwarders that are usually specialised in international transport of larger and heavier e-commerce consignments (parcels). They take care of commercial customs and VAT clearance. For final delivery, they have agreements with local parcel and express carriers like Hermes or DPD.
  - ‘E-commerce fulfilment service providers’ offer tailored warehousing services to online sellers and are specialised in cross-border e-commerce fulfilment (with customs clearance capabilities). They have emerged during the last five years and reflect the progress made in treating e-retailers as a separate target group with specific needs and requirements regarding e-fulfilment and international delivery.

In this market, e-commerce fulfilment subsidiaries of large postal and express companies (e.g. Asendia / La Poste, DHL eCommerce / Deutsche Post DHL and UPS Supply Chain Services) compete with large online marketplaces and their associated e-commerce fulfilment services as well as with large international third-party logistics providers.

15. The third model of the fulfilment and dispatch of e-commerce consignments from EU based warehouses is promoted by large online platforms such as Amazon and Alibaba. In general, e-commerce goods are imported by air, sea or rail freight into the single market where they are either stored in normal warehouses or in bonded warehouses for final fulfilment. This means that at the time of online purchase the ordered merchandise is already within the single market. The major advantages of this model are short delivery times (no customs clearance, short transport distances etc.) and easy return handling. The major disadvantages are higher storage costs and greater distance from the online seller. For this reason, EU based warehouse solutions are more preferable for product categories with stable and high demand and thus with a high stock turnover rate.

### Terminal dues and self-declared rates

16. Terminal dues are the fees that designated operators pay each other for delivery of documents and goods conveyed in the international letter post. There are two main categories of terminal dues rates: one for documents in standard-sized envelopes weighing up to 0.5 kg and the other for goods and non-standard documents weighing up to 2 kg ('E-format items'). Terminal dues are a major component in the cost of international postal service.
17. The current terminal dues system was established in the UPU Convention adopted in 2016 to govern the international postal system for the period 2018 through 2021. In 2019, an Extraordinary Congress of the UPU amended the 2016 Convention to substantially revise the terminal dues provisions for 2020 and 2021.
18. The UPU terminal dues system distorts the international exchange of letter post items because terminal dues are inconsistent with domestic postage rates for equivalent services. The primary effect of the UPU terminal dues system is that designated operators in industrialised countries charge substantially less for delivery of inbound letter post items — particularly e-commerce packets — than they charge domestic mailers for similar services. According to a very approximate mathematical model developed by WIK, the UPU terminal dues system implies that in 2020 designated operators in the industrialised countries will charge roughly SDR 2.2 billion (EUR 2.6 billion) less for delivery of inbound international letter post than they charge for delivery of similar domestic mail, effectively giving foreign mailers a 44% discount. For EEA designated operators in 2020, UPU terminal dues imply SDR 1.1 billion (EUR 1.3 billion) less remuneration for delivery of inbound letter post (both intra-EEA and from outside the EEA) than for similar domestic services, likewise a 44% discount. (These estimates include 'self-declared' rates introduced in July 2020 but do not consider possible changes in volume due to the COVID-19 pandemic).
19. Distortions implied by the UPU terminal dues system create winners and losers compared to the results of a normal market system. In general, the main winners are:
  - designated operators who are large net exporters of letter post, in particular e-commerce goods (e.g. China);
  - e-commerce retailers selling to consumers in industrialised countries (where terminal dues are less than equivalent domestic postage for domestic e-retailers);

- developing countries for whom terminal dues often exceed costs.

The main losers are:

- designated operators who are large net importers, especially high-cost operators (e.g., Brazil, Canada, Ireland, Italy, Norway);
  - domestic merchants in industrialised countries (both online and brick and mortar) who compete with foreign online merchants;
  - domestic mailers in industrialised countries generally, who pay higher postage rates to offset discounts for delivery of inbound letter post (and governments who increase public funding for the net cost of the universal service obligation);
  - alternative distribution channels for international e-commerce items including international express companies and freight services provided by airlines, railroads, and freight forwarders.
20. Designated operators in industrialised countries also benefit from discounted terminal dues for delivery of outbound letter post items sent to other industrialised countries, but this benefit is substantially less than the under-compensation for inbound services and is difficult to convert into supra-normal profits in a competitive environment.
21. In 2019, an Extraordinary Congress of the UPU amended the terminal dues system of the 2016 Convention. Under the 2019 amendments, distortions will be substantially reduced by an option that allows designated operators to introduce ‘self-declared’ rates for delivery of E-format items. Under this option, each designated operator may set its own delivery rates provided they do not exceed 70% of retail domestic postage and meet other conditions. The system of self-declared rates does not affect terminal dues rates applicable to delivery of documents in small or large envelopes (P and G formats) and will not affect distortions implied by those rates.
22. There are two versions of self-declared rates. One version applies to E-format items sent to or received from the USA and begins on 1 July 2020. For these items, self-declared rates will substantially eliminate distortions implied by normal UPU terminal dues both for the US Postal Service and for designated operators that have chosen to apply self-declared rates for delivery of US-origin E-format items. The second, more limited version of self-declared rates begins on 1 January 2021 and applies to exchanges of E-format items that do not involve the USA. While the second version of self-declared rates is an option available to all designated operators, it is a practical benefit only in countries where normal terminal dues are less than equivalent domestic postage rates. For these countries, self-declared rates are limited to fixed annual increases that will progressively reduce distortions implied by the UPU terminal dues system. Twenty-one EEA designated operators have opted to introduce both versions of self-declared rates.
23. The UPU policymaking committees have proposed that the next UPU Convention continue the current system of terminal dues — including the system of self-declared rates approved in 2019 and relatively minor changes in normal terminal dues rates — in the period 2022 through 2025. These proposals must be approved by the next UPU Congress, originally scheduled for August 2020 but delayed by the COVID-19 pandemic.
24. Assuming the terminal dues proposals for the period 2022 through 2025 are approved by the next UPU Congress, WIK estimates that global undercharges for delivery of inbound E-format items could be reduced by three-quarters from 2020 to 2025. For EEA designated operators, undercharges for E-format items could be reduced by

approximately 80%, but undercharges for delivery of inbound documents will not change significantly. For all inbound cross-border letter post items (intra-EEA as well as from non-EEA countries), delivery undercharges for documents and goods could be reduced from SDR 1.1 billion (EUR 1.3 billion) to SDR 0.5 billion (EUR 0.6 billion). Despite desirable reforms, UPU terminal dues provisions will likely continue to benefit some EEA designated operators and Member States while adversely affecting others. (All estimates depend heavily on the rate of increase in domestic postage which is unknown but assumed to be 3% per year in the WIK model).

25. In practice, the distortive effects of the UPU terminal dues system will be indirect for most significant letter post flows to, from, or between EEA designated operators. Although the identities of parties are confidential, it appears that 30 European designated operators and the US Postal Service participate in terminal dues agreements which replace UPU terminal dues rates with alternative arrangements. The terms of these agreements are non-public. Nonetheless, it appears that the UPU terminal dues system continues to have a substantial effect on alternative terminal dues arrangements because the UPU system establishes a default delivery rate which restrains agreement on higher alternative rates that do not offer mutual benefits. For E-format items, however, the option to introduce self-declared rates may have the opposite effect. The prospect of substantially higher self-declared rates may encourage designated operators to agree on reduced terminal dues in order to protect the competitive position of designated operators in the e-commerce market.

#### **Impact of terminal dues reform on e-retailers and consumers**

26. Under the assumption that all designated operators would fully apply self-declared rates in 2020, consumers in the EEA ordering online from China might have to face additional costs. Under the assumption that Chinese e-retailers pass on 50% of the increase in delivery costs to their customers these could amount to €0.56 per item and in case of 100% to €1.14 per item from China or Hong Kong. Consequently, this might lead to a decline in demand for cheap Chinese products, although this would not necessarily convert into demand for products from EEA e-retailers.
27. However, the future increases in remuneration for international E-format volumes will be a stepwise process, and considerable changes in VAT regulation during this time will occur before remuneration would be lifted to the maximum level of self-declared rates if at all. Depending on order values, the additional import VAT and possible handling charges might have an even larger impact on prices than higher terminal dues for many online customers ordering from China.
28. Moving to self-declared rates will reduce the advantage of Chinese e-retailers in delivery costs, and might have – depending on their pricing strategy and online customers' demand reaction – benefits for EEA DOs. It could improve their financial position in the provision of universal services by limiting the losses for the delivery of inbound packets from China as experienced for example by An Post and Iceland Post.
29. EEA e-retailers who export e-commerce goods in the letter stream might have to face increasing delivery costs especially to non-EEA consumers due to increases in remuneration for international postal services. The effect on the financial position of EEA e-retailers depend on how much they pass on to their EEA and non-EEA customers, and on their demand reaction to these price increases. However, the impact might be fairly limited as many EEA e-retailers also use alternative parcel and express services for the delivery of e-commerce consignments to non-EEA destination countries.

### Customs, security and VAT for postal imports

30. The current framework regarding VAT, customs and security regulations makes provisions for simplified procedures for postal consignments and exemptions from VAT and import duties for low-value consignments. Historically, national customs laws do not apply the same customs and security controls to goods transported by the international postal system as they do to similar goods transported by non-postal services. In the application of the prevailing customs regulations, designated operators are afforded simplified procedures in dealing with customs of postal consignments, however the application thereof differs considerably across Member States. The simplified customs procedures and certain authorised tasks of designated operators enable them to clear postal items quicker than express or other operators for similar items, since the latter have to comply with standard customs procedures. This results in unequal treatment of postal and express operators regarding the importation of goods of a similar nature.
31. Furthermore, the relief or exemption from VAT for low-value consignments benefits non-EU e-retailers and online marketplaces, since similar goods sold in the EU are subject to VAT. These low-value consignment reliefs (LVCRs) have been abused by means of a combination of undervaluation of imports and false description of items, resulting in fraud and evasion of VAT and customs duty payments. Furthermore, the large number of items declared under the LVCRs makes it impossible for customs authorities to check the details of each item, leading to opportunistic suppliers of counterfeit or illegal goods exploiting this system.
32. Under the UPU Convention, designated operators are exempted from liability for customs declarations in whatever form they are submitted. This suggests that there is a conflict with Article 15 of the Union Customs Code (UCC) which determines that postal operators are liable for the accuracy and completeness of customs declarations where they act as a customs representative. There is a lack of consistency and transparency regarding the extent to which designated operators may be held liable in EU Member States, which may lead to problems in the enforcement regarding liability of designated operators in the EU for data accuracy and completeness of customs declarations. This also presents unequal treatment of postal and express operators, since the latter are generally held liable to fines or sanctions in the event of providing incomplete or inaccurate information.
33. In addressing some of the shortcomings of the current regulatory framework, the EU has adopted reforms to the VAT and customs regulations that will take effect in 2021. The reforms aim to improve the customs and security processes in Member States and to ensure a more level playing field between designated operators and express carriers (and other freight forwarders), as well as between EU and non-EU sellers.
34. The Import Control System 2 (ICS2) system aims to strengthen the safety and security of goods entering the EU by the electronic provision of advanced cargo information. Beginning 15 March 2021 (ICS2 Release 1), the EU will require postal operators and express carriers to submit to customs authorities, in electronic format, a minimal set of security-related data for each consignment prior to loading on the aircraft in the port of departure. Beginning 1 March 2023 (ICS2 Release 2), the EU will require an 'entry summary declaration' (ENS) in electronic format in advance of arrival at the port of entry for all goods in air traffic. By March 2023, custom controls for low-value goods (less than €150) imported by post will, in principle, be the same as for other imported goods. ICS2 Release 3 (1 March 2024) will extend the security and safety measures to other modes of transport including sea, rail and road. The fact that these security and customs procedures applies to postal operators and express carriers (and other

carriers in the future) provides for more equal treatment of items imported via either of these distribution channels.

35. The UPU, in cooperation with the World Customs Organisation, has been developing an electronic system (Customs Declaration System) whereby designated operators and customs authorities can exchange electronic advance data (EAD) in line with its 'Global Postal Model' (GPM). This shall enable customs authorities to carry out pre-arrival customs and security assessments of international postal consignments, in turn allowing faster clearance of a large number of legitimate consignments, while controlling for illicit trade. The planned implementation date of the GPM is 1 January 2021; however, serious doubts were expressed at recent UPU meetings on whether most designated postal operators would be ready by this date.
36. The EU also concluded that an exemption from VAT for imported consignments valued up to €22 was unfair to EU merchants (for whom there was no exemption) and resulted in substantial losses in tax revenue, often as a result of fraudulent understatement of the value of consignments. Beginning 1 July 2021, the EU will eliminate the €22 exemption. The new VAT legislation provides that import VAT for items valued under €150 can be collected via an Import One Stop Shop (IOSS). Under the IOSS, foreign e-commerce marketplaces and online sellers will be required to charge VAT for goods shipped to the EU at the time of the online purchase. Where the IOSS is not used for VAT collection, the postal or express carrier will be required to account for VAT on consignments under the special arrangements scheme, which allows for periodic (monthly) payment of the VAT effectively collected from addressees. Under both the abovementioned schemes, postal operators and express carriers will have to transmit a customs declaration with a super-reduced dataset for each low-value consignment to the customs office. While this change will apply equally to postal and non-postal carriers, the former will be more deeply affected because the international postal system conveys the large majority of such consignments.
37. It is apparent that a broad adoption of the IOSS by non-EU vendors and online marketplaces is crucial for the success of VAT e-commerce package. The potential advantages of using the IOSS should be emphasised as ensuring fast and reliable customs clearance of e-commerce consignments, and meeting consumer demands for reliable delivery of orders. The voluntary adoption of the IOSS by international online marketplaces and non-EU online sellers raises uncertainty on the enforcement of the scheme. Registration at the IOSS will start in April 2021, three months before the launch of the system, so that, as of July 2020, it is not clear to which extent (1) online marketplaces and online sellers will make use of this option and (2) VAT clearance under the special arrangements scheme for low-value consignments will be applied.
38. As may be expected, the implementation of both reforms is accompanied by a number of challenges that designated operators, express carriers, and customs administrations will have to overcome to ensure its success. The advantages of the reforms stem from making provision for simplified customs procedures and VAT collection for both postal and express operators, while the main disadvantage thereof lies with an increased administrative burden and additional costs for these operators. The increased burden and costs relate to the expected increased number of items requiring submission of customs declarations and VAT collections, which may lead to human resource and storage capacity constraints. Furthermore, postal operators are more affected by the adoption and implementation of an electronic information exchange system for customs and security purposes, as this information is traditionally provided on paper-based forms, whereas express carriers mostly already have electronic systems in place. Uncertainty remains whether all designated operators especially in non-EU countries will have the necessary electronic systems ready by



the implementation dates of the reforms. Moreover, challenges relating to data accuracy and completeness of advance electronic customs and security data are expected to remain for the foreseeable future.

39. Given the reforms are successfully enforced, stakeholders expect that these enhancements will improve the EU's ability to prevent the importation of dangerous or illegal packages and support the accurate and even-handed collection of duties and taxes. The European Court of Auditors found that the new regulatory framework introduces positive developments which will resolve some weaknesses of the current framework, but undervaluation imported items remains to be addressed. Addressing the various risks and challenges relating to the prevention of importing dangerous or illegal packages (including counterfeit items) is a complex task and cannot be expected to be resolved solely at the customs border, neither by the customs authorities nor by the postal and express operators or freight forwarders involved.

## Outlook

40. The general trend towards growing global e-commerce sales has accelerated during the COVID-19 pandemic and is expected to continue after the pandemic. This has predominantly benefitted intra-EEA e-commerce sales (domestic and regional e-commerce markets like the Nordic and the Baltic countries or Benelux) as international logistics and the international postal system (between continents) have been disrupted in the COVID-19 crisis. The UPU, for example, reported that for the first five months of 2020 worldwide cross-border postal volumes had fallen by 21%.
41. However, this does not mean that international postal e-commerce consignments from non-EEA countries will fully benefit from this growth. A mix of many drivers affects the future development of international postal volume to and from the EU-27 (excluding UK) as well as intra-EU postal volumes. These drivers include technology, general economic development, emerging competition in fulfilment of international e-commerce consignments, increasing freight charges for transport and increasing terminal dues for final delivery, the abolishment of the LVCR, changes in the customs clearance procedures due to enhanced safety and security rules, longer lead times for international postal e-commerce consignments for different reasons, lack of resilience of the international postal network demonstrated in the COVID-19 pandemic, and the Brexit.
42. WIK expects for the next five to ten years that
- the international letter volume containing documents will significantly decline mostly driven by the switch from physical to electronic exchange of documents.
  - Postal consignments containing goods (either E-format or bigger parcels) to non-EU-27 destinations may slightly grow (to the UK and non-European destinations).
  - For international postal imports into the EU we expect a significant decline that is fuelled by a combination of all drivers.
  - We consider the flow of intra-EU postal consignments as the winner in this game. We estimate significant growth of intra-EU postal consignments, cross-border and domestic (also by direct injection) and affecting both, packets and parcels.

We expect that many EU designated operators (and universal service providers) will still remain one of the preferred delivery channels for e-commerce consignments. As universal service providers they still benefit from a nationwide postal network for collection and delivery. Moreover, they have made significant efforts to adjust and

improve service provision to better meet the needs of the e-commerce industry and of EU online buyers.

43. If there is a concern about the effects and fairness of cross-border e-commerce, a useful first step would be the development of more appropriate statistical systems. It is apparent that international e-commerce is becoming increasingly significant for international trade flows, yet reliable statistics are unavailable. Defining appropriate statistical systems will not be easy. It is not clearly apparent how international e-commerce can be distinguished from domestic e-commerce and to what extent different channels for international e-commerce (postal versus non-postal, end-to-end shipment versus bulk freight and intra-EU distribution, etc.) can or should be differentiated. Nonetheless, the Commission might consider, for example, improving the retail and international trade statistics by differentiating between sales channels (online / offline) for physical goods, digital goods and services separately.
44. A fundamental challenge in the development of appropriate statistical systems for international e-commerce flows will be clarification of cross-border postal statistics.
- The major EEA designated operators have become primary providers of commercial multi-national logistics. For these undertakings operational statistics have the same commercial sensitivity as for non-postal providers of similar services. The statistical picture of cross-border e-commerce would be materially clarified by treating commercial cross-border logistics services provided by designated operators (including consolidators like ETOEs and sales agents associated with designated operators) as trade statistics which are defined and treated in same manner as trade statistics relating to similar services provided by non-postal operators.
  - At the same time, clarifying cross-border postal statistics would shed more light on the evolution of traditional international postal services, such as the postal dispatch of documents and non-commercial goods collected in the designated operator's home country. Such data will become necessary if the Commission or Member States should seek improvements in traditional international postal services and reform of the Universal Postal Union (a high-priority at the UPU itself).
45. After long consideration, the European Union has adopted legislation that will apply customs, security, and VAT controls to imported e-commerce goods in a manner that is more effective and fairer towards competing postal and non-postal import channels. In the course of this study, however, it became clear that public data on enforcement is insufficient to evaluate implementation of these measures. To ensure the effective and fair implementation of this legislation, the Commission might consider the benefit of periodic publication of summary statistics that indicate for each channel (e.g., postal, express, freight) such information as the proportion of imported postal and non-postal consignments accompanied by complete and accurate advance electronic data; the number of fines or seizures; the number of items denied entry; etc.
46. Effective enforcement of EU customs, security, and VAT legislation might also be undercut by provisions of the UPU Convention purport to reserve to the UPU authority over the application of national border controls to postal shipments. Disputes between the EU and the UPU in this area have a long history. To ensure the effective and fair implementation of EU legislation in this regard, the Commission might consider encouraging Member States to adopt appropriate measures at the next UPU Congress that would definitively clarify the legal authority of the European Union to fully implement EU customs and security measures free of potential conflict with the Universal Postal Convention or Convention Regulations.

## Résumé analytique

1. Le commerce électronique mondial a fortement augmenté et le commerce électronique transfrontalier joue un rôle important, favorisé par les marchés en ligne internationaux. Les consommateurs de l'EEE effectuent de plus en plus souvent des achats transfrontaliers auprès des vendeurs en ligne situés aussi bien au sein de l'EEE qu'en dehors. La Chine, le Royaume-Uni et l'Allemagne constituent les destinations de commerce électronique préférées pour les achats transfrontaliers des consommateurs européens.
2. Les sondages auprès des consommateurs indiquent qu'au cours de ces cinq dernières années, les achats en ligne transfrontaliers auprès des détaillants de commerce électronique chinois ou les plateformes chinoises ont augmenté davantage que sur tous les autres marchés de commerce électronique étrangers en termes de nombre d'achats en Europe (en particulier en Allemagne et au Royaume-Uni) et en dehors du continent (aux États-Unis d'Amérique). Cette croissance est entraînée par la présence considérable de détaillants de commerce électronique chinois sur des plateformes telles que Amazon, Wish et AliExpress. En particulier, la plateforme Wish attire les vendeurs en ligne chinois qui ne commercialisent que des produits à bas prix obtenus grâce à des prix de production faibles et notamment à des frais d'expédition bas, faisant appel aux services postaux chinois pour les livraisons transfrontalières.
3. Le commerce électronique transfrontalier a stimulé les importations postales de envois à faible valeur en provenance de la région Asie-Pacifique en direction des États membres industrialisés de l'Europe, ainsi que de l'Amérique du Nord. La croissance des importations de paquets de faible valeur, en particulier en provenance de la Chine, met au défi les opérateurs désignés et les autorités douanières dans le marché unique.
  - En effet, le prix pour la livraison de ces articles transfrontaliers, souvent payé par l'opérateur désigné expéditeur à l'opérateur désigné du pays de destination (les frais terminaux prévus dans les règles UPU), ne couvre pas les frais de traitement et de livraison.
  - Le dédouanement postal des paquets de faible valeur se fait principalement sur la base de papiers et les vérifications du respect des réglementations douanières et afférentes à la TVA (taxe sur la valeur ajoutée) par les autorités douanières dans le pays de destination se fondent sur l'échantillonnage. Cette situation a incité les commerçants en ligne hors de l'UE à effectuer de fausses déclarations postales auprès des douanes, donnant lieu à des fraudes à la TVA et douanières. Par ailleurs, ce canal est utilisé de plus en plus pour importer des marchandises non respectueuses des droits de propriété intellectuelle (contrefaçon) et de la réglementation en matière de sécurité des produits (par exemple, pour les transports aériens).

Les frais de livraison bas et l'exonération de la TVA pour les paquets postaux de faible valeur profitent aux commerçants en ligne de la Chine et faussent la concurrence sur les marchés du commerce électronique et de détail de l'UE. En outre, l'importation de marchandises non conformes aux règles de sécurité et illégales porte préjudice aux consommateurs de l'Union.

## Services postaux internationaux et modèles d'importation pour les envois du commerce électronique

4. Le moyen de transport principal pour les envois du commerce électronique en provenance de pays extérieurs à l'EEE sur le territoire de ce dernier est aérien. On estime que le transport aérien prend en charge environ 95 % de l'ensemble des envois du commerce électronique. Néanmoins, alors que la réalisation du commerce électronique émane des entrepôts de l'UE, le rôle de la mer et des chemins de fer s'avère essentiel à l'importation en vrac pour honorer par la suite les commandes du commerce électronique.

### Méthodologie:

La présente étude a été menée entre juillet 2019 et octobre 2020. Elle se fonde sur des recherches documentaires extensives et approfondies concernant le système de rémunération postale international, le commerce électronique et les flux postaux de ce dernier, ainsi que sur les droits de douane et la TVA applicables aux paquets de faible valeur.

Pour réaliser cette étude, WIK a interagi énormément avec les parties prenantes, menant notamment les actions ci-dessous :

- En août 2019, WIK-Consult a organisé un atelier d'experts consacré aux « Relations postales futures entre l'UE et les États-Unis d'Amérique si ce pays se retire de l'UPU », qui s'est tenu à l'aéroport de Francfort le 27 août 2019.
- Un pilier important de la collecte de données et de la participation des parties prenantes à cette étude a été constitué par une enquête auprès de ces dernières (décembre 2019-février 2020), envoyée à trois groupes de parties prenantes, à savoir :
  - les autorités réglementaires et les ministères de l'ensemble des États membres de l'UE et du Royaume-Uni ;
  - les opérateurs désignés (OD) de l'ensemble des États membres de l'UE et du Royaume-Uni ;
  - les autorités douanières de l'ensemble des États membres de l'UE et du Royaume-Uni.
- WIK a présenté l'étude lors d'un atelier public à l'attention des parties prenantes qui s'est tenu le 17 septembre 2019 et dans le cadre du Comité de la directive postale le 4 décembre 2019, fournissant également une brève mise à jour sur l'étude devant le Comité de la directive postale le 18 juin 2020. Le 22 septembre 2020, WIK a organisé un deuxième atelier public à l'attention des parties prenantes dans le cadre de la conférence Webex, avec plus de 150 participants, pour présenter et évoquer les résultats provisoires de l'étude.
- WIK a travaillé en étroite collaboration avec de nombreuses parties prenantes, en personne lors des réunions UPU, au téléphone et par appels vidéo, échangeant des courriers électroniques avec des opérateurs désignés, des transporteurs express, des associations de commerce électronique et des experts de la DG TAXUD.

5. Le fret aérien a représenté moins de 1 % du tonnage total de l'ensemble des importations de l'UE, mais 25 % de la valeur en euro de toutes les importations en provenance de pays hors UE en 2019. En revanche, les importations en provenance

des pays hors UE transportées en tant que envois postaux ont représenté moins de 0,01 % du tonnage total et environ 0,1 % de la valeur en euro de l'ensemble des importations de l'UE la même année. D'une manière générale, les statistiques commerciales disponibles indiquent que la part des consommateurs de l'UE dans les envois du commerce électronique transfrontaliers par rapport aux importations totales semble s'avérer extrêmement modeste en poids et relativement faible en valeur, notamment si les produits sont transportés sous la forme d'envois postaux. Néanmoins, les risques de sous-évaluation et de données incomplètes concernant les envois du commerce électronique dans les opérations aériennes et postales sont plutôt élevés.

6. Le système postal international est principalement devenu un système de distribution des articles du commerce électronique international. Les acteurs clés de la chaîne de livraison sont les opérateurs désignés, ainsi que les groupements associés, qui transportent et livrent des documents et des colis (des petits paquets et colis) conformément aux règles de l'UPU. WIK estime que 80 % ou plus des envois du commerce électronique distribués par le biais du système postal international sont acheminés en tant que « poste aux lettres » (service postal international pour les articles qui pèsent moins de 2 kg), le reste étant distribués sous la forme de « colis postaux » (service pour les articles qui pèsent jusqu'à 20 kg ou plus). Dans la poste aux lettres, les marchandises et d'autres « envois de format E » (produits et documents dans des petits paquets) représentaient environ 58 % du volume de la poste aux lettres internationale et 86 % du poids en 2018.
7. Le système postal international est dominé par six opérateurs désignés (CN/HK, DE, FR, NL, UK, US) qui semblent représenter au moins 70 % des envois de format E partants. Environ la moitié (ou plus) des envois postaux du commerce électronique reçus dans l'EEE semblent provenir de la Chine et sont acheminés jusqu'aux États membres de l'EEE par les services postaux chinois et un large éventail d'autres canaux postaux, dont les bureaux d'échange extraterritoriaux et les agents de ventes (repostage) des principaux opérateurs désignés de l'EEE.
8. Il ne s'avère possible de réaliser que des estimations extrêmement approximatives en ce qui concerne le volume et la distribution des services postaux internationaux des États membres de l'EEE et pour le monde en général. Les données publiquement disponibles sont incomplètes et difficiles à interpréter, en raison de plusieurs facteurs.
  - Les opérateurs désignés les plus importants sont devenus des sociétés très commercialisées qui opèrent sur un marché du commerce électronique extrêmement compétitif, et ils se montrent souvent réticents à divulguer ce qu'ils considèrent constituer des informations commerciales sensibles.
  - Pour plusieurs opérateurs désignés internationaux de premier plan, des notions traditionnelles telles que les services postaux partants et arrivants ne reflètent plus leur activité réelle. Même lorsqu'elles sont disponibles, les statistiques d'exploitation générales s'avèrent difficiles ou impossibles à interpréter.
  - Les données du marché des colis collectées par les autorités réglementaires nationales ne correspondent pas aux concepts et aux systèmes de rémunération UPU traditionnels.
  - Au niveau mondial, les statistiques sur le volume partant et arrivant disponibles sont aussi incomplètes et peu cohérentes. Ainsi, même le volume total mondial de la poste aux lettres ne peut pas être estimé avec un degré d'exactitude raisonnable.

9. Avec l'inconvénient de la qualité des données à l'esprit, le résultat de l'enquête de WIK auprès des autorités réglementaires, les ministères et les opérateurs désignés vient confirmer la tendance générale du déclin de la poste aux lettres et un nombre croissant de petits et légers paquets.
- Entre 2013 et 2018, la poste aux lettres pour l'exportation (transfrontalières partantes, dont celles internes à l'EEE) a chuté de plus de 6 % par an en moyenne dans l'EEE (UE-28, Norvège et Islande). Avec une estimation d'environ 2,3 milliards d'unités (2018), elles représentent moins de 4 % du volume total de la poste aux lettres. Sur ce volume, 80 % sont exportés par des opérateurs désignés (1,8 milliard d'unités).
  - Pendant la même période, les lettres d'importation n'ont chuté que légèrement : moins de 1 % par an en moyenne, pour atteindre 2,6 milliards d'unités en 2018, dont 95 % ont été livrées par des opérateurs postaux. La part des petits paquets (« E-format ») dans les importations de la poste aux lettres des opérateurs désignés a doublé entre 2013 et 2018, passant d'un cinquième à plus de 40 %. Ceci indique qu'au niveau de l'EEE, l'augmentation de paquets importés du commerce électronique par le biais du flux international de la poste aux lettres est venue compenser, en partie, le déclin des lettres d'importation.
  - Alors que la poste aux lettres internationale entre les États membres de l'EEE (intra-EEE) représente presque deux tiers du total de la poste aux lettres d'importation (y compris les petits paquets), plus de la moitié des petits paquets importés proviennent d'origines extérieures à l'EEE. Comparativement, 80 % des petits paquets d'importation extérieurs à l'EEE proviennent de la Chine. WIK estime qu'environ 400 millions de petits paquets ont été importés de la Chine ou de Hong-Kong en 2018.
10. Les opérateurs désignés de l'EEE se trouvent confrontés à une concurrence plus forte dans le ramassage de la poste aux lettres à l'exportation que dans la livraison de la poste aux lettres d'importation dans leurs pays d'origine. Les principaux concurrents dans le secteur des services de lettres à l'exportation sont généralement d'autres opérateurs désignés européens ayant lancé des bureaux d'échange extraterritoriaux dans les pays européens avec des exportations de la poste aux lettres importantes (notamment en France, Allemagne, Pays-Bas et Royaume-Uni).
11. Avec un commerce électronique transfrontalier à la hausse entre les régions, des modèles d'importation différents ont émergé. Alors que la commande en ligne est passée soit sur une plateforme en ligne ou dans une boutique en ligne hors UE, le flux physique de marchandises commandées dépend du lieu où celles-ci sont stockées au moment de l'achat (dans l'UE ou en dehors). WIK distingue deux modèles d'importation de base pour les livraisons du commerce électronique en provenance de l'extérieur de l'UE : (1) traitement dans le pays d'origine et livraison « directement au consommateur » et (2) transport de la marchandise en vrac par voie aérienne, maritime ou ferroviaire en provenance de destinations hors UE en direction d'entrepôts situés dans l'UE en vue de la livraison finale aux consommateurs.
12. Le modèle « directement au consommateur » a constitué le modèle d'importation standard pour les envois internationaux du commerce électronique dont il est ici question. Selon les estimations de l'UPU, environ 70 % des livraisons à poids léger (moins de 2 kg) du commerce électronique sont distribuées par le biais du système postal international, à savoir, livrées par des opérateurs désignés. La position sur le marché du système postal international pour le marché de plus de 2 kg s'avère bien moins favorable.

13. À un stade précoce du commerce électronique transfrontalier, alors que le nombre d'envois de ce dernier était assez faible, les vendeurs en ligne extérieurs à l'EEE avaient principalement recours soit au système postal international « bon marché » ou à des opérateurs de courrier express internationaux « chers » pour la livraison transfrontalière de leurs envois du commerce électronique. La qualité du service, la fiabilité et la transparence (suivi et repérage) du processus de livraison étaient assez bas pour le système postal international (en fonction des opérateurs désignés impliqués), alors qu'elles étaient bien plus satisfaisantes dans le cas des opérateurs de courrier express internationaux.
14. Avec l'augmentation du commerce électronique transfrontalier, un éventail croissant des régimes de dédouanement internationaux et le durcissement des procédures et règles douanières nationales pour les envois internationaux du commerce électronique, des modèles d'importation plus sophistiqués et commerciaux ont émergé. Cette situation a ouvert la voie à des services de livraison transfrontaliers couvrant des secteurs de service entre ceux postaux internationaux, bon marché, et les services de courrier express de haute qualité et onéreux, plus orientés vers les besoins particuliers des commerçants de détail électroniques. Aux fins de la présente étude, WIK classe trois types de consolidateurs :
- Les « consolidateurs associés à des opérateurs désignés pour la livraison finale » (canal des importations postales) fonctionnent soit en tant que bureaux d'échange extraterritorial soit en tant qu'agents de ventes. La grande majorité des bureaux d'échange extraterritoriaux sont exploités par des opérateurs postaux désignés d'un pays industrialisé (par exemple, PostNL, La Poste, Deutsche Post DHL, bpost et autres) dans d'autres pays industrialisés hors EEE (Groupe I et Groupe II, comme le Royaume-Uni, les États-Unis d'Amérique et Singapour). Les agents de ventes associés à des opérateurs désignés de l'EEE par des liens de propriété (par exemple, Spring, Asendia, etc.) ou contractuels (par exemple, B2C Europe) ont des succursales dans des pays qui enregistrent un nombre important de ventes du commerce électronique vers d'autres États membres de l'EEE qui ne permettent pas l'établissement de bureaux d'échange extraterritoriaux sur leur territoire (par exemple, la Chine/Hong-Kong). Ces agents se chargent du transport international des marchandises vers l'EEE, alors que les opérateurs désignés des pays de l'EEE de destination s'occupent, à leur tour, du dédouanement postal et de la TVA.
  - Les « consolidateurs non associés à des opérateurs désignés » sont des transitaires généralement spécialisés dans le transport international d'envois du commerce électronique plus grands et lourds (colis). Ils se chargent du dédouanement commercial et de la TVA. Pour la livraison finale, ils concluent des contrats avec des transporteurs locaux express ou de colis tels que Hermes ou DPD.
  - Les « prestataires de services de traitement des envois du commerce électronique » proposent des services d'entrepôt sur mesure aux commerçants en ligne et sont spécialisés dans le traitement des envois du commerce électronique transfrontalier (avec des capacités en matière de dédouanement). Ils ont émergé au cours de ces cinq dernières années et reflètent les progrès accomplis en ce qui concerne le traitement des commerçants en ligne en tant que groupe séparé avec des besoins et des exigences particuliers concernant le traitement des commandes du commerce électronique et leur livraison à l'international. Sur ce marché, les succursales de traitement des commandes du commerce électronique des grandes sociétés postales et de courrier express (par exemple, Asendia, La Poste, DHL eCommerce, Deutsche Post DHL et UPS Supply Chain Services) concurrencent les grands marchés en ligne et leurs services de traitement des

commandes du commerce électronique associés, ainsi que des grands fournisseurs de services logistiques externalisés internationaux).

15. Le troisième modèle de traitement et d'expédition des envois du commerce électronique depuis des entrepôts situés dans l'UE est promu par des grandes plateformes en ligne telles que Amazon et Alibaba. En général, les marchandises du commerce électronique sont importées par fret aérien, maritime ou ferroviaire dans le marché unique, où elles sont stockées dans des entrepôts normaux ou dans entrepôts sous douane en vue du traitement final. Ceci implique qu'au moment de l'achat en ligne, la marchandise commandée se trouve d'ores et déjà dans le marché unique. Les principaux avantages de ce modèle sont constitués par les délais de livraison courts (pas de dédouanement, courtes distances de transport, etc.) et le traitement aisé des retours. Les principaux inconvénients sont les coûts de stockage plus élevés et une plus grande distance par rapport au vendeur en ligne. Aussi, les solutions constituées par des entrepôts situés dans l'UE s'avèrent préférables pour les catégories de produits présentant une demande stable et élevée et donc un taux de rotation important.

### Frais terminaux et taux autodéclarés

16. Les frais terminaux sont des honoraires que les opérateurs désignés se paient les uns les autres pour la livraison de documents et de marchandises transportés dans le cadre de la poste aux lettres. Il existe deux principales catégories de taux de frais terminaux : l'une pour les documents contenus dans des enveloppes de taille standard d'un poids de jusqu'à 0,5 kg et l'autre pour le reste des biens et les documents non standards qui pèsent jusqu'à 2 kg (les « envois E-format »). Les frais terminaux constituent un élément majeur du coût du service postal international.
17. Le système actuel de frais terminaux a été mis en place dans le cadre de la Convention UPU, adoptée en 2016, afin de régler le système postal international pour la période allant de 2018 à 2021. En 2019, un Congrès extraordinaire de l'UPU a modifié la Convention de 2016, afin de réviser substantiellement les dispositions afférentes aux frais terminaux pour 2020 et 2021.
18. Le système de frais terminaux de l'UPU perturbe les échanges internationaux d'envois par la poste aux lettres, car ces frais ne sont pas conformes aux tarifs postaux nationaux pour des services équivalents. L'effet principal des frais terminaux du système de l'UPU est que les opérateurs désignés des pays industrialisés facturent substantiellement moins pour la livraison d'articles par lettre postale arrivants (notamment les petits paquets du commerce électronique) que ce qu'ils facturent aux expéditeurs nationaux pour des services similaires. Conformément à un modèle mathématique très approximatif développé par WIK, le système des frais terminaux de l'UPU implique qu'en 2020 les opérateurs désignés des pays industrialisés factureront environ 2,2 milliards de DTS (2,6 milliards d'EUR) en moins pour la livraison de la poste aux lettres internationale arrivante que pour celle du courrier national similaire, accordant, dans les faits, aux expéditeurs étrangers une remise de 44 %. Pour les opérateurs désignés de l'EEE, en 2020, les frais terminaux de l'UPU impliquent 1,1 milliard de DTS (1,3 milliard d'EUR) en moins de rémunération pour la livraison de la poste aux lettres arrivante (aussi bien intra-EEE qu'en provenance de l'extérieur de l'EEE) que pour les services nationaux similaires, c'est-à-dire, également, une remise de 44 %. (Ces estimations incluent les taux « autodéclarés » introduits en juillet 2020, mais ne tiennent pas compte des modifications éventuelles du volume en raison de la pandémie de COVID-19).



19. Les distorsions entraînées par le système des frais terminaux de l'UPU donnent lieu à la création de gagnants et de perdants par rapport aux résultats d'un système de marché normal. En général, les principaux gagnants sont :

- les opérateurs désignés qui sont des grands exportateurs nets de la poste aux lettres, notamment de marchandises du commerce électronique (par exemple, la Chine) ;
- les commerçants détaillants du commerce électronique qui vendent aux consommateurs des pays industrialisés (où les frais terminaux sont inférieurs au tarifs postaux nationaux équivalent pour ces commerçants) ;
- les pays en développement, pour lesquels les frais terminaux dépassent souvent les coûts.

Les principaux perdants sont :

- les opérateurs désignés qui sont des grands importateurs, notamment les opérateurs aux coûts élevés (par exemple, le Brésil, le Canada, l'Irlande, l'Italie et la Norvège) ;
- les commerçants nationaux des pays industrialisés (aussi bien en ligne que physiques) qui se trouvent en concurrence avec des commerçants en ligne étrangers ;
- les expéditeurs nationaux des pays industrialisés généralement, qui s'acquittent des tarifs postaux plus élevés pour compenser les remises accordées à la poste aux lettres arrivante (et les gouvernements qui augmentent le financement public pour le coût net de l'obligation de service universel) ;
- les canaux de distribution alternatifs pour les articles du commerce électronique international, dont les sociétés de messagerie express internationales et les services de fret fournis par les compagnies aériennes, les chemins de fer et les transitaires.

20. De même, les opérateurs désignés des pays industrialisés jouissent souvent de frais terminaux remisés pour la livraison des envois de la poste aux lettres partants envoyés dans d'autres pays industrialisés, mais cet avantage est substantiellement inférieur à la sous-rémunération pour les services arrivants, et il s'avère difficile de les transformer en bénéfices exceptionnels dans un environnement concurrentiel.

21. En 2019, un Congrès extraordinaire de l'UPU a modifié le système des frais terminaux prévu dans la Convention de 2016. Sous les modifications de 2019, les distorsions diminueront substantiellement grâce à une option qui permet aux opérateurs désignés d'introduire des taux autodéclarés pour la livraison des envois de format E. Sous cette option, chaque opérateur désigné peut fixer ses propres taux de livraison, sous réserve de ne pas dépasser 70 % du tarif postal national à l'unité et de satisfaire à d'autres conditions. Le système des taux autodéclarés n'affecte pas les taux des frais terminaux applicables aux livraisons de documents dans de petites ou grandes enveloppes (formats P et G) et n'affectera pas les distorsions entraînées par ces taux.

22. Il existe deux versions des taux autodéclarés. Une version concerne les envois de format E envoyés aux États-Unis d'Amérique ou reçus de ce pays. Il entre en vigueur le 1<sup>er</sup> juillet 2020. Pour ces articles, les taux autodéclarés supprimeront substantiellement les distorsions entraînées par les frais terminaux normaux de l'UPU, aussi bien pour les Services postaux des États-Unis d'Amérique (US Postal Service) que pour les opérateurs désignés ayant choisi d'appliquer des taux autodéclarés pour les envois de format E en provenance de ce pays. La seconde, une version plus

restreinte des frais terminaux, entrera en vigueur le 1<sup>er</sup> janvier 2021 et s'applique aux échanges d'envois de format E n'impliquant pas les États-Unis d'Amérique. Alors que la seconde version de taux autodéclarés est une option disponible pour l'ensemble des opérateurs désignés, il s'agit d'un avantage réel uniquement dans les pays où les frais terminaux normaux sont inférieurs aux tarifs postaux nationaux équivalents. Pour ces pays, les taux autodéclarés sont limités à des augmentations annuelles fixes qui réduiront progressivement les distorsions entraînées par le système des frais terminaux de l'UPU. Quelque 21 opérateurs désignés de l'EEE ont opté pour l'introduction des deux versions des taux autodéclarés.

23. Les comités chargés de l'élaboration des politiques de l'UPU ont proposé que la prochaine Convention UPU poursuive avec le système actuel de frais terminaux (y compris les systèmes des taux autodéclarés approuvés en 2019 et les modifications relativement mineures apportées aux taux normaux des frais terminaux) pour la période 2022-2025. Ces propositions doivent être approuvées par le prochain Congrès de l'UPU, prévu, à l'origine, pour août 2020, mais reporté à cause de la pandémie de COVID-19.
24. Si l'on part du principe que les propositions concernant les frais terminaux seront approuvées pour la période 2022-2025 par le prochain Congrès de l'UPU, WIK estime que les sous-facturations globales pour la livraison d'envois E-format arrivants pourraient diminuer de trois quarts entre 2020 et 2025. Pour les opérateurs désignés de l'EEE, les sous-facturations pour les envois E-format pourraient se voir réduites d'environ 80 %, mais celles pour la livraison de documents entrants ne changeront pas de manière significative. Pour tous les envois de la poste aux lettres transfrontalière arrivants (intra-EEE et en provenance des pays hors EEE), les sous-facturations pour la livraison des documents et des marchandises pourraient se voir réduites de 1,1 milliard de DTS (1,3 milliard d'EUR) à 0,5 milliard de DTS (0,6 milliard d'EUR). En dépit des réformes souhaitables, les dispositions de l'UPU relatives aux frais terminaux continueront, fort probablement, de profiter à certains opérateurs désignés et États membres, tout en affectant négativement d'autres. (Toutes les estimations dépendent fortement du taux d'augmentation du tarifs postaux nationaux, inconnu mais réputé être de 3 % par an dans le modèle WIK).
25. En pratique, les effets perturbateurs des frais terminaux du système UPU s'avéreront indirects pour la plupart des flux importants de la poste aux lettres vers, en provenance ou entre les opérateurs désignés. Bien que les identités des parties soient confidentielles, il semble que 30 opérateurs désignés européens et le Service Postal des États-Unis d'Amérique participent à des contrats relatifs à des frais terminaux qui remplacent les taux des frais terminaux de l'UPU par des accords alternatifs. Les termes de ces contrats ne sont pas publics. Néanmoins, il semble que le système des frais terminaux de l'UPU continue d'avoir un effet substantiel sur les contrats alternatifs relatifs à ces frais, car le système UPU définit un taux de livraison par défaut qui restreint tout accord sur des taux alternatifs plus élevés n'offrant pas d'avantages mutuels. Toutefois, pour les envois de format E, l'option consistant à introduire des taux autodéclarés pourrait avoir l'effet inverse. La perspective de taux autodéclarés substantiellement plus élevés pourrait encourager les opérateurs désignés à s'accorder sur des frais terminaux réduits afin de protéger la position concurrentielle des opérateurs désignés sur le marché du commerce électronique.

### **Impact de la réforme des frais terminaux sur les commerçants en ligne et les consommateurs**

26. Si l'on part du principe que l'ensemble des opérateurs désignés appliqueront pleinement les taux autodéclarés en 2020, les consommateurs de l'EEE qui

commandent en ligne des articles en provenance de la Chine pourraient se voir confrontés à des coûts additionnels. Dans l'hypothèse où les commerçants en ligne chinois répercutent 50 % de l'augmentation des frais de livraison sur leurs clients, cela pourrait représenter 0,56 € par envoi postal, et si le taux est de 100 %, 1,14 € par envoi en provenance de la Chine ou de Hong-Kong. Dans ces conditions, ceci pourrait entraîner un déclin de la demande de produits chinois bon marché, bien qu'un tel déclin de cette demande pourrait ne pas se transformer nécessairement en demande de produits distribués par les commerçants en ligne de l'EEE.

27. Néanmoins, les augmentations à venir de la rémunération pour les volumes des envois E-format internationaux constitueront un processus progressif, et des modifications considérables de la réglementation en matière de TVA auront lieu pendant ce temps avant que la rémunération soit portée au niveau maximum des taux autodéclarés, si cela est le cas. En fonction des valeurs des commandes, la TVA à l'importation additionnelle et les frais de traitement éventuels pourraient avoir un impact plus important sur les prix que des frais terminaux plus élevés pour de nombreux clients en ligne commandant des articles en provenance de la Chine.
28. Le passage aux taux autodéclarés viendra réduire l'avantage des commerçants détaillants électroniques chinois en ce qui concerne les frais de livraison, et pourrait profiter (en fonction de leur stratégie de prix et de la réaction en termes de demande des clients en ligne) aux opérateurs désignés de l'EEE. Il pourrait améliorer leur position financière dans la fourniture de services universels, en limitant les pertes pour la livraison des paquets arrivants de la Chine, comme, par exemple, dans le cas de An Post et d'Iceland Post (la Poste islandaise).
29. Les commerçants détaillants électroniques de l'EEE qui exportent des marchandises du commerce électronique dans le flux postal pourraient se voir confrontés à une augmentation des coûts de livraison, en particulier vers les consommateurs hors EEE, en raison des augmentations de la rémunération pour les services postaux internationaux. L'effet sur la position financière des commerçants détaillants électroniques de l'EEE dépendra du degré avec lequel ils répercuteront ces augmentations des prix sur les consommateurs de l'EEE et hors EEE, ainsi que de la réaction en termes de demande de ces derniers. Néanmoins, l'impact pourrait être assez limité, car de nombreux commerçants en ligne de l'EEE ont recours également à des services alternatifs de colis et express pour la livraison des envois du commerce électronique à destination de pays hors EEE.

### **Douanes, sécurité et TVA pour les importations postales**

30. Le cadre actuel concernant la réglementation afférente à la TVA, aux douanes et à la sécurité prévoit des procédures simplifiées pour les envois postaux et des exonérations de la TVA et des droits de douane pour les envois de faible valeur. Historiquement, les législations nationales en matière douanière n'appliquent pas les mêmes contrôles douaniers et de sécurité aux marchandises transportées par le système postal international qu'aux marchandises similaires transportées par des services non postaux. Sous les réglementations douanières existantes, les opérateurs désignés bénéficient de procédures simplifiées pour le traitement douanier des envois postaux. Néanmoins, leur mise en œuvre diffère considérablement d'un État membre à l'autre. Les procédures douanières simplifiées et certaines tâches autorisées pour les opérateurs désignés leur permettent de dédouaner les articles postaux plus rapidement que les opérateurs express ou autres pour des articles similaires, ces derniers devant se plier à des procédures douanières standard. Cette situation donne lieu à une inégalité de traitement entre les opérateurs postaux et express en ce qui concerne l'importation de marchandises d'une nature similaire.

31. En outre, l'allégement ou l'exonération à la TVA pour les envois de faible valeur profite aux commerçants détaillants électroniques et aux marchés en ligne hors EEE, puisque des marchandises similaires vendues dans l'UE sont soumises à la TVA. Ces allègements pour les envois de faible valeur (LVCRs) ont fait l'objet d'abus par le biais de la combinaison d'une sous-évaluation des importations et d'une fausse description des articles, ce qui a donné lieu à la fraude et l'évasion du paiement de la TVA et des droits douaniers. Par ailleurs, le grand nombre d'envois déclarés sous le régime des allègements pour les envois de faible valeur rend impossible, pour les autorités douanières, de vérifier les détails de chacun d'entre eux, ce qui a pour conséquence que les fournisseurs opportunistes de marchandises contrefaites ou illicites puissent exploiter le système.
32. Sous la Convention UPU, les opérateurs désignés sont exonérés de toute responsabilité concernant les déclarations douanières, indépendamment de leur forme de soumission. Ceci suggère qu'il existe un conflit entre l'article 15 du Code des douanes de l'Union (CDU), qui dispose que les opérateurs postaux répondent de l'exactitude et du caractère complet des déclarations douanières lorsqu'ils interviennent en tant que représentants en douane. Il existe un manque d'uniformité et de transparence concernant l'étendue dans laquelle les opérateurs désignés pourraient voir leur responsabilité engagée dans les États membres, ce qui donne lieu à des problèmes dans la mise en œuvre de la réglementation pour ce qui est de la responsabilité des opérateurs désignés de l'UE concernant l'exactitude et la complétude des données contenues dans les déclarations douanières. Cette situation constitue également une inégalité de traitement entre les opérateurs postaux et express, ces derniers devant généralement faire face à des amendes ou des sanctions s'il est démontré qu'ils ont fourni des informations incomplètes ou inexacts.
33. Afin de combler certaines des lacunes du cadre réglementaire actuel, l'UE a adopté des réformes des réglementations afférentes à la TVA et douanières, lesquelles entreront en vigueur en 2021. Les réformes visent à améliorer les procédures douanières et de sécurité dans les États membres, ainsi qu'à assurer une plus grande homogénéité des règles du jeu entre les opérateurs désignés et les transporteurs express (et d'autres transitaires), ainsi qu'entre les vendeurs de l'UE et hors UE.
34. Le Système de contrôle des importations 2 (ICS2) vise à renforcer la sûreté et la sécurité des marchandises qui arrivent dans l'UE, par le biais de la fourniture électronique d'informations sur le fret avant chargement. À compter du 15 mars 2021 (ICS2 version 1), l'UE exigera des opérateurs postaux et des transporteurs express qu'ils soumettent aux autorités douanières, sous format électronique, un ensemble minimum de données de sûreté et de sécurité concernant chaque envoi avant chargement dans l'avion dans le port de départ. À compter du 1<sup>er</sup> mars 2023 (ICS2 version 2), l'UE exigera une « déclaration sommaire d'entrée » (DES) sous format électronique avant l'arrivée au port d'entrée de l'ensemble des marchandises transportées par voie aérienne. En mars 2023, les contrôles douaniers pour les marchandises de faible valeur (moins de 150 €) importées par voie postale seront, en principe, identiques à celles appliquées pour le reste des marchandises importées. L'ICS2 version 3 (1<sup>er</sup> mars 2024) étendra les mesures de sûreté et de sécurité à d'autres modes de transport, dont le transport maritime, ferroviaire et routier. Le fait que ces procédures de sécurité et douanières s'appliquent aux opérateurs postaux et aux transporteurs express (et à d'autres transporteurs à l'avenir) assure une plus grande égalité de traitement pour les articles importés par le biais de l'un quelconque de ces canaux de distribution.
35. L'UPU, en collaboration avec l'Organisation mondiale des douanes, a développé un système électronique (Système de déclaration en douane) avec lequel les opérateurs

désignés et les autorités douanières peuvent échanger des données électroniques préalables (DEP) conformément à son « Modèle postal universel » (MPU). Ceci permettra aux autorités douanières de réaliser des évaluations douanières et de sécurité avant l'arrivée des envois postaux internationaux, tout en rendant également possible un dédouanement plus rapide d'un grand nombre d'envois légitimes, tout en contrôlant le commerce illicite. La date prévue pour la mise en œuvre du MPU est le 1<sup>er</sup> janvier 2021. Néanmoins, des doutes sérieux ont été exprimés lors des réunions récentes de l'UPU quant au fait que la plupart des opérateurs désignés puissent être prêts à ladite date.

36. L'UE a également conclu qu'une exonération de la TVA pour les envois importés d'une valeur de jusqu'à 22 € était injuste pour les commerçants de l'UE (qui n'en bénéficient pas) et donnait lieu à des pertes de revenus fiscaux substantielles, souvent en raison de la sous-déclaration frauduleuse de la valeur des envois. À compter du 1<sup>er</sup> juillet 2021, l'UE supprimera l'exonération des 22 €. La nouvelle législation en matière de TVA prévoit que la TVA à l'importation pour les articles d'une valeur inférieure à 150 € peut être collectée par le biais d'un Guichet unique d'importation (IOSS). Dans le cadre de l'IOSS, les marchés et les commerçants en ligne étrangers seront tenus de facturer la TVA pour les articles envoyés dans l'UE au moment de l'achat en ligne. Si l'IOSS n'est pas utilisé pour la collecte de la TVA, le transporteur postal ou express devra répondre de la TVA sur les envois dans le cadre d'un régime particulier d'imposition, qui permet le règlement périodique (mensuel) de la TVA effectivement collectée auprès des destinataires. Sous les deux régimes susvisés, les opérateurs postaux et les transporteurs express devront transmettre une déclaration douanière au bureau de douanes contenant un ensemble de données ultra-réduit pour chaque envoi de faible valeur. Bien que cette modification s'appliquera aussi bien aux transporteurs postaux que non postaux, les premiers s'en verront plus profondément affectés car le système postal international transporte la plupart de ces envois.
37. Il semble évident qu'une adoption étendue de l'IOSS par des commerçants et des marchés en ligne hors UE s'avère cruciale pour le succès du paquet TVA pour le commerce électronique. Les avantages potentiels du recours à l'IOSS devraient être soulignés : le système assure un dédouanement rapide et fiable des envois du commerce électronique et répond à la demande des consommateurs de bénéficier d'une livraison fiable de leurs commandes. L'adoption volontaire de l'IOSS par les marchés en ligne internationaux et les commerçants en ligne hors UE soulève l'incertitude quant à la mise en œuvre effective du système. L'enregistrement à l'IOSS débutera en avril 2021, trois mois avant le lancement du système, de sorte qu'en juillet 2020, on ne sait pas encore clairement la mesure dans laquelle (1) les marchés et les commerçants en ligne utiliseront cette option et (2) l'apurement de la TVA dans le cadre du régime particulier d'imposition pour les envois de faible valeur sera appliqué.
38. On peut s'attendre à ce que la mise en œuvre des deux réformes se voit accompagnée de toute une série de difficultés que les opérateurs désignés, les transporteurs express et les administrations douanières devront surmonter pour en assurer le succès. Les avantages des réformes résultent de l'adoption de procédures douanières et de collecte de la TVA simplifiées aussi bien pour les opérateurs postaux que ceux express, alors que les principaux inconvénients sont constitués par la charge administrative accrue et des coûts additionnels pour ces opérateurs. La charge administrative accrue et les coûts additionnels concernent l'augmentation prévisible du nombre d'envois devant faire l'objet de déclarations douanières et de collecte de la TVA, ce qui pourrait donner lieu à des contraintes en termes de ressources humaines et capacité de stockage. Par ailleurs, les opérateurs postaux se verront plus affectés

par l'adoption et la mise en œuvre d'un système électronique d'échange des informations à des fins douanières et de sécurité, car ces informations sont traditionnellement fournies sur des formulaires papier, alors que la plupart des transporteurs express disposent d'ores et déjà de systèmes électroniques en place. L'incertitude demeure quant au fait de savoir si tous les opérateurs désignés, notamment ceux des pays hors UE, disposeront des systèmes électroniques nécessaires aux dates de mise en œuvre des réformes. En outre, les difficultés afférentes à l'exactitude et à la complétude des données préalables douanières et de sécurité électroniques devraient rester d'actualité dans le futur prévisible.

39. Partant de l'hypothèse que les réformes seront appliquées avec succès, les parties prenantes espèrent que ces améliorations renforceront la capacité de l'UE à éviter l'importation de colis dangereux ou illicites et à contribuer à une collecte rigoureuse et impartiale des droits et des taxes. La Cour des comptes européenne a considéré que le nouveau cadre réglementaire introduit des développements positifs qui viennent résoudre certaines faiblesses de celui actuel, mais que la sous-évaluation des articles importés doit encore être abordée. S'attaquer aux différents risques et difficultés afférents à la prévention de l'importation de colis dangereux ou illicites (y compris des articles contrefaits) constitue une tâche complexe, et on ne saurait s'attendre à ce qu'elle soit accomplie uniquement à la frontière douanière, ni par les autorités douanières, ni par les opérateurs postaux et express ou les transitaires impliqués.

## Perspectives

40. La tendance générale vers l'augmentation des ventes du commerce électronique dans le monde s'est accélérée pendant la pandémie de COVID-19, et elle devrait se poursuivre après la fin de celle-ci. Cette situation a surtout profité aux ventes du commerce électronique intra-EEE (les marchés du commerce électronique nationaux et régionaux, comme ceux des pays nordiques et baltes ou le Benelux), la logistique internationale et le système postal international (entre continents) ayant été perturbés pendant la crise de la COVID-19. L'UPU, par exemple, a indiqué que pendant les cinq premiers mois de 2020, les volumes postaux transfrontaliers mondiaux avaient chuté de 21 %.
41. Néanmoins, cela ne signifie pas que les envois postaux du commerce électronique internationaux en provenance des pays hors EEE bénéficieront pleinement de cette augmentation. Une combinaison de nombreux facteurs affecte le développement à venir du volume postal international en direction de et en provenance de l'UE des 27 (à l'exclusion du Royaume-Uni), ainsi que des volumes postaux intra-UE. Ces facteurs incluent la technologie, le développement économique général, la concurrence émergente pour le traitement des envois du commerce électronique internationaux, l'augmentation des frais de transport et des frais terminaux pour la livraison finale, l'abolition des allègements pour les envois de faible valeur, la modification des procédures de dédouanement en raison des règles plus strictes en matière de sûreté et de sécurité, des délais plus longs pour les envois du commerce électronique internationaux pour des raisons diverses, l'absence de résilience du réseau postal international démontrée lors de la pandémie de COVID-19 et le Brexit.
42. Pour les cinq à dix années à venir, WIK prévoit que :
- le volume de lettres internationales comportant des documents déclinera de manière significative, surtout à cause du passage de l'échange physique de documents à celui électronique.
  - Les envois postaux comportant des marchandises (que ce soient des envois de format E ou des colis plus grands) vers des destinations hors UE pourraient

augmenter de manière significative (vers le Royaume-Uni et des destinations non européennes).

- Pour les importations postales internationales dans l'UE, nous prévoyons un déclin important alimenté par l'association de l'ensemble des facteurs susvisés.
- Nous pensons que le flux d'envois postaux intra-UE sortira gagnant dans ce jeu. Nous prévoyons une augmentation significative des envois postaux intra-UE, transfrontaliers et nationaux (y compris par injection directe), affectant aussi bien les paquets que les colis.

Nous prévoyons que de nombreux opérateurs désignés de l'UE (et des fournisseurs de services universels) demeureront l'un des canaux de livraison de prédilection pour les envois du commerce électronique. En effet, les fournisseurs de services universels bénéficient toujours, en tant que tels, d'un réseau postal national pour la collecte et la livraison. De plus, ils ont consenti des efforts importants pour ajuster et améliorer la fourniture de leurs services, afin de répondre aux besoins du secteur du commerce électronique et des acheteurs en ligne de l'UE.

43. S'il existe une inquiétude concernant les effets et le caractère équitable du commerce électronique transfrontalier, un premier pas utile consisterait à développer des systèmes statistiques plus adaptés. Il semble évident que le commerce électronique international est en passe de devenir de plus en plus important pour les flux commerciaux internationaux. Pourtant, les statistiques fiables font défaut en la matière. Il ne s'avérera pas aisé de définir des systèmes statistiques appropriés. Personne ne sait encore comment différencier le commerce électronique international du commerce électronique national, et la mesure dans laquelle les différents canaux du commerce électronique international (postal contre non-postal, suivi intégral de l'envoi contre fret en vrac et distribution intra-UE, etc.) peuvent ou devraient être différenciés. Néanmoins, la Commission pourrait envisager, par exemple, d'améliorer les statistiques du commerce de détail et international en différenciant les canaux de ventes (en ligne/hors-ligne) pour les marchandises physiques, les marchandises numériques et les services, séparément.
44. Une difficulté fondamentale pour le développement des systèmes statistiques appropriés pour les flux du commerce électronique sera la clarification des statistiques postales transfrontalières.
- Les principaux opérateurs désignés de l'EEE sont devenus des fournisseurs de premier plan de services logistiques commerciaux multinationaux. Pour ces entreprises, les statistiques d'exploitation revêtent la même sensibilité commerciale que pour les fournisseurs non postaux de services similaires. Le tableau statistique du commerce électronique transfrontalier se verrait sensiblement clarifié si l'on traitait les services logistiques commerciaux transfrontaliers fournis par les opérateurs désignés (y compris les consolidateurs tels que les bureaux d'échange extraterritoriaux et les agents de ventes associés aux opérateurs désignés) en tant que statistiques commerciales définies et traitées de la même manière que celles concernant des services similaires fournis par des opérateurs non postaux.
  - En même temps, la clarification des statistiques transfrontalières jetterait plus de lumière sur l'évolution des services postaux internationaux traditionnels, tels que l'envoi par courrier de documents et de marchandises non commerciales collectés dans le pays d'origine de l'opérateur désigné. Ces données deviendront nécessaires si la Commission ou les États membres cherchent à améliorer les services postaux internationaux traditionnels et à réformer l'Union postale universelle (une grande priorité pour l'UPU elle-même).

45. Après mûre réflexion, l'Union européenne a adopté une législation qui s'appliquera aux contrôles douaniers, de sécurité et de TVA pour les marchandises du commerce électronique importées, et cela d'une manière plus efficace et équitable par rapport aux canaux concurrents postaux et non postaux d'importation. Dans le cadre de la présente étude, néanmoins, il est apparu clairement que les données publiques concernant la mise en œuvre s'avèrent insuffisantes pour évaluer l'application de ces mesures. Afin d'assurer une mise en œuvre effective et équitable de cette législation, la Commission pourrait envisager les bienfaits d'une publication périodique de statistiques résumées indiquant, pour chaque canal (par exemple, postal, express, fret) de telles informations en tant que proportion des envois importés postaux et non postaux, accompagnées de données électroniques préalables complètes et précises, du nombre d'amendes et de saisies, du nombre d'articles auxquels l'entrée a été refusée, etc.
46. Une mise en œuvre effective de la législation de l'UE en matière de douanes, de sécurité et de TVA pourrait également être sapée par les dispositions de la Convention UPU visant à réserver à cette dernière l'autorité sur l'application des contrôles aux frontières nationales aux envois postaux. Les différends entre l'UE et l'UPU dans ce domaine ont une longue histoire à leur actif. Afin d'assurer une mise en œuvre effective et équitable de la législation de l'UE sur ce point, la Commission pourrait envisager d'encourager les États membres à adopter des mesures appropriées lors du prochain Congrès de l'UPU, lesquelles viendraient clarifier définitivement l'autorité légale de l'Union européenne pour la pleine mise en œuvre de mesures de cette dernière en matière douanière et de sécurité ne présentant aucun conflit potentiel avec la Convention de l'Union postale universelle ou le règlement de cette dernière.



# 1 Introduction

## 1.1 Background of the study

The market for international postal services is changing fundamentally as a result of digital technology, and particularly the rise of global e-commerce. While international volumes of correspondence have been declining broadly in line with domestic volumes, volumes of international postal consignments including merchandise have increased substantially. The segment of low-value consignments, which is growing more than other segments, is of particular significance to postal operators.

Global e-commerce offer important opportunities for European consumers, signified by a considerable number of consumers in many EU Member States buying from online sellers located outside the EU (most importantly from China).<sup>1</sup> At the same time, the terminal dues (payments between postal operators) received by European postal operators for delivery of international items are not covering the full cost of delivery in all Member States. In stead, they are adding to the net cost of universal service obligations in those Member States. Postal transport and delivery costs of e-commerce imports to EU consumers were even lower than domestic delivery costs of local online sellers with distorting effects on the competition between EU and non-EU online sellers. With the exit of the UK from the European Union, traffic with non-EU countries will gain further importance.

Terminal dues and other rules for the exchange of international postal services are agreed by the Universal Postal Union (UPU). The original ambition of this study was to inform decision-making at the Commission and the Member States ahead of the UPU Congress scheduled for August 2020 in Abidjan (Cote d'Ivoire). However, an Extraordinary Congress was scheduled in spring 2019, and held in Geneva in September 2019, reacting to pressure from the USA to reform terminal dues rules, and their threat to leave the UPU. Prior to the Geneva Congress, an analysis of proposed options to reform the UPU terminal dues and effects of a potential US withdrawal from the UPU were presented to the Commission and stakeholders in September 2019. More recently, the Congress that was initially scheduled for August 2020 was postponed until further notice due to the global COVID-19 pandemic and related travel restrictions.

Current simplified customs procedures and the de-minimis rules for import VAT on low-value consignments for international postal e-commerce packets result in distortions between postal and non-postal operators and additional distortions between EU and non-EU (e-)retailers. While the reliefs for customs and VAT on low-value consignments facilitate trade, they are at odds with collecting VAT and securing intellectual property rights. International e-commerce consignments sent by international post are less likely to be thoroughly checked by customs offices. Statistics for all EU Member States show that postal traffic accounts for the majority of detected cases. Therefore, it becomes more likely that illegal and prohibited items are smuggled into the single market through the international postal network.

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<sup>1</sup> See WIK-Consult, Development of Cross-border E-commerce through Parcel Delivery, 2019.

## 1.2 Objectives of this study

The Postal Services Directive (97/67/EC as amended by 2002/39/EC and 2008/6/EC), and the Regulation on cross-border parcel delivery services (Regulation (EU) 2018/644) and Commission Implementing Regulation (EU) 2018/1263 set out some rules for international postal services. Inter alia, the Postal Services Directive specifies minimum requirements for universal service obligations, and establishes principles for the terminal dues for intra-EU cross-border mail (but not for mail exchanged with other parts of the world). As a practical matter, the Commission facilitates coordination among Member States' positions ahead of UPU Congresses even though the EU is not a member (but an observer) to the UPU, and the EU does not exercise direct competence on rules agreed for international postal services at the UPU.

The objectives of this study are as follows:

- Informing the development of a European position ahead of the 2020 Universal Postal Union (UPU) Congress by mapping the situation in the European Union concerning the provision of international postal services as well as the remuneration of EU postal operators in the framework of the UPU and examining the potential impact of various options for a future system for the remuneration of international postal items. This objective had been extended to informing the Extra-ordinary UPU Congress in September 2019 and to provide substantial analysis ahead of the next UPU Congress (that is postponed indefinitely due to the COVID-19 pandemic).
- Providing analyses on international e-commerce and postal markets including the effects of the VAT and customs reforms.

## 1.3 Methodology

This study was carried out by WIK-Consult on behalf of the European Commission (DG GROW) from July 2019 to October 2020.

A first source of information for this study consisted of detailed desk research, in particular research and analysis of the international postal remuneration system including:

- current terminal dues systems (Istanbul);
- reform options for Geneva Congress;
- effects of a potential US withdrawal from the UPU (that has finally not taken place);
- the results of the 2019 UPU Congress held in Geneva (including congress resolutions and related documents), as well as
- documents published by the IB reporting on the results of the 2019 UPU Congress, and subsequent POC/CA meetings in October 2019, February 2020 and June 2020.

Additionally, we analysed data and reports on international e-commerce and postal e-commerce flows, including:

- Eurostat resources;
- UPU statistics, public reports and various documents on data available from UPU resources that relate to POC meetings and documents;
- ERGP and NRA reports that offer data on international postal volumes;

- UNCTAD reports;
- DG GROW's postal statistics website.

Finally, we assessed, in detail, relevant legislation, documents and studies about customs and import VAT rules for low-value consignments including:

- relevant EU legislation (VAT e-commerce package, UCC and delegated acts);
- policy documents from DG TAXUD relating to the programmes planned for 2021 (Import One Stop Shop and special arrangements for import of low-value consignments, EU customs pre-arrival security and safety programme supported by the Import Control System 2);
- documentation on current UPU standards and documentation (CN22/23 and electronic exchange of data) as well as work of the UPU IB on customs procedures;
- EU reports and studies on the topic conducted or commissioned by DG TAXUD, the European Parliament and the European Court of Auditors and others;
- OECD and WCO reports; and
- position papers and studies of PostEurop, EEA and EuroCommerce.

In August 2019, WIK-Consult conducted an experts workshop on 'Future postal relations between EU and the USA in the event that the USA withdraws from the UPU', held at Frankfurt airport on 27 August 2019. Topics were discussed in two roundtables at the workshop. The first roundtable addressed 'Terminal dues and customs for mail exchanged with the USA after a withdrawal from the UPU', and the second roundtable discussed 'Different effects on different players/Member States?'

As part of the research for this study, our partner James I. Campbell spoke informally to many governmental and postal officials about the development of UPU remuneration systems. He attended the public meetings of the Geneva Extraordinary Congress in 24-26 September 2019. He also attended all meetings of the Postal Operations Council and Council of Administration relating to terminal dues in Berne in 14-25 October 2019 and 17-28 February 2020.

WIK introduced the study at a public stakeholder workshop on 17 September 2019 and at the Postal Directive Committee on 4 December 2019 and provided a short study update to the Postal Directive Committee on 18 June 2020. The second public stakeholder workshop scheduled for 24 March 2020 had been postponed by six months due to the COVID-19 pandemic. On 22 September 2020, WIK hosted the workshop as a WebEx conference and presented the draft results of the study to more than 150 participants.

An important pillar of data collection and stakeholder involvement for this study was a stakeholder survey ('WIK survey') which was sent out to three groups of stakeholders:

- Regulators or ministries in all EEA Member States and the UK;
- designated operators (DO) in all EEA Member States and the UK;
- customs authorities in all EEA Member States and the UK.

Stakeholders in 30 EEA Member States and the UK,<sup>2</sup> as well as in Switzerland, received invitations to participate in the survey. Overall, there were 73 responses from stakeholders to the survey, as displayed in Table 1.

Table 1 Overview of survey responses

Stakeholder category	Completed surveys	EEA Member States
Ministry of NRA	35	AT, BE, BG, CY, CZ, DE, DK, EE, EL, ES, FI, FR, HR, HU, IE, IS, IT, LT, LU, LV, NL, MT, NO, PL, PT, RO, SE, SK, (UK)
Designated postal operator	26	AT, BE, BG, CY, CZ, DK, EL, ES, FI, FR, HR, HU, IE, IS, IT, LT, MT, NL, NO, PL, PT, RO, SE, SI, SK, (UK)
Customs authority	12	BE, CY, CZ, EE, FI, HR, HU, IE, LT, RO, SI, SK

Source: WIK survey.

Note: No responses from stakeholders in Switzerland and Liechtenstein.

In the first group, both national ministries responsible for postal regulation and postal regulators received the survey. Responsibilities for monitoring are heterogeneous within the EU. They lie with regulators in some Member States but with postal ministries in others, but are also shared sometimes. For that reason, there were two responses for some Member States in that group, explaining the number of 35 responses.

The survey was started at the beginning of December 2019, and was closed in February 2020. It covered questions on definitions for international post as well as statistics on international letter and parcel post. Both regulators/ministries and designated operators were asked about their assessment of competition as well as their future expectation for the development of international post.<sup>3</sup> There were also questions on remuneration paid for delivery and the organisation of extra-territorial offices of exchange (ETOEs). In addition, customs authorities and designated postal operators were asked to elaborate on customs procedures for international letter post and the effects of the import VAT and customs reforms. All stakeholders were asked to provide relevant studies on e.g. international post and its remuneration or customs procedures.

The study is being prepared for the European Commission, Directorate General for Internal Market, Industry, Entrepreneurship and SMEs, by Alex Kalevi Dieke (project director), Antonia Niederprüm (project manager), Sonja Thiele, and Willem van Lienden, all WIK-Consult. James Campbell complemented the study team with his profound expertise in international postal regulation and remuneration systems. Colum Joyce supported the team with his expertise on e-commerce supply chains.

The study relies substantially on stakeholder interaction. It would have been much less insightful without the valuable input provided and the time involved by many stakeholders from different groups including

- Designated postal operators including the organisations PostEurop and UPU;
- Express operators;

<sup>2</sup> At the time of survey, UK was a member of the European Union.

<sup>3</sup> However, the impact of the COVID-19 crisis had not been conceivable at the time of the survey. Stakeholders' assessments of future expectations will have to be interpreted with caution under this development.

- National regulatory authorities;
- European and national e-commerce associations; and
- European Commission, Directorate-General for Taxation and Customs Union.

We are most grateful to the many individuals and organisations that provided valuable information for this study in talks, interviews, meetings, and workshops, and to those who attended the public workshops and offered us their comments.

### 1.4 Outline of the study

The study is structured in seven chapters to adequately describe and comprehensively assess the remuneration and regulation of international postal services. This chapter introduces the study and describes the research methodology of the study. Chapters 2 to 6 describe and assess the different aspects of the study.

Chapter 2 highlights the developments of international e-commerce markets and the international e-commerce supply and transport chain. It provides an overview on the risks and challenges related to growth in international e-commerce consignments for EU e-retailers, for EU taxpayers, and online buyers.

Chapter 3 describes the global and the European market for international postal services. Special emphasis is laid on the developments of international small packets and where they come from. Different import models for international e-commerce consignments from non-EU countries are developed and discussed. Finally, the chapter gives an outlook on future developments of international postal flows from and to the EU as well as within the EU.

Chapter 4 focuses on the remuneration systems of the UPU, reviews the organisation and powers of the UPU and describes their rules prescribing how designated operators compensate each other for services performed in provision of international postal services.

Chapter 5 presents analyses and estimations of the economic effects of UPU terminal dues and self-declared rates on designated operators, e-retailers and consumers in the EEA Member States. As these estimations are basically forecasts, they refer to EU-27 and EEA Member States after the Brexit.

Chapter 6 deals with the complex topic of customs and import VAT as well as safety and security rules for non-EU imports of especially low-value consignments. It describes the current situation, introduces the reforms in customs procedures and import VAT and discusses the challenges for and efforts made by designated operators.

The final chapter summarises the key findings, provides some recommendations and presents a future outlook on the developments of postal flows in the international postal network.

## 2 Development of international e-commerce markets

### 2.1 Development of major e-commerce flows

With the emergence of global and local online marketplaces B2C e-commerce saw an unprecedented growth in sales. E-commerce associations and related sources report significant growth rates of online sales and an increasing share of online sales in total retail in many countries.

However, official statistics on B2C e-commerce sales do not exist, neither on a national level nor on a EU or global level,<sup>4</sup> thus also not for B2C cross-border e-commerce sales. Most B2C cross-border e-commerce sales of goods are not included in international trade statistics due to definition and measurement problems.<sup>5</sup> For this reason we have to rely on estimations of e-commerce associations like Ecommerce Europe and estimations of market research companies like eMarketer<sup>6</sup> and others. These estimations are based on a combination of different sources including international trade statistics, postal statistics, online shopper surveys and pieces of data based on available information from online marketplaces and e-retailers.

eMarketer, for example, reports that global B2C e-commerce (domestic and international) has nearly tripled from USD 1.3 trillion in 2014<sup>7</sup> to USD 3.5 trillion in 2019. This growth is mainly driven by the large e-commerce markets in the Asia-Pacific region. According to eMarketer research, China's retail e-commerce sales account for more than half of global e-commerce sales in 2019 followed by the United States (16% of total B2C e-commerce sales) and the UK (4%). The three biggest European e-commerce markets combined (UK, Germany and France) achieve a bit more than 8% of the global retail e-commerce sales.<sup>8</sup>

Regarding global cross-border B2C e-commerce sales, UNCTAD estimates that, for 2018, they amounted to around USD 400 billion and would correspond to less than 10% of total B2C e-commerce sales.<sup>9</sup> Zion Market Research<sup>10</sup> estimated that the global cross-border B2C e-commerce market amounted to USD 562 billion in 2018.<sup>11</sup> Research from different sources suggests that the growth in cross-border e-commerce has outperformed growth in

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<sup>4</sup> See also UNCTAD (2016), In search of cross-border e-commerce data.

<sup>5</sup> Statistics of international trade of goods do not refer to the way how goods are purchased, via purchase on a foreign online shop or online marketplace or via more traditional sales channels. Moreover, the data do not differentiate between the type of consignee, whether it's a business or a consumer. Finally, trade statistics basically rely on information collected by customs authorities. Particularly for low-value postal consignments simplified, often paper-based customs procedures are applied which makes it impossible for customs authorities to systematically collect data on product categories, senders (including country of origin) and the type of consignee (business or consumer).

<sup>6</sup> eMarketer is a U.S. American market research company that provides insights and trends related to digital marketing, media, and commerce.

<sup>7</sup> See Orendorff, Aaron, Global Ecommerce Statistics and Trends to Launch Your Business Beyond Border, 14 February 2019, <https://www.shopify.com/enterprise/global-ecommerce-statistics>, accessed 28 January 2020.

<sup>8</sup> eMarketer, May 2019; <https://www.emarketer.com/content/global-ecommerce-2019>; accessed 7 March 2020.

<sup>9</sup> UNCTAD (2020) UNCTAD Estimates of Global E-Commerce 2018, UNCTAD Technical Notes on ICT for Development N° 15.

<sup>10</sup> Zion Market Research is a US American market research company.

<sup>11</sup> Zion Market Research (2019), Global Cross-Border B2C E-Commerce Market Is Expected To Reach Around USD 4,856.1 Billion By 2027, press release of 19 August 2019.

domestic e-commerce markets. Forrester<sup>12</sup> estimated in 2017 that cross-border online sales would make up 20% of global e-commerce sales in 2022.<sup>13</sup> More optimistically, DHL estimated in 2016 that the share of cross-border e-commerce to global e-commerce will increase from 15% in 2015 to around 22% in 2020.<sup>14</sup> Accenture-AliResearch<sup>15</sup> estimated that global cross-border B2C transaction values would more than quadruple from USD 236 billion in 2014 to USD 994 billion by 2020 (nearly 30% of global e-commerce sales according to estimations of McKinsey<sup>16</sup>). More than half of this growth would stem from the Asia-Pacific region, notably from China, while Western Europe and North America would contribute less than 20% and 15% respectively. It appears that these estimates on the development of cross-border e-commerce sales were too optimistic. In a more recent published forecast, Forrester presents less optimistic estimations on future cross-border e-commerce sales. They estimate that cross-border shopping would make up 17% of total B2C e-commerce sales in 2023.

According to Forrester, China is the largest B2C e-commerce importer and exporter of cross-border goods in the world and drives the majority of interregional cross-border sales.<sup>17</sup> In historic terms, cross-border e-commerce (B2B and B2C, import and export) in China began to grow significantly in 2010 and reached 20% of total import and export trade in 2015. International e-commerce exports accounted for more than 80% in total cross-border e-commerce. The share of international e-commerce imports to China had increased from 7.3% in 2010 to about 17% in 2015.<sup>18</sup> China's major foreign trading partners in e-commerce are the United States, Russia, Brazil, Spain, the United Kingdom, Australia, France, Italy, Japan, Canada, Germany, and South Korea, according to the E-Commerce Connectivity Index (ECI), created by Alibaba.<sup>19</sup> Chinese e-commerce trade is dominated by the B2B business model. Cross-border B2C e-commerce began to grow significantly in 2012 from 4.1% in total cross-border e-commerce trade to 11.5% in 2015. These are mostly exports as B2C e-commerce imports by Chinese consumers only began to emerge later.<sup>20</sup>

Ecommerce Europe estimates that the European B2C e-commerce market, comprising online sales of services and goods, had reached an estimated turnover of EUR 636 billion in 2019, from EUR 307 billion in 2013. This corresponds to an average annual growth rate of nearly 13%. For 2020, the association forecasts revenues of EUR 717 billion.<sup>21</sup> Cross-Border Commerce Europe (2020) estimates that total cross-border online sales for physical and digital goods as well as services (e.g. insurance, but excluding travel) reached EUR 109 billion or nearly a quarter of total online sales estimated at

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<sup>12</sup> Forrester is a US-American market research company.

<sup>13</sup> Forrester (2017), Cross-border e-commerce will reach \$627 billion by 2022.

<sup>14</sup> DHL (2016), The 21st Century Spice Trade, p. 7.

<sup>15</sup> AliResearch / Accenture (2016), Global Cross Border B2C e-Commerce Market 2020, p. 2.

<sup>16</sup> McKinsey (2016), Digital Globalization: The New Era of Global Flows, March 2016, p. 34-35.

<sup>17</sup> Forrester Analytics: Online Cross-Border Retail Forecast, 2018 To 2023 (Global), 5 April 2019, <https://www.forrester.com/report/Forrester+Analytics+Online+CrossBorder+Retail+Forecast+2018+To+2023+Global/-/E-RES153276> accessed 28 January 2020.

<sup>18</sup> Hongfei, Yue (2017), National Report on e-commerce development in China, Inclusive and Sustainable Development Working Paper Series WP 17 / 2017 (UNIDO United Nations Industrial Development Organization), p. 12.

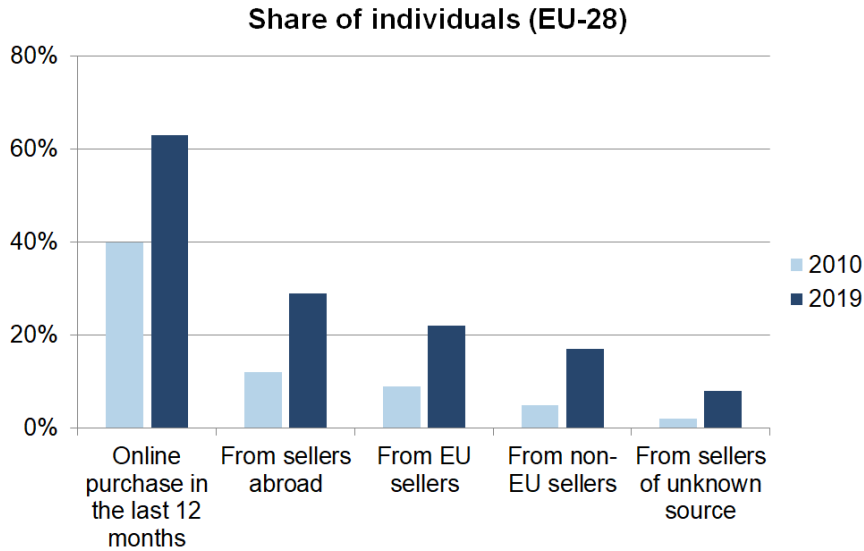
<sup>19</sup> Hao Wu and Robert Ireland (WCO Research Unit), Cross-border e-commerce in China, WCO News, World Customs Organisation, 84, October 2017.

<sup>20</sup> Hongfei, Yue (2017), National Report on e-commerce development in China, Inclusive and Sustainable Development Working Paper Series WP 17 / 2017 (UNIDO United Nations Industrial Development Organization).

<sup>21</sup> See E-commerce Europe (2018), Ecommerce growth set to continue in 2020, press release of July 8, 2020. This estimation includes non-EEA countries like Russia, Serbia, Turkey and Ukraine.

EUR 462 billion in 16 European countries (EU16).<sup>22</sup> They further estimate that 42% of these cross-border sales are generated by non-EU16 online sellers. They expect that total cross-border online sales will increase by 85% between 2019 and 2022, from EUR 132 billion to EUR 245 billion (including travel services).<sup>23</sup>

Figure 1 Share of individuals purchasing online cross-border (EU-28)



Source: WIK-Consult based on Eurostat, [isoc\_ec\_ibuy], extracted on 27 January 2020.

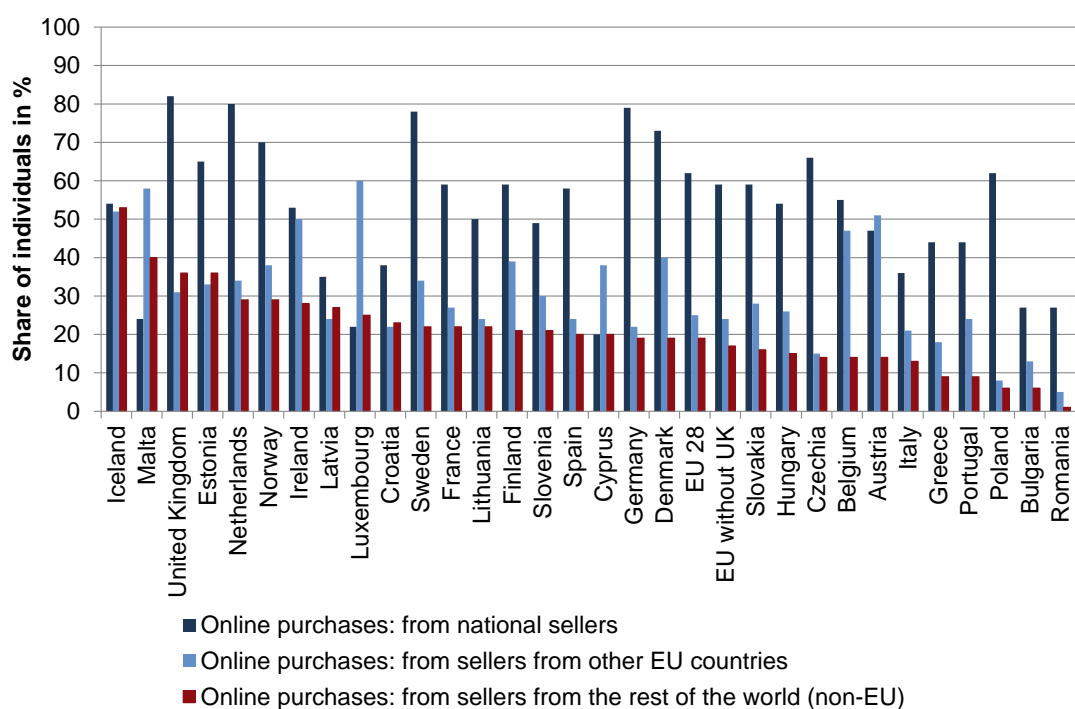
Eurostat statistics support the estimates on the growth in cross-border e-commerce purchases. The share of online buyers of total individuals has increased from 40% to more than 60% in the European Union (including the UK). In the EU, the number of cross-border e-commerce purchases has significantly grown since 2010, as Figure 1 shows. The share of individuals purchasing cross-border goods online has more than doubled from 12% to 29%, and the share of consumers purchasing online from non-EU sellers has more than tripled, from 5% to 17%.

<sup>22</sup> 15 EEA members and Switzerland that account for roughly 85% of total B2C e-commerce sales in the EEA.

<sup>23</sup> Cross-Border Commerce Europe (2020), Cross-Border Commerce Europe publishes the second edition of the “TOP 500 Cross-Border Retail Europe”: an annual ranking of the best 500 European cross-border online shops, media release of 4<sup>th</sup> June 2020, (<https://www.cbcommerce.eu/press-releases/press-release-cross-border-commerce-europe-publishes-the-second-edition-of-the-top-500-cross-border-retail-europe-an-annual-ranking-of-the-best-500-european-cross-border-online-shops>).



Figure 2 Buying behaviour of consumers from national and international online sellers (2019)



Note: Based on percentage of individuals who used the internet within the last year; no data for Switzerland and Liechtenstein

Source: WIK-Consult based on Eurostat, [isoc\_ec\_ibuy], extracted on 27 January 2020.

Figure 2 illustrates that in most Member States, more consumers have bought from e-retailers in their home countries than those that have (also) bought from e-retailers in other countries. Only in very small countries like Malta, Cyprus, and Luxembourg more consumers have purchased from sellers abroad than in their home country. In 2019, on average, 17% of European consumers bought online from sellers in non-EU Member States (15% for EU without UK).<sup>24</sup> This corresponds to a strong increase from 9% in 2015 (8% when excluding UK), with more expressed demand for non-EU e-commerce from consumers in Member States like Poland, Italy, Czech Republic, and Germany.<sup>25</sup> Online purchases from sellers from the rest of the World include the U.S. and Asian countries like China (incl. Hong Kong) and Singapore. A consumer survey carried out by WIK-Consult in 2018 provides further insights into the preferred online purchase countries (see Figure 3).

<sup>24</sup> Eurostat.

<sup>25</sup> The share of consumers who ordered online from non-EU countries in 2019 more than doubled in these countries. See Eurostat data for 2019.

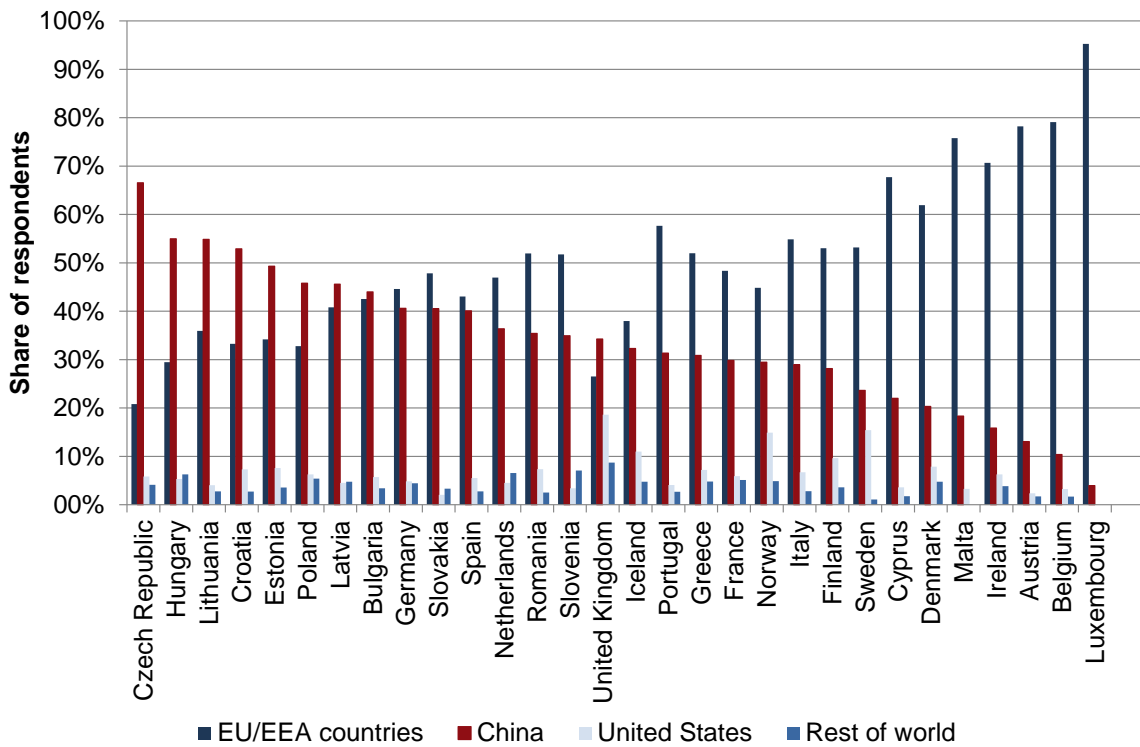
Table 2 Non EU e-commerce cross border market preferences 2018

Non EU Ecommerce preference EU countries 2018			
	Bought from 1	Bought from 2	Bought from 3
Austria	Germany	China	United Kingdom
Belgium	France	China	Netherlands
Bulgaria	China	Germany	United Kingdom
Croatia	China	United Kingdom	United States
Cyprus	United Kingdom	China	Greece
Czech Republic	China	United Kingdom	Germany
Denmark	Germany	China	United Kingdom
Estonia	China	United Kingdom	Germany
Finland	China	Germany	United Kingdom
France	China	Germany	United Kingdom
Germany	China	United Kingdom	Austria
Greece	China	United Kingdom	Germany
Hungary	China	United Kingdom	Germany
Iceland	China	United Kingdom	United States
Ireland	United Kingdom	China	United States
Italy	China	United Kingdom	Germany
Latvia	China	United Kingdom	Germany
Lithuania	China	United Kingdom	Germany
Luxembourg	Germany	France	United Kingdom
Malta	United Kingdom	China	Germany
Norway	China	United Kingdom	United States
Poland	China	Germany	United Kingdom
Portugal	China	Spain	United Kingdom
Romania	China	United Kingdom	Germany
Slovakia	China	Czech Rep	United Kingdom
Slovenia	China	Germany	United Kingdom
Spain	China	United Kingdom	Germany
Sweden	China	Germany	United Kingdom
Netherlands	China	Germany	United Kingdom
United Kingdom	China	United States	Germany
Non EU Country			
EU Country			
Sources: IPC, WIK, Statista, Emarketer, Post Nord			

Consumer surveys from IPC, Postnord, WIK and other sources clearly show that there are three major sources for cross-border e-commerce purchases: China, the United Kingdom and the United States. These account for over 90% of all non-EU e-commerce in volume terms. They amounted to 848 million consignments in 2019 according to Effigy Consult (only parcels, excluding packets below 2 kg delivered in the letter post stream).<sup>26</sup> As of January 2021, the UK’s intra-EU e-commerce traffic will be re-categorised as non-EU traffic, which then would account for around 25% of the non-EU e-commerce consignments. Within the EU, the major origin of cross-border online purchases is Germany, the biggest e-commerce market in the EU following Brexit.

<sup>26</sup> Effigy Consulting, European Courier Express and Parcel 2018 CEP Market Summary on 2014-2017 data.

Figure 3 Origin of most recent cross-border purchase

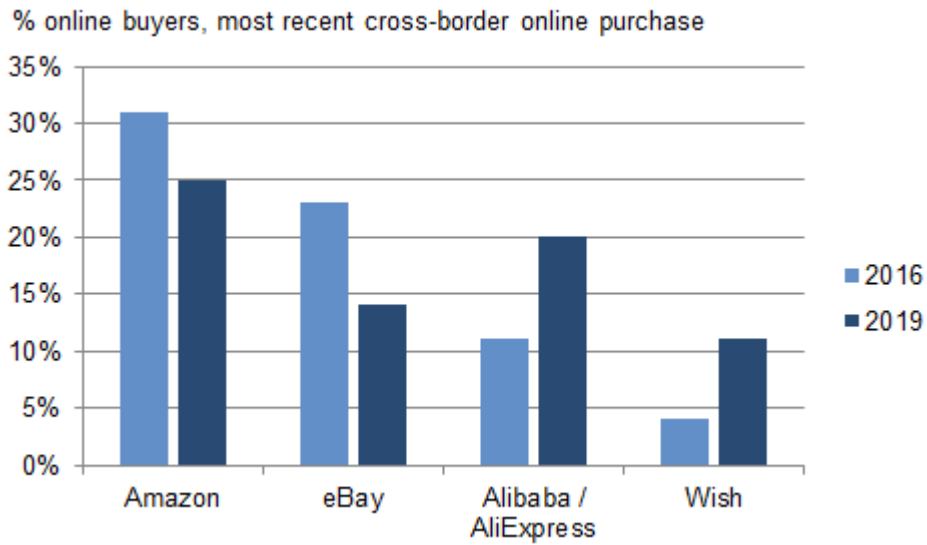


Source: WIK-Consult (2019), Development of Cross-border E-commerce through Parcel Delivery (WIK consumer survey).

In 2018, in the majority of EEA Member States (including the UK), more than 30% of online buyers ordered their most recent e-commerce purchase from a Chinese website or a Chinese online seller.<sup>27</sup> In particular, consumers in Eastern European Member States ordered e-commerce goods from China. The United States is an important e-commerce purchase country for consumers from the UK and the Scandinavian countries – at least 10% of consumers in Sweden, Finland, and Norway made their most recent online purchase from the US. Consumers in Western and Central Europe prefer to buy from other EU Member States when they purchase online from abroad.

<sup>27</sup> See WIK-Consult (2018), Development of Cross-border E-commerce through Parcel Delivery.

Figure 4 Importance of online marketplaces for cross-border purchases

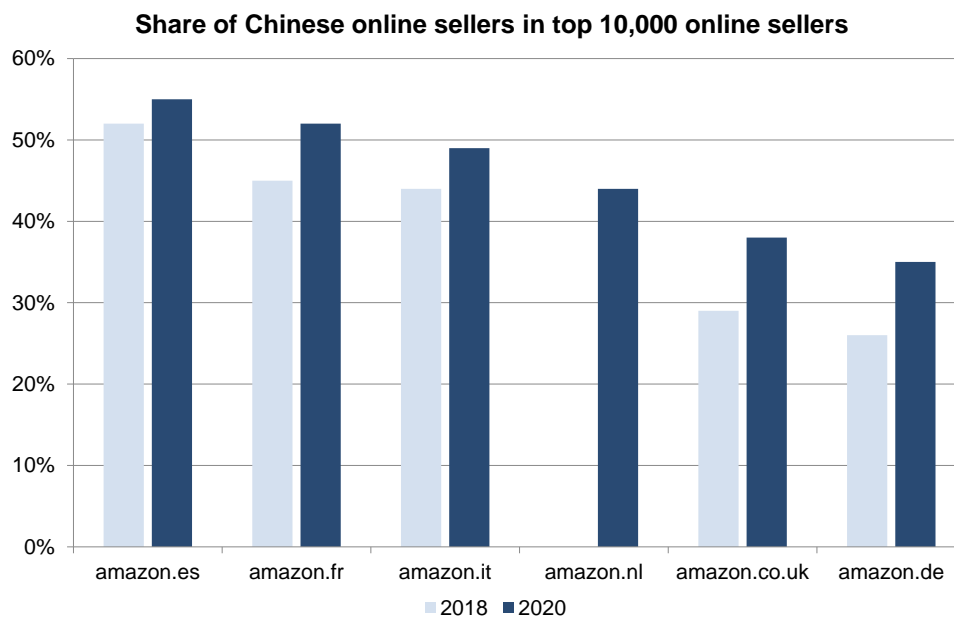


Source: WIK-Consult based on IPC, Cross-border e-commerce shopper survey 2016 and 2019.

International online market places like Amazon, e-bay, AliExpress and Wish are the main drivers of growth in cross-border online purchases. IPC reported in their most recent cross-border e-commerce shopper survey that 70% of the most recent cross-border purchases were placed on four international online marketplaces: Amazon, Alibaba/AliExpress, eBay, and Wish.<sup>28</sup> Between 2016 and 2019, the weight of each platform for cross-border online orders by consumers changed significantly as illustrated in Figure 4.

<sup>28</sup> IPC (2020), Cross-border e-commerce shopper survey 2019, January 2020.

Figure 5 China e-retailers' share in European Amazon marketplaces



Source: WIK-Consult based on [Marketplacepulse.com/amazon/europe-cross-border-sellers](https://marketplacepulse.com/amazon/europe-cross-border-sellers) (accessed on 2 November 2018, on 13 November 2019 and 15 July 2020).

Note: Amazon launched the market place in the Netherlands in 2020.

Chinese online sellers are quite prevalent on these platforms as the following examples show:

- The share of Chinese online sellers in the top 10,000 sellers at Amazon European online marketplaces has increased and reached around 50% or more in Spain, Italy and France, see Figure 5.
- The platform Wish (launched in San Francisco in 2011) is a mobile shopping app for customers that prioritises low prices and is therefore important for Chinese online sellers. According to Marketplace Pulse, the app sells a few billion dollars' worth of products a year (the company does not disclose gross merchandise value) by enabling China-based merchants to sell directly to consumers – 88% of sellers on Wish are based in China.<sup>29</sup> Sellers on Wish fulfil the orders in China and send them via China Post and the international postal network to the online buyers in the destination countries benefitting from the low terminal dues rates. Wish sells around three million items each day according to a press article – around one third are destined to the United States. According to a press article, most of Wish's customers are working-class people who cannot afford Amazon Prime and are more likely to shop at dollar stores.<sup>30</sup>

Overall, there are strong indications that international B2C e-commerce flows between different regions of the world are dominated by cross-border e-commerce sales from Asia, notably from China, to the rest of the world. Consumers in North America and in Europe

<sup>29</sup> Marketplace Pulse, Marketplaces Year in Review 2019 (<https://www.marketplacepulse.com/marketplaces-year-in-review-2019>).

<sup>30</sup> Forbes, Wish built an \$11 billion business on insanely cheap shipping – Can it survive without it?, 30 July 2020.

are responsible for the bulk of Chinese cross-border e-commerce sales. However, as Chinese consumers have strong preferences for high-quality goods (brands and food) from Europe and other industrialised countries, B2C cross-border e-commerce sales to China also become more important.<sup>31</sup>

In summary, global e-commerce has dynamically grown in the last 10 years and cross-border e-commerce plays a significant role, promoted by international online market places. EEA consumers increasingly make cross-border purchases from sellers within and outside the EU. China, the UK and Germany are the most preferred e-commerce markets for EEA consumers' cross-border shopping.

Overall, it appears that during the last five years cross-border online sales from Chinese e-retailers or Chinese platforms have grown more compared with other foreign e-commerce markets in Europe (notably Germany and the UK) and abroad (the United States) in terms of the number of e-commerce consignments. This growth is driven by the considerable presence of Chinese e-retailers on platforms like Amazon, Wish and, of course, AliExpress. Moreover, the platform Wish attracts Chinese online sellers who only compete on low product prices made possible by low manufacturing and, in particular, low shipping costs by using China Post for cross-border delivery.

However, official statistics on B2C e-commerce sales do not exist, neither on a national level nor on a EU or global level, thus also not for B2C cross-border e-commerce sales. Most B2C cross-border e-commerce sales of goods are not included in international trade statistics due to definition and measurement problems. Therefore, the analysis of the developments of major e-commerce flows is based on estimations of market research companies and EEA consumer and online buyer surveys.

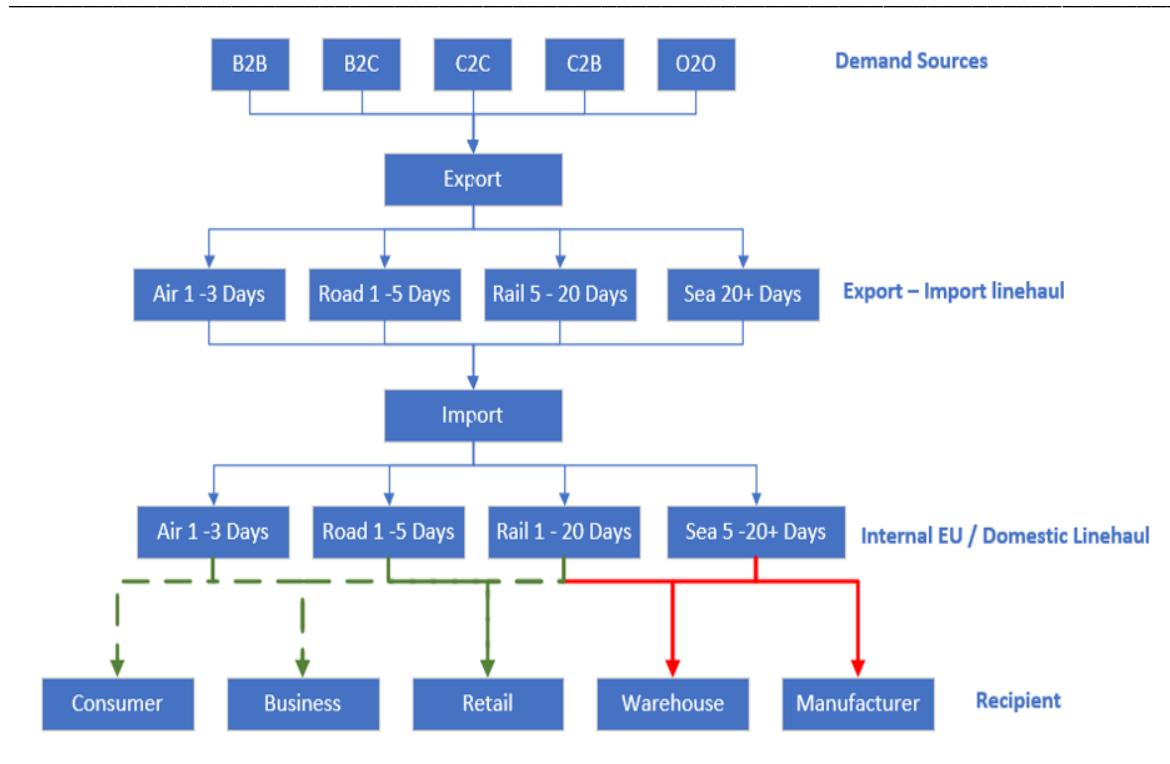
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<sup>31</sup> See for example Hongfei, Yue (2017), National Report on e-commerce development in China, Inclusive and Sustainable Development Working Paper Series WP 17 / 2017 (UNIDO United Nations Industrial Development Organization).

## 2.2 How e-commerce items are transported through the single market

E-commerce goods are transported from Asia to Europe in different ways.

Figure 6 E-commerce demand-to-delivery model



Source: Colum Joyce.

Note: In logistics, line haul refers to the movement of freight with any mode of transport by land (rail and road), air or sea between countries and within a country between the point of entry to the destination regions.

Figure 6 illustrates the major transport components of any import to the EU by mode and interconnection. The transit times will vary depending on the mix of transport modes and the distance the goods must be transported. For example, imports from the UK will be faster than those from Chinese or United States suppliers.

In the context of this study, the most important import channels are imports of single e-commerce consignments directly delivered to consumers and bulk imports of e-commerce goods to EU-based warehouses.<sup>32</sup> For imports of e-commerce consignments directly to consumers, air transport is roughly estimated to account for over 95% of all addressed e-commerce consignments (2019, i.e. before COVID-19). The rest are accounted for by road or rail.

However, where e-commerce fulfilment is from EU warehouses (this includes any stock point from which an e-commerce order can be fulfilled) the role of sea and rail is key for bulk import of e-commerce orders for later fulfilment. It is roughly estimated that these two transport modes are responsible for 80% of unaddressed / unordered stocks imported for later e-commerce fulfilment.

<sup>32</sup> See also Section 3.2 in this report.

With the entry into force of new import and tax requirements for e-commerce consignments it should become possible to extract very detailed and precise data on import transport modes, values and even contents as the new dataset required by customs will contain information. These data are not presently collected by Eurostat but are held by transporters and usually considered commercially sensitive.

Goods, irrespective of by whom or how they are transported from a non-EU country to the EU must clear customs in order to circulate in the single market. When cleared by a Member State’s customs authority they can be transported to any other EU Member State, delivered directly to the consignee, stored in a warehouse, or consigned to a pick-up point such as a drop box, locker or retail store.

The cross-compatibility of transport modes is also important for costs and lead time. The more goods that have to be sorted and prepared for a transport mode change, the greater the incurred cost and time. Thus, cross-compatibility reduces potential transport mode changes that could increase delivery chain sustainability. However, not all transport modes are cross compatible and transferring shipments from one to another may require significant additional handling and processing costs.

The diagram below illustrates the cross-compatibility of the main load unit types used for the carriage of imports right to the doorstep. A typical package may undergo at least four transport modes changes throughout its transit.

Figure 7 Transport mode cross-compatibility

Transport Mode Carriage Compatibility							
	Air	Rail	Sea	Truck	Small Truck	E-Bike	Person
Individual Parcels	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bulked Parcels	Yes	Yes	Yes	Yes	Yes	No	No
Container (Air)	Yes	No	No	No	No	No	No
Container (Rail)	No	Yes	Yes	Yes	No	No	No
Container (Sea)	No	Yes	Yes	Yes	No	No	No

Source: Colum Joyce.

Aircraft containers have poor compatibility to road, rail and sea as they are specifically designed for the internal profile of an aircraft and they lack the strength of 20 / 40 foot containers used in road, rail and sea transport. These highly robust containers are incompatible with aircraft due to their size and weight.

Air freight contributes less than 1% of the total tonnage of all EU imports but accounts for 25% of the Euro value of all imports from outside the EU according to 2019 statistics from Eurostat.<sup>33</sup> Air transport is used for time sensitive and high value items such as microchips, specialist manufactured items, luxury items, etc. This figure does not include postal consignments that are separately counted in the Eurostat trade statistics.<sup>34</sup> Imports from non-EU countries transported as postal consignment or ‘by post’ accounted for less

<sup>33</sup> Eurostat, EXTRA EU trade since 2000 by mode of transport (HS2-HS4) [DS-043327].

<sup>34</sup> Eurostat defines that Code 5 (‘postal consignment’) is reported in cases where the means of transport is unknown and goods are transferred by a postal service, i.e. postal operators authorised by a Member State to provide services governed by the Universal Postal Union Convention. Goods transported by private courier services are also included into this category in cases where the active means of transport is unknown. Eurostat, User guide on European statistics on international trade in goods, 2016 edition, p. 50.



than 0.01% of the total tonnage of all EU imports and for around 0.1% of the Euro value of all imports in 2019. These figures on air freight and postal consignments relate to the totality of EU imports, NOT just e-commerce.

The primary mode of transport for non-EU e-commerce consignments to the EU is by air. Trade statistics indicate that the share of e-commerce consignments in total imports to EU consumers appears to still be extremely small in weight. However, between 2014 and 2019 non-EU imports by post have increased by 86% in value and by 31% in weight, thus much more than non-EU imports transported by air (38% in value and 8% in weight).

EU airports are all connected to the main domestic road arteries and they are increasingly serviced by rail links. The importance of key logistics airports such as Liege (Belgium), Cologne (Germany), Leipzig (Germany), Madrid (Spain), Schiphol (Netherlands), and Charles de Gaulle (France) continue to grow as non-EU volumes rise at a rate three times that of intra-EU or domestic e-commerce demand.

Whilst air transport continues to be the main channel of import, especially for designated postal operators and international express companies, the use of rail and sea is becoming increasingly important for pre-positioning e-commerce stocks to satisfy EU demand in a rapid and more cost effective manner.

Figure 8 Key rail routes China – Europe 2020



Source: csis.org.

Alibaba is planning to supply its Liege warehouse with two weekly trains directly from China with a capacity of 900 tonnes in addition to their air freight uplift.<sup>35</sup> These trains will have multiple routes to choose from, as seen in Figure 8. DHL Global Forwarding also uses trains for Sino-European carriage of goods. Chinese investment in the Belt and Road initiative has led to the opening of freight cargo rail routes to the EU across Russia and the Central Asian republics. This allows slower but greatly expanded volumes of e-commerce and other imports to be carried to the EU when compared to air cargo. Rail is both cheaper and has a reduced environmental impact than shipping similar volumes via air cargo or dedicated courier freight flights.

<sup>35</sup> Alibaba 2019.

Equally the investments being made by Chinese enterprises in the port of Piraeus is of note. This is the closest port to the Suez Canal from where trans-shipment to Northern and Eastern Europe, via Piraeus and then by road or rail, can reduce sea cargo transit times by three to four days. Equally, it is well positioned to service applicant countries in the Balkans and may benefit from EU investments in transport upgrades in the Balkan and Eastern European regions.

Figure 9 Key sea emerging routes China – Europe



Source: csis.org.

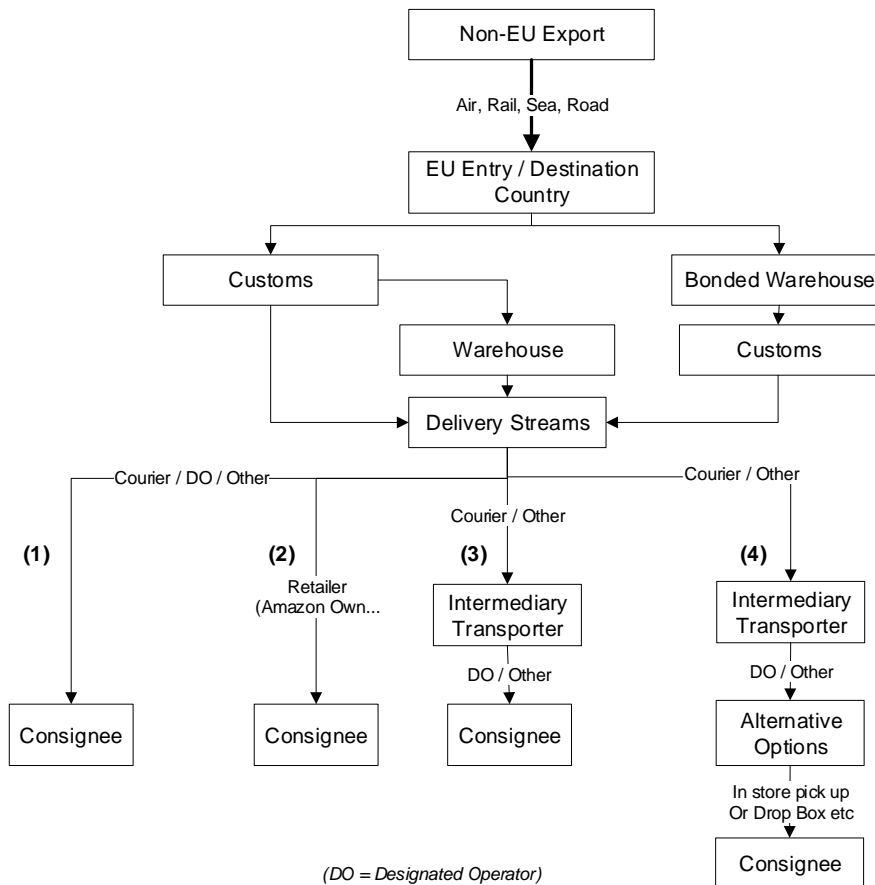
Non-EU e-commerce consignments from the United States are almost totally imported using air freight or dedicated courier flights out of airports such as Cincinnati, Newark, Miami, and Anchorage. E-commerce consignments from the UK will continue to be transported by road / rail (Channel Tunnel) and by air from the East Midlands and Heathrow using air freight and dedicated courier uplift.

Administrative formalities must be completed prior to e-commerce items being approved for free movement in the EU. These formalities need not be completed at the point of entry to the EU. Items may remain under seal to their destination country where they are processed for free movement and delivery to the end consumer or business. They may also be held under customs bond in warehouses until they are ordered and then customs processed for delivery to the end business or consumer. Customs authority capabilities are dispersed and perform several different functions in different countries. Essentially this means that customs clearance could be performed anywhere in the national territory.

Customs authorities must deal with a variety of different modes of transport, entry points and containers of transport. Ireland is a good example of this diffused capability. The key ports and airports (Dublin, Cork, Shannon, Limerick, Knock (Mayo), Galway, Kilibegs (Donegal), and Athlone (national postal sorting centre) are the main customs processing points for inbound and outbound trade to the Republic of Ireland. However, there are other

offices and facilities that are also tasked with excise, anti-smuggling, and anti-VAT fraud activities. The exercise of these functions is not centralised to a customs facility but is carried out on the premises of the company or individual being investigated.

Figure 10 Major e-commerce delivery chain options 2020



Source: Colum Joyce.

Figure 10 illustrates a stylised model of the major options for receipt and delivery to the end consignee of non-EU e-commerce parcels. Non-EU e-commerce goods are delivered using four main delivery streams. These are marked 1 – 4 in Figure 10. Each is described in turn below.

**Stream (1):** A single transporter is responsible for the entire delivery process in a Member State for the parcel. The advantage of this is that the transporter is in full control of all the processes, and can (if they have the capability) offer track and trace and other value added services. Examples of this type of delivery stream are where a Designated Operator or an Integrator (DHL) manages the delivery process from customs to the end consignee.

**Stream (2):** This is an emerging stream in the market. In this scenario, the retailer or platform owner (Amazon) establishes their own transport networks to deliver e-commerce orders where the parcels have to be fulfilled from stocks outside the EU. They also use their networks to deliver their own domestic and intra-EU e-commerce items.

The advantage of this is that they can control costs, increase delivery speeds / flexibility, have assured capacity and can even sell excess transport capacity to other retailers, businesses or carriers. One impact of this is that it reduces the volumes of parcels that are carried by Designated Operators and integrators in the Member States.

**Stream (3):** This type of delivery profile is common where an e-commerce order is sent to a consignee in either a remote area or the lead transporter<sup>36</sup> does not have a network that provides delivery services in the desired location. In such cases, the lead transporter subcontracts the “last Mile” to either a local delivery agent or to the Member State’s designated operator.

The advantage of this is that lead transporters do not need to service uneconomic areas and it generates volumes for local delivery agents or the designated operator. It also ensures that citizens in remote areas are not overly disadvantaged regarding access to domestic, intra-EU or non-EU e-commerce opportunities.

The challenge for the lead transporter is that local delivery agents and the designated operator may not have the technical infrastructure or processes to generate track and trace information. However, this is a diminishing issue due to the use of mobile apps for collecting transit and delivery information at any level of the delivery stream.

**Stream (4):** This scenario is usually found where the end delivery is not made to a physically present consignee.

What happens is that secure facilities (shops, post offices, etc.) or installations (parcel lockers, secure domestic letter box, etc.) are available for holding the parcel until the consignee can pick it up at their convenience. This is increasingly common in high footfall environments such as rail stations, supermarkets, convenience stores, and petrol stations that are proximate to the consignee or on a route (commute) they may regularly take. A variation being trialled by some integrators is delivery on demand using ‘Uber’; autonomous vehicles and drones that allow a consignee to book a suitable delivery time, i.e. the delivery is made when they are available to receive it.

The relative importance of the streams will vary considerably depending on the socio-economic and infrastructural characteristic of a country, area, or locality.

- Streams 1 and 2 are the most important in volume and value terms and are roughly estimated to account for 90% of all deliveries. They can be characterised as being serviced from origin to destination by a single carrier (e.g. DHL Express, Amazon). These streams service high delivery density environments (urban, suburban and industrial areas) where a transporter can cost effectively service an area using their own resources (warehouses, depots, vans, lorries, etc.).
- Streams 3 and 4 represent delivery flows where a transporter (e.g. DPD or GLS) may not have a service presence, specialised capabilities (cold stream, hazardous goods) or require the use of a transport mode they do not possess (localised delivery, inland water, ferry) to achieve a delivery. Streams 3 and 4 provide flexibility to the main transporters (DHL Express, FedEx, UPS, etc.) where their networks may not be able to consistently operate cost effectively (in rural, Low density environments) or require additional resources (transport, storage, processing, etc.) to fulfil the terms of a contract. These additional resources are supplied by a wide range of specialist subcontractors (e.g. cool stream, hazardous

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<sup>36</sup> A lead transporter is the transporter who has the lead contract responsibility to provide transport services to the customer.

goods, pharmaceutical) or small / medium size local delivery firms (limited local service area).

The estimates do not consider the fact that any transporter may also be subcontracted by another transporter and thus have a role (of various importance) in all streams. No reliable breakdown of traffic in the networks that is subcontracted is released as this is highly commercially confidential.

Member States have a wide and varied ecosystem of delivery operators in their jurisdictions. These are critical components of a modern economy and their interaction / cross-compatibility provides flexibility, cost effectiveness and service coverage that no single transporter or agent could provide economically.

Table 3 Key logistics service suppliers by EU Member State, 2020

	National Postal Operator	Major Country Logistics carriers
Austria	Austrian Post	Austrian Post, DHL Express, DHL Parcel, DPD, FedEx, GLS, Hermes, Schenker, TNT, UPS, Airlines
Belgium	bpost	Ciblex, DHL Express, DHL Parcel, DPD, Euro-Sprinters, FedEx, GLS, Mondial Relay, Post Luxembourg, PostNL, TNT, UPS, Airlines
Bulgaria	Bulgarian Post	DHL Express, Econt Express, FedEx, Interlogistica, LEO Express, M&BM Express, Rapido, Schenker, Speedy, Tip-Top Courier, TNT, Transpress, UPS, Airlines
Croatia	Croatian Post	DHL Express, DPD, FedEx, GLS, Intereuropa, Overseas Express, Schenker, Tisak Paket, TNT, Airlines
Cyprus	Cyprus Post	DHL, FedEx, UPS, TNT, Aramex, Deliver4U, Quick Time, Oceanic Logistics, Airlines
Czech Republic	Czech Post	DHL Express, DHL Parcel, DPD, FedEx, Geis, GLS, Schenker, TNT, Toptrans, UPS, Airlines
Denmark	PostNord	Best, Bring, Budbee, Danske Fragtmand, DHL Express, DSV, FedEx, GLS, JetPak, Schenker, TNT, UPS, Airlines
Estonia	OMNIVA	DHL Express, DPD, FedEx, Itella, OSC, Schenker, TNT, UPS, Venipak, Airlines
Finland	Posti	Bring, Budbee, DHL Express, FedEx, GLS, JetPak, Matkahuolto, PostNord, Schenker, TNT, UPS, Airlines
France	La Poste	Amazon, Chronopost, Ciblex, Colissimo, Colis Privé, Dachser, DHL Express, DPD, Eurotranspharma, FedEx, France Express, GLS, TNT, UPS, Airlines
Germany	Deutsche Post	Amazon, DHL Express, DHL Parcel, DPD, FedEx, GLS, GO! Express & Logistics, Hermes, Postcon, Schenker,
Greece	Greece Post	ACS, DHL Express, ELTA courier, FedEx, Speedex, Taxydromiki, TNT, UPS, Airlines
Hungary	Magyar Posta	DHL Express, DPD, FedEx, GLS, Royal Futar Hungaria, Schenker, Sprinter, TNT, Trans-O-Flex, UPS, Airlines
Ireland	An Post,	DHL Express, DPD, Fastway, FedEx, GLS, Nightline, Schenker, TNT, UPS, Airlines
Italy	Poste Italiane	Amazon, BRT, DHL Express, FedEx, GLS, Hermes, Nexive, , Schenker, SDA, SGT, TNT, UPS, Airlines
Latvia	Latvian Post	Autopasts, DHL Express, DPD, FedEx, Itella, OMNIVA, Schenker, TNT, UPS, Velokurjers, Venipak, Airlines
Lithuania	Lithuanian Post	DHL Express, DPD, FedEx, Itella, Baltic Post, Nege, OMNIVA, Schenker, TNT, UPS, Venipak, Airlines
Luxembourg	Post Luxembourg	Ciblex, DHL Express, DHL Parcel, DPD, Euro-Sprinters, FedEx, GLS, Mondial Relay, Post Luxembourg, PostNL, TNT, UPS, Airlines
Malta	MaltaPost	DHL, FedEx, UPS, TNT, Aramex, Yellow Malta, Airlines
Netherlands	PostNL	DHL Express, DHL Parcel, DPD, FedEx, GLS, PostNL, TNT, UPS, Airlines
Poland	Poczta Polska	DHL Express, DHL Parcel, DPD, FedEx, Geis, GLS, InPost, Ruch, Schenker, Airlines
Portugal	CTT Correos	Chronopost, CTT Expresso, Dachser, DHL Express, DHL Parcel, Envialia, FedEx, GLS, MRW, NACEX, RANGEL, Schenker, SEUR, TNT, UPS, Airlines
Romania	Romanian Post	Urgent Cargus, DHL Express, DPD, Fan Courier, FedEx, GLS, Nemo Express, Sprint Courier Express, TNT, UPS,
Slovakia	Slovak Post	DHL Express, DHL Parcel, DPD, FedEx, Geis, GLS, In Time, REMAX, Schenker, TNT, UPS, Airlines
Slovenia	Slovenian Post	City Express, DHL Express, DPD, FedEx, Global Express, GLS, Gold Express, Intereuropa, TNT, UPS, Airlines
Spain	Correos	Amazon, Correos Express, Dachser, DHL Express, DHL Parcel, Envialia, FedEx, GLS, Halcourier, Mondial Relay, MRW, NACEX, Redyser, Schenker, SEUR, TIPSAs, TNT, TOURLINE, UPS, ZELERIS, Airlines
Sweden	PostNord Sverige	Best, Bring, Budbee, DHL Express, DHL Parcel, FedEx, Instabox, JetPak, Schenker, TNT, UPS, Airlines

Source: Effigy Consult 2019, Colum Joyce.

Table 3 is designed to help illustrate the range of potential delivery partners that are available in Member States. It does not take account of the myriad of small delivery agents in the Member States. The smaller transport agents tend to be last mile, highly localised or specialised (one hour delivery, etc.) suppliers to the market. In Ireland alone there are over 450 local couriers. This figure does not take into account the Gig Economy platforms such as “Uber” or single person local bike delivery options that are increasingly important in cities. These agents generally engage in flexible or one-off contracts with larger transporters to provide the required delivery service in the required geographical area for the required price.

Domestic parcel delivery markets used to be more competitively structured than domestic letter markets. However, in terms of B2C delivery services for parcels and, in particular for small packets, the local designated postal operators still have significant market shares in many Member States. In contrast to parcel and express operators, designated postal operators have the opportunity to jointly deliver letters, small packets and parcels to benefit from economies of scope particularly in less populated areas.

To summarise, the primary mode of transport for non-EU e-commerce consignments to the EU is by air. Air transport is roughly estimated to account for over 95% of all addressed e-commerce consignments. The rest are accounted for by road or rail. However, where e-commerce fulfilment is from EU warehouses (this includes any stock point from which an e-commerce order can be fulfilled) the role of sea and rail is key for bulk import of e-commerce orders for later fulfilment. It is roughly estimated that these two transport modes are responsible for 80% of unaddressed / unordered stocks imported for later e-commerce fulfilment.

Air freight contributes less than 1% of the total tonnage of all EU imports but accounts for 25% of the Euro value of all imports from outside the EU according to 2019 statistics from Eurostat. In contrast, imports from non-EU countries transported as postal consignment accounted for less than 0.01% of the total tonnage of all EU imports and for around 0.1% of the Euro value of all imports in the same year. Between 2014 and 2019 non-EU imports by post have increased by 86% in value and by 31% in weight, thus much more than non-EU imports transported by air (38% in value and 8% in weight).

Trade statistics indicate that the share of e-commerce consignments in total imports to EU consumers appears to still be extremely small in weight and relatively small in value particularly if transported as postal consignment. However, the risk of undervaluation and incomplete data with regard to e-commerce consignments is rather high. With the entry into force of new import and tax requirements for e-commerce consignments it should be possible to extract very detailed and precise data on import transport modes, values and even contents as the new dataset required by customs authorities contains information on this. These data are not presently collected by Eurostat but are held by transporters and usually considered commercially sensitive.

### 2.3 Transformation of the international postal services market

In the last decade, the central focus of the Universal Postal Union (UPU) has shifted from the exchange of international documents to the distribution of international e-commerce goods. According to UPU data, conversion from documents to packets is occurring more quickly in international postal markets than in domestic markets. Between 2000 and 2018, the international letter post (including small packets) declined by 52% while the international parcel post grew by 332%. In contrast, in domestic postal markets, letter post volume declined by 28% while parcel post volume increased by 108%, globally.<sup>37</sup>

A significant (but unknown) share of e-commerce purchases from China are imported as international postal items. These are increasing in terms of both volume and tonnage around the world. According to UPU data, the volumes of international parcels grew by 12% in 2015 compared to 2014, while the tonnage increased even more by 16.6%.<sup>38</sup>

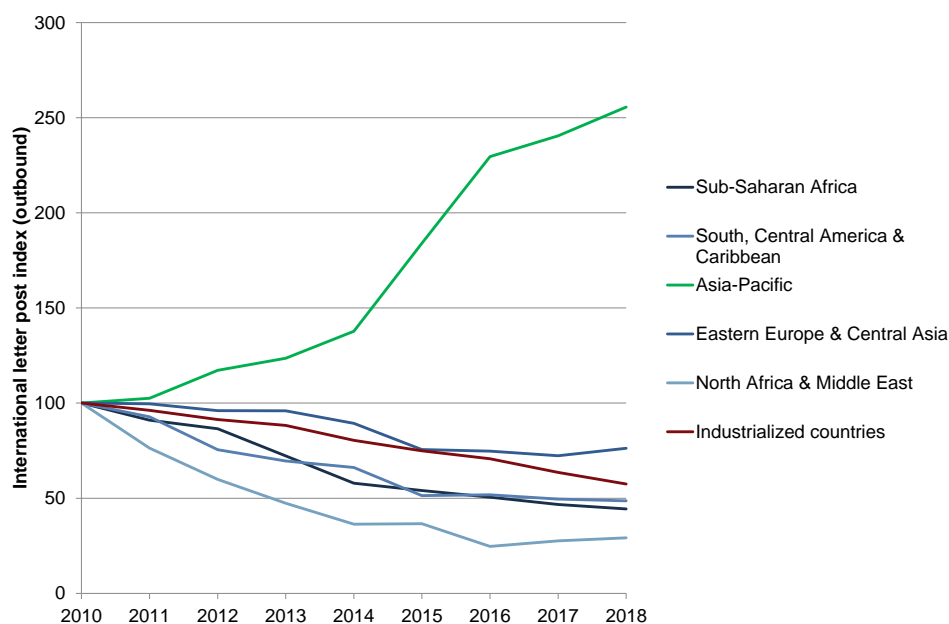
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<sup>37</sup> WIK calculation based on UPU statistics.

<sup>38</sup> See UPU (2016), Research on Postal Markets, Trends and Drivers for International Letter Mail, Parcels, and Express Mail Services – Final Report, p. 19.

The international postal system has become primarily a system for the distribution of international e-commerce goods. The international postal system is the system for transporting and delivering documents and packages in accordance with rules established by the UPU. Players in this international postal system are designated operators as well as associated consolidators (by ownership like ETOEs<sup>39</sup> and sales agents or by contract). 80% or more of e-commerce consignments handled by the international postal system are conveyed in the 'letter post' (international postal service for items weighing less than 2 kg) with the remainder distributed via the 'parcel post' (service for items weighing up to 20 kg or more). In the letter post, goods and other 'E-format items' (goods and documents in 'bulky' packages or parcels) accounted for about 58% of international letter post volume and 86% of the weight in 2018.<sup>40</sup>

Figure 11 Trends in international letter post streams (outbound)



Source: WIK-Consult based on UPU statistics.

Postal consignments from Asia play an important role within these streams. Since 2010 cross-border e-commerce has grown significantly and resulted in a structural change of postal letter post flows. UPU statistics indicate the Asia-Pacific region (which includes China) as the only region to experience a tremendous growth in letter post exports since 2010. This growth is essentially driven by the rise of small packets (E-format letter post items often containing merchandise) while the number of documents sent by letter declined.<sup>41</sup> As a general trend, the volume of small packages (so-called 'E-format' items

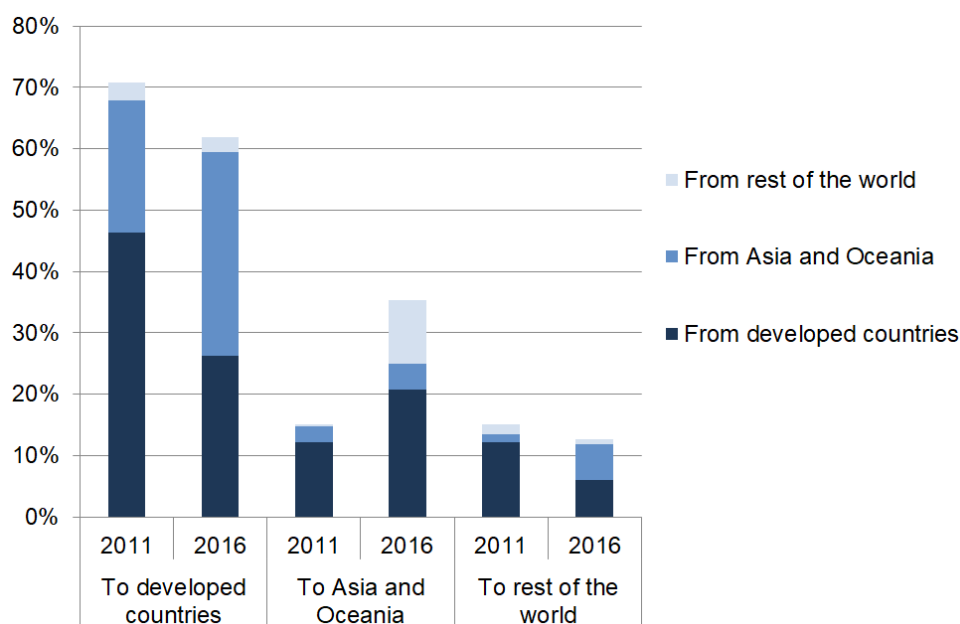
<sup>39</sup> An office which a designated operator operates outside its national territory is called an extraterritorial office of exchange (ETOE). They have International Mail Processing Centre Codes (IMPC codes) and can apply the UPU documentation for postal freight for the linehaul transport between regions and postal customs procedures for the country of destination, see Section 4.3 for more information on ETOEs.

<sup>40</sup> UPU, 2020 Abidjan Congress, Doc 36, paras. 21-22; Proposals 20.29.1, 20.30.1 (17 Mar. 2020). This composition is based on a responses of 32 designated operators in a 2018 survey of the composition of letter post exchanged within the Target System. UPU, POC C2 2019.1 Doc 4a Issues relating to the Remuneration Integration Group — Update of the results of the IPK Study (28 Feb. 2019), Annex 1 Table 6c (hereafter '2018 IPK Study'). It appears that the figures in this study have been updated for the 2020 Terminal Dues Proposals.

<sup>41</sup> See UPU (2019), Postal economic outlook 2019, latest trends in an evolving sector, February 2019.

in the letter post stream) from China to EEA Member States has increased massively during recent years which is mirrored in the volume trend of international letter post from Asia-Pacific (see Figure 11).

Figure 12 Share of postal tonnage for packets between world regions



Source: International Bureau of the UPU (2017), Towards better measurement of e-commerce flows and readiness, presentation by Dr. José Ansón, UNCTAD E-commerce Week, 27 April 2017.

The UPU does not publish volume data for international relations<sup>42</sup> but the development of tonnage in international postal flows between world regions provides some insights. The tonnage for all international postal items (letters, parcels, and express items) has grown considerably in the last years.<sup>43</sup> The share sent by designated postal operators in Asia to all world regions also increased, from 25.5% in 2011 to 43.2% in 2016. Flows between Asia and developed countries (including EU Member States and other non-EU countries) accounted for one fifth of worldwide postal tonnage in 2011 and grew to one third in 2016 (see Figure 12).<sup>44</sup>

<sup>42</sup> UPU statistics on country level (USP) show the volume of international letters but do neither include information on the format (letters or small packets, i.e. E-format items) nor the destination country. Aggregated information provided by the UPU International Bureau, e.g. in market reports or the Item-per-Kilogramme-study, provide information on flows between country groups in the different target system groups. Breakdowns for single relations such as China-France or world regions such as Asia-Europe are not published.

<sup>43</sup> Research shows that postal tonnage almost doubled between 2010 and 2015, see UPU (2016), Research on postal markets, Trends and drivers for International Letter Mail, Parcels, and Express Mail Services, p. 18-19.

<sup>44</sup> See International Bureau of the UPU (2017), Towards better measurement of e-commerce flows and readiness, presentation by Dr. José Ansón, UNCTAD E-commerce Week, 27 April 2017.



## 2.4 VAT relief for low-value consignments

For most of the twentieth century, international postal services handled only a small number of mostly non-commercial packets. Customs procedures for postal packets originated in the 1920s, long before the recent flood of international e-commerce goods and, at least as importantly, before the onset of the twin plagues of terrorist bombs and synthetic drugs like fentanyl. Unlike other types of international transportation services, not all universal service providers currently provide customs authorities with electronic data on packets conveyed in advance of arrival at the port of entry. Moreover, the UPU Convention exempts universal service providers from liability under national customs laws. In many countries, national laws also provide for special simplified customs treatment for inbound postal packets. The result has been that national customs authorities far less able to control imported postal packets than packets or containers imported by express carriers or freight forwarding companies.

The growth in international e-commerce consignments, particularly from China, challenges designated postal operators and express operators as well as the local custom authorities. Many items are of low value and therefore subject to VAT relief. The European Commission estimates that the number of these consignments amounted up to 115 million items for all 28 Member States in 2013, an increase of about 28% compared to 2009.<sup>45</sup> These items do not require a customs declaration, but are only required to be presented at the customs authority. Incomplete control by customs authorities resulted in several problems including undervaluation (avoiding import VAT), import of counterfeit goods, and import of goods that do not comply with EU requirements on product safety.

Low-value consignments from outside the EU are exempt from VAT if the intrinsic value of the item is below the threshold defined by Directive 2009/132/EC (€10, may be extended to €22). Most Member States have set the threshold at €22, while some Member States (BG, CY, DK, RO, UK, and IS) apply lower limits. Norway applies a higher threshold while in Switzerland low-value consignments are not exempted from VAT.<sup>46</sup>

On the downside, given the increasing volume of goods from outside of the EU sent as low-value consignments (driven mainly by e-commerce growth), the low-value consignment relief (LVCR) particularly benefits non-EU sellers by enabling them to offer products at comparatively lower prices than EU sellers, for whom VAT is charged on sales. For example, VAT can be as high as 27% in some Member States, presenting a substantial advantage to non-EU businesses if VAT is not applied. Moreover, a substantial portion of potential state revenue is being forgone.<sup>47</sup>

An unintended consequence of the LVCR emerges from fraudulent behaviour of suppliers (e.g. under-declaring the value of the goods in a consignment, or mislabelling the true contents of the package) in order to benefit from VAT relief. A special report by the European Court of Auditors (ECA) (2017) provided evidence from one Member State that imports from Asia were being undervalued by between 10 to 100 times of the actual valuation.

As reports by the European Commission (DG TAXUD) suggest, e-commerce goods bought from outside the EU can be systematically undervalued, or declared as gifts and

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<sup>45</sup> See European Commission (2015), Assessment of the application and impact of the VAT exemption for importation of small consignments, Final report, May 2015, p. 37.

<sup>46</sup> See GEA, Overview of de minimis value regimes open to express shipments worldwide, last update: 18 November 2019.

<sup>47</sup> See GEA, Overview of de minimis value regimes open to express shipments worldwide, last update: 18 November 2019.

therefore falsely exempted from VAT. The European Commission estimates the loss of VAT due to undervaluation and fraud to be even higher than the VAT lost due to the de-minimis threshold: lost VAT due to the thresholds is estimated at up to EUR 535 million in 2013,<sup>48</sup> and up to EUR 1 billion in 2015, while lost VAT due to undervaluation and fraud is estimated at another EUR 4 billion.<sup>49</sup> It is further estimated in study by Deloitte (2015), that the VAT loss in the EU associated with non-compliance on cross-border online transactions to be between EUR 2.6 billion and EUR 3.8 billion in 2013.<sup>50</sup> In a follow-up study,<sup>51</sup> they estimate that the amount of VAT revenue forgone in the EU due to the LVCR ranged between EUR 750 million and EUR 1 billion.

A mystery shopping study commissioned by UPS showed that VAT and customs duties are less likely to be charged when goods are shipped by designated operators than by express carriers.<sup>52</sup> A report by the German Federal Court of Auditors showed that less than 1% of postal consignments bearing CN 22 customs declarations are controlled at random, of which 22% contained undervalued or counterfeit items, or violated import restrictions.<sup>53</sup> A recent survey among postal and express operators provided estimates on the share of consignments controlled at random, ranging between 1% to 2% by customs authorities in Latvia, and 10% to 15% in Bulgaria.<sup>54</sup>

In a special report by the ECA,<sup>55</sup> they carried out a test to verify whether Member States' electronic customs clearance systems for postal and courier operators enable them to prevent abuses of the LVCR. It was found that all electronic customs systems of the five visited Member States (AT, DE, IE, NL, and SE) accepted declarations that were not eligible for the LVCR. Furthermore, the study examined 75 import declarations submitted by postal and courier operators each, and found: for postal operators 35 out of 75 abused the LVCR, of which in 8 cases the declarant was a particular Authorised Economic Operator (AEO)<sup>56</sup>, and for express couriers 28 out of 75 abused the LVCR, of which 21 were from AEOs.

Statistics from the German customs authority on their results of checks in the category of small, low-value consignments show that detected consignments mostly include products like shoes and fashion as well as products of personal care and toys. Most of the detected items came from China (around 80%) followed by Hong Kong (around 3%).<sup>57</sup> In their

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<sup>48</sup> European Commission (2015), Assessment of the application and impact of the VAT exemption for importation of small consignments, Final report, May 2015, p. 46. See also Deloitte (2015), VAT aspects of cross-border e-commerce – Options for modernisation, Final Report, Lot 1, October 2015.

<sup>49</sup> See EC, Presentation by DG TAXUD, EU VAT for imports of low value goods.

<sup>50</sup> See Deloitte (2015), VAT Aspects of cross-border e-commerce – Options for modernisation. Final report – Lot 1. Economic analysis of VAT aspects of e-commerce. Conducted for DG TAXUD.

<sup>51</sup> See Deloitte (2016), VAT Aspects of cross-border e-commerce – Options for modernisation. Final report – Lot 2. Analysis of costs, benefits, opportunities and risks in respect of the options for the modernisation of the VAT aspects of cross-border e-commerce. Conducted for DG TAXUD.

<sup>52</sup> See Copenhagen Economics (2016), E-commerce imports into Europe: VAT and customs treatment, Study for UPS, May 2016.

<sup>53</sup> See Federal Court of Auditors/Bundesrechnungshof (2010), Annual Report.

<sup>54</sup> See European Commission (2015), Assessment of the application and impact of the VAT exemption for importation of small consignments, Final report, May 2015, Annex J.

<sup>55</sup> See ECA (2019), E-commerce: many of the challenges of collecting VAT and customs duties remain to be resolved. Special Report No 12/2019.

<sup>56</sup> The AEO concept is based on the Customs-to-Business partnership introduced by the World Customs Organisation (WCO). Traders who voluntarily meet a range of criteria work in close cooperation with customs authorities to assure the common objective of supply chain security and are entitled to enjoy benefits throughout the EU. For more detail, see Section 3.3.2 in this report.

<sup>57</sup> See Deutsche Zollbehörde, Das Kleinsendungsverfahren (Art. 26 VO (EU) Nr. 608/2013) im Überblick, 2017-2019.

2019 statistics on the fight against brand and product piracy, the German customs authority reported that nearly three quarters of the detected items came from China or Hong Kong and more than half of the detections were transported by post.<sup>58</sup>

Today, customs procedures for low-value items are very different depending on the type of operator – postal (DO) or non-postal. For postal consignments, the CN 22 form is applied for low-value consignments and benefit from simplified customs procedures for these items. They are presented to customs but are only subject to random controls. Other operators such as express carriers have to carry out a full customs procedure under current VAT and customs legislation for low-value items not subject to VAT relief, and must provide documentation on the value of the item.<sup>59</sup>

While simplified customs procedures facilitate trade, they might be at odds with collecting VAT and securing intellectual property rights. Customs authorities seem to carry out controls with very different levels of intensity. EuroCommerce reports in their position paper that, in 2017, almost 60,000 detention cases were registered by customs authorities across the EU.<sup>60</sup> This number is very low compared to the number of parcels entering the EU (e.g. 150,000 every day in Sweden alone). Bulgarian authorities detected 700 infringements of intellectual property rights with 1.1 million articles (all transport means including postal traffic), while the UK detected an only slightly higher number of cases (1,076 with 1.4 million articles). Other EU Member States such as Italy and Spain detected almost 4,000 cases each.<sup>61</sup> While there are no figures of intellectual property rights infringements transported by designated postal operators on country level, statistics for all EU Member States show that postal traffic accounts for the majority of detected cases (65%) but only 17% of the value.<sup>62</sup> Moreover, if goods sent by post are less likely to be thoroughly checked, it becomes more likely that illegal and prohibited items are smuggled into the EU through the postal network.

### **Case study 1 Small parcels preferred for counterfeit goods**

A study by the OECD (2018) on the misuse of small parcels for trade in counterfeit goods presents evidence that postal and courier routes are the most attractive for facilitating trade in counterfeit goods. In terms of the number of seizures, 65% of seizures of counterfeit goods in the EU involved postal consignments whereas 11% involved express services in 2017. The number of seizures in the EU of postal items actually declined from 57,185 in 2015 to 37,232 in 2017, whereas the number of seizures in express services increased from 5,418 to 6,367 over the same period.

In terms of the value of seizures, container ships clearly dominate (35% of total value, i.e. EUR 203 million), but seizures by post still amounted to 17% of the total value in the EU in 2017, amounting to EUR 102 million. The value of seizures in express services accounted for 20% of the total value in 2017, i.e. EUR 119 million.

At the global level, regarding the size of seized consignments in mail or express transport channels, 53% of global customs seizures only contained one item, and 26% between 2 and 10 items, implying that consignments by post and express tend to be small.

<sup>58</sup> Generalzolldirektion, Jahresstatistik 2019.

<sup>59</sup> See European Commission (2015), Assessment of the application and impact of the VAT exemption for importation of small consignments, Final report, May 2015.

<sup>60</sup> EuroCommerce (2019).

<sup>61</sup> See European Commission (2018), Report on the EU customs enforcement of intellectual property rights: Results at the EU border, 2017, Annexe 1.

<sup>62</sup> Ibid, Annexe 10.

The type of counterfeit products being seized in the mail stream (postal and express), worldwide between 2011 and 2013, comprise of footwear (84%), optical, photographic or medical equipment (77%), electronic or electrical equipment (66%), watches (63%), and leather articles and handbags (63%).

Furthermore, this study found that the overwhelming majority of counterfeit goods, worldwide, originate in East Asia, with China and Hong Kong together accounting for over 80% of seizures made by other countries between 2011 and 2013.

Source: OECD. 2018. Misuse of small parcels for trade in counterfeit goods. Facts and trends.

In order to establish a level playing field for EU sellers, and to fight against undervaluation and fraud, the European Commission initiated the VAT e-commerce package, including the amendment of the VAT Directive 2006/112/EC. The VAT de-minimis rule for the importation of (e-commerce) goods will be abolished by July 1<sup>st</sup>, 2021. The details of the reform and their impact on delivery companies are discussed in Chapter 6 of this study.

## 2.5 Conclusions

Global e-commerce has dynamically grown in the last ten years and cross-border e-commerce plays a significant role in this development, promoted by international online market places. EEA consumers increasingly make cross-border purchases from sellers within and outside the EU. China, the UK and Germany are the most preferred e-commerce markets for EEA consumers' cross-border shopping.

Consumer surveys indicate that during the last five years cross-border online sales of Chinese e-retailers or Chinese platforms have grown more than other foreign e-commerce markets in terms of the number of e-commerce purchases in Europe (notably Germany and the UK) and outside Europe (the United States). This growth is driven by the considerable presence of Chinese e-retailers on international platforms like Amazon, Wish and AliExpress. In particular, the platform Wish attracts Chinese online sellers who only compete in low-price products made possible by low manufacturing and especially by low shipping costs from using China Post for cross-border delivery.

The primary transport mode for non-EEA e-commerce consignments to the EEA is by air. Air transport is roughly estimated to account for over 95% of all addressed e-commerce consignments. The rest are accounted for by road or rail (before COVID-19). However, where e-commerce fulfilment emanates from EU warehouses the role of sea and rail is vital for importing in bulk for later fulfilment of e-commerce orders. It is roughly estimated that these two transport modes are responsible for 80% of unaddressed / unordered stocks imported for later e-commerce fulfilment.

Air freight contributes less than 1% of the total tonnage of all EU imports but accounts for 25% of the Euro value of all imports from outside the EU according to 2019 statistics from Eurostat. In contrast, imports from non-EU countries transported as postal consignments accounted for less than 0.01% of the total tonnage and for around 0.1% of the Euro value of all EU imports in the same year. However, between 2014 and 2019, non-EU imports by postal consignment have increased by 86% in value and by 31% in weight and thus much more than other non-EU imports transported by air (38% in value and 8% in weight). Overall, available trade statistics indicate that EU consumers' share of e-commerce consignments to total imports still appears to be extremely small in weight and relatively small in value, especially if transported as postal consignments. Nonetheless, the risks of undervaluation and incomplete data regarding e-commerce consignments in the postal stream are rather high.

With the entry into force of new import and tax requirements for e-commerce consignments, it should be possible to extract more detailed and precise data on import transport modes, values and even contents as the new dataset required for customs clearance contains this information. These data are not presently collected by Eurostat but are held by transporters and usually considered as commercially sensitive.

The international postal system is the system for transporting and delivering documents and packages (small packets and parcels) in accordance with rules established by the UPU. Key players in the delivery chain are designated operators as well as associated consolidators (by ownership like ETOEs and sales agents or by contract). The international postal system has primarily become a system for the distribution of international e-commerce goods. WIK estimates that 80% or more of e-commerce consignments distributed via the international postal system are conveyed as 'letter post' (international postal service for items weighing less than 2 kg) with the remainder distributed via 'parcel post' (service for items weighing up to 20 kg or more). Within letter post, goods and other 'E-format items' (goods and documents in packets) accounted for about 58% of international letter post volume and 86% of the weight in 2018 (based on the results of the UPU 2018 IPK study).

Postal consignments from Asia play an important role within these streams. Since 2010, cross-border e-commerce has grown significantly and resulted in a structural change of letter post flows. UPU statistics identify the Asia-Pacific region (which includes China) as the only region to experience tremendous growth in letter post exports by a factor of more than 2.5 since 2010, mainly driven by the export of e-commerce consignments as small packets (E-format items).

This growth in imports of low-value consignments, particularly from China, presents challenges to designated operators, customs authorities and e-retailers in the single market. Postal customs clearance of low-value consignments has traditionally been paper-based and checks for compliance with the customs and VAT rules by customs authorities in the country of destination are based on sampling. This created incentives for non-EU online sellers to provide incorrect information for postal customs declarations resulting in VAT and customs fraud. Moreover, this channel was increasingly used to import merchandise that do not comply with intellectual property rights (counterfeit), product safety rules and security rules (e.g. for air transport). Extremely low delivery costs and the VAT relief for low-value consignments have benefitted online sellers in China and have led to competitive distortions in the EU e-commerce and retail markets.

### 3 International postal services and import models for e-commerce consignments

#### 3.1 Universal Postal Union and the postal product classification

The Universal Postal Union (UPU) is an intergovernmental organisation and a specialised agency of the United Nations which governs the provision of international postal services. The UPU includes 192 member countries, i.e. almost all countries in the world. The headquarters of the UPU is located in Berne, Switzerland, where it maintains a permanent staff, the 'International Bureau'.<sup>63</sup> The organisation and legal framework of the UPU are described in the next chapter. For the purposes of this chapter, it is necessary to provide an overview of the types of international postal services developed under the auspices of the UPU.

The exchange of international mail between countries is currently governed by the Universal Postal Convention (UPU Convention) adopted by a general Congress of the UPU that met in Istanbul in 2016 and by the Convention Regulations adopted in 2017 by the Postal Operations Council, a committee of the UPU.<sup>64</sup> In the UPU, national postal operators are called 'designated operators'. A designated operator is '*any governmental or non-governmental entity officially designated by the member country to operate postal services and to fulfil the related obligations arising out of the Acts of the Union*'.<sup>65</sup> In almost all countries, the designated operator is the postal administration or its corporatised successor.

The 2016 UPU Convention distinguishes between two categories of postal items based on content: *documents* and *goods*. A 'document' is defined as 'any piece of written, drawn, printed or digital information, excluding objects of merchandise'. A 'good' is any tangible and movable object that is not a document (other than money).<sup>66</sup> Documents and goods may be transmitted between designated operators by means of three international postal services: the letter post, parcel post, and EMS.

The **letter post** is a service for the international exchange of documents and goods weighing up to 2 kilograms. The letter post is the primary service of the international postal system and is roughly equivalent to domestic priority mail. The UPU differentiates three shapes or formats in the letter post: small envelopes or 'P-format' (for the French *petit*), large flat envelopes or 'G-format' (*grand*), and bulky items or 'E-format' (*encombrant*).<sup>67</sup> Somewhat confusingly, 'E-format' includes both bulky documents and all goods regardless of shape. Goods in the letter post are called 'small packets'. In sum, the letter post today consists of two streams which may be termed: (1) PG documents,

<sup>63</sup> The internet site of the Universal Postal Union is [www.upu.int](http://www.upu.int). The Constitution as amended by the 2016 Istanbul Congress, the 2016 UPU Convention, and resolutions of the Istanbul Congress may be found in UPU, *Decisions of the 2016 Istanbul Congress* (2017). The Constitution and related agreements, together with annotations by the International Bureau, are set out in UPU, *Constitution and General Regulations* (2018). The 2016 UPU Convention and the Convention Regulations (adopted by the POC in 2017 and periodically amended), together with annotations by the International Bureau, are set out in UPU, *Convention Manual* (2018).

<sup>64</sup> As explained in Chapter 4, both the 2016 Convention and the 2017 Convention Regulations have subsequently been amended.

<sup>65</sup> UPU Convention (2016), art. 1.12.

<sup>66</sup> UPU Convention (2016), arts. 1.4, 1.5.

<sup>67</sup> UPU Convention (2016), art. 17.

envelopes that include only documents and weigh no more than 500 grams and (2) E-format items, small packets and bulky documents which weigh up to 2 kilograms.<sup>68</sup>

The **parcel post** is a service for the international exchange of packages weighing up to 20 kilograms (weight limits may be extended by origin and destination countries). Even though the parcel post and letter post both handle packages weighing less than 2 kilograms, they are operationally distinct.

**EMS** (originally, express mail service) is an especially rapid service for the international exchange of documents and packets weighing up to 30 kg.

In this study, we will use the terms '**package**' (non-UPU terms) that include, in UPU terminology, both (i) E-format items conveyed in the letter post and (ii) 'parcels' conveyed in the parcel post. 'Packages' is often a more convenient term than 'goods' because UPU statistics rarely distinguish between goods and E-format items (which include bulky documents) and never distinguish between documents and goods in the parcel and EMS services.<sup>69</sup>

Of these three international postal services, the letter post is by far the most important both in the conveyance of documents and in the distribution of e-commerce goods. Figure 13 shows the approximate breakdown of volumes between the three services in 2018. This figure is based on the official UPU estimate for total letter post volume in 2018, 3.55 billion items. As explained in Section 5.2, additional evidence suggests that the total letter post volume in 2018 may have been significantly higher. To place the international postal system in context, the UPU has recently estimated that, by revenue, international postal services have 73% of the broader international market for the transportation of letter post items, 38% of the international parcels market, and 40% of international express service markets.<sup>70</sup>

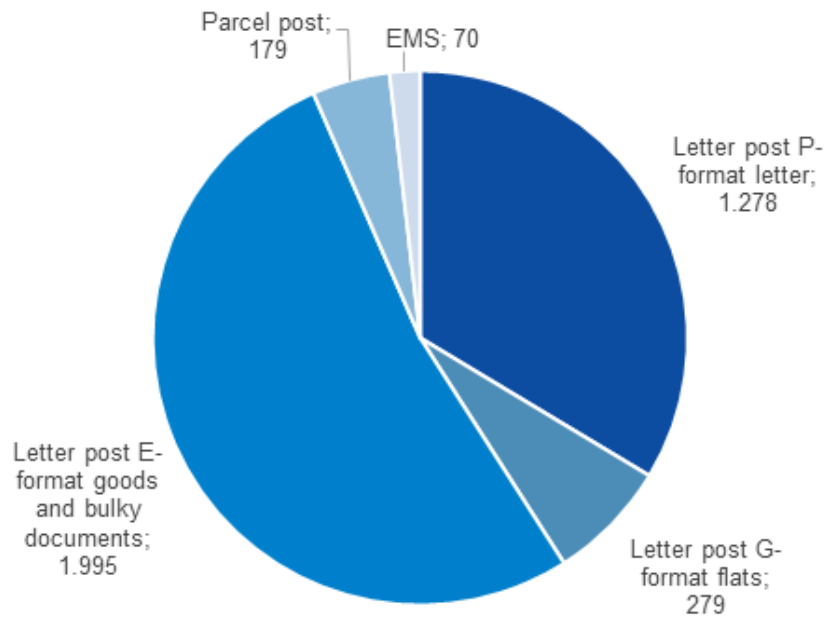
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<sup>68</sup> The Convention Regulations provide that small packets weighing up to 5 kg may be admitted if agreed by origin and destination designated operators. UPU Convention (2016), arts. 17.2-17.6; UPU Convention Regulations (2017), art. 17-103. The origin designated operator may also, in its discretion, send consignments containing printed papers or books and pamphlets weighing up to 5 kg. Shipments containing books and pamphlets weighing up to 10 kg may be admitted by bilateral agreement.

<sup>69</sup> For comparison, the term 'parcel' as used in the EU Parcels Regulation, is essentially equivalent to the UPU term 'good'. Article 2(1) of the Parcels Regulation defines 'parcel' as 'a postal item containing goods with or without commercial value, other than an item of correspondence, with a weight not exceeding 31.5 kg.' The EU term 'parcel' includes both 'small packets' and 'parcels containing goods' (in a UPU sense).

<sup>70</sup> UPU, International Bureau, *Postal economic outlook 2019: Latest trends in an evolving sector* (Feb. 2019), page 4. <https://www.upu.int/en/Publications/Postal-economics/Postal-economic-outlook-2019>.

Figure 13 International postal services 2018



2018 volumes in millions.

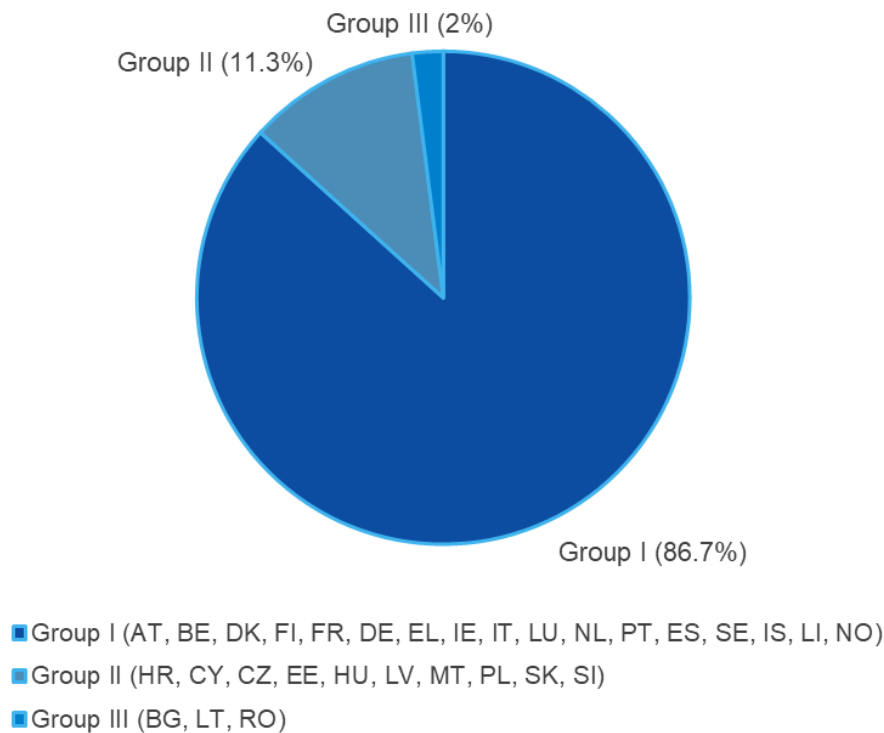
Source: UPU Statistics; UPU, POC 2019.3–Doc 7 (16 Sep. 2019) (EMS); UPU, POC C2 2019.1 Doc 4a (28 Feb. 2019) (IPK study).

Given the central importance of the letter post, the most detailed UPU statistics are based on that service. For reasons relating to payments between designated operators for delivery of inbound letter post (‘terminal dues’), the UPU divides member countries of the UPU into four groups. Group I consists of 28 industrialised countries, including 18 European Member States. Group II consists of 25 high-level developing countries, including the important e-commerce hubs Singapore and Hong Kong (a territory of China treated separately in the UPU). Group III includes 38 mid-level developing countries of which the most significant is China. Group IV includes 100 low-level developing countries.

Among the 27 EU Member States, 14 EU Member States are Group I countries (AT, BE, DK, FI, FR, DE, EL, IE, IT, LU, NL, PT, ES, and SE), 10 are Group II countries (HR, CY, CZ, EE, HU, LV, MT, PL, SK, and SI) and 3 are Group III countries (BG, LT, and RO). The three additional EEA Member States (IS, LI, and NO) are all Group I countries. Figure 14 shows the approximate distribution of inbound letter post (including intra-EEA) to the three UPU groups represented in the EEA.



Figure 14 EEA inbound letter post volume by destination terminal dues group, 2018



Source: Estimates by WIK (EU-27).

Within the international letter post, goods are rapidly taking the place of documents, especially in flows from large e-commerce countries like China. We estimate that the international postal system is dominated by six designated operators (CN/HK, DE, FR, NL, UK, US) that appear to account for at least 70% of outbound international E-format items. Roughly half (or more) of postal e-commerce items received in the EEA appears to originate in China and is conveyed to EEA countries via China Post and a variety of other postal channels including remail and ETOE operations of major EEA designated postal operators (see Section 3.2 below).

The UPU terminal dues system and its most recent amendments, including the introduction of self-declared rates for inbound E-format items, are discussed in Chapter 4 of this study. The economic impact on EEA designated postal operators, e-retailers and consumers is analysed in Chapter 5.

### 3.2 EEA markets for international postal services

In this section, we present our analytical results regarding international postal flows from and to as well as within the European Union (including the UK) and the EEA Member States Iceland and Norway. The analysis is based on the WIK survey results from national regulatory authorities and designated operators. We present data for 2018 and where possible for 2013 to identify past trends. For this reason the data presented refer to EU-28

including the UK. However, there are serious shortcomings in the data collected from regulators and designated operators.<sup>71</sup>

- Regulators and designated postal operators apply different definitions on international packets and parcels. Regulators provided data they collected following the definitions of the EU Cross-border Parcel Regulation.<sup>72</sup> The Regulation defines that cross-border parcels include both, international small, light-weight packets (i.e. E-format letter post according to the UPU definition) and 'normal' parcels up to 31.5 kg. So, regulators provided data without (they are mostly unable to provide) an indication of which were E-format packets and other parcels. Designated operators, in contrast, were asked to provide volume data on total international letter post, E-format packets and parcels separately.
- Irrespective of the source (regulator or designated operator), it is not clear how they dealt with remail volume, i.e. international letter post volume handed over to a designated operator in the EU country of entry but not destined to the country of entry (transit volume). Therefore, double-counting of international letter post could be possible on the one hand, and a shift from non-EU letter post imports to intra-EU imports and exports could be likely on the other hand.
- Some designated operators, particularly the largest ones in terms of volume and revenue, Deutsche Post and Royal Mail, did not provide any data on international postal volume. As the import and export of international postal consignments has become a highly commercial business (also driven by the booming e-commerce consignments), with significant competition between a handful of designated operators, they increasingly consider volume and revenue data of the international postal business as commercially sensitive.

Keeping these shortcomings in mind we were still able to prepare some useful statistics based on the survey results.<sup>73</sup> Developments in the EU markets for postal services confirm the trends highlighted in UPU reports. Domestic and international letter post volumes have declined while domestic and international parcels have continued growing. The ERGP presented in their 2019 report on postal core indicators that, between 2014 and 2018, total letter post volume declined annually by 5%, on average, to 60.4 billion items (2018). In contrast, the number of total parcels has increased annually by 7%, on average, to 9.2 billion items in the same period.<sup>74</sup>

For export letter post, we observed a similar trend as for total letter volume. For EEA Member States, outbound letter post volumes declined more than 6% per year, on average, between 2013 and 2018. With an estimated 2.3 billion items (2018), they account for less than 4% of total letter post volume. In contrast, import letter post (or inbound letter post volumes) has declined only slightly less than 1% on average each year since 2013 amounting to 2.6 billion items in 2018.<sup>75</sup> This indicates that the increase in

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<sup>71</sup> See also Section 5.2 for a detailed discussion on the quality of data:

<sup>72</sup> Regulation (EU) 2018/644 of the European Parliament and of the Council of 18 April 2018 on cross-border parcel delivery services, OJEU L112/19 of 2.5.2018.

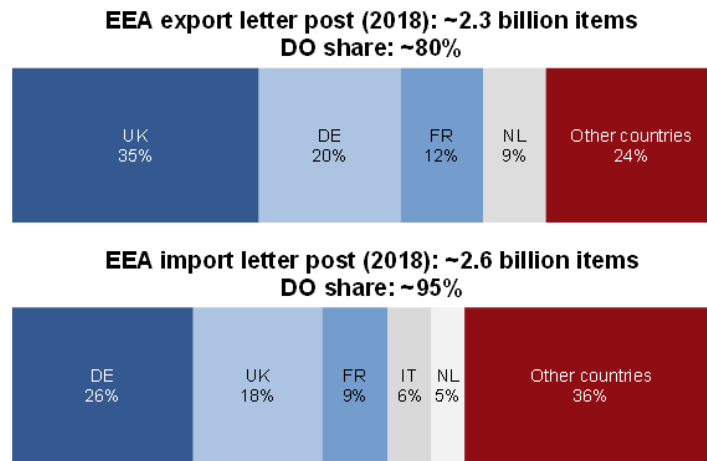
<sup>73</sup> As the collected data were incomplete, WIK prepared estimates for countries with missing or incomplete information. A few NRAs (BE, FI and SE) and DOs (NL and SE) provided volume data on a confidential basis.

<sup>74</sup> ERGP (2019), ERGP Report on core indicators for monitoring the European postal market, 17 December 2019, Figure 27. We understand that total volume includes domestic and cross-border outbound volume.

<sup>75</sup> Growth rates are WIK estimation based on WIK survey and WIK estimates. Missing 2013 data from DE, DK, LI, LU and UK.

import e-commerce packets in the international letter post stream appears to have mostly compensated for the decline in import letters.

Figure 15 Export and import letter post and DO shares (EEA, 2018)

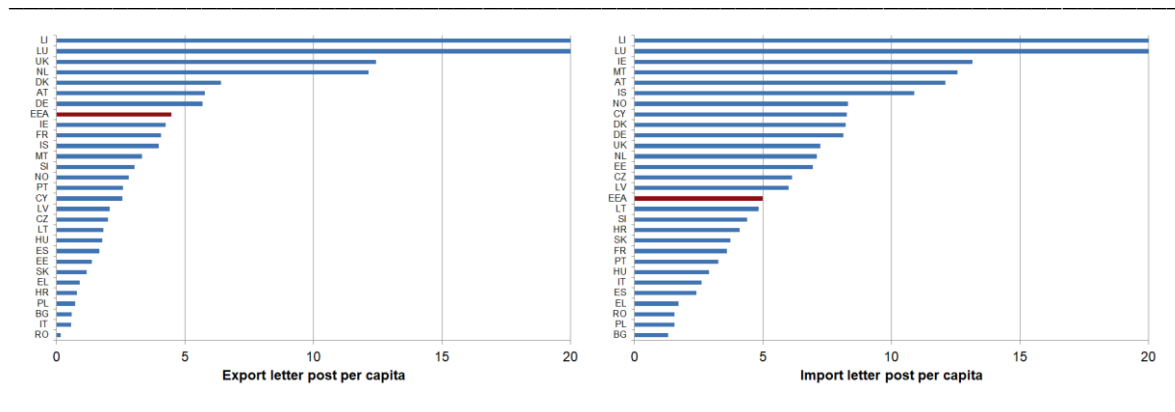


Source: WIK survey and WIK research.

Figure 15 presents the total volume of international letter post for the EEA Member States (EU-28, Norway, Iceland, and Liechtenstein). The largest postal markets in the EU, i.e. France, Germany and the UK, dominate the international letter post market – two-thirds of the export and more than half of the import letter post market (by volume). In total, the EEA appears to be a net importer; the number of import letter post is higher than that of export letter post. The Brexit will significantly increase the gap between exports and imports due to the outstanding role of the UK in international postal services and e-commerce: based on 2018 numbers, WIK estimates that EEA export letter post would decline to 1.5 billion items and EEA import letter post to 2.1 billion items after the Brexit.

At DO level, the figures are slightly different. WIK estimates that around 95% of total import letter post (2.4 billion items) was delivered by designated operators. The DOs' share on export letter post amounts to approximately 80% (1.8 billion items, weighted averages at EEA level).

Figure 16 Export and import letter post per capita (EEA, 2018)



Source: WIK survey, WIK research, Eurostat.

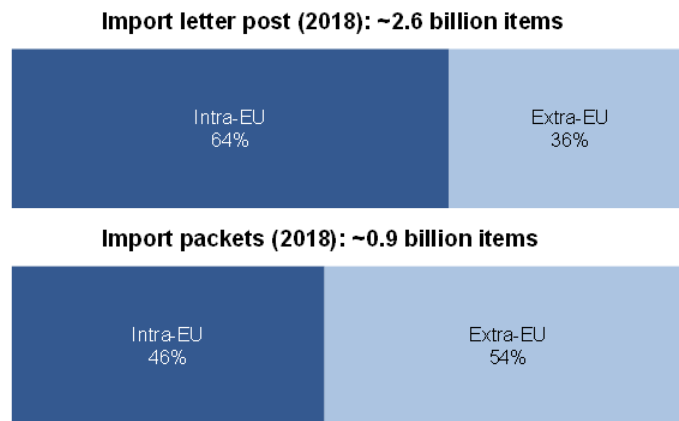
Notes: BE, FI and SE: confidential; DK, HU (import), SI, UK: WIK estimates. LI and LU have exceptionally high values: LI 192 (export) and 207 (import); LU 52.5 (export) and 33 (import). Export letter post includes remail in some Member States (share unknown).

Figure 16 presents the export and import letter post volume per capita for EEA Member States (market volume). It highlights the significant variety in international letter post volume among the Member States. Notably, small countries generally have a relatively high number of international letter post per capita (e.g. Iceland, Liechtenstein, Luxembourg, Malta, and Ireland) compared to larger countries.

Most Member States appear to be net importers for international letter post, even Member States like Germany and Spain. Others, like the Netherlands and the UK are net exporters. However, the market figures do not show the complete picture as remail or direct injection of international letter post from international consolidators in selected EU Member States for further dispatch to other Member States, is not fully reflected in the numbers. Judging from the activities in collecting international letter post in countries of origin (within the EU and outside the EU, in the US and in Asia), WIK estimates the following designated postal operators are likely to be net exporters of international letter post: PostNL/Spring, Royal Mail, bpost, Correos, Deutsche Post DHL, and La Poste/Asendia.

The geographical distribution of international letter post imports and exports, in total and in small packets (E-format), is discussed next.

Figure 17 Import letter post and small packets: Region of origin (EEA, 2018)

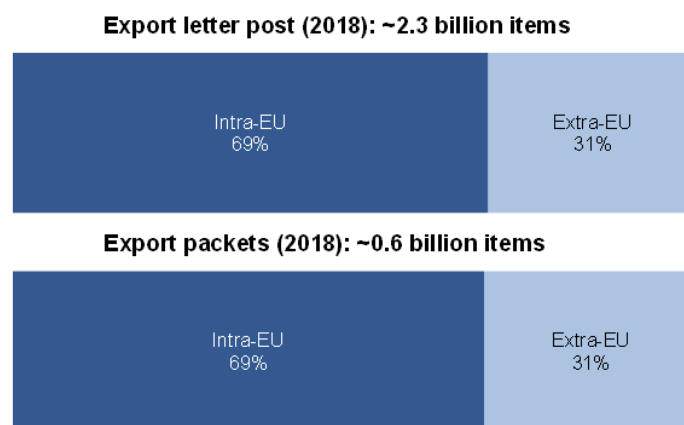


Source: WIK survey and WIK research.

Note: Import small packets (E-format) reported by designated postal operators.

While international letters from EEA Member States (intra-EU) account for nearly two-thirds of total import letter post (see Figure 17) more than half of import packets (E-format) came from origins outside the EU. In 2018, around 900 million import packets (E-format) were delivered by designated postal operators in EEA Member States (including UK), thereof more than half were from extra-EU origins. Four-fifths of those from extra-EU origins were from China. WIK estimates that approximately 400 million packets were sent from China/Hong Kong to EEA Member States.<sup>76</sup>

Figure 18 Export letter post and small packets: Region of destination (EEA, 2018)



Source: WIK survey and WIK research.

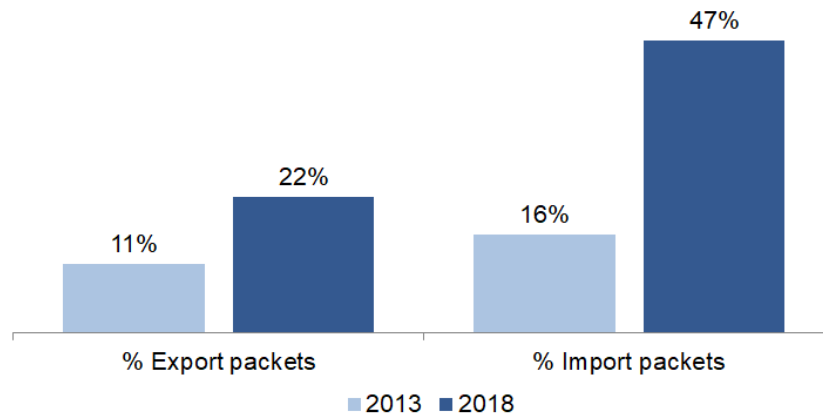
Note: Export packets reported by designated postal operators.

The situation appears quite different for export packets. Nearly 70% of export letter post and packets have not left the EEA, more precisely, only 31% had extra-EU countries of

<sup>76</sup> WIK estimation. DO of 16 EEA Member States (AT, BE, FI, FR, EL, HU, IS, IE, IT, LT, NO, MT, RO, SE, SK, and SI) provided responses to the question on the share of E-format items from China.

destination. Moreover, the number of export packets is around 0.6 billion items, only two-thirds of the number of import packets.

Figure 19 Share of packets in total international letter post of DOs, 2013 and 2018



Source: WIK survey, based on responses of 13 designated postal operators (export) and 15 designated postal operators (import) provided for 2013 and 2018.

Between 2013 and 2018, the number of import and export packets has grown. Import items increased with an average annual growth rate of 18% which is twice as much than for export items. While total international letter post, import and export, has declined, the share of E-format packets has significantly increased, see Figure 19. In 2018, nearly half of import letter post consisted of E-format packets.

In order to tackle the growing volume of small packets from outside Europe, postal operators switched from manual to automatic sorting of small packets. They invested in sorting technology (small parcel sorters) and IT systems in international postal centres, thereby increasing the sorting capacity and the automatic reading of the CN 22 and CN 23 forms in order to improve the rate of automation of small packets.<sup>77</sup>

- An Post relocated its international parcel sorting office from Portlaoise to a new automated Dublin Parcels Hub.<sup>78</sup>
- Postnord Sweden: International small parcels (Asia imports) used to be a special challenge for PostNord Sweden. In the past, they were only able to sort them manually. PostNord Sweden invested in advanced AI-based reading and sorting technology, enabling the automatic sorting of these items at small parcel sorters in the mail terminals.<sup>79</sup>
- Deutsche Post DHL invested in new sorting technology at their international sorting centre in Frankfurt. The new sorter is able to process various formats and weight classes starting from 20 g and is equipped with software that enables reliable extraction and interpretation of address information, logos and labels

<sup>77</sup> See also Section 6.3 for more information on the challenges of DOs in the handling of international e-commerce consignments for purposes of customs clearance.

<sup>78</sup> BreakingNews.ie, An Post's international sorting office relocating to new €15m Dublin hub, 30 March 2020 (<https://www.breakingnews.ie/business/an-posts-international-sorting-office-relocating-to-new-15m-dublin-hub-990986.html>).

<sup>79</sup> See the case study on Sweden in Section 6.2.1.

through optical character recognition. Mail in different packaging materials and of varying shapes with different print qualities can thus be processed accurately.<sup>80</sup>

- Royal Mail invested in their international sorting centre near Heathrow to improve the automatic handling of international postal consignments.

### Competition

Designated postal operators face more competition for export letter post than for import letter post in their home countries. However, the main competitors in export letter services are postal consolidators that are mostly owned by one of the larger European postal operators. The most active players in this field are Asendia (La Poste and Swiss Post), Spring (PostNL), Deutsche Post DHL, and Postnord's Direct Link.

Table 4 Distribution of ETOEs in the EEA

Country	# ETOEs (EEA DOs)	PostNL	Swiss Post	Deutsche Post	Posten / PostNord	bpost	La Poste	Omniva	Royal Mail	ETOE of other EEA DOs
UK	13									An Post, Correos, CTT Correios, Iceland Post, Maltapost and Österreichische Post
DE	10									Österreichische Post, Latvia Post and Slovak Post
NL	9									Correos, Liechtensteinische Post, Lietuvos Pastas
AT	6									Liechtensteinische Post
FR	4									
SE	4									Norway Post
BE	3									
DK	3									Norway Post
ES	3									
IT	3									
FI	2									
NO	2									
CZ	1									Liechtensteinische Post
IE	1									
	64	9	9	6	6	5	5	4	4	16

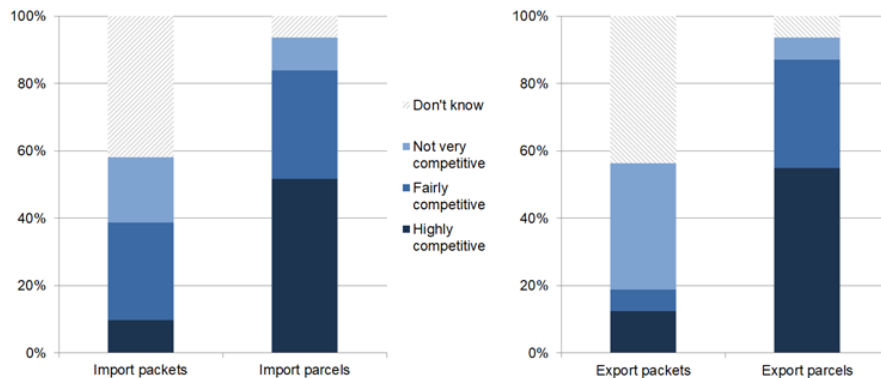
Source: Based on UPU, List of Valid IMPC, October 2019 and WIK survey.

This is also reflected by the distribution of ETOEs launched by EEA designated postal operators in other EEA Member States (see Table 4). PostNL (Spring) and Swiss Post / La Poste (Asendia) have established ETOEs in nine EEA Member States, followed by Deutsche Post with six ETOEs. Posten (PostNord) operates six ETOEs especially in the Nordic countries. The most attractive countries for ETOEs launched by EEA designated postal operators are the UK, Germany and the Netherlands.<sup>81</sup>

<sup>80</sup> CEP Research, Siemens receives order from Deutsche Post for international hub, 6 June 2019.

<sup>81</sup> See Section 3.3.3 for more information on ETOEs in non-EU countries.

Figure 20 Perceived competition for import and export small packets (E-format) and parcels by NRAs



Source: WIK survey

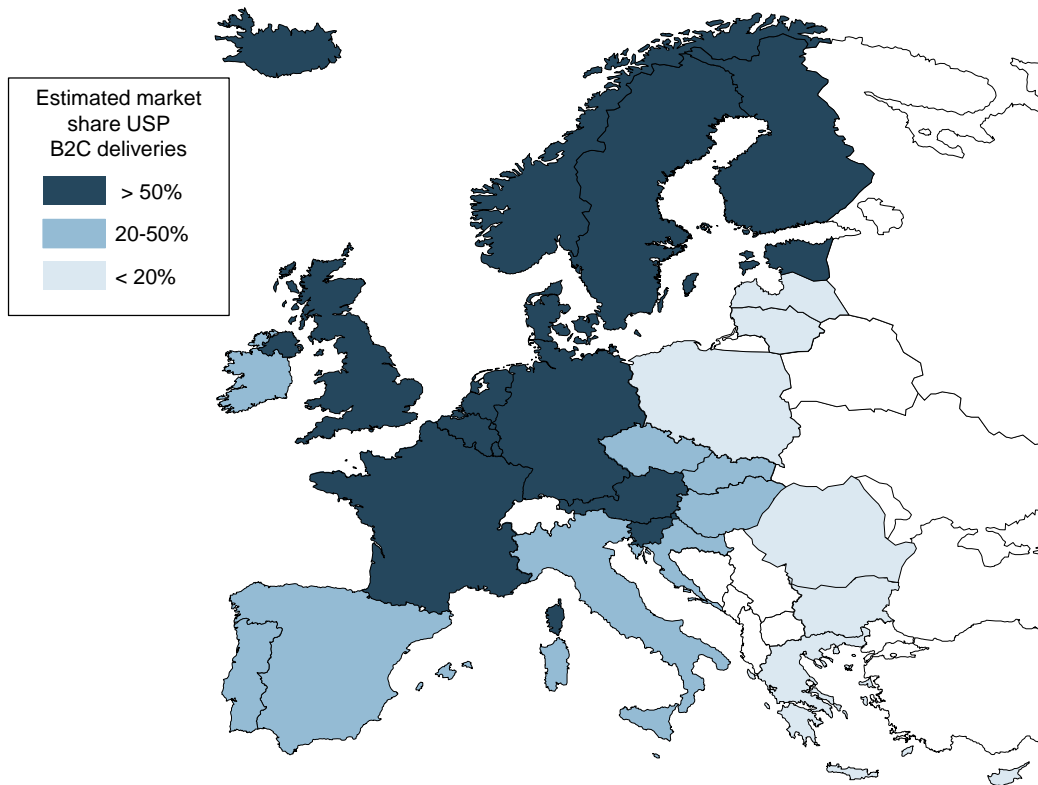
Notes: NRA/MIN Survey: 32 respondents (28 EEA Member States).

The perceived competition in the collection of export or the delivery of import packets (E-format) appears to be low (see Figure 20). In contrast, national postal operators face much more competition in the collection of export and delivery of import parcels. Major competitors in international parcel and express services include European parcel networks like DPD (La Poste) and GLS (Royal Mail), and international integrators like DHL Express and UPS.<sup>82</sup> This is in line with the results of WIK's parcels study published in 2019. That study showed that in many EEA Member States, the designated postal operator only has a fraction of the parcel delivery market, see Figure 21.

<sup>82</sup> See WIK-Consult (2019), Development of cross-border e-commerce through parcel delivery, Study for the European Commission, DG GROW.



Figure 21 Importance of USPs in B2C deliveries



Source: WIK-Consult (2019), Development of cross-border e-commerce through parcel delivery.

NRAs in 20 EEA Member States reported volume shares of designated operators for import and export parcels. Overall, only 26% of export parcels were collected and 31% of import parcels were delivered by designated postal operators in 2018.<sup>83</sup> However, in this weighted average, the largest countries, i.e. France, Germany and the UK, are not included. Therefore, these shares are likely underestimating the importance of designated postal operators in the collection and delivery of international parcels.

### Conclusions

Keeping the shortcomings of data quality in mind, the outcome of the WIK survey among national regulatory authorities, ministries and designated operators confirms the general trend of declining international letter post and a growing number of international small and light-weight packets.

For EEA Member States, outbound letter post volumes declined more than 6% per year, on average, between 2013 and 2018. With an estimated 2.3 billion items (2018), this accounts for less than 4% of total letter post volume. In contrast, inbound letter post volumes have declined only slightly less than 1% on average each year since 2013 and reached 2.6 billion items in 2018.<sup>84</sup> As a result, it appears that the increase in import

<sup>83</sup> WIK survey. DO shares provided by NRAs from the following EEA Member States: BE, BG, CY, CZ, EL, ES, HR, HU, IS, IE, IT, LT, LU, LV, MT, NL, PL, PT, RO, and SE.

<sup>84</sup> Growth rates are WIK estimation based on WIK survey and WIK estimates. Missing 2013 data from DE, DK, LI, LU and UK.

e-commerce packets in the international letter post stream have mostly compensated for the decline in import letters.

The largest postal markets in the EU, i.e. France, Germany and the UK, dominate the international letter post market – two-thirds of the export and more than half of the import letter post market (by volume). Overall, the EEA appears to be a net importer; the number of import letter post is higher than that of export letter post. The Brexit will significantly increase the gap between exports and imports due to the outstanding role of the UK in international postal services and e-commerce: Based on 2018 numbers, WIK estimates that the EEA export letter post would decline to 1.5 billion items and EEA import letter post would fall to 2.1 billion items after the Brexit.

Most Member States appear to be net importers of international letter post, even Member States like Germany and Spain. Others, like the Netherlands and the UK are net exporters. However, the market figures do not show the complete picture as remail or direct injection of international letter post from international consolidators in selected EU Member States, who further dispatch to other Member States, is not fully reflected in the numbers. Judging from the activities in collecting international letter post in countries of origin (within the EU and outside the EU, in the US and in Asia), WIK estimates that the following designated postal operators are likely to be net exporters of international letter post: PostNL/Spring, Royal Mail, bpost, Correos, Deutsche Post DHL, and La Poste/Asendia.

While international letters from EEA Member States (intra-EU) account for nearly two-thirds of total import letter post (see Figure 17) more than half of import packets (E-format) came from origins outside the EU. In 2018, around 900 million import packets (E-format) were delivered by designated postal operators in EEA Member States (including UK), thereof more than half were from extra-EU origins. Four-fifths of those from extra-EU origins were from China. WIK estimates that approximately 400 million packets were sent from China / Hong Kong to EEA Member States.<sup>85</sup>

Between 2013 and 2018, the number of import and export packets has grown. Import items increased with an average annual growth rate of 18% which is twice as much than for export items. While total international letter post (import and export) has declined, the share of E-format packets has significantly increased. Its share in the letter post imports of designated operators has doubled between 2013 and 2018, from a fifth to more than 40%. In 2018, nearly half of import letter post consisted of E-format packets.

Designated postal operators face more competition for export letter post than for import letter post in their home countries. By volume, EEA designated operators deliver 95% of import letter post while they collect 80% of export letter post. However, the main competitors in export letter services are postal consolidators that are mostly owned by one of the larger European postal operators. The most active players in this field are Asendia (La Poste and Swiss Post), Spring (PostNL), Deutsche Post DHL, and Postnord's Direct Link. The most attractive countries for ETOEs launched by EEA designated postal operators within the EU are the UK, Germany and the Netherlands.

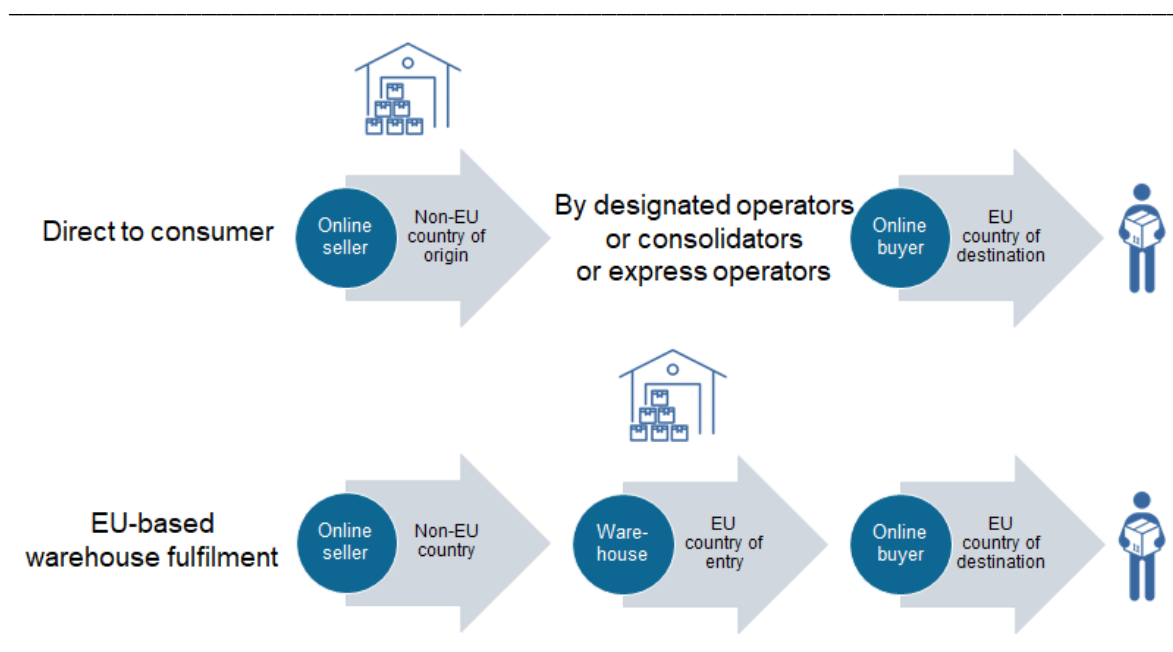
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<sup>85</sup> WIK estimation. DO of 16 EEA Member States (AT, BE, FI, FR, EL, HU, IS, IE, IT, LT, NO, MT, RO, SE, SK, and SI) provided responses to the question on the share of E-format items from China.

### 3.3 Models for the import of cross-border e-commerce consignments

With growing cross-border e-commerce between regions, different models have emerged to transport and deliver e-commerce goods between regions. While the online order is placed either on an online market place or on a non-EU web shop, the physical flow of ordered goods depends on the location where these goods are actually stored at the time of the order being placed – outside or inside the destination region. For the final delivery in the country of destination, however, local express, parcel or postal operators are needed. By whom and how these items are imported into the single market and transported to the country of destination depends on whether the stakeholders involved are associated to designated postal operators or not.

Figure 22 Basic models for the import of international e-commerce consignments



Source: WIK-Consult.

There are basically two types of import models for non-EU e-commerce consignments to EU online shoppers:

#### (1) Direct to consumer

Under this approach B2C e-commerce consignments are directly sent to the online buyer in the country of destination.

At the early stage of cross-border e-commerce, when the number of e-commerce consignments was fairly low, non-EU online sellers mainly used either the 'cheap' international postal system or 'expensive' international express operators for the cross-border delivery of e-commerce consignments. Quality of service, reliability and transparency (tracking & tracing) of the delivery process were fairly low in the international postal system (depending on the designated operators involved) and relatively advanced for international express operators.

With growing cross-border e-commerce, more sophisticated solutions for the 'direct to consumer' approach have emerged. Firstly, express carriers like DHL and UPS have

expanded from international B2B to B2C express services to better meet the needs of e-retailers. Secondly, consolidators of e-commerce consignments who organise the transport to and the delivery in the EU have emerged. 'Direct to consumer' does not necessarily mean that the e-commerce orders are fulfilled by the online seller itself. This fulfilment can be done by the non-EU online seller itself or by an e-commerce fulfilment services provider with warehouses in a non-EU country (not necessarily the country where the online seller is located). To reduce delivery time, Chinese online sellers, for example, also use Hong Kong based fulfilment service providers as bridgeheads to the rest of Asia, Australia, Europe, and North America.<sup>86</sup>

The 'Direct to consumer' model has been the standard import model for addressed international e-commerce consignments. According to UPU estimates around 70% of low-weight (under 2 kg) e-commerce consignments are handled in the international postal system i.e. delivered by designated operators.<sup>87</sup> The market position of the international postal system in the over 2 kg market is less favourable as, by revenue, international postal services make up 38% of the international parcels market, and 40% of the express services markets according to UPU estimates.<sup>88</sup>

## (2) EU based warehouse fulfilment

Using postal services for cross-border deliveries from Asia to Europe had many shortcomings, including long delivery times, difficult tracing of the delivery status (of registered items), risk of damage and loss, customs problems, and no affordable return solutions. International express deliveries meet the quality requirements but at a high price. To reduce the delivery time and improve the reliability of the delivery service, non-EU online sellers transport their goods as commercial freight by air, sea, rail or road to EU based warehouses for storage and fulfilment. At the time of the online purchase (by an EU consumer) the goods are therefore already within the EU. Specialised e-commerce fulfilment service providers (e-3PL) provide warehousing services (storage, picking and packing of e-commerce orders) and are responsible for the delivery of these e-commerce consignments to the online customer on behalf of the online seller, who is still the owner of the goods stored in the EU warehouse. Additional to the described physical value chain, e-3PL providers also take care of the data flows between the parties involved.

There are no public data available that allow statements on the share of cross-border B2C e-commerce sales or items either fulfilled in the one or the other model. In case of EU based warehouse fulfilment, consumer goods are imported by air, sea or rail freight into the single market where they are stored in warehouses.<sup>89</sup> International trade statistics only collect and publish data by good category and by mode of transport. There is no information available (1) through which channel these consumer goods are sold (online or offline retail stores) and (2) whether the goods are still in the ownership of the foreign online seller. However, growing cross-border e-commerce sales, particularly from Asia and the United States, in combination with increasing requirements on quality of service and consumer convenience have increased the variety and the complexity of fulfilment solutions for international e-commerce consignments. Business models for international e-commerce consignments have become increasingly diverse, with blurring boundaries

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<sup>86</sup> See Fung Business Intelligence (2018), *Logistics: An important differentiator of cross-border e-commerce (B2C Export from China)*, March 2018.

<sup>87</sup> Universal Postal Union, 2020 Abidjan Congress. Doc 35, *Integrated Product Plan (2021–2024)* (27 Apr. 2020), para 15.

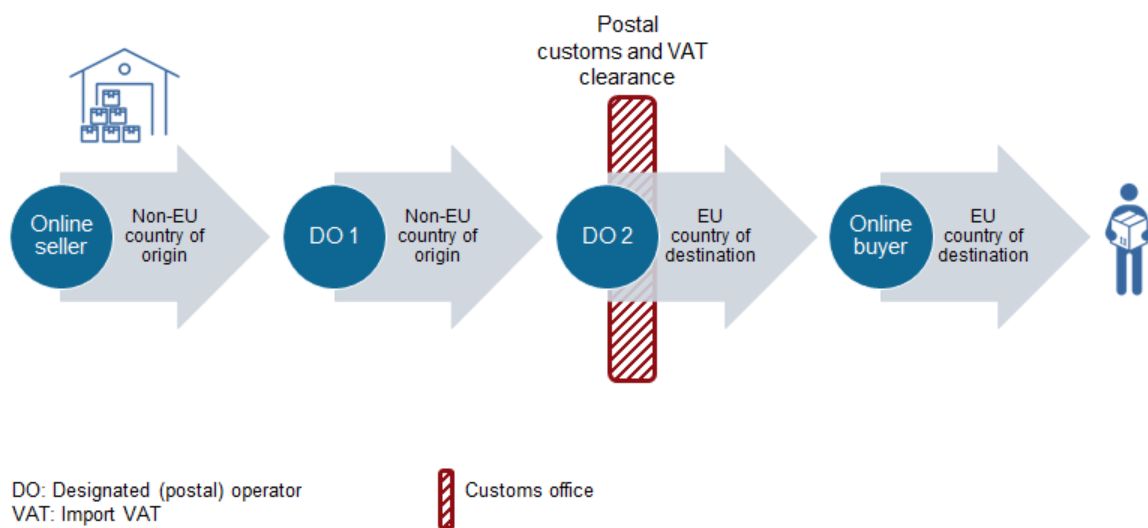
<sup>88</sup> UPU, International Bureau, *Postal economic outlook 2019: Latest trends in an evolving sector* (Feb. 2019), page 4. <https://www.upu.int/en/Publications/Postal-economics/Postal-economic-outlook-2019>.

<sup>89</sup> See Section 2.2.

between the traditional (postal and express) and more sophisticated models to better match with the needs of the e-commerce industry in terms of data integration, transparency of the supply chain, traceability of e-commerce consignments, and consumer centricity.

### 3.3.1 Direct to consumer: Designated operators

Figure 23 'Direct to Consumer': Collection and delivery by designated postal operators



Source: WIK-Consult.

In this model, only designated operators are involved to collect and deliver cross-border B2C e-commerce consignments (see Figure 23). The designated postal operator in the country of origin bundles the items in postal bags addressed with the IMPC code of the designated postal operator of destination so that they can be transported as postal freight using UPU documentation to the country of destination, usually by air. Unlike express operators or other international non-postal air freight forwarders, designated postal operators do not provide pre-loading data to the customs authority in the destination region for security & safety purposes. Between the continents, these bags are transported using belly capacity in passenger flights between international airports.<sup>90</sup> Mail bags addressed to designated postal operators in other countries of destination are transferred as postal freight to the country of destination where they are presented to the customs authority. The postal e-commerce consignments are mostly light-weight and small-sized packets of up to 2 kg ('E-format') and usually labelled with the UPU customs declaration forms CN 22 or CN 23 (for items above a value of SDR 300, around €250). The postal customs declaration is mainly paper-based and therefore very time-consuming for designated postal operators and customs authorities when conducting close checks of postal imports. However, as highlighted in Section 2.3, the checks are usually based on sampling which result in increased VAT fraud and other problems such as imports of forbidden materials like drugs and counterfeit goods. In the past (before 2010), mostly documents were sent by international post and the number of postal consignments

<sup>90</sup> This dependency on passenger flights and their low cost belly capacity resulted in a breakdown of the international postal transport during the COVID-19 outbreak in the first half of 2020.

containing merchandise was low. Therefore, international postal consignments benefitted from simplified customs procedures for international postal consignments. Moreover, many postal imports are still subject to VAT and customs relief for low-value consignments.<sup>91</sup>

The traditional international postal imports from designated postal operators of UPU country Group III (which includes China and China Post) to UPU Group I and II countries (see Section 3.1) are characterised by long delivery times and a higher risk for damages and losses depending on the designated operators involved. As standard packets are not traceable, many Chinese online sellers send their consignments as registered items which create extra handling costs at the designated postal operators in the countries of destination. Moreover, postal e-commerce consignments are usually processed as “duties unpaid”. Therefore, each item has to be declared individually at the time of arrival in the country of destination. If customs authorities detect (by sampling) undervalued consignments, the consignee is required to pay duty at the destination in order to collect the goods – a time-consuming process. Postal operators have to inform the consignee and, if the consignee agrees, customs clear the consignment on behalf of the consignee for an extra fee (see Section 6.1.4 for more detailed information).

There have been significant efforts by designated operators with large export and import volumes, and by the UPU and other organisations, like IPC, to improve the quality of international postal services by developing postal products that better comply with the needs of online sellers and buyers. For example, IPC established the ‘INTERCONNECT’ platform with 30 associated designated operators in Europe, Australia and the United States for guaranteeing a smooth data flow on international e-commerce consignments and returns. ‘INTERCONNECT’ covers international packets up to 2 kg (tracked and untracked) and tracked parcels up to 30 kg. Partners of the network apply a harmonised label that avoids re-labelling of international e-commerce consignments after crossing the border and facilitates end-to-end tracking. Moreover, the platform validates electronic data (ITMATT) for cross-border customs clearance. Finally, it facilitates e-commerce returns.<sup>92</sup> In particular, IPC organises and administers a multilateral remuneration agreement called the ‘INTERCONNECT Remuneration Agreement – Europe’ (IRA-E).<sup>93</sup> In 2019, IPC reported that 60 million consignments were processed on the platform.<sup>94</sup> Additionally, China Post closed bilateral agreements with designated operators in many countries (including the United States Postal Service and Royal Mail) to accelerate the delivery of postal e-commerce consignments and to improve their traceability (‘ePacket’).

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<sup>91</sup> Designated operators reported in the WIK survey that more than 80-90% of E-format imports were labelled with the CN 22 form (see Section 6.1.3.1). It is very likely that the majority of these items have a value below €150 that qualifies for the customs relief.

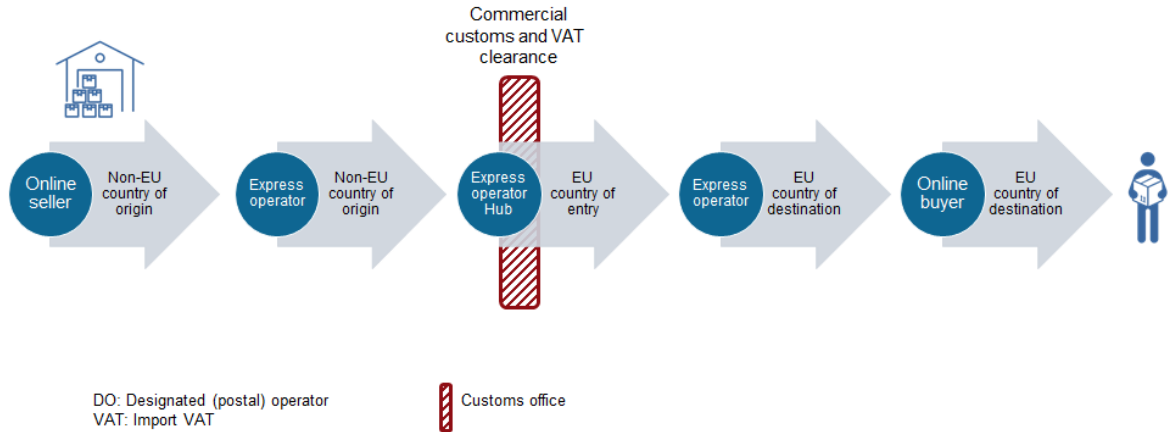
<sup>92</sup> IPC (2019), The essential network tools to compete and win in global e-commerce, see also WIK-Consult (2019), Development of Cross-border E-commerce through Parcel Delivery, Section 3.3.3.

<sup>93</sup> See Section 4.10.

<sup>94</sup> IPC, INTERCONNECT volumes continued to grow in 2019, press release of 16 January 2020, and IPC (2019), The essential network tools to compete and win in global e-commerce.

## 3.3.2 Direct to consumer: International express carriers

Figure 24 'Direct to Consumer': International express carriers



Source: WIK-Consult.

International express carriers are another important alternative for shipping online purchases directly from a non-EU online seller to an EU consumer (see Figure 24). Delivery quality, traceability and reliability of the delivery service are much better than in the traditional postal model as the consignments are transported within the same organisation with fully integrated global IT and logistics systems. Consequently, express charges are much higher than postal charges for international consignments.

Traditionally, the business focus of international express carriers was urgent B2B consignments from one country to another. However, e-commerce has also shifted the demand of international express carriers to B2C e-commerce consignments. DHL Express for example reports a share of more than 30% in 2019 compared to 10% six years ago.<sup>95</sup> UPS estimates that around half of total international express consignments destined to the EU have an intrinsic value below €150.<sup>96</sup>

In contrast to the traditional postal channel that consists of several independent parties (at least two DOs and an air freight forwarder), express carriers collect, transport and deliver international items within their own network benefitting from fully integrated data platforms and services. International consignments between continents are transported by air. Moreover, international express carriers have access to an aircraft fleet for freight vessels and only rely on belly capacity in passenger flights for line haul transport between continents for a small proportion of total consignments. Express carriers, like UPS or DHL Express, use selected international airports as entry hubs for their European business. UPS has its international air hub at Cologne/Bonn Airport (CGN) in Germany. This is where UPS presents most of the imports for the EU to the German customs authority (if the intrinsic value of the consignment is below €22) or lodge complete customs declarations for the remaining consignments (including consignments with an intrinsic value below €150 that are subject to customs relief).<sup>97</sup>

<sup>95</sup> Deutsche Post DHL, 2020 Business Profile, June 2020.

<sup>96</sup> Interview UPS, 15 July 2020.

<sup>97</sup> Interview UPS, 15 July 2020.

Express carriers do not have access to the postal customs procedure as they are not classified as a designated operator, but they benefit from simplifications if they have the status of an 'authorised economic operator' (AEO).<sup>98</sup> To obtain AEO status, express carriers have to comply with a number of requirements, requiring significant investments in operational procedures and set up as well as training of employees. AEOs have to comply inter alia with customs due diligence requirements. This implies a high level of security standards along the complete supply chain (including contract partners). If they breach the due diligence requirements, the AEO status can be suspended or even revoked. The status of an AEO is very important for express carriers because it allows access to simplifications in customs procedures and it is an important quality indicator for customers.<sup>99</sup>

International express carriers provide an electronic summary declaration for all international consignments imported to the EU (ENS / ICS1) and ensure, as an AEO, a high level of customs data accuracy. For this reason, international express carriers are well prepared to comply with the ICS2 standard that becomes mandatory in March 2021 for express air consignments.<sup>100</sup>

UPS applies a specific procedure for bundled B2B consignments with items addressed to consignees living in other EU Member States than the EU country of entry. In this case, the customs and VAT declaration are lodged in the EU country of entry. Additionally, UPS transmits the VAT numbers of the consignees to the customs authorities of the countries of destination. However, this procedure is not applicable to B2C consignments as consumers do not have a VAT number. With the VAT reform entering into force on July 1, 2021 the statement of the VAT number of the consignee becomes mandatory.<sup>101</sup>

With regard to low-value B2C consignments, express carriers and other non-postal transporters have the option to customs clear the consignments in the EU country of entry including VAT clearance even though the item is not destined for the country of entry. In this case, the VAT rate of the country of entry is applied which may result in distortions due to the different levels of standard VAT rates among EU Member States (ranging from 16% to 27%).<sup>102</sup>

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<sup>98</sup> See Section 3 UCC and Section 4 UCC-IA on Authorised Economic Operators. The AEO concept is based on the Customs-to-Business partnership introduced by the World Customs Organisation (WCO). Traders who voluntarily meet a range of criteria work in close cooperation with customs authorities to assure the common objective of supply chain security and are entitled to enjoy benefits throughout the EU. The EU established its AEO concept based on the internationally recognised standards and is a partnership programme between the customs authority and the EO. This implies that there must always be a relationship between customs and the applicant/AEO. This relationship must be based on the principles of mutual transparency, correctness, fairness and responsibility. See [https://ec.europa.eu/taxation\\_customs/general-information-customs/customs-security/authorised-economic-operator-aeo\\_en](https://ec.europa.eu/taxation_customs/general-information-customs/customs-security/authorised-economic-operator-aeo_en) for more information on the concept of an AEO.

Among the EEA designated operators, only PostNL has the status of an AEO (in the Netherlands) and Postnord's supply chain subsidiary Postnord TPL in Sweden. The integrators UPS, FedEx and DHL Express have an AEO status in many EU Member States.

<sup>99</sup> Interview UPS, 15 July 2020. UPS has an Authorised Economic Operator (AEO) certification in almost all EU countries.

<sup>100</sup> Interview UPS, 15 July 2020.

<sup>101</sup> Interview UPS, 15 July 2020.

<sup>102</sup> Interview DG TAXUD, 28 July 2020. For B2C consignments it is not allowed to apply the customs procedure CP 42. Customs procedure 42 is the regime a trader uses in order to obtain a VAT exemption when the goods imported from outside the EU into the Member State of importation will be transported to a second Member State. The VAT is due in the latter, the Member State of destination.



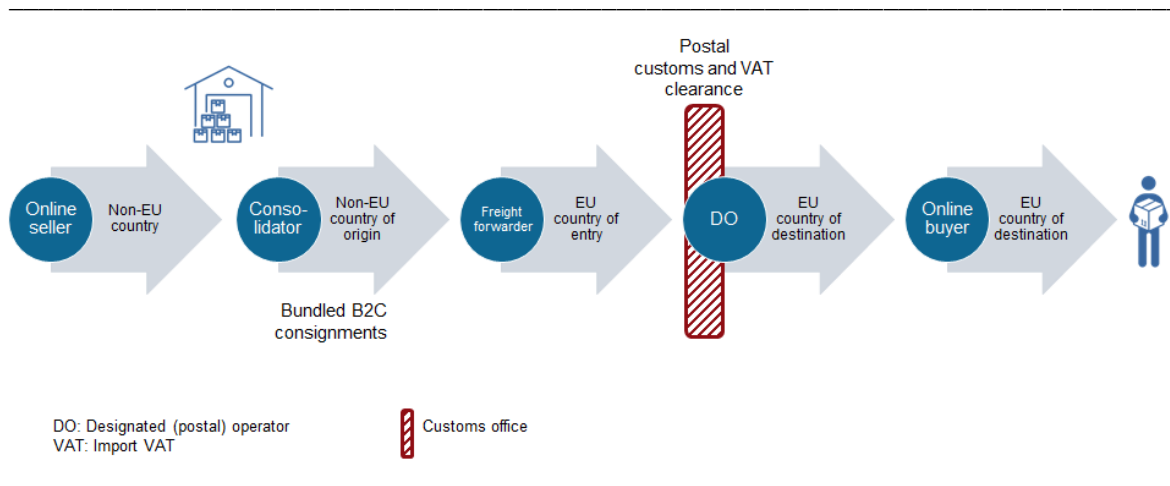
### 3.3.3 Direct to consumer: Consolidators

Similar to the previously described import models, the e-commerce consignments are picked and packed in a non-EU country of origin. In contrast, a consolidator is involved as an additional contract partner in the cross-border e-commerce delivery chain. The e-commerce packets are handed over to a consolidator who bundles them into bulk consignments. These ‘bundled e-commerce consignments’<sup>103</sup> are transported mostly by air freight to the region of destination (e.g. from the Hong Kong international airport to Amsterdam, Paris or Frankfurt international airports).

We differentiate three types of consolidators: (1) Consolidators associated with designated operators (2) Consolidators not associated with designated operators and (3) e-commerce fulfilment service providers.

#### *Consolidators associated with designated operators*

Figure 25 ‘Direct to Consumer’: Consolidators associated with designated operators



Source: WIK-Consult.

With emerging cross-border e-commerce, different types of consolidators have emerged. Consolidators for international letter post had already been in business before the e-commerce boom. This model allows shorter delivery times and light tracking of the items and are therefore more attractive to foreign e-retailers, although they are more expensive (but less expensive than international express services). Consolidators may have access to the postal customs and VAT clearance procedure even though they are not necessarily designated operators. They are either organised as extraterritorial offices of exchange (ETOE) or as agents (or brokers).

While most industrialised countries (including most EEA Member States)<sup>104</sup> allow the establishment of ETOEs (under conditions) in their territories, the wide majority of Group II, III and IV countries refuse the allowance for such an establishment, including China.<sup>105</sup> Therefore, this specific import model is not applicable for cross-border

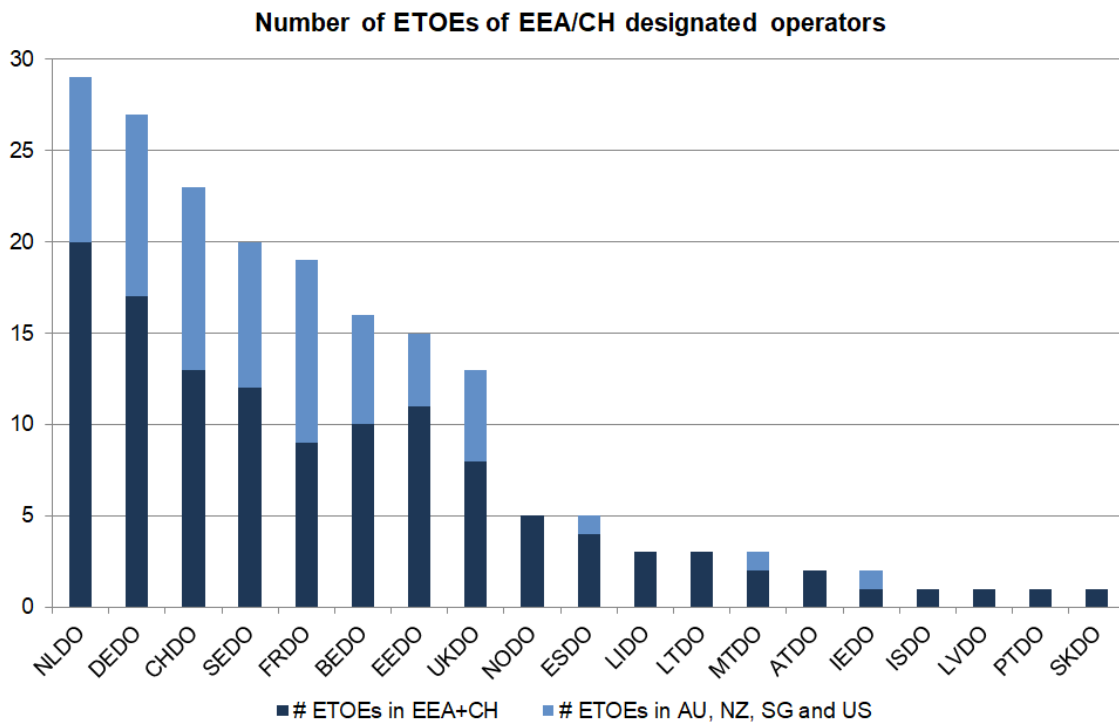
<sup>103</sup> Bundled e-commerce consignments are individually packaged and addressed e-commerce consignments packed in a container or bag.

<sup>104</sup> Bulgaria and Poland do not allow ETOEs in their territory. Romania has not answered the UPU survey on its ETOE Policy, see UPU, Responses to the 2017 ETOE survey, updated 15 February 2020.

<sup>105</sup> Ibid.

e-commerce consignments from China but for consignments from the United States, Singapore, Australia, and New Zealand. In Singapore, 10 European designated postal operators have established ETOEs: the big three (Deutsche Post, La Poste and Royal Mail) and bpost, PostNL, Posten (Postnord Sweden), Eesti Post (Estonia), Maltapost, as well as Swiss Post (designated operator of a non-EEA country). Singapore allows UPU documentation for all outbound ETOE mail if sent to countries that have declared a policy agreeing to the acceptance of ETOE items under the UPU Acts.

Figure 26 Number of ETOEs per designated operator of EEA Member States and Switzerland



Source: WIK-Consult based on UPU, List of Valid IMPC, June 2020.

The EEA designated operators (plus Royal Mail & Swiss Post) with most ETOEs are PostNL, Deutsche Post, Postnord Sweden (Posten), Swiss Post, La Poste, bpost, Estonian Post, and Royal Mail. Around two-thirds of ETOEs (124) are located in another European country and one third outside Europe (in Australia/New Zealand, Singapore and the United States).

However, consolidators are also active as sales agents in countries that do not allow the establishment of an ETOE on their territory, like China and Hong Kong. Since these consolidators are not acting as ETOEs (or the designated operator in the originating country), they cannot dispatch international consignments using an IMPC code and other UPU documentation. When a consolidator outside the EEA sends such a consignment to a designated operator in the EEA, it appears that customs authorities in the EEA must treat the consignment as a normal commercial consignment before releasing it to the designated operator for delivery or forwarding to a third country. Actual practice, however, is unclear. There are indications that packet consolidators working closely with major EEA designated operators import large quantities of small packets from non-EEA countries (including China and Hong Kong) that do not allow the establishment of ETOEs, and that such consignments are treated as postal imports rather than normal commercial

consignments when they enter the EU. Overall, WIK estimates very roughly that 25-30% of total global letter post imports delivered by designated operators may have entered the international postal system through ETOEs and other consolidators (see Section 5.2 and discussion of the 'dark post').

There are two types of consolidators that use designated operators (at least for small packets) for imports of e-commerce consignments into the EEA (or other industrialised countries):

(1) Subsidiaries of some EEA designated operators in countries like China and Hong Kong where the establishment of ETOEs is not allowed. Examples are Spring (PostNL), Asendia (La Poste and Swiss Post), DHL eCommerce (Deutsche Post DHL), Direct Link (Postnord), and Landmark (bpost) that have agents in Hong Kong to consolidate e-commerce consignments for transport into the EU.

(2) Independent consolidators that collect addressed e-commerce consignments e.g. in China, bundle them, transport them to the EEA and hand them over to the designated operator in the countries of destination for final delivery. One example for such an independent consolidator is B2C Europe. Generally, it appears that independent consolidators play a minor role in this segment, especially in the consolidation of E-format e-commerce consignments for final delivery in the EEA.

Similar to ETOEs, they extend their customer base to non-domestic businesses, generate inbound consignments to their home market (but not only) and benefit from lower costs for linehaul. This low-asset business model takes advantage of the connections to their parent company / contract partner and of its agreements with designated postal operators in other EEA countries of destination to benefit from the simplified postal customs and VAT clearance.

The consolidators have access to the postal import channel either by ownership (subsidiary of a DO e.g. Spring owned by PostNL) or by contract (independent consolidator e.g. B2C Europe), see Figure 25. In this case, the bundled addressed B2C consignments, each labelled with CN 22 or 23 forms by the sender,<sup>106</sup> are transported by air freight to the EEA country of entry where the designated operator (the owner of the sales agent or the contract partner) takes care of the customs and VAT clearance for those items destined to the country of entry. Consignments to other EU destination countries are transported and handed over to the designated postal operator of the country of destination. In the country of destination the local designated postal operator is responsible for the presentation of the items at the customs office for customs and VAT clearance.

We found indications for this model in the description of the PostNL 'Gateway to Europe' where PostNL's subsidiary Spring acts as an agent in China (see Figure 27). According to this description, Spring has commissioned the freight forwarder Toll Global Forwarding to collect the consignments and to organise the international air transit to the Netherlands.<sup>107</sup>

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<sup>106</sup> See for example B2C Europe, General Terms and Conditions (<https://www.b2ceurope.eu/wp-content/uploads/2020/09/terms-and-conditions-2018.pdf>) that determines under Article 4 that the customer is responsible to affix a CN 22 and CN 23 label on the consignment.

<sup>107</sup> See <https://www.spring-gds.com/global-delivery-solutions/ecommerce/small-packet/postnl-gateway-to-europe/>.

Figure 27 Spring: PostNL Gateway to Europe

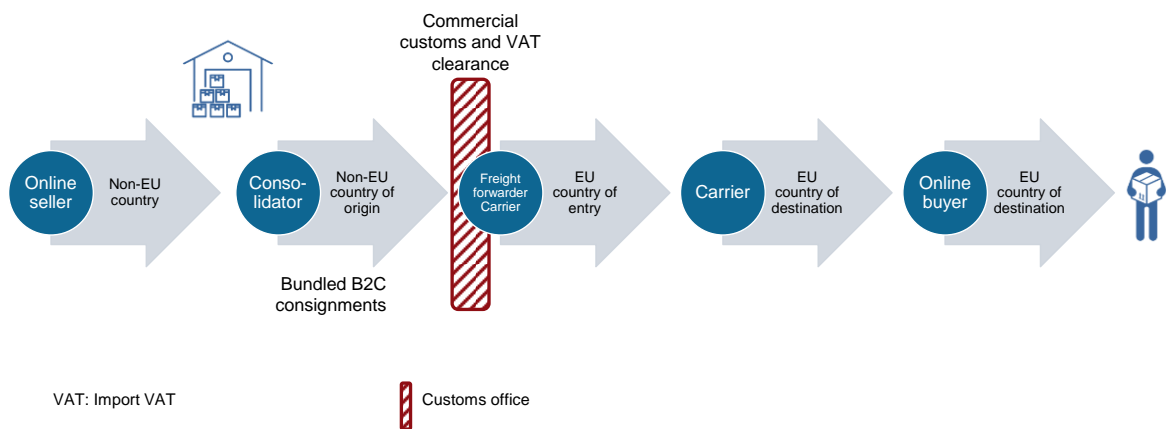


Source: Spring, <https://www.spring-gds.com/global-delivery-solutions/ecommerce/small-packet/postnl-gateway-to-europe/>, extracted 15<sup>th</sup> June 2020.

Figure 27 illustrates the import model of Spring/PostNL for consignments from China to Europe. The packets are collected from the Chinese seller and are transported to a warehouse in Hong Kong where they are carried by air freight to Schiphol airport in the Netherlands. Here, PostNL take over the consignments and process them in their international sorting centre where they are dispatched for transport to the postal partners in the countries of destination either by road or by air. The consignments are then presented by the local postal operator at the customs authority in the country of destination. Undeliverable consignments are returned to the Netherlands and sent back to China.

*Consolidators not associated with designated operators*

Figure 28 'Direct to Consumer': Independent consolidators



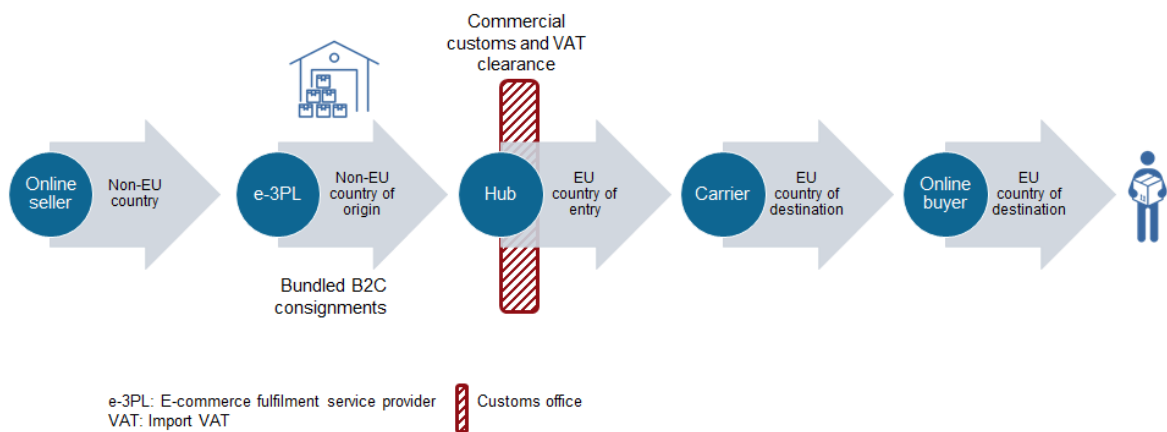
Source: WIK-Consult.

Figure 28 describes the import model that e-commerce consignments are bundled in the non-EU country of origin e.g. by a big e-retailer and handed over to a freight forwarder or

international transport company (e.g. Sky56, a Chinese company for international transports located in Shenzhen). This transport company then organises the transport to the EU via air but also via alternative routes (sea, road and rail) and is responsible for customs and VAT clearance either in the EU country of entry or in the EU country of destination. For final delivery, the transport company cooperates with regional or local carriers like Hermes or DPD.

*E-commerce fulfilment service providers*

Figure 29 'Direct to Consumer': E-commerce fulfilment service providers



Source: WIK-Consult.

E-commerce fulfilment service providers and, more generally, third-party logistics (3PL) service providers are also engaged in the storage of e-commerce goods. They operate warehouses in the region of origin for bundling B2C consignments, organising the transport to the region of destination, taking care of customs and VAT clearance and managing the final delivery in the region of destination (see Figure 29).

In contrast to 'traditional' third-party logistics providers, e-commerce fulfilment service providers or e-fulfilment providers are 3PL companies that are specialised in (cross-border) e-commerce fulfilment for B2C orders. In that sense, they are more technology-driven companies because they also take care of digital integration of data flows between the online sellers, suppliers and online buyers, and improving the traceability of the order fulfilment, transport and delivery. They are responsible for inventory management, order fulfilment (picking, packing and delivery), and returns processing. In the cross-border context, they are additionally responsible for the customs and VAT clearance. The key difference from the EU warehouse based model (see Section 3.3.4) is that, in this model, they handle bundled addressed B2C consignments instead of bulk consignments of goods. This means that at the time of the online purchase the goods are still stored in warehouses outside the EU.

Major drivers for outsourcing cross-border e-commerce fulfilment are (1) growing cross-border e-commerce sales to other regions of the world (as happened from China to Europe, North America and Australia/New Zealand); (2) tightening of customs and import VAT policies and rules by governments and customs authorities; (3) online shoppers require more reliable and traceable delivery services and affordable return solutions.

For larger Chinese online sellers, it is therefore advantageous to use specialists for cross-border e-commerce fulfilment, although they have to pay an extra charge for the service

and higher delivery charges compared to international postal services. In this model, the e-commerce fulfilment service provider operates warehouses in or near the country of origin e.g. in Hong Kong or Singapore with appropriate transport connections to the global destination regions. The proximity to the Chinese online seller reduces the online sellers' inventory risk on the one hand, and it reduces the delivery lead time (from the e-commerce order to final delivery) compared to international postal services. Additionally, e-fulfilment service providers that specialise in cross-border e-commerce consignments have expert teams for customs clearance processes. This has become more and more important due to the diversity and the tightening of national customs procedures and rules for extra-EU e-commerce consignments.

Important players in this business are e-fulfilment providers associated with (1) online platforms, like Alibaba (Cainiao)<sup>108</sup> and Amazon, who additionally invest in linehaul logistics like air and sea transport, (2) postal / express companies (e.g. UPS, FedEx, DHL eCommerce, Asendia)<sup>109</sup> or (3) large 3PL providers who expand their business from B2B to B2C applications (like XPO Logistics, SEKO Logistics or Kerry Logistics). It is relatively straightforward to assume how and by whom e-commerce consignments are delivered in the region of destination, depending on the background of the service provider and their access to contracts with local carriers. In particular, if there are contractual agreements with designated operators there is an overlap with the business models described in the previous sections.

Designated postal operators that have not (yet) launched supply chain solutions in Asia have gone into partnerships with large Chinese e-commerce fulfilment service providers. Examples for such partnerships are:

- Royal Mail and Alibaba/Cainiao (2017): The agreement closed in 2017 had the objective to improve delivery services to UK consumers, but also to act as a gateway for Chinese e-commerce imports to Europe as an element of Royal Mail's 'new cross-border initiative'. Ofcom outlines that "the international cross-border initiative allows Royal Mail to increase traffic in Europe from Asia (mostly China). Traffic arrives through their Heathrow processing plant from customs and clearance for onward travels to Europe. Royal Mail is responsible for paying associated terminal dues to the local postal operator."<sup>110</sup> Royal Mail expected further growth from direct imports from Asia after launching the initiative.
- Correos and Chinese Kerry Logistics (2019): Through a joint venture, in which Kerry Logistics holds a majority interest, the two companies plan to offer end-to-end cross-border e-commerce solutions from China to worldwide destinations.<sup>111</sup>
- Correos and Cainiao / AliExpress (2019): Memorandum of understanding to speed up parcel flows from China to Spain and helping Spanish SMEs to boost exports. Correos will work with Alibaba's Cainiao Smart Logistics Network to better facilitate goods shipped between China and Spain. Correos said it would partner with Cainiao on designing new logistics strategies to speed up deliveries to Spain, as

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<sup>108</sup> Cainiao reported that they handled over one million orders from outside China per day as of 30 June 2018 (Cainiao Network, 2018 Investor Day, 17-18 September 2018).

<sup>109</sup> See for example Deutsche Post DHL, DHL expands e-commerce fulfilment internationally, press release of 4 March 2018; Asendia, New Asendia Fulfilment Center at the Heart of Asia, press release of 19 June 2019; UPS, UPS eFulfillment Programme Launches to Help Asian Sellers Easily Manage Multiple Marketplaces, press release of 19 March 2019.

<sup>110</sup> Ofcom, Annual monitoring update on the postal market 2017-18, p. 50.

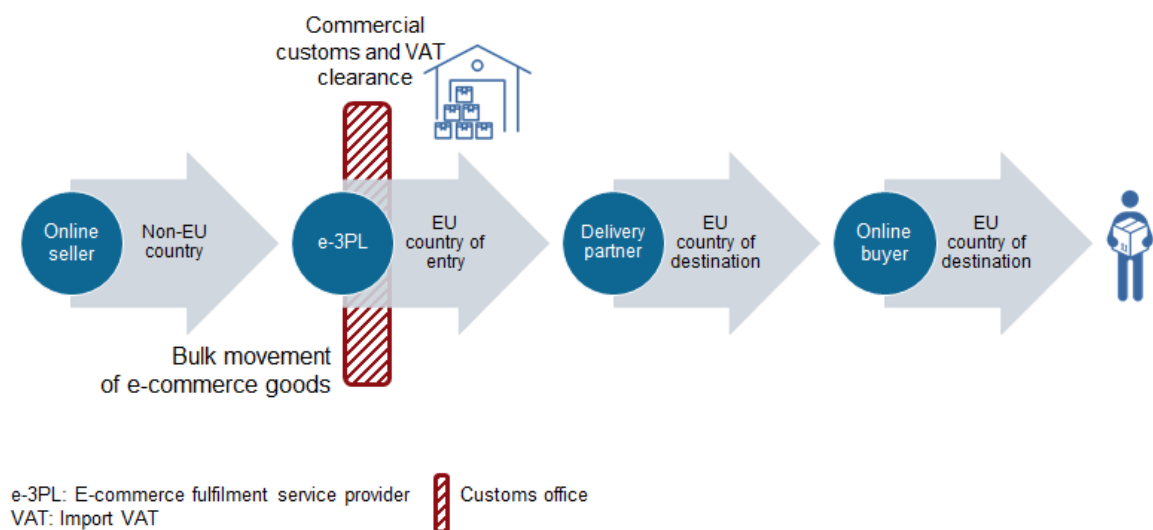
<sup>111</sup> CEP Research, Correos targets Chinese e-commerce with Kerry Logistics partnership, 17 June 2019.

well as explore new ways to manage parcels in areas such as shipment classification, customs clearance, transport and last-mile delivery.<sup>112</sup>

- Estonian Omniva and Chinese SF Express (Post11): The joint venture Post11 started in 2018 and is responsible for Omniva’s international business. The core of Omniva’s international business is primarily the transit of Chinese goods across the world. In 2017, parcels were shipped to nearly 100 countries. Most consignments were delivered to the Baltic States, Eastern Europe (notably Russia), and Scandinavia.<sup>113</sup>

### 3.3.4 EU warehouse based fulfilment

Figure 30 ‘EU warehouse based fulfilment’: e-3PL



Source: WIK-Consult.

Non-EU e-commerce goods are increasingly pre-positioned into warehouses that belong to platform operators such as Amazon and Alibaba but also global fulfilment service providers, e.g. DHL Supply Chain and Global Forwarding, XPO Logistics, SEKO Logistics, and others (see Figure 30). Goods destined for the EU market are bulk exported using sea, air freight, rail or road. These goods arrive at a European warehouse where they are cleared, once duties and taxes are paid, for distribution in the single market. The items are, as a value added service, relabelled and repacked to be compliant with EU regulations, prior to being entered into the warehouse stock.

Orders are received via the intermediaries’ order taking platform. The integrated warehouse management and dispatch systems identify the stock and it is prepared for shipment. Two delivery options are offered: One is a non-urgent postal service and the other is an express option. Depending on the consumer’s choice, the appropriate transport labels (including a Return Label) and electronic files are created. The parcels are consolidated to the appropriate load units in preparation for pick up by the transporter. Depending on the capabilities of the transporters, transit and delivery data are provided to

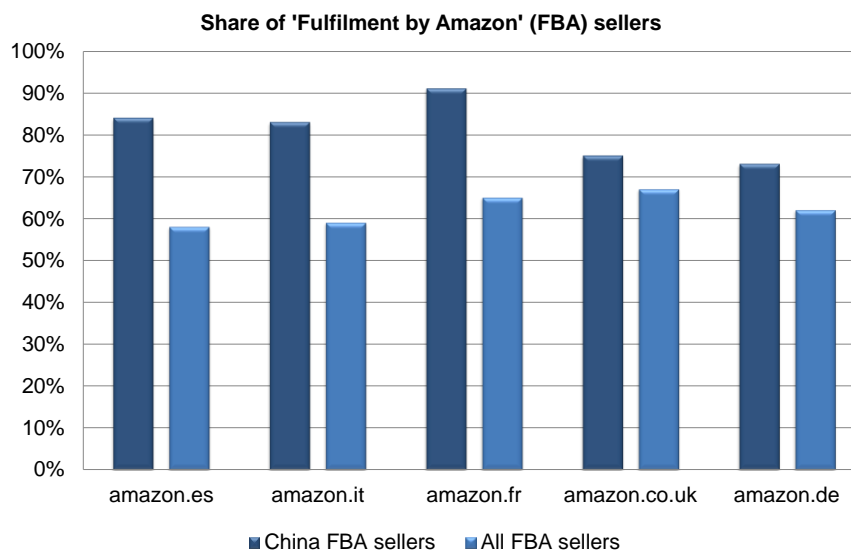
<sup>112</sup> CEP Research, Correos, Cainiao Network and AliExpress speed up China – Spain e-commerce flows, 22 March 2019.

<sup>113</sup> See CEP Research, Omniva’s Baltic parcels business grows 20%, 2 August 2018.

the warehousing intermediary on the shipments. This is available for tracking and tracing, proof of delivery and performance analysis. Any returned shipments are transported back using the return label, where they are managed for return to stock, refurbishment, replacement, recycling, retail disposal, destruction, or landfill.

The major advantage of this model is short delivery times (no customs clearance, short transport distances etc.). However, using warehouse services within the EU is costly, more costly than in the country of origin like China, for example. The costs for warehousing relative to the stocked items increase the longer the stock remains stored. For this reason, online sellers would prefer an EU warehouse based solution only for goods with stable and high demand and thus with a high stock turnover rate. The cost of local delivery depends on the domestic delivery charges of the carrier or postal operator. In contrast, intra-EEA return services that play a crucial role in e-commerce sales are much easier to perform than for global cross-border deliveries.

Figure 31 Share of sellers using 'Fulfilment by Amazon' in top 10,000 sellers



Source: WIK-Consult based on [Marketplacepulse.com/amazon/europe-cross-border-sellers](https://Marketplacepulse.com/amazon/europe-cross-border-sellers) (accessed on 13 November 2019).

One example for such a model is 'Fulfilment by Amazon' (FBA). A significant share of Chinese sellers in the top 10,000 sellers makes use of FBA either exclusively or additional to the 'Direct to consumer' import model, see Figure 31. In France, for example, 9 of 10 Chinese sellers in top 10,000 use FBA compared to only 6 from 10 of all top 10,000 sellers. This means that the merchandise is delivered from Amazon's warehouses in EU Member States like Poland, Germany or the UK, while the online seller is placed in China. The e-commerce consignments are delivered within the EU either by Amazon Logistics or by other local delivery partners (including postal, parcel and express carriers). However, this does not mean that Chinese online sellers use FBA for all e-commerce transactions. As outlined above, the decision whether to use direct dispatch of an e-commerce consignment from China or to store the goods in EU-based warehouses depend on a mix of cost and quality considerations.

The activities of the Cainiao Network are another example for the 'EU warehouse based fulfilment' model. Cainiao operates a logistics data platform that leverages the capacity and capabilities of logistics partners to fulfil e-commerce orders. In April 2018, Alibaba's



logistics arm announced their plans to enhance their cross-border logistics infrastructure and to build up a 'smart logistic network' with the ultimate goal of improving the speed and quality of service for international e-commerce deliveries. Their defined goal is to establish a 72-hour lead time for global deliveries and a 24-hour lead time for deliveries in China. To build up the global network, Cainiao have invested in warehouses and have built up partnerships with regional and local carriers (including designated operators).<sup>114</sup> Part of the initiative will be to quadruple Cainiao's fleet of chartered flights from 260 to 1,260 by the first quarter of 2021, which would bring its average international air-freight delivery time down to three to five days as opposed to the current timeframe of seven to 10 days according to Cainiao (needed for the 'Direct to consumer' import model). Additionally, Cainiao announced to double the floor space of its overseas warehouses to two million square metres. Moreover, Cainiao reported that they have built up partnerships with over 30 customs-clearance facilities to facilitate customs clearance. Meanwhile, small and medium-sized businesses will also be able to leverage the additional warehouse space to pre-stock their products for export and fulfil their orders faster.<sup>115</sup> In July 2020, Cainiao announced that it will start a new international transport route in August 2020 to speed up average delivery times between China and Europe. For this purpose, Cainiao has partnered with an air-freight carrier to operate three flights each week from Hong Kong to Madrid via Belgium's Liège Airport. According to Cainiao, all goods shipped through the new route will arrive at warehouses in Europe in three to 10 days, versus the industry average of 15 to 20 days. For this purpose, Cainiao reports that they have built up an intra-Europe trucking network that connects the warehouses and transport hubs in Spain, Belgium, France, Germany, Italy, the Czech Republic, and the Netherlands. Last-mile logistics partners, such as Spanish Correos, then help deliver parcels to customers. To facilitate customs clearance, Alibaba and the Belgian Government established one of the first Electronic World Trade Platform (eWTP) hubs in the region in 2018, helping digitise Liège Airport's customs-clearance and logistics operations and streamline international shipping.<sup>116</sup>

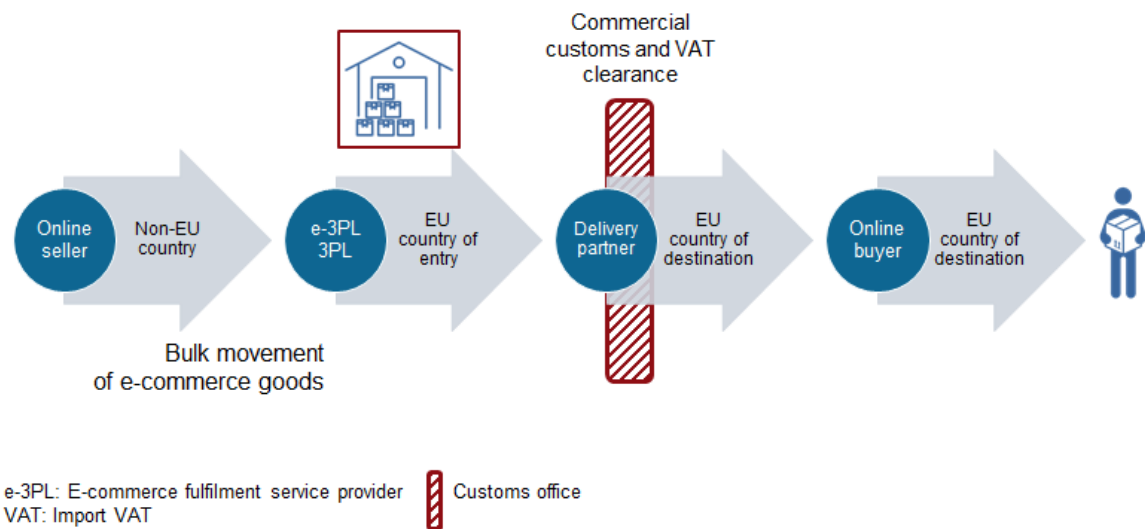
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<sup>114</sup> Cainiao Network Alibaba Group (2018), Cainiao Network: Building Global "New Logistics", presentation of 19 April 2018.

<sup>115</sup> Alizila, Cainiao's global logistics push ratchets up, 24 June 2020 (Note: Alizila is the news hub of the Alibaba Group).

<sup>116</sup> Alizila, Cainiao adds new cargo route between Hong Kong and Spain, 16 July 2020. See also Brussels Airport, Belgium launches digital customs platform – BE-GATE simplifies e-commerce, press release of 7 June 2019.

Figure 32 'EU warehouse based fulfilment': Bonded warehouse



Source: WIK-Consult.

Bonded warehouses are also an element of non-EU cross-border e-commerce as they provide importers of non-EU e-commerce and other goods with a duty free facility. These are either run by a 3PL or a specialist company. Alibaba's Cainiao, for example, reports that for Chinese imports they also apply a combination of bonded warehouses in China and direct shipment from markets outside China for Tmall Global.<sup>117</sup> The key benefits of bonded warehouses are that they allow stock to be pre-positioned in a country before sale and have reduced costs as the duty and taxes are only imposed once an item is sold (see Figure 32). Goods in bonded warehouses can be processed for repackaging, relabelling or tailoring to local markets. Manufacturing of products is not permitted in bonded warehouses. Once sold, the goods are "imported" by being declared to customs and then delivered to the consignee as soon as all the applicable duties and taxes are paid. The importer on record and the exporter on record are not the owners / operators of the bonded warehouse. The import and export processes are managed by specialist transporters or specialist agents.

### 3.4 Conclusions

The outcome of the WIK survey among national regulatory authorities, ministries and designated operators confirms the general trend of declining international letter post and a growing number of international small and light-weight packets.

- Between 2013 and 2018 export letter post (outbound cross-border letter post including intra-EEA export letter post) declined more than six per cent per year, on average, in the EEA (EU-28, Norway and Iceland). With an estimated 2.3 billion items (2018), it accounts for less than four per cent of total letter post volume. Thereof, 80% is exported by designated operators (1.8 billion items).
- During the same period, import letters declined only slightly: less than one per cent per year, on average, and reached 2.6 billion items in 2018, of which 95% was delivered by designated postal operators.

<sup>117</sup> Alibaba Group, Fiscal Year 2020 Annual Report, p. 49.

- The share of ‘E-format’ packets in letter post imports of designated operators has doubled between 2013 and 2018, from a fifth to more than 40%. This indicates that the increase in imported e-commerce packets via the international letter post stream nearly compensates the decline in import letters.
- While international letter post between EU Member States (intra-EU) account for nearly two-thirds of total import letter post (including packets) more than half of imported packets (E-format) came from origins outside the EU. In comparison, 80% of extra-EU import packets originates from China. WIK estimates that approximately 400 million packets were imported from China/Hong Kong in 2018.

Designated operators in Europe face more competition in the collection of export letter post than in the delivery of import letter post in their home countries. The main competitors in export letter services are usually other European designated operators that have launched extraterritorial offices of exchange (ETOE) in those EU Member States with significant letter post exports (particularly in France, Germany and the UK).

With growing cross-border e-commerce between regions, different import models have emerged which involve bundling, transport and delivery of e-commerce goods between regions. Whereas the online order is placed either on an online market place or on a non-EU web shop, the physical flow of the ordered goods depends on the location where these goods are actually stored at the time of purchase – outside or inside the EU. WIK differentiates two basic import models for non-EU e-commerce consignments: (1) Fulfilment in the country of origin and delivery ‘direct to the consumer’, and (2) Transport of merchandise as bulk consignments via air, sea or rail from non-EU destinations to EU warehouses for final dispatch to consumers.

The ‘Direct to consumer’ model has been the standard import model for addressed international e-commerce consignments. According to UPU estimates, around 70% of low-weight (under 2 kg) e-commerce consignments are distributed via the international postal system i.e. delivered by designated operators.<sup>118</sup> The market position of the international postal system in the over 2 kg market is less favourable as, by revenue, international postal services make up 38% of the international parcels market, and 40% of the express services markets according to UPU estimates.<sup>119</sup>

At the early stage of cross-border e-commerce, when the number of e-commerce consignments was fairly low, non-EEA online sellers mainly used either the ‘cheap’ international postal system or ‘expensive’ international express operators for cross-border delivery of e-commerce consignments. Quality of service, reliability and transparency (tracking & tracing) of the delivery process were fairly low in the international postal system (depending on the designated operators involved), whereas it is highly advanced for international express operators.

With growing cross-border e-commerce, an increasing variety of global customs clearance regimes, and the tightening of national customs procedures and rules for international e-commerce consignments, more sophisticated and commercial import models have emerged. This created scope for cross-border delivery services that cover service areas between the low-quality cheap international postal services and the high-quality expensive express services, and which are more oriented to the specific needs of e-retailers. For the purposes of this study, WIK classifies three types of consolidators:

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<sup>118</sup> Universal Postal Union, 2020 Abidjan Congress. Doc 35, Integrated Product Plan (2021–2024) (27 Apr. 2020), para 15.

<sup>119</sup> UPU, International Bureau, *Postal economic outlook 2019: Latest trends in an evolving sector* (Feb. 2019), page 4. <https://www.upu.int/en/Publications/Postal-economics/Postal-economic-outlook-2019>.

- 'Consolidators that are associated with designated operators for final delivery' (postal channel) are either operated as extraterritorial offices of exchange or as sales agents (brokers). The vast majority of ETOEs are operated by designated postal operators from an industrialised country (e.g. PostNL, La Poste, Deutsche Post DHL, bpost and others) in other industrialised countries (Group I and Group II non-EEA countries like the UK, the United States and Singapore). Sales agents associated with EEA designated operators by ownership (e.g. Spring, Asendia etc.) or by contract (e.g. B2C Europe) have branches in countries with significant e-commerce sales to other EEA Member States that do not allow the establishment of ETOEs in their territory (e.g. China / Hong Kong). These agents take care of the international transport of goods to the EEA while the designated operators in the country of destination are responsible for the customs and VAT clearance.
- 'Consolidators that are not associated with designated operators' are freight forwarders that are usually specialised in international transport of larger and heavier e-commerce consignments (parcels). They take care of commercial customs and VAT clearance. For final delivery, they have agreements with local parcel and express carriers like Hermes or DPD.
- 'E-commerce fulfilment service providers' offer tailored warehousing services to online sellers and are specialised in cross-border e-commerce fulfilment (with customs clearance capabilities). They have emerged during the last five years and reflect the progress made in treating e-retailers as a separate target group with specific needs and requirements regarding e-fulfilment and international delivery. In this market, e-commerce fulfilment subsidiaries of large postal and express companies (e.g. Asendia / La Poste, DHL eCommerce / Deutsche Post DHL and UPS Supply Chain Services) compete with large online marketplaces and their associated e-commerce fulfilment services as well as with large international third-party logistics providers.

The third model of the fulfilment and dispatch of e-commerce consignments from EU based warehouses is promoted by large online platforms such as Amazon and Alibaba. In general, e-commerce goods are imported by air, sea or rail freight into the single market where they are either stored in normal warehouses or in bonded warehouses for final fulfilment. This means that at the time of online purchase the ordered merchandise is already within the single market. The major advantages of this model are short delivery times (no customs clearance, short transport distances etc.) and easy handling of returns. The major disadvantages are higher storage costs and greater distance from the online seller. For this reason, EU based warehouse solutions are more preferable for product categories with stable and high demand and thus with a high stock turnover rate.

## 4 Remuneration systems of the UPU

The functioning of the international postal system requires designated operators to compensate each other for the cost of services rendered. The origin designated operator relies on the destination designated operator to deliver international mail and often on the assistance of designated operators in intervening countries. This chapter describes the evolution of the UPU's rules on payments — or 'remuneration' to use the UPU term — that designated operators make to each other in the provision of international postal services.

### 4.1 Organisation and acts of the UPU

Since UPU rules relating to remuneration are legally binding agreements of an intergovernmental organisation, we begin with a brief summary of the organisation and legal powers of the UPU. The UPU was established as the General Postal Union by representatives from 21 countries — 19 European countries, the United States, and Egypt — in an agreement concluded in 1874 in Berne, Switzerland.<sup>120</sup> Fifteen of the current Member States of the EU and EEA were among the founding members: Austria-Hungary, Belgium, Denmark, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Romania, Spain, and Sweden.<sup>121</sup> Today the UPU membership includes 192 countries, i.e., almost all countries in the world.

As a result of a reorganisation in 1994, the UPU is organised into four primary 'bodies' or institutions established by its Constitution: the Congress, Council of Administration, Postal Operations Council, and International Bureau.<sup>122</sup>

The **Congress** is an assembly of plenipotentiary delegates from all member countries of the UPU. The Congress is the supreme authority of the UPU. Each Congress revises and readopts the Universal Postal Convention. Congress may also adopt protocols that amend the UPU's organisational agreements, the Constitution and General Regulations.<sup>123</sup> The Congress elects the members of the Council of Administration and Postal Operations Council, appoints the Director General and Deputy Director General of the International Bureau, and adopts resolutions directing their work until the next Congress. In all decisions by Congress, each member country has one vote. The UPU Congress meets in regular session every four years. The most recent regular Congress was held in Istanbul in 2016. The next regular Congress, the twenty-seventh, was scheduled to be convened in Abidjan in August 2020 but has been postponed due to the global pandemic.<sup>124</sup>

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<sup>120</sup> UPU, Treaty Concerning the Formation of a General Postal Union (1874).

<sup>121</sup> Austria and Hungary were then joined as one country. See generally, Codding, *Universal Postal Union* (1964), pp. 25-27, 34.

<sup>122</sup> UPU, Constitution (2016), art. 13.

<sup>123</sup> The Convention, Constitution, General Regulations, and other acts of the UPU are discussed below. In addition, in Congress member countries who are party to Agreements — involving services in addition to those provided under the Universal Postal Convention — relating can revise and re-enact such Agreements.

<sup>124</sup> On 26-27 October 2020, the Council of Administration met in an exceptional session and adopted a resolution endorsing a proposal by the Côte d'Ivoire to convene the next regular UPU Congress in Abidjan in August 2021 unless the CA determines by 30 June 2021 that such a meeting is precluded by the pandemic, in which case the resolution directs the International Bureau to organize the Congress in Switzerland in September 2021. UPU, 2020 Exceptional CA Doc 8, Exceptional CA decision xx/2020 (29 Oct. 2020). This CA resolution could be revised further by a subsequent decision of the CA. Because of this uncertainty, in this report references to the '2020 Abidjan Congress' or the 'Abidjan Congress' should

In addition to regular Congresses, UPU members may convene an extraordinary Congress. Prior to 2018, the only extraordinary Congress was ceremonial, a meeting in 1900 to mark the twenty-fifth anniversary of the founding of the UPU. In 2018, the Second Extraordinary Congress was convened in Addis Ababa to revise the organisation of the Postal Operations Council. In 2019, the Third Extraordinary Congress was held in Geneva to modify the remuneration system under which designated operators (i.e., postal operators) compensate each other for delivery of inbound items.

The **Council of Administration** (CA) is responsible for studying the general principles and policies of the Union, regulation of the Union's financial matters, control of the International Bureau, and guidance of the Postal Operations Council in matters of fundamental principle.<sup>125</sup> The CA is composed of representatives of 41 member countries. The chairman is a representative of the host country for the last regular Congress. The other 40 members of the CA are elected by Congress. Each member country of the CA appoints its representative(s), which may be altered at the discretion of the government.<sup>126</sup>

Elective CA members must be selected on the basis of an 'equitable geographical distribution'. Seats are allocated to five geographic regions so each region has one seat for approximately every five member countries. Since the number of members per region varies, the number of seats per region varies as follows: Western Hemisphere (36 members, 8 seats); Eastern Europe and Northern Asia (25 members, 5 seats); Western Europe (28 members, 6 seats); Southern Asia and Oceania (49 members, 10 seats); Africa (54 members, 11 seats). The 27 EU Member States are included in two UPU regions: 18 EU Member States are in the Western Europe region and 9 (BG, CZ, EE, HU, LT, LV, PL, RO, and SK) are in the Eastern Europe and Central Asia region. The three EEA Member States outside the EU (IS, LI, NO), as well as Switzerland and the United Kingdom, are in the Western Europe region.

Two additional rules ensure that smaller countries have an opportunity for election to the CA. First, at least half of the membership must be 'renewed' at each Congress, i.e., the 20 incumbents receiving the fewest votes in Congress are eliminated. Second, no member country may serve on the CA more than two terms in succession.<sup>127</sup> These rules prevent the largest and most politically powerful countries in each geographic region from repeated re-election to the CA. Since creation of the CA and POC in 1994, there have been six terms of service. Eighty-eight countries have served on the CA. Thirty-nine countries have served the maximum of four terms.<sup>128</sup> Another 22 countries have served at least two terms. In practice, the CA is thus managed by a rotating cast of about 69 countries that have served 2 or more terms

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be understand to refer to the Congress presently scheduled to be held in August 2021 in Abidjan or its replacement as determined by the CA.

<sup>125</sup> UPU, General Regulations (2018), art. 107.1 provides, inter alia, that 'The Council of Administration shall the following functions: . . . [1.1] Supervises all the activities of the Union between Congresses, ensuring compliance with the decisions of Congress, studying questions with respect to governmental policies on postal issues, and taking account of international regulatory developments such as those relating to trade in services and to competition'.

<sup>126</sup> The composition and functions of the Council of Administration are set out in the General Regulations (2018), arts. 106, 107. UPU, General Regulations, art. 106.4 provides, 'Each member of the Council of Administration shall appoint its representative(s)'.

<sup>127</sup> UPU, General Regulations (2016), Arts. 106.1,106.3; 1994 Seoul Congress, Resolution C 19/1994. The 1994 geographic allocation of seats on the CA was continued by the 2018 Addis Ababa Extraordinary Congress, Resolution C 3/2018.

<sup>128</sup> Two of these countries (China and South Korea) also served a fifth term on CA because they hosted a UPU Congress and became chairman of the subsequent CA ex officio.

Table 5 Council of Administration, 2016-2020

Region	Member countries
Western Hemisphere	Barbados, Brazil, Costa Rica, Cuba, Dominican Republic, Mexico, Paraguay, Uruguay
Eastern Europe and Northern Asia	Bulgaria, Georgia, Kazakhstan, Poland, Romania
Western Europe	Belgium, Germany, Great Britain, Italy, Spain, Switzerland, Turkey
Southern Asia and Oceania	Australia, China, Indonesia, Iran, Japan, Korea (Rep.), Malaysia, Pakistan, United Arab Emirates, Viet Nam
Africa	Algeria, Burkina Faso, Côte d'Ivoire, Ethiopia, Kenya, Morocco, South Africa, Sudan, Tunisia, Uganda, Zambia

Source: UPU

The **Postal Operations Council (POC)** is responsible for all operational and commercial aspects of the work of the Union. In addition, the POC exercises legislative authority through adoption and amendment of the Convention Regulations (described below) and develops proposals on key issues like remuneration rates that are submitted to Congress for approval. In its work, the POC is subject to Council of Administration guidance on matters of fundamental policy principle. The POC is presently composed of representatives of 40 member countries elected by the 2016 Istanbul Congress. The 2018 Addis Ababa Extraordinary Congress expanded the POC membership to 48 member countries, beginning with POC elected by the Abidjan Congress (or its replacement), to accommodate demands from developing countries for a greater voice in UPU decision-making.<sup>129</sup> Each member country of the POC appoints its representative(s), which may be altered at the discretion of the government. As a practical matter, given the operational and commercial nature of the POC, representatives to the POC are almost always designated operators.<sup>130</sup>

Allocation of seats in the POC is more complicated than in the CA, and the rules were revised by the 2018 Addis Ababa Extraordinary Congress. Up to and including 2016 Istanbul Congress, the rules for election to the POC were as follows. First, at least one-third of current POC members must be 'renewed' in each Congress, i.e., 14 of the 40 incumbents receiving the fewest votes are eliminated. Unlike in the CA, there is no limit to the number of successive terms that may be served by a member country. Second, membership in the POC must include 16 industrialised countries and 24 developing countries. Third, seats must be allocated on the basis of a 'qualified geographical distribution'. This provision was interpreted to require that each geographic region must have 60% of the number of seats allocated to it in the CA (rounded to the next highest number) with a minimum number of seats for developing countries reserved in each region. This geographic requirement may result in some countries with more votes being replaced by countries with fewer votes.<sup>131</sup>

<sup>129</sup> See UPU, 2018 Addis Ababa Extraordinary Congress, Doc 6, Reform of the Union (30 Jul. 2018). The 2016 Istanbul Congress was unable to bridge different proposals for reform of the Union advanced by developing countries and industrialised countries. The primary purpose of the 2018 Extraordinary Congress was to ratify a compromise developed by the CA over the intervening two years.

<sup>130</sup> The composition and functions of the Postal Operations Council are set out in the General Regulations (2018), arts. 112, 113.

<sup>131</sup> UPU, General Regulations (2016), arts. 112.1, 112.2; 1999 Beijing Congress, Resolution C 5/1999.

Table 6 Postal Operations Council, 2016-2020

Region	Member countries
Western Hemisphere	Argentina, Brazil, Canada, Chile, Cuba, United States, Uruguay
Eastern Europe and Northern Asia	Azerbaijan, Georgia, Poland, Romania, Russia
Western Europe	Austria, Belgium, Finland, France, Germany, Great Britain, Italy, Netherlands, Portugal, Spain, Switzerland, Turkey
Southern Asia and Oceania	Australia, Bangladesh, China, India, Japan, Korea (Rep.), New Zealand, Singapore, Thailand
Africa	Egypt, Ghana, Kenya, Morocco, Senegal, Tanzania, Tunisia

Source: UPU

From the 1994 Seoul Congress through the 2016 Istanbul Congress, the rules for election to the POC have resulted in greater stability but less diversity in membership than the CA. Seventy-five countries have served on the POC in the six election cycles since 1994. Of these, 18 countries have served all 6 terms and 7 countries have served 5 terms.<sup>132</sup> In practice, the POC is dominated by a more or less permanent group of 25 to 30 countries, disproportionately weighted in favour of the industrialised countries and Europe. Collectively these countries account for about three-quarters (or more) of all outbound and inbound international mail. Working through the POC, these countries effectively controlled the operational, commercial, and legislative authority of the UPU.

Dominance of the POC by a relatively small group of mostly industrialised countries precipitated calls for increased authority for developing countries in the lead up to the 2016 Istanbul Congress. A proposal to create a 'Single Council' of 60 to 70 countries to supervise the CA and POC was apparently supported by a majority of delegates but failed to attract the super-majority of delegates necessary to amend the Constitution.<sup>133</sup> The Istanbul Congress instructed the CA and POC to develop a compromise reform for review and approval by an Extraordinary Congress in 2018.<sup>134</sup>

The 2018 Addis Ababa Extraordinary Congress revised the composition and allocation of seats in the POC beginning with the POC elected by the 2020 Abidjan Congress. Under the new rules the POC consists of 48 countries, allocated among the five geographic regions as follows: Western Hemisphere (36 members, 8 seats); Eastern Europe and Northern Asia (25 members, 6 seats); Western Europe (28 members, 12 seats); Southern Asia and Oceania (49 members, 11 seats); Africa (54 members, 11 seats). The previous allocation between industrialised countries and developing countries was eliminated. In addition, the Extraordinary Congress amended the renewal rule in the General

<sup>132</sup> The countries that have served the six terms on the POC from 1994 to 2020 are Belgium, Brazil, Canada, China, Cuba, Egypt, France, Germany, Great Britain, India, Italy, Japan, Netherlands, New Zealand, Russia, Spain, Switzerland, United States. In addition, the four major Nordic countries (DK, FI, NO, SE) cooperate closely and have effectively shared a nineteenth seat for six terms. The countries that have served five terms on the CA are Argentina, Australia, Kenya, Morocco, Portugal, South Korea, and Tunisia.

<sup>133</sup> See UPU, 2016 Istanbul Congress, Doc 38, Reform of the Union. Proposals concerning structural changes to the Union and faster decision making (9 Jun. 2016).

<sup>134</sup> UPU, 2016 Istanbul Congress, Resolutions C27/2016 and C28/2016.



Regulations to provide, ‘At least one third of the members of each geographical group shall be renewed at each Congress’.<sup>135</sup>

The **International Bureau** (IB) is the secretariat of the Union. The International Bureau is headed by a Director General and Deputy Director General, both elected by Congress. The Director General and Deputy Director General each serve a term of four years and may be re-elected for one additional term in either position. In total the period of service for each official may not exceed two terms, whether as Director General or Deputy Director General or the two offices in succession.<sup>136</sup> The current Director General is Bishar Hussein of Kenya, and the current Deputy Director General is Pascal Clivaz of Switzerland. Both were first elected in the 2012 Doha Congress and are now serving second terms.<sup>137</sup> The International Bureau employs about 275 persons. The International Bureau is located in Berne, Switzerland.<sup>138</sup>

These four bodies — the Congress, Council of Administration, Postal Operations Council, and International Bureau — cooperate to adopt legal measures that govern the exchange of documents and packages between ‘designated operators’. A ‘designated operator’ is ‘any governmental or non-governmental entity officially designated by the member country to operate postal services and to fulfil the related obligations arising out of the Acts of the Union on its territory’.<sup>139</sup>

There are four primary legal measures or ‘acts’ which establish the Universal Postal Union and govern the exchange of documents and packages between nations: the Constitution, General Regulations, Universal Postal Convention, and Convention Regulations.<sup>140</sup>

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<sup>135</sup> UPU, General Regulations (2018), art. 112; 2018 Addis Ababa Extraordinary Congress, Resolution C 3/2018. On 6 January 2020, the International Bureau notified member countries that, ‘As this is the first election of POC members after the introduction of the additional procedures outlined in resolution C 3/2018, *the one-third renewal in each geographical group will not be applied at the 2020 Abidjan Congress*. This principle will be applied only from the 2024 UPU Congress onwards.’ IB Circular 2/2020 (6 Jan. 2020) (emphasis added).

<sup>136</sup> UPU, General Regulations (2018), art. 126. Article 126 was not amended by the 2018 Addis Ababa Congress.

<sup>137</sup> The current Deputy Director General is a candidate for election to the position of Director General in the next (now postponed) UPU Congress. His candidacy appears to be inconsistent with the two-term limitation, but to date there has been no definitive legal analysis of this issue.

<sup>138</sup> In addition to these four primary bodies, the UPU includes or is associated with several additional groups. The most significant are the following. The Consultative Committee is an advisory committee established to represent the interests of the wider international postal sector and to provide a framework for effective dialogue between stakeholders. The EMS Cooperative is an organisation of designated operators which coordinates the provision of its members’ international express services (EMS) worldwide. The Telematics Cooperative is a self-financed and self-governed organisation that develops UPU’s telematics activities and operations. None of these bodies are directly involved in the remuneration arrangements or regulations of the UPU.

<sup>139</sup> UPU Convention (2019), art. 1.12.

<sup>140</sup> UPU, Constitution (2018), art. 22. In addition, the UPU has adopted two Agreements — the Postal Payment Services Agreement and the implementing PPSA Regulations — that are binding only on countries party to the Agreements. These Agreements deal only with basic financial services offer by designated operators and will not be considered further in this study.

Table 7 Primary acts of the UPU

Act or agreement	Adopted by	Scope
Constitution	Permanent act adopted by Congress in 1964. May be amended by Congress.	Establishes the Union; defines rules of adopting or modifying acts and their legal effect
General Regulations	Permanent act adopted by Congress in 2012. May be amended by Congress.	Implements the Constitution; defines composition and duties of UPU bodies
Universal Postal Convention	Congress	Fundamental rules for exchange of letter post and parcel post items between designated operators
Convention Regulations	Postal Operations Council	Implements the Convention with rules for letter post and parcel post.

Source: UPU

The **Constitution** is the basic act of the Union. The Constitution was adopted in 1964 and is a permanent intergovernmental agreement, which does not expire.<sup>141</sup> The Constitution establishes the Union and its main bodies and defines the legal effect of acts of the Union. The Constitution may be amended by a ‘protocol’ approved in Congress by at least two-thirds of the member countries of the Union having the right to vote, with a quorum consisting of the same number.<sup>142</sup> The 1964 Constitution has been amended ten times, most recently by the 2018 Addis Ababa Extraordinary Congress. In February 2020, the CA approved for submission to the Abidjan Congress a proposal to reduce the level of votes needed to amend the Constitution from two-thirds of all UPU members having the right to vote to two-thirds of member countries having the right to vote and present at Congress.<sup>143</sup>

The **General Regulations** implement the Constitution. The current General Regulations were adopted as a permanent act by the 2012 Doha Congress.<sup>144</sup> The General Regulations define the composition and authority of the main bodies of the Union and provide for financing of the Union and arbitration of disputes. The General Regulations may be amended by a protocol approved in Congress by a majority of the member countries represented at Congress and having the right to vote, with a quorum consisting of two-thirds of member countries having the right to vote.<sup>145</sup> The 2012 General

<sup>141</sup> Prior to 1964, the Universal Postal Convention included both the institutional and organisational rules of the UPU and the major rules governing the exchange of letter post items. The 1964 Vienna Congress transferred the basic institutional provisions to a new agreement, the Constitution, and organisational and procedural implementing provisions to a second new agreement, the General Regulations. For a short legal history see UPU, *Constitution and General Regulations* (2018), pages VII-XII.

<sup>142</sup> UPU, Constitution (2018), art. 30.1; Rules of Procedure of Congresses (2018), art. 17.2. Note that the two-thirds requirement applies to *all members with the right to vote*, regardless of the number of members present in Congress or actually voting. For example, if 180 member countries have the right to vote (having paid their annual contributions, etc.) but only 150 countries are present at Congress, then an amendment to the Constitution requires 120 votes, or 80% of the countries present at Congress. A member country loses its right to vote in Congress and meetings of the CA and POC if it fails to make its mandatory contributions. General Regulations (2018), art. 149.1.

<sup>143</sup> UPU, 2020 Abidjan Congress, Proposal 10.30.1 (9 Apr. 2020).

<sup>144</sup> Prior to 2004, the General Regulations, like the Convention, consisted of an agreement that was revised and adopted as a new agreement by each Congress. The 2004 Bucharest Congress adopted the General Regulations as a permanent agreement, which was amended by the 2008 Geneva Congress. The 2012 Doha Congress adopted a new, permanent version of the General Regulations, which was amended by the 2016 Istanbul Congress.

<sup>145</sup> UPU, General Regulations (2018), art. 156.1; Rules of Procedure of Congresses (2018), art. 17.2.

Regulations have been amended twice, most recently by the 2018 Addis Ababa Extraordinary Congress.

The **Universal Postal Convention** (Convention) sets out the primary obligations and privileges of member countries and designated postal operators with respect to provision of letter post and parcel services in the member countries.<sup>146</sup> To become effective, a Convention must be approved in Congress by a majority of member countries present and having the right to vote, with a quorum consisting of one half of all member countries having the right to vote.<sup>147</sup> Each Convention through the 2016 Convention has been prepared and approved as a new agreement that remains in effect until replaced by a subsequent Convention.<sup>148</sup> The 2016 Convention was adopted by the 2016 Istanbul Congress. It will be in force from 1 January 2018 through 31 December 2021 (unless Congress fails to adopt a new Convention in time). The 2018 Addis Ababa Congress and the 2019 Geneva Extraordinary Congress amended the 2016 Convention, so the current Convention is the 2016 Convention as amended through 2019.<sup>149</sup>

Under a proposal which the CA has approved for submission to the Abidjan Congress, the next Convention will become a permanent agreement. If this proposal is adopted by the Abidjan Congress, the Convention, like the Constitution and General Regulations, will be subject to amendment by protocols adopted by future Congresses.<sup>150</sup> Under the CA's proposal, the rules for adopting a protocol to the permanent Convention would be the same as the rules for adopting an amendment to the current non-permanent Convention.

The **Convention Regulations** contain detailed rules implementing the Universal Postal Convention.<sup>151</sup> These acts are drawn up and approved by the Postal Operations Council.<sup>152</sup> The Regulations are approved or amended by a majority of POC members

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<sup>146</sup> Terminal dues, fees which designated operators pay each other for the delivery of inbound international letter post, are specified in the Convention. See Section 4.4, below.

<sup>147</sup> UPU, Convention (2019), art. 38.1. Thus, the Convention may be approved by one quarter of member countries having the right to vote (i.e., a majority of a majority).

<sup>148</sup> The first UPU Convention was adopted in 1874 as the 'Treaty Concerning the Formation of a General Postal Union (1874)'. The 2016 Convention is the twenty-sixth Convention.

<sup>149</sup> In the notes the 2016 Convention as amended through 2019 is referred to as 'UPU Convention (2019)'. The 2016 Convention as adopted by the Istanbul Congress is referred to as 'UPU Convention (2016)'.

<sup>150</sup> UPU, 2020 Abidjan Congress, Proposal 20.40.1 (9 Apr. 2020). See CA 2020.1 Doc 7b, Proposed amendments to ensure the legal stability of the Acts of the Union (and for general legal consistency and streamlining purposes (Feb. 24, 2020).

<sup>151</sup> The first version of the Convention, the Treaty Concerning the Formation of a General Postal Union (1874), was divided into two sections: the Treaty itself and the Detailed Regulations. The original intention was that the treaty would be revised in infrequent meetings of governments while the Detailed Regulations 'may always be modified by the common consent of the Administrations'. See article 13 of the 1874 Treaty. It did not work out that way. Subsequent Congresses revised both the Convention and Detailed Regulations together. Prior to 1999, the Convention governed only the letter post. The parcel post was governed by a separate, voluntary agreement, the Postal Parcels Agreement, which was binding only on countries that participated in it. The 1999 Beijing Congress integrated the Postal Parcels Agreement into an expanded version of the Universal Postal Convention. Thereafter, the Detailed Regulations and similar regulations for parcels were retitled 'Letter Post Regulations' and 'Parcel Post Regulations'. The 2016 Istanbul Congress decided to combine the Letter Post Regulations and Parcel Post Regulations into a single set of regulations which are referred to only as the 'Regulations'. In this study, the Regulations are denominated the 'Convention Regulations' to distinguish them from the General Regulations and the Postal Payment Services Regulations. The latter are also adopted by the POC and implement the Postal Payment Services Agreement, a voluntary agreement binding only on participating countries.

<sup>152</sup> UPU, General Regulations (2016), arts. 113.1.13, 141.1.

having the right to vote, with a quorum likewise consisting of a majority of POC members having the right to vote.<sup>153</sup>

Under general international law, an intergovernmental agreement is not binding on a sovereign nation without its consent.<sup>154</sup> Article 25 of the UPU Constitution provides that the Constitution, General Regulations, and the Convention must be ratified or otherwise approved by each member country in accordance with its constitutional regulations.<sup>155</sup> Article 25 goes on to declare that when a member country does not ratify the Constitution or approve the other Acts which it has signed, the Constitution and other Acts 'shall be no less valid for the other member countries that have ratified or approved them'.<sup>156</sup> There is no provision for approval of the Convention Regulations by member countries. On the other hand, article 22 of the Constitution provides that the Constitution, General Regulations, Convention, and Convention Regulations are all binding on all member countries without reference to whether member countries have given their consent to be bound.<sup>157</sup> How these different provisions can be reconciled with each other and with general principles of international law is unclear.

In February 2020, the Council of Administration approved a proposal for the Abidjan Congress that attempts a solution. The proposal would amend article 31 of the Constitution to declare as follows:

The Amendments to the General Regulations, the Convention and the Agreements of the Union shall form the subject of an additional protocol and enter into force for all member countries on the date specified therein as decided by Congress. Without prejudice to the binding character of the aforementioned Acts of the Union as provided for in article 22, the said amendments shall be ratified, approved, accepted or acceded to as soon as possible by member countries. The instruments of such ratification, approval, acceptance or accession shall be dealt with in accordance with the procedure laid down in article 26. This provision shall also apply, *mutatis mutandis*, to any amendments to the Convention and the Agreements of the Union adopted between Congresses.<sup>158</sup>

The gist of this amendment seems to be that the Convention and Convention Regulations are binding on member countries whether or not they have given specific consent to be bound by such acts and to impose a legal obligation on member countries to provide that consent shall be given 'as soon as possible'. While this amendment may clarify the legal position of the UPU, it does not resolve the legal status of acts of the UPU to which countries have not formally consented to be bound.

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<sup>153</sup> The POC adopts its rules of procedure. General Regulations, art. 113.1.20. The requirements for adopting or amending the Regulations are set out in POC, Rules of Procedure (2018), arts. 23.1, 24.4. A member of the POC may lose its right to vote in the POC for extended failure to make mandatory contributions to the UPU. General Regulations, art. 149.1.

<sup>154</sup> See Vienna Convention on the Law of Treaties, May 23, 1969, 1155 U.N.T.S. 331, arts. 11-16, 34.

<sup>155</sup> UPU, Constitution (2018), art. 25.4 ('Approval of the Acts of the Union other than the Constitution shall be governed by the constitutional regulations of each signatory country').

<sup>156</sup> UPU, Constitution (2018), art. 25.6.

<sup>157</sup> UPU, Constitution (2018), art. 22.3 ('The Universal Postal Convention and its Regulations shall embody the rules applicable throughout the international postal service and the provisions concerning the letter-post and postal parcels services. These Acts shall be binding on all member countries. Member countries shall ensure that their designated operators fulfil the obligations arising from the Convention and its Regulations').

<sup>158</sup> UPU, Abidjan Congress, Proposal 10.31.1 (9 Apr. 2020).

The possibility of a 'reservation' is closely related to the concept of consent to be bound. A member country may file a reservation to selected provisions of the acts of the UPU in certain circumstances. A reservation is defined in the Constitution as 'an exemption clause whereby a member country purports to exclude or to modify the legal effect of a clause of an Act, other than the Constitution and the General Regulations, in its application to that member country'.<sup>159</sup> For example, article 20.2 of the 2016 Convention prohibits designated operators from collecting a presentation-to-Customs charge from addressees for items which are not subject to customs charges. In a reservation, Australia, Brazil, Canada, Cyprus, and Russia have reserved the right to collect a presentation-to-Customs charge from addressees for any item submitted to customs control whether or not subject to charges.<sup>160</sup> Similarly, article 32 authorises the POC to establish inward land rates for delivery of inbound parcels, but Belgium, Norway and United States have reserved the right to collect higher inward land rates for air parcels than for surface parcels.<sup>161</sup>

The right to file reservations is limited by several provisions. In 2004, the Bucharest Congress amended the Constitution and Convention to provide member countries may *not* file a reservation to a provision in the Constitution or the General Regulations or to the terminal dues provisions of the Convention.<sup>162</sup> The Bucharest Congress also provided that with respect to other provisions of the Convention, member countries may file a reservation at the end of Congress, but the reservation becomes effective only if approved by Congress. Reservations that are 'incompatible with the object and purpose of the Union' are not permitted.<sup>163</sup> Member countries may also file reservations to some but not all of the provisions in the Convention Regulations. Such reservations must be approved by a majority of the Postal Operations Council having the right to vote.<sup>164</sup>

Customarily, member countries have also exercised the option of making an official declaration upon signing the Convention. The acts of the UPU do not provide a legal status for such declarations, but member countries have traditionally used declarations to indicate how they intend to administer the acts of the UPU.<sup>165</sup> Since 1994, the EU Member States have filed a common declaration stating their intent to implement the acts of the UPU in accordance with their obligations under EU law and the General Agreement on Trade in Services as follows:

The delegations of the member countries of the European Union declare that their countries will apply the Acts adopted by this Congress in accordance with their obligations pursuant to the Treaty on European Union, the Treaty on the Functioning of the European Union, and the

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<sup>159</sup> UPU, Constitution (2018), art. 1bis.8.

<sup>160</sup> UPU Convention (2016), Protocol article XI.2.

<sup>161</sup> UPU Convention (2016), Protocol article XV.1.

<sup>162</sup> UPU Constitution (2018), art. 22; UPU Convention (2019), arts. 28bis.7, 29.20, 30.10. The Bucharest Congress was motivated by a disagreement over reservations with respect to terminal dues in the 1999 Beijing Congress. At the end of that congress, the United States, looking ahead to negotiations in the Doha Round at the World Trade Organization, reserved the right 'to implement these terminal dues agreements in accordance with the provisions adopted in future negotiations involving the General Agreement on Trade in Services'. UPU Convention (1999), Protocol article XXIV.10. Other countries filed other reservations to the terminal dues provisions. In response, 60 countries (including some but not all EU Member States) filed a counter-reservation declaring that, notwithstanding such reservations, they insisted on the right 'to fully apply the provisions approved by the Beijing Congress regarding terminal dues'. *Id.* article 11.

<sup>163</sup> UPU Convention (2019), art. 39.

<sup>164</sup> UPU, Rules of Procedure of the Postal Operations Council (2018), art. 20.

<sup>165</sup> Since 1994, the EU Member States have filed a common declaration stating their intent to implement the acts of the UPU in accordance with their obligations under EU law.

General Agreement on Trade in Services of the World Trade Organisation.<sup>166</sup>

Similarly, the EEA Member States (Iceland, Liechtenstein, and Norway) declare:

The delegations of the Republic of Iceland, the Principality of Liechtenstein and the Kingdom of Norway declare that their countries will apply the Acts adopted by this Congress in accordance with obligations pursuant to the agreement establishing the European Economic Area and the General Agreement on Trade in Services of the World Trade Organisation.<sup>167</sup>

Finally, the Congress can express its will less formally in the form of decisions, resolutions, recommendations, and opinions. These are numbered and included in the documents of each Congress. Congress resolutions are often instructions to the permanent bodies of the Union to undertake specific studies or activities. The Constitution does not provide a legal status for such decisions.

In sum, the UPU is an intergovernmental organisation that adopts 'acts' (intergovernmental agreements) which govern the exchange of documents and parcels between 'designated operators' (national postal operators). There are four primary acts. The Constitution and General Regulations establish the main organisational units of the UPU and define their powers. The UPU Convention (formally, the Universal Postal Convention) and the more detailed Convention Regulations prescribe rules and procedures for exchanging mail. The Constitution, General Regulations, and Convention are adopted or amended by the UPU Congress, a general meeting of all 192 UPU member countries which normally convenes every four years. The Convention Regulations are adopted and amended by the Postal Operations Council, a permanent committee of 40 countries (soon to be 48) elected by the Congress. The secretariat of the UPU is located in Berne, Switzerland, and headed by a Director General, elected by Congress. The next regular meeting of the UPU Congress was scheduled for August 2020, but it has been postponed due to the COVID-19 pandemic.

## 4.2 History of UPU remuneration systems

In the UPU vocabulary, 'remuneration' is a general term that refers to payments between designated operators to compensate for costs incurred in the provision of international postal services. The first UPU Convention (1874) provided for payments to a postal administration for providing 'transit' services across its national territory. For example, the French postal administration could charge the British postal administration for accepting mail in Calais and transporting it across France for handling off to the German or Italian postal administrations. In addition to 'transit charges', the modern UPU Convention also provides for 'air conveyance dues', which are charges for providing domestic air transportation for inbound international mail.<sup>168</sup>

Several types of remuneration involve payments for delivery of inbound mail. Payments for delivery of letter post items are called 'terminal dues'. Payments for delivery of postal parcels are called 'inward land rates'. In addition, postal administrations compensate each

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<sup>166</sup> UPU, 2018 Addis Ababa Extraordinary Congress, Doc 11, Declarations made on signature of the Acts, Add 9.

<sup>167</sup> UPU, 2018 Addis Ababa Extraordinary Congress, Doc 11, Declarations made on signature of the Acts, Add 8.

<sup>168</sup> UPU Convention (2019), arts. 27 (transit charges), 33 (air conveyance dues).

other for providing supplementary services related to delivery including insurance, registered delivery, and tracking.

Of all forms of remuneration, the most economically significant is terminal dues. Terminal dues are relatively expensive, and the letter post includes about 95% of all items conveyed by the international postal system. Analysis and negotiation of new terminal dues rates constitute one of the core activities of the Postal Operations Council between Congresses. For most designated operators terminal dues form a central element of international postal services.

In order to understand the strengths and weaknesses of the current terminal dues system, it is helpful to have an overall understanding of the development of terminal dues. Broadly, compensation for delivery of inbound international mail has gone through four periods of development.

The first period was from 1875, when the UPU was founded, to 1968, nine decades that included fifteen Congresses. In this period, there was no monetary compensation for delivery of inbound mail. Compensation was the product of a barter system. Each post office delivered inbound mail in return for the right to have its outbound mail delivered. There were two fundamental problems with this barter arrangement. First some post offices received more inbound mail than they sent out. Net exporters benefitted and net importers lost out. As early as 1906, Italy observed that it received 325,000 more letters than it sent out. Italy unsuccessfully advocated some sort of compensation system. The second problem was that the barter system encouraged 're-mail'. Remail is mail that is posted in a country other than the country where the mail originated. Since the marginal cost of postal delivery in a foreign country was effectively zero, some post offices set outbound international postage rates lower than the domestic postage in the destination country in order to attract domestic mailers from a neighbouring country. In response, the 1924 Stockholm Congress adopted a prohibition against such 'ABA' remail.<sup>169</sup> What brought an end to the pure barter system was an increase in UPU membership due to transformation of many former colonies into independent nations after the end of World War II. The new member countries were mostly net importers, and they added to the demand for an explicit payment system.

The second period in the development of the UPU delivery compensation system lasted from 1969 to 1988, a span of four Congresses. In this period, the UPU introduced terminal dues payments, but the schedule of charges was arbitrary and unrelated to any economic basis. The first terminal dues charge was adopted by the 1969 Tokyo Congress. The amount of compensation was one-half gold franc (SDR 0.163) per kilogram. This amount was completely arbitrary. Despite five years of study, the UPU had been unable to discover an economically logical basis for terminal dues. The arbitrary charge of the 1969 Convention was arbitrary tripled by the 1974 Congress and then arbitrarily tripled again in the 1979 Congress. In the 1984 Congress, the major industrialised countries joined forces to keep the increase in terminal dues to an equally arbitrary 45%.

The third period of compensation development took place in the decade from the 1989 to 2003 and included three Congresses. In this period, the UPU compensation system was

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<sup>169</sup> ABA remail refers a situation in which a mailer residing in country A transports mail to a neighboring country B for forwarding by international post back to country A for delivery ('ABA remail'). For example, a mailer in Ireland could transport his domestic mail by truck to Belfast (in the United Kingdom) for forwarding by international post to addresses in Ireland, possibility at lower cost due to the terminal dues system. Alternatively, a mailer residing in country A might transport his mail to another country B for forwarding by international post to country C for delivery ('ABC remail'). A famous example involved the allegation that Citibank in the United States improperly transported mail to the Netherlands by electronic means for forwarding by international post to Germany. Joined Cases C-147 and 148/97, *Deutsche Post v. GZS and Citicorp*, ECR (2000) I-827.

reshaped by postal concerns about remail and concerns of competition authorities about restrictions on remail. Many postal officials felt that remail was essentially destructive competition between post offices and should be stopped. At the time, remail was increasing substantially. Due to improvements in air transportation, it became easier and cheaper for large companies to tender international mail directly to a foreign post office instead of the national post office. In 1986, the US liberalised outbound remail, in large part due to the urging of US antitrust authorities. Suddenly, post offices were competing with one another to become hubs for the regional distribution of foreign remail.

In April 1987, the British Post Office<sup>170</sup> convened a meeting of sixteen major post offices from Europe and North America to find a way to restrain remail. This group developed a three-part strategy. First, adopt a new terminal dues system that included an item charge as well as a kilogram charge to replace the UPU's kilogram-only charge. Introduction of an item charge made terminal dues more cost-based, but it also drove up the cost of letter remail. Second, enforce the anti-remail provision of the UPU Convention. Third, promote a 'code of good conduct' among post offices. In practice, this amounted to a pledge not to do business with private carriers tendering foreign remail.

The item-kilogram rate developed in these meetings was put into effect in 1988 and became known at the 'CEPT agreement' because it was later endorsed by the Conference of European Posts and Telecommunications Administrations. The CEPT agreement applied only to intra-European mail. Supporters of the CEPT agreement also urged the UPU to apply these measures globally. As a result, the 1989 Washington Congress of the UPU adopted a new approach towards terminal dues and remail based on the CEPT agreement.

The CEPT agreement was controversial. Competition authorities in both the United States and Europe objected that it distorted and restrained legitimate competition. In Europe, in response to a competition law complaint,<sup>171</sup> the Commission forced the postal operators to replace the CEPT agreement with a new agreement that better aligned terminal dues with domestic postage rates. This was the REIMS II agreement,<sup>172</sup> approved by the

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<sup>170</sup> In the United Kingdom, the Postal Services Act 2000 transferred the assets of the Post Office, a statutory corporation, to Consignia, a public limited company; Consignia was later renamed Royal Mail.

<sup>171</sup> See European Commission, Case IV/32.791 - Remail, Statement of Objections (Apr. 5, 1993). This Statement of Objections responded to a complaint filed by the International Express Carriers Conference in July 1988.

<sup>172</sup> REIMS was originally an acronym for Remuneration in the Exchange of International Mail Services. In early 1992, three and half years after the remail competition law complaint and on the eve of publication of the Postal Green Paper, European post offices began work on a revised terminal dues agreement to be called REIMS. Negotiations among post offices and between post offices and the European Commission dragged on for more than seven years. On 17 January 1995, 14 post offices (two non-EU) signed a preliminary agreement that set terminal dues equal to 80 percent of domestic postage rates after a six-year transition period. The fate of this proposal was in doubt from the beginning since several post offices indicated their participation was dependent on accession by other post offices who were not so inclined. Moreover, since REIMS was a price-fixing agreement under European competition law, it was necessary for the parties to seek approval of the European Commission. After further haggling, a revised version was submitted to the Commission on 13 December 1995. This version, known as "REIMS I", went into effect on 1 January 1996 while Commission approval was pending. REIMS I lapsed on 30 September 1997, partly because the Spanish post office never agreed (a formal condition subsequent in the agreement) and partly because the Commission objected to several provisions as anticompetitive. In practical effect, REIMS I did little more than extend the anticompetitive CEPT terminal dues another two years, until the end of 1997. On 31 October 1997, a substantially revised agreement, called REIMS II, was notified to the Commission by 13 post offices (two non-EU) post offices. After the Commission indicated continuing objections, 11 post offices (two non-EU) proffered a modified REIMS II agreement in October 1998. Ultimately, the revised REIMS II was joined by all EU post offices except the Dutch and by the post offices of Iceland and Norway.



European Commission in 1999.<sup>173</sup> Concerns about the UPU terminal dues also played a major role in development of the 'Postal Green Paper' in 1992,<sup>174</sup> which paved the way for adoption of the Postal Directive in 1997.<sup>175</sup>

The UPU also came under increasing pressure from competition authorities to align terminal dues with the postage rates in the destination countries. In the 1999 Beijing Congress, the UPU included in the Convention a pledge to adopt a 'country-specific' terminal dues system. That is, terminal dues were to be based on the specific domestic postage rates (or costs) of postal services in each country. The country-specific system was supposed to be placed into effect for industrialised countries by 2005, the end of the period of effectiveness of the 1999 UPU Convention. Country-specific terminal dues would also be applied to other countries as soon as possible. As an interim measure, the 1999 Congress adopted a temporary terminal dues system similar to the CEPT agreement for the first three years of what was then a five-year cycle. The Postal Operations Council was directed to prepare a plan by 2003 for the transition to country-specific terminal dues. However, in meetings in 2002 and 2003 the POC declined to implement country-specific terminal dues, and the temporary CEPT terminal dues rates were continued until 2005.<sup>176</sup>

The fourth period of UPU compensation development has lasted from 2004 to the present and includes the results of four regular Congresses, including the most recent, the 2016 Istanbul Congress. This has been a period of increasing elaboration of the temporary terminal dues system adopted by the 1999 Beijing Congress but without significant progress towards country-specific terminal dues. Each Congress has refined and elaborated the temporary terminal dues system of the 1999 Convention without fundamentally changing it. And each Congress has called upon the following Congress to move towards true country-specific terminal dues.

Although the terminal dues system adopted by the 2016 Convention is vastly more sophisticated than the 1988 CEPT agreement, it is fundamentally similar in key respects. Uniform caps and floors, defined by per item and per kilogram charges, have replaced the single CEPT item-kilogram formula, but they have similar effects (see Chapter 5). The anti-remail measures of the CEPT agreement have been strengthened by the addition of restrictions on extraterritorial offices of exchange (see next section). The code of good conduct has been transformed into a prohibition against the use of UPU documentation by private carriers. As a result, in 2018, twenty years after the 1999 Beijing Congress, virtually no country was charging terminal dues that were aligned with domestic postage rates.

To summarise: international postal service requires that designated operators compensate each other for costs incurred in handling each other's mail. Today the most important type of inter-postal compensation (or 'remuneration') is 'terminal dues'. Terminal dues compensate a designated operator for the cost of delivering inbound letter post items. Before 1969, there were no terminal dues payments. Postal operators compensated each other for delivery of inbound mail by barter. That is, a postal operator

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<sup>173</sup> Commission Decision 1999/695/EC - REIMS II – 15 September 1999 relating to a proceeding under Article 81 of the EC Treaty and Article 53 of the EEA Agreement, OJ L 275, 26.10.1999, p. 17. See also Commission Decision 2004/139/EC - REIMS II renotification – 23 October 2003 relating to a proceeding pursuant to Article 81 of the EC Treaty and Article 53 of the EEA Agreement, OJ L 56, 24.2.2004, p. 76.

<sup>174</sup> European Commission, Green Paper on the Development of the Single Market For Postal Services, COM(91) 476 (1992).

<sup>175</sup> Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service, OJ L 15, 21.1.1998, p. 14.

<sup>176</sup> See UPU, Summary Record of the 2002 POC (9 Jul. 2002); Summary Record of the 2003 POC (18 Jun. 2003).

delivered inbound mail without charge in return for the right to have its outbound mail delivered in the country of destination without charge. This barter system benefited countries that exported more mail than they imported and countries that traded their own low-cost delivery services for high-cost delivery services of other countries.

In 1969 the UPU agreed to a system of monetary payments for delivery of inbound letter post. Guided by the politics of the UPU (the majority of countries were net importers) and objections from competition authorities (terminal dues were inconsistent with the competition laws in the EU and US), terminal dues have evolved into substantial monetary transfers. Beginning in 1999, the UPU endorsed the principle that terminal dues should become 'country-specific' after an appropriate transition period, i.e., in each country terminal dues should be equal to domestic postage rates for equivalent delivery services. Somewhat arbitrarily, the UPU adopted 70% of retail domestic rates for priority mail as the appropriate benchmark for country-specific terminal dues. Practice did not follow principle, however. Between 1999 and 2016, UPU terminal dues took only minimal strides towards aligning terminal dues with the specific domestic postage rates in each country. Discrepancies between terminal dues and domestic postage continued to foster significant economic distortions in the international exchange of documents and parcels.

### 4.3 Limitations on remail and ETOEs

As noted above, remail is mail that is posted in a country other than the country where the mail originated. Terminal dues which are unrelated to domestic postage rates create economic incentives for mailers to use remail to bypass the normal international postal system when it is profitable to do so. If the destination designated operator charges *less* to deliver inbound international mail than equivalent domestic mail — the situation in most industrialised countries — then a foreign mailer residing in country A can often save money by avoiding the outbound international postal service of his national designated operator<sup>177</sup> and sending his mail as remail to a foreign designated operator in country B that will forward the mail to the destination designated operator in country C for a fee equal to terminal dues plus a small charge (ABC remail). By the same token, a domestic mailer residing in country A may save money by transporting his domestic mail to another country (B) and arranging for the mail to be sent back as inbound international mail (ABA remail). If a destination designated operator charges *more* to deliver inbound international mail than equivalent domestic mail, a foreign mailer residing in country A will save money by circumventing the international postal system completely and using a private transportation company to tender mail directly to the destination designated operator in country B for delivery as domestic mail in country B (ABB remail).

Since remail undermines terminal dues, restrictions on remail have long been considered a necessary element of the terminal dues system.<sup>178</sup> The current anti-remail rule assumed its present form in the 1999 UPU Convention. It permits a destination designated operator to refuse to deliver ABA letter post remail which a mailer residing in

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<sup>177</sup> Traditionally, designated operators set outbound postage rates significantly above actual costs (i.e., collection costs, international transportation, and foreign terminal dues) in order to generate a profit to offset the fact that terminal dues received for delivery of inbound letter post items are significantly below equivalent domestic postage. Commercially aggressive designated operators can take advantage of this situation by offering a lower priced remail or ETOE service that passes on to foreign mailers the full benefits of terminal dues set below domestic postage rates in the destination country.

<sup>178</sup> As noted above, the 1924 Stockholm Congress added a reservation to the Convention that rejected the obligation of the postal administration in country A to deliver correspondence taken out of its country and posted back from a second country, country B (ABA remail). An anti-remail article along this lines was added to the Convention in 1974. In 1979, this article was extended to include letter post items which a sender residing in one country (A) posts, or causes to be posted, letter post in a second country (B) for delivery in a third country (C) (ABC remail).

its national territory has posted with a foreign designated operator for return via the international postal system and delivery to domestic addressees. The destination designated operator's right to refuse delivery for ABA remail includes not only mail which has been physically exported for reimportation but also mail which the mailer has 'caused be posted' with a foreign designated operator, for example, by electronic transmission of data from which the mail is created.<sup>179</sup>

The rule against ABC remail is more lenient. It allows a destination designated operator to refuse to deliver letter post which a foreign mailer has dispatched in large quantities via an intermediate designated operator (i.e., not the mailer's national designated operator nor the destination designated operator) if, but only if 'the amount of terminal dues to be received is lower than the sum that would have been received if the mail had been posted in the country where the senders reside'. This rule does not prohibit all ABC remail, but only ABC remail that seeks to take advantage of lower terminal dues rates extended to developing countries.<sup>180</sup>

**Extraterritorial offices of exchange (ETOEs)** are an extension of the remail concept. Instead of waiting for foreign mailers to find a way to tender their mail across borders, some designated operators decided to go to the foreign mailers by opening offices outside their national territories. An office which a designated operator operates outside its national territory is called an extraterritorial office of exchange.<sup>181</sup> The 2004 Bucharest Congress condemned ETOEs as 'not in the same situation as postal administrations executing the universal service obligations under the UPU Acts' and therefore not entitled to the special customs treatment afforded international mail or delivery by the destination designated operator at UPU remuneration rates.<sup>182</sup>

In 2016, the Istanbul Congress added article 13 to the Convention to control the operation of ETOEs without completely blocking them. Article 13 begins with a declaration that only designated operators may use UPU documentation. This effectively limits UPU customs privileges and UPU remuneration rates to designated operators. Article 13 then declares that a designated operator may use UPU documentation for mail dispatched from an ETOE only if (1) the ETOE is established with the approval of the host country and (2) the dispatched mail is sent to a country that specifically accepts ETOE mail. Each country is obliged to keep the UPU informed of whether it hosts ETOEs or accepts mail from

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<sup>179</sup> See Joined Cases C-147 and 148/97, *Deutsche Post v. GZS and Citicorp*, ECR (2000) I-827 (UPU anti-remail provisions may be applied in part to mail produced in Denmark and posted to German addressees where data from which the mail was prepared was transmitted from Germany to Denmark). Compare Commission Decision of 25 July 2001 relating to a proceeding under Article 82 of the EC Treaty (COMP/C-1/36.915 — *Deutsche Post AG* — Interception of cross-border mail), OJ L 331, 15.12.2001, p. 40 (UPU anti-remail provisions may not be applied to mail produced in the United Kingdom and posted to German addressees where data from which the mail was prepared was not transmitted from Germany to the UK).

<sup>180</sup> UPU Convention (2019), art. 12. Remail is not based solely on differences in the terminal dues rates which the designated operator in country C charges to the designated operators in countries A and B. A mailer residing in country A may choose to send his mail through country B to country C for various reasons. For example, the international carrier and the designated operator in country B may provide a better end-to-end service than the outbound international mail service of the designated operator in country A. Or the designated operator in country B may be willing to accept a significantly lower profit on remail than the designated operator in country A requires from its outbound international mail service. Or the mailer in country A may make consolidated international mail operations for multiple countries in a regional hub located in country B.

<sup>181</sup> UPU Convention (2019), art. 13. Article 13.6 ('offices or facilities established for commercial purposes and operated by designated operators or under the responsibility of designated operators on the territory of a member country or territory other than their own, with the objective of drawing business in markets outside their respective national territory').

<sup>182</sup> UPU, 2004 Bucharest Congress, Resolution C44/2004. This resolution was reaffirmed by the Geneva Congress in Resolution C63/2008 and by the 2012 Doha Congress in Resolution C6/2012.

ETOE. In short, ETOEs are prohibited from using terminal dues and other UPU privileges unless explicitly approved by both origin and destination countries.<sup>183</sup>

According to the UPU, 15 designated operators in Europe (including EEA and Switzerland) currently operate 84 ETOEs in 15 European countries and 103 ETOEs in 6 countries outside of Europe. Seven designated operators operate ETOEs in six or more countries: PostNL/Netherlands (13 countries), Swiss Post/Switzerland (13), Deutsche Post/Germany (12), Postnord/Sweden (10), La Poste/France (9), bpost/Belgium (8), and Eesti Post/Estonia (6). Twelve non-European designated operators operate 35 ETOEs in 8 European countries and 43 ETOEs in 5 countries outside of Europe. In some countries, however, the host country will not allow ETOEs to use UPU documentation to export mail except to countries with which the host country has a bilateral agreement. Many countries will not accept inbound ETOE mail as normal international mail without agreements with the ETOE operator and/or the ETOE host country. For further information see Chapter 3.

**International mail processing centre (IMPC) codes** are closely related to the UPU's regulation of ETOEs. An IMPC is physical facility where outbound international mail is prepared for dispatch, inbound international mail is received and processed for delivery, or transit mail is processed for forwarding to another country.<sup>184</sup> An IMPC code is a six-character expression that identifies the location of each IMPC. For example, 'BEBRUA' is the code for an IMPC located in Belgium (BE), near the Brussels airport (BRU). 'A' indicates that this is first IMPC in this location assigned a code. The UPU's website indicates that BEBRUA is operated by the Belgian designated operator, bpost. Another IMPC in the same general location, BEBRUL, is operated by the Dutch designated operator, PostNL, and is therefore an ETOE.<sup>185</sup>

IMPC codes must be registered with the UPU's International Bureau. According to Convention Regulations, each international postal consignment must include the appropriate IMPC codes for the origin and designation offices of exchange. There is no operational reason why a non-designated operator should not register an IMPC code and forward mail to a foreign designated operator for delivery as international mail. Prior to development of ETOEs in the early 2000s, a few non-designated operators applied for and were assigned IMPC codes. This ended after the UPU began to restrict ETOEs. In 2004, the Bucharest Congress directed the International Bureau to suspend registration of IMPC codes for non-designated operators. This suspension has been maintained to the present. Currently, the UPU has registered 2,078 IMPC codes, but only 14 have been assigned to non-designated operators.

Thus, the UPU terminal dues system includes more than an agreement on terminal dues rates. The terminal dues system also includes rules that restrain (but do not entirely prevent) bypass of terminal dues rates by means of remail (i.e., posting mail in a foreign country) and extraterritorial offices of exchange (ETOE) (i.e., posting mail in the office of a foreign designated operator located in the mailer's country). In broad terms, the UPU provisions on remail, ETOEs, and IMPC codes reinforce the ability of each designated operator to secure the international outbound letter post business from potential competition by other designated operators and private operators.

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<sup>183</sup> UPU Convention (2019), art. 13. Article 13.1 provides, 'only designated operators shall use UPU forms and documentation for the operation of postal services and exchange of postal items in accordance with the Acts of the Union'.

<sup>184</sup> UPU Convention (2019), art. 13. Article 13.6.

<sup>185</sup> See UPU, Code List Number 108: International Mail Processing Centre (IMPC) codes, open offices (4 Jun. 2020).

#### 4.4 Terminal dues in the 2016 UPU convention

The terminal dues system of the 2016 UPU Convention is a schedule of delivery rates for international letter post items negotiated by major designated operators in a working party of the Postal Operations Council and formally approved by governments of the Universal Postal Union in the 2016 Istanbul Congress.<sup>186</sup> The terminal dues provisions of the 2016 UPU Convention went into force on 1 January 2018 and were expected to remain in force until January 1, 2022. Subsequently, however, certain provisions of the 2016 terminal dues system were amended by the 2018 Addis Ababa Extraordinary Congress<sup>187</sup> and, more significantly, by the 2019 Geneva Extraordinary Congress.

With one major exception, the 2016 terminal dues provisions are fundamentally similar to the terminal dues provisions of UPU conventions going back to the 1999 Convention. As in prior Conventions, terminal dues are purportedly calculated on the basis of 70 percent of domestic priority postage rates and then limited by cap and floor provisions, which have the effect of confining terminal dues rates to a relatively narrow range unrelated to domestic postage. For industrialised countries, terminal dues rates are held significantly below domestic postage for equivalent delivery services. For developing countries, terminal dues generally exceed equivalent domestic postage. The major innovation introduced in the 2016 terminal dues system is a separate rate schedule for small packages and bulky documents, called 'E-format items' in UPU terminology (defined below). In previous conventions, the same linear (per item and per kilogram) rates applied to both documents and small packages. To make terminal dues for E-format items more reflective of delivery costs, the 2016 Convention substantially increased the per item rate and reduced the per kilogram rate for E-format items.<sup>188</sup> The 2016 Convention initially set terminal dues lower for E-format items sent to or from countries in Groups II and III, than for those sent between countries in Group I (see below). Over a four-year transition, these rates are equalised so that by 2021 E-format items sent to or from all significant Target System countries will be charged the same terminal dues rates. This system preserved the substantial discount (compared to equivalent domestic postage) that designated operators in industrialised countries give each other for delivery of packages while eliminating the competitive advantage enjoyed by China Post (and other designated operators in Group II and Group III countries). With the addition of new rates for E-format items, the terminal dues provisions of the 2016 Convention are substantially more complex than those of prior conventions, but these complexities obscure the relative simplicity of the overall system.

Like the 2012 Convention,<sup>189</sup> the 2016 Convention provides four terminal dues regimes depending on which terminal dues group the origin country and destination country belong

<sup>186</sup> The terminal dues system of the 2016 Convention is summarised in 2016 Istanbul Congress, Doc 40, UPU terminal dues system for the 2018–2021 period (25 May 2016). It was developed by the Letter Post Remuneration Group, a working party that included all members of the POC and was chaired by an official of the Spanish postal operator.

<sup>187</sup> The amendments to the 2016 UPU Convention by the Addis Ababa Extraordinary Congress were relatively minor: (i) items for the blind and 'M-bags' (newspapers, periodicals, books and similar printed documentation for the same addressee at the same address and weighing up to 30 kg) were classified as 'goods' and (ii) 'cumbersome parcels services' was added as an optional supplementary service for the letter post.

<sup>188</sup> For example, in countries subject to the Group I terminal dues regime, the cap rate for E-format items went from SDR 0.321 per item and 2.507 per kg in 2017 to SDR 0.705 per item and 1.584 per kg in 2018 (the first year of the 2016 Convention), a 120% increase in the per item rate and 37% decrease in the per kilogram rate. In contrast, both the per item and per kilogram cap rates for PG documents increased by a modest 3% from 2017 to 2018.

<sup>189</sup> The 2008 and 2012 Conventions classified countries into six groups (Groups 1.1, 1.2, 2, 3, 4, and 5) for purposes of terminal dues and contributions to the Quality of Service Fund; however several of these groups applied the same terminal dues provisions. In the 2012 Convention, Groups 1.2 and 2 applied the same terminal dues rates as did Groups 4 and 5. Group 3 applied the same terminal dues rates as

to.<sup>190</sup> The terminal dues groups are based primarily on economic criteria.<sup>191</sup> Group I countries are the most economically advanced while Group IV countries are the least. In the 2016 Convention, the level of terminal dues varies according to the group of both destination and origin designated operators. The four groups and the applicable terminal dues regimes are defined as follows:

- *Group I.* Twenty-eight industrialised countries, including 18 European countries,<sup>192</sup> and the United States, Canada, Israel, Japan, Australia, and New Zealand. The Group I terminal dues regime applies letter post flows between two Group I countries, about 38% of global letter post volume.
- *Group II.* Twenty-five high-level developing countries, including Bahamas, Bahrain, Croatia, Czech Republic, Estonia, Korea (South), Latvia, Poland, Saudi Arabia, Singapore, Slovenia. Hong Kong, a territory of China, is in Group II. The Group II terminal dues regime applies to letter post flows between Group II countries and to letter post flows (in both directions) between Group II countries and Group I countries, about 13% of global letter post volume.
- *Group III.* Thirty-eight mid-level developing countries, including Argentina, Brazil, China, Costa Rica, Malaysia, Mexico, Russia, South Africa, and Thailand. The Group III terminal dues regime applies to letter post flows between Group III countries and to letter post flows (in both directions) between Group III countries and countries in Groups I or II, about 41% of global letter post volume.
- *Group IV.* One hundred low-level developing countries, including Egypt, India, Indonesia, Kenya, Philippines, and Vietnam. The Group IV terminal dues regime applies to letter post flows between Group IV countries and to letter post flows (in both directions) between Group IV countries and countries in Groups I, II, or III, about 8% of global letter post volume.

In the 2016 UPU Convention, the letter post flows exchanged between countries in Groups I, II, and III are collectively referred to as the '**Target System**'. The letter post

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Groups 4 and 5 but, beginning 2016, was classified as part of the Target System and subject to somewhat different rules. The 2016 Convention simplified the classification system by combining groups with the same terminal dues provisions. Group 1 was renamed Group I, Groups 1.2 and 2 became Group II, Group 3 became Group III, and Groups 4 and 5 became Group IV.

<sup>190</sup> UPU, 2016 Istanbul Congress, Resolution C7/2016, classification of countries and territories for terminal dues and Quality of Service Fund (QSF) purposes. The summary of group members in the text includes UPU member countries and omits territories. In Resolution C7, the UPU classifies some thirty territories to terminal dues groups, sometimes differing from that of the mother country. In addition, two UPU member countries are not independent national entities. The Overseas Territories of Great Britain is treated as a UPU member country, but it is a collection of territories classified to several terminal dues groups. The Overseas Territories is not included as a country in the description of the four terminal dues groups in the text. 'Aruba, Curaçao and Sint Maarten' is also treated as a UPU member country, although these entities are legally separate 'states' within the Kingdom of the Netherlands. Aruba, Curaçao and Sint Maarten are collectively classified by the UPU in terminal dues Group II, and counted as a country in the text.

<sup>191</sup> Classification of countries into terminal dues groups is based on each country's rating under the 'Postal Development Index' (PDI), a composite measure of economic and postal development developed by the International Bureau. A country cannot move from one group to another unless its PDI score changes or (in very rare cases) it can successfully demonstrate exceptional circumstances. The 2016 Istanbul Congress made no significant changes in country classification other than the combination of groups described above. UPU, CA C 1 RGIPG 2015.2 Doc 4c, Review of the country classification methodology and transition principles (8 Oct. 2015) and POC 2016.1 Doc 12h (Rev 1, 12 Feb. 2016), Annex 1, Classification of countries and territories for terminal dues and Quality of Service Fund purposes (12 Feb. 2016).

<sup>192</sup> The 18 European industrialised countries are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and United Kingdom, as well four city-states, Liechtenstein, Monaco, San Marino, and the Vatican.

flows exchanged between Group IV countries and the flows exchanged between Group IV countries and all other countries are collectively referred to as the '**Transitional System**'. The approximate volumes of letter post traffic subject to the terminal dues regimes defined by the four terminal dues groups are set out in Table 8.

Table 8 Terminal dues groups, 2016 UPU Convention

TD group	Number of countries	Approx. % world outbound volume 2018	Approx. % world inbound volume 2018	Flows in TD schedule	Approx. % world volume in TD regime
I	28	49%	62%	I ↔ I	38%
II	24	10%	14%	II ↔ I, II	13%
III	38	34%	22%	III ↔ I, II, III	41%
IV	100	7%	2%	IV ↔ I, II, III, IV	8%

Source: UPU, POC C2 RIG 2019.1 Doc 9e (20 Dec. 2018) (2018 IPK study); POC C2 2019.2 Doc 4a (14 Oct. 2019) (2019 flows study).

Note: Two 'member countries' of the UPU are not countries but groups of states or territories. Aruba, Curaçao and Sint Maarten are independent constituent countries within the Kingdom of the Netherlands; they are treated collectively as one UPU country in Group II. The Overseas Territories of the United Kingdom is a set of twelve territories administered by the United Kingdom and classified in several terminal dues groups. Neither UPU 'member country' is counted as a country in this table.

In addition, for the first time the 2016 Convention divided each of the four terminal dues regimes into two schedules depending on shape and content. The 2012 Convention had already classified letter post items according to three shapes or formats: small envelopes or **P-format** (for the French *petit*), large flat envelopes or **G-format** (*grand*), and bulky items or E-format (*encombrant*).<sup>193</sup> **E-format** items included all letter post items that did not fit into P- or G-format envelopes as defined by Convention Regulations.<sup>194</sup> The 2016 Convention overlaid these format-based categories with a content-based distinction defined by two new terms: documents and goods. A **document** is 'a letter-post, parcel-post or EMS item consisting of any piece of written, drawn, printed or digital information, excluding objects of merchandise.'<sup>195</sup> A **good** is any letter post, parcel post or EMS item that is not a 'document' (other than money).<sup>196</sup> A **small packet** is defined as a letter post item containing a good regardless of shape or weight (up to the weight limit of the letter post). In the 2016 Convention, P- and G-format items are limited to documents and may not weigh more than 500 grams.<sup>197</sup> E-format items include both bulky documents and small packets.<sup>198</sup> Based on these definitions, the 2016 Convention provides one terminal dues schedule for **PG documents** (i.e., documents in either P- or G-format) and a second schedule for **E-format items** (i.e., bulky documents and small packets).

<sup>193</sup> UPU Convention (2012), art. 14.

<sup>194</sup> UPU Convention Regulations (2013, update 3 Mar. 2015), art. RL 121.

<sup>195</sup> UPU Convention (2016), art. 1.1.4.

<sup>196</sup> UPU Convention (2016), art. 1.1.5.

<sup>197</sup> A 'small letter' (P) may weigh no more than 100 grams, must be no more than 5 mm thick; and must have width and length measurements of between 90 x 140 mm and 165 x 245 mm. A 'large letter' or flat (G) may weigh no more than 500 grams, must be no more than 20 mm thick; and must have width and length measurements of between 90 x 140 mm and 305 x 381 mm. A document which exceeds these dimensions is termed a 'bulky letter'. Convention Regulations (2017), arts. 17-102.2.3, 17-105.

<sup>198</sup> UPU Convention (2016), art. 17.3. The POC can raise by the weight limits for letter post items by regulation. UPU Convention (2016), art. 17.6. Current Regulations provide that E format letter post items may weigh up to 5 kg in relations between designated operators where both admit such items from their customers'. Convention Regulations (2017), art. 17-103.2.1.

For terminal dues in the Target System (flows between countries in Groups I, II, and III) the starting point is the **target system formulae**. The 2016 UPU Convention directs that:

The rates per item and per kilogramme are separated for small (P) and large (G) letter-post items and bulky (E) and small packet (E) letter-post items. They shall be calculated on the basis of 70% of the charges for a 20-gramme small (P) letter-post item and for a 175-gramme large (G) letter-post item, exclusive of VAT or other taxes. For bulky (E) and small packet (E) letter-post items, they shall be calculated from the P/G format line at 375 grammes, exclusive of VAT or other taxes.<sup>199</sup>

The Convention further provides that 'The Postal Operations Council shall define the conditions for the calculation of the rates as well as the necessary operational, statistical and accounting procedures for the exchange of format-separated mails'.<sup>200</sup>

Accordingly, the Convention Regulations describe the complex and obscure calculations used to derive two **linear rates** —rates expressed in the form of X per item plus Y per kilogram — which purport to derive terminal dues on the basis of 70% of retail domestic priority postage rates.<sup>201</sup> One linear rate provides '**country-specific**' (UPU terminology) terminal dues rates for PG documents; the second linear rate provides country-specific terminal dues rates for E-format items. In practice, however, the terminal dues that result from the target system formulae have little or no relation to domestic postage rates in the destination country because the target system formulae incorporate arbitrary constants determined by political negotiations. Moreover, in most Target System countries terminal dues rates derived from the target system formulae are replaced by cap and floor rates as described below. For a detailed explanation of the target system formulae, see the Appendix 1.

For most countries and the vast majority of letter post items, terminal dues are established by the linear **cap or floor rates** specified in the Convention. Rates derived from the target system formulae apply in a specific destination country only if they fall between the cap and floor rates. The cap and floor rates adopted in the 2016 UPU Convention are shown in Table 9. In general, the cap rates for Group I flows are the highest, with lower caps for Group II flows and still lower caps for Group III flows. The floor rates are the same for all Target System countries. The cap and floor rates are politically negotiated values unrelated to domestic postage rates in the destination countries. The cap rates primarily reflect the commercial objectives of very large designated operators who export more letter post items than they import. These designated operators want to keep terminal dues rates for outbound letter post (primarily E-format items) relatively low (compared to equivalent domestic postage in the destination country) in order to maintain a competitive advantage over potential competitors and reap net financial transfers from other designated operators. Floor rates are primarily driven by political considerations — the need to secure the votes of developing countries whose domestic postage rates are less than floor rates.<sup>202</sup> In addition, in developing the 2016 terminal dues provisions, the POC sought to reduce differences between the cap rates for countries in the Target System.

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<sup>199</sup> UPU Convention (2016), art. 28.5.

<sup>200</sup> UPU Convention (2016), art. 28.6.

<sup>201</sup> Convention Regulations (2017), art. 30-107.

<sup>202</sup> In some developing countries, domestic postage rates are subsidised by government as a matter of public policy. Advocates for floor rates argue that in such countries aligning terminal dues with equivalent domestic postage rates would result in an inappropriate windfall for foreign mailers, who should not benefit from a subsidy designed to facilitate domestic postal communications.



Table 9 Terminal dues cap and floor rates, 2018-2021 (2016 Convention)

TARGET SYSTEM						
	Group I flows		Group II flows		Group III flows	
	I ↔ I		II ↔ I & II		III ↔ I, II & III	
PG documents	item	kg	item	kg	item	kg
2018 cap	0.331	2.585	0.264	2.064	0.234	1.831
2018 floor	0.227	1.774	0.227	1.774	0.227	1.774
2019 cap	0.341	2.663	0.280	2.188	0.248	1.941
2019 floor	0.233	1.824	0.233	1.824	0.233	1.824
2020 cap	0.351	2.743	0.297	2.319	0.263	2.057
2020 floor	0.240	1.875	0.240	1.875	0.240	1.875
2021 cap	0.362	2.825	0.315	2.458	0.279	2.180
2021 floor	0.247	1.928	0.247	1.928	0.247	1.928
Avg. ann. Δ cap	3.0%	3.0%	6.1%	6.0%	6.0%	6.0%
Avg. ann. Δ floor	2.9%	2.8%	2.9%	2.8%	2.9%	2.8%
E-format items	item	kg	item	kg	item	kg
2018 cap	0.705	1.584	0.584	1.313	0.533	1.198
2018 floor	0.485	1.089	0.485	1.089	0.485	1.089
2019 cap	0.726	1.632	0.640	1.439	0.602	1.354
2019 floor	0.498	1.120	0.498	1.120	0.498	1.120
2020 cap	0.748	1.681	0.701	1.577	0.680	1.530
2020 floor	0.512	1.151	0.512	1.151	0.512	1.151
2021 cap	0.770	1.731	0.770	1.731	0.770	1.731
2021 floor	0.526	1.183	0.526	1.183	0.526	1.183
Avg. ann. Δ cap	3.0%	3.0%	9.7%	9.7%	13.0%	13.1%
Avg. ann. Δ floor	2.7%	2.8%	2.7%	2.8%	2.7%	2.8%
TRANSITIONAL SYSTEM						
	Group IV flows: IV ↔ I, II, III & IV					
Letter post (per kg)	2018: 4.472	2019: 4.592	2020: 4.724	2021: 4858		

Source: UPU Convention (2016), arts. 28-30.

Notes:

- 1) All rates expressed in Special Drawing Rights (SDRs).
- 2) In general, industrialised countries and developing countries with high domestic postage rates apply the cap rates; other countries apply the floor rates. For a relatively small number of countries, terminal dues rates for both PG document and E-format items are set between the cap and floor rates based on the application of complex target system formulae that are derived from domestic postage rates for the 20-gram small letter (P) and 175-gram large letter (G).
- 3) For Group II and III flows in the Target System, separate PG and E-format rates are combined into a per kg rate for letter post for bilateral flows less than 50 tonnes per year (75 tonnes for Group III in 2018-2020).
- 4) A Group IV country may choose to apply the item-kilogram floor rates from the Target System to an inbound bilateral flow that exceeds 75 tonnes of letter post per year if the average weight per items is unusually low or high as defined in the Convention Regulations.

The cap and floor rates in the 2016 Convention also reflect a determination that cap and floor rates should reflect an unvarying and seemingly arbitrary 'item-to-kilogram ratio'. In

UPU terminology, the item-to-kilogram ratio is the ratio of the per item rate divided by the per kilogram rate. For example, if the per item rate is SDR 0.100 and the per kilogram rate is SDR 1.000, then the item-to-kilogram ratio is 10%. If a linear rate is plotted on a graph where the x-axis is the item weight and the y-axis is the total terminal dues charge, then the per item rate is the y-intercept and the per kilogram rate is the slope of the line. The item-to-kilogram ratio is equal to the negative of the x-intercept.<sup>203</sup> In the 2016 Convention, item-to-kilogram ratio is set at 12.8% (an x-intercept of -0.128 kg) for the cap and floor rates for PG documents in all four years of the cycle for all Target System countries. This appears to be no more than a historical anomaly.<sup>204</sup> For E-format items, the item-to-kilogram ratio is 44.5% (-0.445 kg) and equally uniform. This ratio is, at best, only loosely related to empirical analysis.<sup>205</sup>

The cap and floor rates for the Target System in the 2016 UPU Convention may be summarised as follows:

- *Cap rates for PG documents.* In the 2016 Convention, cap rates for Group I flows were increased from 2017 to 2018 by 3% and thereafter by 3% per year. Cap rates for Group II flows were increased from 2017 to 2018 by 6% and thereafter by 6% per year. New cap rates were introduced for Group III flows in 2018 and thereafter increased by 6% per year. Because of the faster growth in caps for Groups II and III, Group II caps will increase from about 80 to 87% of the Group I cap rates by 2021, and Group III cap rates will increase from about 71% to 77% of Group I cap rates.
- *Floor rates for PG documents.* Floor rates for Groups I, II, and III were increased by 2.6% from 2017 to 2018 and thereafter by 2.8% per year. The same floor rates are applied all flows within the Target System.
- *Cap rates for E-format items.* The 2016 Convention introduced a separate terminal dues schedule for E-format items. The new 2018 rates deviated drastically from letter post terminal dues in 2017 because they are based on new item-to-kilogram ratio, 44.5%. Kilogram rates were reduced by roughly a third, and item rates were more than doubled. In the years 2019, 2020, and 2021, cap rates for Group I flows will increase 3% per year while cap rates for Groups II and III flows will increase by 9.6% and 13% per year, respectively. The faster growth in cap rates for Groups II and III means that the cap rate for Group II flows will increase from about 83 to 100% of the Group I cap over four years and the cap rate for Group III will increase from about 76% to 100% of the Group I cap. In 2021 the cap rates will be the same for all E-format items exchanged within the Target System.

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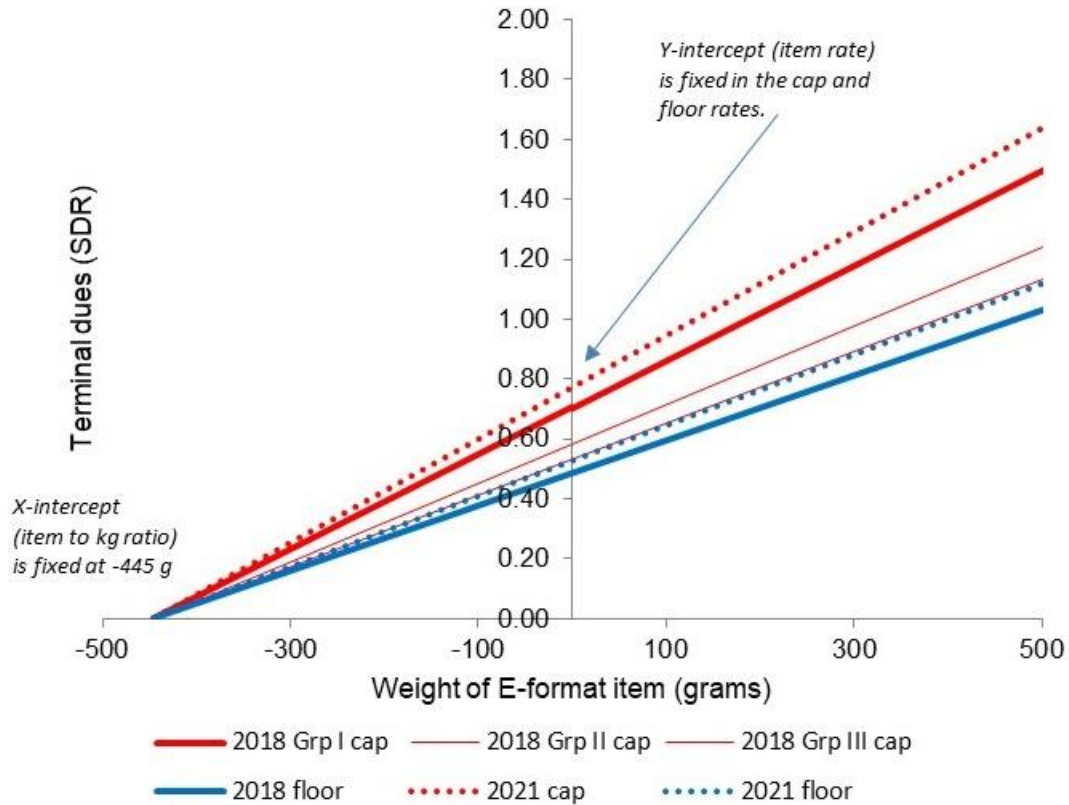
**203** For a detailed explanation, see Appendix 1.

**204** The UPU has used an item-to-kilogram ratio of 12.8% to define the cap rates for terminal dues since 2001. A POC survey of 2014 domestic postage rates in Target System countries found an average item-to-kilogram ratio of 18.5% with a variation in the average item-to-kilogram per group ranging from 13.9% (Group 1.1) to 17.7% (Groups 1.1, 1.2, 2, and 3). There is no indication of the range in item-to-kilogram ratios per country. UPU, POC C 3 LPRG 2015.1 Doc 6 Annex 2, Study on item-to-kilo ratio (26 Mar. 2015). WIK's review of 2019 domestic postage rates for P and G documents in industrialised countries found that national item-to-kilogram ratios for P documents varied from 1% to 79% with average of 11% and for G documents from 6% to 61% with average of 26%. In several instances, the item-to-kilogram was infinite because rates do not vary with weight.

**205** A POC survey of 2014 domestic postage rates in Target System countries found an average item-to-kilogram ratio of 45.1% with a variation in the average item-to-kilogram per group ranging from 62.3% (Group 1.1) to 50.4% (Groups 1.1, 1.2, 2, and 3). There is no indication of the range in item-to-kilogram ratios per country. UPU, POC C 3 LPRG 2015.1 Doc 6 Annex 2, Study on item-to-kilo ratio (26 Mar. 2015). WIK's review of 2019 domestic postage rates for E-format items in industrialised countries found that national item-to-kilogram ratios varied from 16% to 1013% with an average of 119%. In some countries (AT DE, LU, CH), the item-to-kilogram ratio is infinite because rates do not vary with weight.

- *Floor rates for E-format items.* The floor rates will increase by 2.8% per year; the floor rate is about 69% of the Group I cap rate in all years.

Figure 33 Cap and floor rates for E-format items, 2016 Convention



Source: WIK-Consult based on UPU data.

Figure 33 shows the cap and floor rules for E-format items graphically. In the 2016 Convention, the cap and floor rates are expressed as item-kilogram rates. However, as the figure shows, since all cap and floor rates have a common x-intercept, -445 grams (implied by the constant item-to-kilogram ratio), the item rate alone (the y-intercept) effectively defines each linear rate.<sup>206</sup> In 2018, the first year the 2016 Convention was in force, all terminal dues were bound by two lines: the cap rate for Group I countries (thick solid red line) and the floor rates for all countries (thick solid blue line). For Group II and Group III countries, the cap rates (shown by thin solid red lines) are lower than for Group I countries. In 2021, the last year the 2016 Convention is in force, the cap and floor rates will be increased to the positions shown by the dotted red and blue lines. In 2021, there will be no intermediate cap rates for Groups II and III. The tentative linear rates for E-format items derived from the target system formulae apply only if they fall between the cap and floor rates; otherwise the cap and floor rates apply. A graphical representation of the cap and floor rates for PG documents would look similar to Figure 33 except that the common intercept is -128 grams and intermediate cap rates for Groups II and III are maintained in 2021 as well as in 2018.

<sup>206</sup> Put differently, the per kilogram rates are established to ensure that all cap and floor rates have the same x-intercept.

In practice, the complicated derivation required by the terminal dues formulae is almost irrelevant. In 2018 all Group I countries charged the cap rates for all PG documents and all E-format items received from all countries in the Target System. Among the Group II countries, 13 charged cap rates on all inbound flows, and 18 charged floor rates; only 6 charged rates derived from the target system formulae on some inbound flows. Among the Group III countries, 7 charged cap rates on all inbound flows, and 33 charged floor rates; only one country charged formula rates on some inbound flows.<sup>207</sup>

If the annual bilateral flow between two countries (in one direction) is below a threshold weight level, the per item and per kilogram elements of the linear rate formulae for PG documents and E-format items are converted into a single kilogram-only rate for all letter post items. The annual threshold weight is set at 50 tonnes for Group II flows and at 75 tonnes for Group III flows, reduced to 50 tonnes in 2021. For example, if Malta (a Group II country) sends less than 50 tonnes of letter post to Germany (a Group I country) in 2020, the terminal dues rates that Germany would charge for PG documents (0.351 per item and 2.743 per kg) and E-format items (0.748 per item and 1.681 per kg) are converted into a single letter post rate of SDR 6.137 per kg.<sup>208</sup>

For terminal dues in the Transitional System — letter post flows between the 100 Group IV countries and all other countries — the 2016 Convention provides a per kilogram rate for all letter post items of SDR 4.472 in 2018, increasing by 2.8% per year to SDR 4.858 in 2021.<sup>209</sup> For annual letter post flows greater than 75 tonnes (50 tonnes in 2021), a designated operator in the Transitional System may request payment using the Target System PG and E-format item-kilogram floor rates if the average weight of the letter post is unusually low or high.<sup>210</sup>

The 2016 Convention also continues other features of previous terminal dues regimes. Designated operators may agree between themselves to alternative delivery rates in place of terminal dues.<sup>211</sup> Designated operators in Group I countries (but not other countries) must provide other Group I designated operators access to domestic rates and conditions.<sup>212</sup> Designated operators in Groups I, II, and III must pay a surcharge on terminal dues paid to designated operators in Group IV. These surcharges are contributed to the Quality of Service Fund, which is used to pay for development projects in Group IV countries.<sup>213</sup>

In sum, the 2016 Convention establishes an extraordinarily complicated terminal dues system, far more complicated than the 2012 Convention. This complexity obscures an

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<sup>207</sup> Based on an analysis of UPU, IB Circular 77/2019, Final 2018 quality of service-linked terminal dues rates, (6 May 2019; update, 3 Jun 2019).

<sup>208</sup> UPU Convention (2016), arts. 29.16, 29.17. The per kilogram letter post rate is calculated based on the assumption that the average kilogram of letter post contains 8.16 documents weighing 0.31 kilograms and 2.72 small packets weighing 0.69 kilograms. In addition, POC Regulations allow designated operators to avoid sampling costs by not requiring format-separation for low volume flows and decreeing that non-format-separated mail shall be assumed to have fixed proportions of different formats unless the origin country or the destination country requires sampling. UPU Convention Regulations (2017), arts. 17-116 (format separation), 30-115 (sampling principles).

<sup>209</sup> UPU Convention (2016), art. 30.5. These per kilogram rates are the same as the per kilogram floor rates that apply in the Target System for low volume flows to or from countries in Groups II and III.

<sup>210</sup> UPU Convention Regulations (2017), art. 30-112. Generally, a Group IV country may request revision of the standard per kilogram rate in if it receives a letter post flow from another country with an average weight of greater than 125 grams (8 items per kg) or less than 77 grams (13 items per kg).

<sup>211</sup> UPU Convention (2016), art. 28.11 ('Any designated operator may, by bilateral or multilateral agreement, apply other payment systems for the settlement of terminal dues accounts').

<sup>212</sup> UPU Convention (2016), art. 28.4.

<sup>213</sup> UPU Convention (2016), art. 31.

underlying simplicity. The purported connection between terminal dues and domestic postage in the Convention is essentially an illusion. For the large majority of international letter post items, terminal dues are set by cap and floor rates that have been negotiated by designated operators and incorporated into the Convention. The cap and floor rates differ somewhat according to the classification of the origin and destination countries into four terminal dues groups. These range from the most industrialised countries (Group I) to the least advanced developing countries (Group IV). The principal new feature of the 2016 terminal dues rates is the introduction of separate schedules of terminal dues for (i) documents in standard-sized envelopes (P and G format) and (ii) goods of all types and documents that do not fit in standard envelopes (E-format). The new schedule for E-format items implied a substantial increase in terminal dues for e-commerce goods exported by developing countries. Designated operators in industrialised countries will increase terminal dues for delivery of goods received from China (Group III) by 13% per year and for goods from Hong Kong and Singapore (Group II) by 9.6% per year. In contrast, terminal dues rates for delivery of goods received from other industrialised countries will increase by only 3% per year.

According to the 2016 Convention, by 2021 designated operators would charge the same terminal dues rates for e-commerce goods received from all but the least developed countries (Group IV). Equalisation of terminal dues rates for small packets eliminates the competitive advantage from previous terminal dues rates that benefitted designated operators from China, Hong Kong, and Singapore. Designated operators in industrialised countries would be increasingly able to import goods from China and other countries and compete with their designated operators for postal distribution of e-commerce goods. At the same time, terminal dues rates for E-format items, even though equalised by 2021, would be kept well below comparable domestic rates. This implies that China Post and the large exporting designated operators would continue to benefit from what are, in effect, subsidies from importing post offices and domestic mailers (see Chapter 5). As it turned out, however, the terminal dues provisions of the 2016 UPU Convention were in effect for only two years, 2018 and 2019. Terminal dues for the years 2020 and 2021 were substantially revised by amendments to the 2016 Convention adopted in the 2019 Geneva Extraordinary Congress.

#### **4.5 Terminal dues amendments by the Geneva Extraordinary Congress (2019)**

Beginning about a decade ago, the United States began to experience large increases in inbound postal e-commerce consignments, mostly from China. Under the 2012 and 2016 Conventions, these e-commerce consignments were delivered by the U.S. Postal Service at terminal dues rates which were 50% or more below comparable domestic postage rates charged U.S. mailers. This undercharging for delivery of foreign e-commerce goods provoked a strong backlash from large and small American merchants who protested that terminal dues were giving foreign merchants an unfair competitive advantage.

In August 2018, the US issued a presidential determination declaring that, in view of US law and national interests, USPS must have the right to set rates for delivery of inbound postal goods eliminating preferences for foreign mailers compared to domestic mailers or for foreign post offices compared to private international transportation companies.<sup>214</sup> Rates for delivery of inbound documents were unaffected by this determination. On 17 October 2018, the US formally notified the UPU that it would withdraw from the UPU in one year because of the discrepancy between terminal dues for small packets and the

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<sup>214</sup> Presidential Memorandum for the Secretary of State, Secretary of the Treasury, Secretary of Homeland Security, Postmaster General, and Chairman of the Postal Regulatory Commission, August 23, 2018.

equivalent domestic postage charged domestic merchants.<sup>215</sup> At the same time, the US indicated that it would rescind its withdrawal if the 2016 UPU Convention could be amended to permit introduction of non-discriminatory self-declared rates for small packets no later than January 1, 2020.

Over the next few months, a significant number of other UPU member countries supported the US move to allow self-declared rates for goods. This group called itself the Universal Postal Coalition (UPC). The UPC was primarily composed of net importers who, like the United States, objected to being forced to provide postal delivery for inbound e-commerce shipments at terminal dues rates that were less than equivalent domestic postage. Among the 24 substantial Group I countries (i.e., omitting city states), the UPC included eight EEA Member States and Australia, Canada, Israel, Japan, New Zealand, and the United States. Outside of the Group I countries, the UPC included almost all of Latin America, Japan, and Russia. Eight EEA Member States (AT, BE, FR, DE, LU, NL, PT, ES), Switzerland, and the United Kingdom did not support the UPC. China and Singapore also opposed the self-declared rates advocated by the United States.

In response to the US threat to withdraw, the UPU decided to convene its third Extraordinary Congress in Geneva on 24-26 September 2019 in an effort to amend the 2016 UPU Convention to revise terminal dues rates for small packets sufficiently to convince the US to remain a UPU member. The Geneva Extraordinary Congress was successful in this respect. The final agreement, dubbed 'Option V' (for victory), was the result of lengthy eleventh-hour negotiations led by the United States, Canada, Germany, France, and the UK.

The Geneva Extraordinary Congress agreed to amend the 2016 Convention to permit designated operators to introduce 'self-declared' rates for delivery of inbound E-format items in lieu of normal terminal dues rates. The new self-declared rates include several restrictions and conditions, so the level and structure of rates are not wholly within the discretion of the destination designated operator. According to the 2019 amendments, only the United States will gain the full benefits of self-declared rates in 2020. Beginning on 1 July 2020, the United States may introduce self-declared rates for delivery of inbound E-format items up to a ceiling equal to 70% of comparable US domestic rates as defined by a linear regression formula prescribed by the UPU. On the same date, other countries may introduce self-declared rates in similar fashion but only for delivery of E-format items received from the United States. Beginning on 1 January 2021, all designated operators may introduce self-declared rates for the delivery of inbound E-format items, but these self-declared rates are subject to severe limits on annual rate increases until 2025. There is no provision relating to terminal dues rates, self-declared or otherwise, for the years after 2025. The new system of self-declared rates is optional. Designated operators may continue to use normal terminal dues rates if they choose. The Geneva Extraordinary Congress also amended certain other related provisions of the 2016 Convention.

In sum, the new system of self-declared rates includes the following key features:

- 1) *Date of introduction of self-declared rates.* Designated operators may introduce self-declared rates beginning on 1 January 2021 except that the designated operator of the United States may introduce self-declared rates for all inbound E-format items beginning on 1 July 2020 and corresponding designated operators may do likewise for E-format items received from the United States.<sup>216</sup>

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<sup>215</sup> United States, White House, Statement from the Press Secretary, October 17, 2018.

<sup>216</sup> UPU, Convention (2019), art. 28bis.1 (start date generally); UPU, art. 28bis.6bis (start date for the US); UPU, Convention (2019), art. 28bis.6quater (start date for designated operators receiving E-format items from the US). The early start date for the United States is not stated explicitly. The early start date is provided to 'a member country that received total annual inbound letter-post volumes in 2018 in excess

- 2) *Linear format of self-declared rates.* Self-declared rates shall be in the format of a linear rate formula — X per item and Y per kilogram — for all E-format items weighing up to 2 kg.<sup>217</sup> The destination designated operator is not required to use a specific approach to linear regression of its domestic rates.
- 3) *Based on 70% of domestic postage.* Self-declared rates shall be ‘based on 70% . . . of the domestic single-piece charge for items equivalent to bulky (E) and small packet (E) letter-post items offered by the designated operator in its domestic service and in effect on 1 June of the year preceding the year for which the self-declared rates would be applicable’.<sup>218</sup>
- 4) *Applicability of self-declared rates to all designated operators.* Self-declared rates must be made available to all designated operators. It appears, therefore, that a designated operator may not apply self-declared rates to some inbound flows and normal terminal dues rates to other flows.<sup>219</sup>
- 5) *Exemption from self-declared rates for flows below certain thresholds.* Self-declared rates may not be applied (i) to annual flows of less than 25 tonnes sent by countries in Groups II or III to countries in Groups I, II, or III or (ii) to annual flows of less than 100 tonnes sent by countries in Group IV to all other countries.<sup>220</sup>
- 6) *Ceiling for self-declared rates.* Self-declared rates may not result in a rate for a 158-gram E-format item that exceeds a specified ceiling. The ceiling rate is the charge for delivery of a 158-gram item that is derived from a prescribed linear regression of 70% of the retail domestic rates for E-format items.<sup>221</sup> In a large country where domestic rates for E-format items vary by distance zones, the 2019 amendments provide that a mid-point rate as specified in the Regulations shall be used to calculate the ceiling.<sup>222</sup>

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*of 75,000 tonnes (as per the relevant official information provided to the International Bureau or any other officially available information assessed by the International Bureau)’. There is no publicly available ‘relevant official information provided to the International Bureau’. Nonetheless, it was widely believed that the early start date applies only to the United States.*

- 217** UPU, Convention (2019), art. 28bis.1. In practice, domestic rates for E-format items often do not have a consistent linear relationship between price and weight, especially at weights higher than 250 or 500 grams. In such cases, a linear rate will necessarily deviate substantially from actual tariffs for either lower or higher weight items.
- 218** UPU, Convention (2019), art. 28bis.1.1.2.
- 219** UPU, Convention (2019), art. 28bis.1.4.
- 220** UPU, Convention (2019), arts. 28bis.1.1.6, 28bis.1.1.7. These paragraphs are literally inconsistent with each other, but the intention seems reasonably clear.
- 221** UPU, Convention (2019), art. 28bis.1.2. The prescribed linear regression is based on 70% of the domestic rates at 11 weights: 20 g, 35 g, 75 g, 175 g, 250 g, 375 g, 500 g, 750 g, 1000 g, 1500 g, and 2000 g. The domestic rates are adjusted by subtracting VAT, if applicable, and also subtracting an allowance for supplementary services, if any, that are provided in the domestic service but which are the subject of extra charges in the UPU Convention. Six of these weights (35, 75, 175, 375, 750, and 1500 g) represent reasonable estimates of the average weights for six of the seven standardised domestic weight steps which the UPU uses in its database of domestic rates. For example, 35 grams is the approximate average weight for the rate associated with the 20 to 50 gram weight step. The UPU formula uses 20 grams as the average weight for the first weight step, 0 to 20 g, when it should be closer to 15 grams. The rates for 250 g, 500 g, 1000 g, 2000 g do not correspond to rates for domestic weight steps. By including rates for these weights in the regression, the UPU is effectively double counting these rates, artificially skewing the regression towards the rates for heavier weights. This skewing appears especially questionable when one considers that, according to the best available data collected by the UPU, about 89% of E-format items weigh less than 250 g. UPU, POC C2 2019.1 Doc 4a Issues relating to the Remuneration Integration Group — Update of the results of the IPK Study (28 Feb. 2019).
- 222** UPU, Convention (2019), art. 28bis.1.2.4. This rule may effectively prevent a large country from introducing zoned self-declared rates.

- 7) *Floor for self-declared rates.* Self-declared rates may not be lower than the floor rates established for the Target System rates in 2020 and 2021 and shall increase by 5% per year from 2022 through 2025, as follows:<sup>223</sup>

2020	SDR 0.614 per item; SDR 1.381 per kg
2021	SDR 0.645 per item; SDR 1.450 per kg
2022	SDR 0.677 per item; SDR 1.523 per kg
2023	SDR 0.711 per item; SDR 1.599 per kg
2024	SDR 0.747 per item; SDR 1.679 per kg
2025	SDR 0.785 per item; SDR 1.763 per kg

The 2019 amendments also increased the floor rates for normal terminal dues to the same levels. Floor rates serve to provide developing countries a guaranteed minimum level of terminal dues (self-declared or not) even if such terminal dues are above equivalent domestic postage rates. As a matter of law, however, the 2019 amendments cannot establish floor rates for the years 2022 through 2025 by amending the 2016 Convention, since that convention must be replaced before the end of 2021. Floor rates for the years 2022 through 2025 may be interpreted an 'agreement to agree' on these provisions in advance of the 2020 Abidjan Congress.

- 8) *Percentage limits on annual increases in self-declared rates (other than flows to/from the US).* For each designated operator, the self-declared rates for E-format items (other than E-format items sent to or from the United States), in addition to being bound the 70% ceiling, cannot result in a rate for a 158-gram item that is more than a fixed percent higher than in the previous year. The limits on annual increases are 15% in 2021 and 2022, 16% in 2023 and 2024, and 17% in 2025.<sup>224</sup>
- 9) *5% limit on annual changes in the item-to-kilogram ratio.* Self-declared rates cannot result in a change in the item-to-kilogram ratio (x-intercept) by more than 5% annually.<sup>225</sup>
- 10) *Additional conditions.* Additional conditions for self-declared rates may be established by the POC in the Regulations.<sup>226</sup>
- 11) *Elimination of air conveyance dues.* A designated operator may not charge air conveyance dues for the air transportation of inbound E-format items that are subject to self-declared rates.<sup>227</sup>

In addition to establishing a new system for self-declared rates — actually two systems, one for flows to/from the US and another for flows not to/from the US — the 2019 amendments revised the normal terminal dues provisions of the 2016 Convention in the following respects. These revisions apply not only to terminal dues charged by countries that do not introduce self-declared rates but also to flows below the applicable threshold volumes in countries where self-declared rates have been introduced.

- 1) *Increase in floor rates for E-format items in 2020-2021.* The 2019 amendments increased the floor rate for terminal dues for E-format items charged by all countries by 20% in 2020 and by 23% in 2021 (compared to rates established by

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<sup>223</sup> UPU, Convention (2019), art. 28bis.1.3.

<sup>224</sup> UPU, Convention (2019), art. 28bis.2.

<sup>225</sup> UPU, Convention (2019), art. 28bis.3. For the US and corresponding countries that introduce self-declared rates on 1 July 2020, the annual limit in 2021 applies the self-declared rates introduced on 1 July 2020.

<sup>226</sup> UPU, Convention (2019), art. 28bis.1.4.

<sup>227</sup> UPU, Convention (2019), arts. 33.6, 33.7.



the 2016 Convention).<sup>228</sup> Generally these increases will benefit developing countries with relatively low domestic postage rates. The new floor rates will not affect countries with relatively high domestic postage rates.

- 2) *Floor rates for terminal dues for E-format items for the years 2022 through 2025.* The 2019 amendments include an ‘agreement to agree’ to set floor rates for normal terminal dues for E-format items in the years 2022 through 2025 at same levels as the floor rates for self-declared rates.<sup>229</sup>
- 3) *Equalisation of cap rates for E-format items for the Target System in 2020.* The 2016 Convention established different terminal dues cap rates for E-format items exchanged within the Target System, depending on the applicability of Group I, Group II, or Group III terminal dues, in the years 2018 through 2020 and uniform cap rates for all flows in 2021. The 2019 amendments established uniform linear cap rates for all E-format flows in the Target System above threshold volumes in 2020, one year earlier.<sup>230</sup> As result, in 2020 the cap rates increased by different percentages for different terminal dues groups compared to the same rates set by the 2016 Convention: by 2% for Group I flows, 9% for Group II flows, 12% for Group III flows. The cap rates for all E-format items are increased by 2% from 2020 to 2021.
- 4) *Extension of the cap/floor rates and Target System formulae to E-format items in the Transitional System.* For flows in the Transitional System (flows to or from Group IV countries), the 2016 Convention established a specific per kilogram letter post rate for low volume flows in 2020 (more than 75 tonnes of letter post) and 2021 (in more than 50 tonnes of letter post). Above these thresholds a Group IV country could ask for application of the specific PG and E-format item-kilogram floor rates of the Target System if the average weight of the letter post is unusually low or high. The 2019 amendments eliminated specific per kilogram and item-kilogram rates for the Transitional System. Instead, the 2019 amendments apply the same cap and floor rates for PG documents and E-format items in the Transitional System as in the Target System. The target system formulae determine E-format terminal dues in the Transitional System if the formulae yield terminal dues rates between the cap and floor rates. The resulting PG and E-format item-kilogram rates are converted into a simple per kilogram rate for all letter post items if the flow of letter post is less than 100 tonnes per year. Above this threshold, a Group IV country may request application of the linear item-kilogram rates if the average weight of the letter post is unusually low or high.<sup>231</sup> After these revisions, the primary distinction between the Target System and the Transitional System is that the Transitional System has higher threshold weight limits before self-declared rates and linear item-kilogram rates for E-format items can be applied.

The 2019 amendments also expanded the authority of the POC to define ‘bulk mail’. The POC is authorised to adopt Regulations that will limit the ability of Group IV countries to send large volumes of lightweight E-format items to Target System countries under the per kilogram letter post rates that are available to Transitional System countries. In these

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<sup>228</sup> UPU Convention (2019), art. 29.11.3, 39.11.4. In 2020, the linear floor rate for E-format items was increased from SDR 0.512 per item and 1.151 per kg to SDR 0.614 per item and 1.381 per kg. The 2021 rates were increased from SDR 0.526 per item and 1.183 per kg to SDR 0.645 per item and 1.450 per kg.

<sup>229</sup> UPU Convention (2019), art. 29.11.5-29.11.8.

<sup>230</sup> UPU, Convention (2019), arts. 29.9.3, 29.9.4, 29.13.3, 29.13.4, 29.15.3, 29.15.4.

<sup>231</sup> UPU, Convention (2019), arts. 30.1bis, 30.4ter, 30.5.3, 30.5.4. For 2020, the introduction of cap rates for Group IV high volume flows of E-format items implies an increase of 49% above the rates set in the 2016 Convention.

countries large volumes of lightweight E-format items are usually goods from other countries that are remailed through Group IV countries to take advantage of their relatively low terminal dues rates.<sup>232</sup>

Finally, the 2019 amendments committed the United States to pay the UPU CHF 8 million per year for five years, in total CHF 40 million. Sixteen million francs shall be allocated to fund improvements in electronic advance data. Twenty-four million francs shall help fund long-term liabilities of the Union.<sup>233</sup>

In sum, the Geneva Extraordinary Congress was precipitated by the refusal of the United States to continue delivery of vast quantities of inbound e-commerce goods at the terminal dues rates agreed in the 2016 UPU Convention and the consequent US decision to withdraw from the UPU. Pared down to essentials, the outcome of the Geneva Extraordinary Congress was an agreement between the government of the United States and the governments of a small number of countries whose designated operators are major net exporters. The exporters agreed to allow the US to, in effect, adopt a reservation to the UPU terminal dues system that allowed the US to charge 'self-declared rates' for delivery of inbound E-format items that were equal to equivalent domestic rates. In return, the United States agreed to continue as a member of the UPU, to pay the UPU CHF 40 million, and to support a six-year extension of a UPU terminal dues system that included an option for other countries to introduce a limited version of 'self-declared rates' in which annual increases were capped at 15% to 17% per year. The limited version of self-declared rates allowed net exporters to continue to extract financial transfers from net importers, albeit at a declining rate. The US and the net exporters jointly agreed to provide developing countries higher terminal dues rates and other inducements to ensure support for the agreement by a majority of UPU member countries.

#### 4.6 Introduction of 'self-declared rates' for E-format items, 2020-2021

The 'self-declared' terminal dues rates permitted (but not required) by the 2019 amendments to the UPU Convention were introduced by 40 UPU member countries in two rounds, beginning 1 July 2020 and 1 January 2021. Self-declared rates apply only to the delivery of E-format items, not PG documents. Moreover, self-declared rates apply only to E-format items which are received from origin countries which send to destination countries annual letter post flows in excess of minimum thresholds. See Section 4.5, above.

On 30 March 2020, the UPU announced the first set of self-declared rates to be introduced 1 July 2020 for E-format items sent to or from the US.<sup>234</sup> The US declared that terminal dues rates for delivery of inbound E-format items would increase by 146% for a

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<sup>232</sup> UPU, Convention (2019). art. 28.10. 'Bulk mail' as defined by the POC in the Convention Regulations is ineligible for certain low terminal dues rates. The 2016 Convention 'bulk mail' was defined as '*letter-post items posted in bulk by the same sender and received in the same dispatch or in separate dispatches*'. The 2019 amendments defined 'bulk mail' as '*letter-post items posted in bulk in accordance with the conditions specified in the Regulations*'. With broadened authority, the POC defined bulk to include letter post mail which is composed of at least 90% of E-format items, provided the weight of such mail received in four weeks has increased more than 50% over the same four week period the year before. UPU, Convention Regulations (2019), art. 17-107.8.1.3. The apparent purpose of this Regulation is to restrict the ability of merchants in Group I, II, and III countries to re-mail lightweight small packets through Group IV countries, a practice which abuses the low per kilogram terminal dues available to Group IV countries.

<sup>233</sup> UPU, Convention (2019). art. 28bis.6quinquies.

<sup>234</sup> UPU, IB Circular 51/2020, Self-declared rates for E format letter-post items for flows to and from the designated operator invoking the accelerated implementation clause with effect from 1 July 2020 (30 Mar. 2020).

typical 158-gram item (compared to the normal terminal dues rates in effect for the first half of 2020). The US rate increases varied by the weight of the item, from 169% for 20-gram item to 87% for 2-kg item. In response, 30 corresponding countries announced that they would impose self-declared rates on E-format items received from the US, including 17 EEA Member States. For the EEA Member States, the unweighted average increase in terminal dues rates for a typical 158-gram E-format item from the US is 84%.<sup>235</sup> In total, 21 of the 28 Group I countries announced self-declared rates for flows to or from the US.

Table 10 Countries adopting self-declared rates for delivery of E-format items, 2021

UPU TD group	UPU member countries introducing self-declared rates <sup>1</sup>
Group I	AT, BE, DE, DK, FI, FR, EL, IS, IE, IT, LI, LU, NL, NO, PT, SE Australia, Canada, Japan, New Zealand, Switzerland, United Kingdom, United States <sup>2</sup> , Vatican
Group II	HR, EE, HU, PL, SI
Group III	Argentina, Bosnia and Herzegovina <sup>3</sup> , Sarajevo, Brazil, Chile, Russia, Suriname, Ukraine, Uruguay
Group IV	Benin, El Salvador, Sierra Leone

Source: UPU, IB Circulars Circular 51/2020 (30 Mar. 2020) and IB Circular 97/2020 (13 Jul. 2020).

Notes:

1) Except as noted below, beginning 1 January 2021, the UPU members countries listed in this table will apply self-declared rates subject to limits on annual increases for delivery of E-format items received from all countries in bilateral flows exceeding certain weight thresholds. UPU Conv. art. 28bis.1-.3.

2) Beginning 1 July 2020 the United States applied full self-declared rates (without limits on annual increases) for delivery of E-format items received from all countries in bilateral flows exceeding certain weight thresholds. In turn, beginning 1 July 2020, all countries listed in this table except IS, HU, LI, SI, El Salvador, Russia, Ukraine, and Vatican applied full self-declared rates for delivery of E-format items received from the US. Beginning 1 January 2021, IS, HU, LI, SI, El Salvador, Russia, Ukraine (not the Vatican) will apply full self-declared rates for delivery of E-format items received from the US. UPU Conv. art. 28bis.6bis.

3) In Bosnia and Herzegovina, self-declared rates are applied by JP BH Pošta d.o.o. Sarajevo only.

On 13 July 2020, the UPU announced self-declared rates for E-format items for the year 2021 (beginning 1 January 2021).<sup>236</sup> Eight additional countries, including 4 EEA Member States (IS, LI, HU, SI), announced self-declared rates for E-format items received from the US, bringing the total number of EEA countries to 21. See Table 10. All 38 countries and the Vatican will also apply the more limited self-declared rates for E-format items received from countries other than the US.<sup>237</sup> As explained above, the second version of self-declared rates is limited by a rule that the total charge for a 158-gram E-format item (the average weight per item) cannot be more than 15% above the terminal dues charge for a similar item in 2020. In the EEA Member States, the increase above normal 2021 terminal dues will be about 11% (unweighted average) since not all countries are raising rates by the maximum allowable percentage. The 2019 amendments established annual limitations for this second version of self-declared rates until 2025. As a result, it appears likely that most EEA Member States will not reach the UPU's 70% ceiling rate by 2025.<sup>238</sup>

<sup>235</sup> It should be noted that the self-declared rates in the US include substantially higher transportation costs than those in the EEA Member States.

<sup>236</sup> UPU, IB Circular 97/2020, Provisional 2021 quality-linked terminal dues rates (13 Jul. 2020), Table 3.1.

<sup>237</sup> UPU, IB Circular 97/2020, Provisional 2021 quality-linked terminal dues rates (13 Jul. 2020), Table 2.1. Apparently, the Vatican will also apply the limited version of self-declared rates to E-format items received from the US.

<sup>238</sup> This estimation is based on the 2021 self-declared rates announced by the UPU and the UPU's calculation of ceiling rates in 2021. UPU, IB Circular 97/2020, Provisional 2021 quality-linked terminal

Table 11 Normal and self-declared terminal dues 2021 for a 158-gram E-format item as percentage of domestic postage for similar services

	Country	70% of domestic postage	Normal terminal dues 2021	Self-declared rates for items to or from US 2021	Self-declared rates for items not to or /from US 2021
AT	Austria	100%	57%	97%	63%
BE	Belgium	100%	50%	107%	56%
BG	Bulgaria	100%	211%	-	-
HR	Croatia	100%	58%	97%	65%
CY	Cyprus	100%	96%	-	-
CZ	Czech Rep.	100%	130%	-	-
DK	Denmark	100%	48%	122%	53%
EE	Estonia	100%	50%	77%	56%
FI	Finland	100%	39%	104%	43%
FR	France	100%	49%	110%	55%
DE	Germany	100%	57%	101%	64%
EL	Greece	100%	47%	96%	52%
HU	Hungary	100%	46%	51%	51%
IE	Ireland	100%	39%	101%	43%
IT	Italy	100%	36%	87%	40%
LV	Latvia	100%	169%	-	-
LT	Lithuania	100%	160%	-	-
LU	Luxembourg	100%	38%	64%	41%
MT	Malta	100%	133%	-	-
NL	Netherlands	100%	54%	110%	61%
PL	Poland	100%	77%	96%	86%
PT	Portugal	100%	95%	105%	105%
RO	Romania	100%	187%	-	-
SK	Slovakia	100%	137%	-	-
SI	Slovenia	100%	53%	97%	59%
ES	Spain	100%	108%	-	-
SE	Sweden	100%	60%	109%	66%
IS	Iceland	100%	90%	80%	94%
LI	Liechtenstein	100%	28%	31%	31%

dues rates (13 Jul. 2020). It is also assumed that domestic postage rates, and therefore the UPU ceiling rate will increase by 3% per year. Using this approach, 6 of the 21 EEA Member States that have introduced self-declared rates will reach the UPU's 70% ceiling by 2025: AT, DE, HR, IS, PL, PT. Sixteen EEA countries will fall short: BE (85% of ceiling rate), DK (70%), EE (91%), FI (68%), FR (80%), EL (86%), HU (85%), IE (69%), IT (62%), LI (52%), LU (67%), NL (88%), NO (59%), SE (98%), SI (98%). In addition, it appears that 5 of the non-EEA industrialised countries that introduced self-declared rates will not reach the UPU's 70% ceiling rate by 2025: Australia (92%), Canada (47%), Switzerland (43%), United Kingdom (71%), Vatican (76%). These calculations must be interpreted as no more than broadly indicative; future increases in domestic postage rates are unknowable and will differ from country to country.

	Country	70% of domestic postage	Normal terminal dues 2021	Self-declared rates for items to or from US 2021	Self-declared rates for items not to or /from US 2021
NO	Norway	100%	33%	81%	37%
CH	Switzerland	100%	23%	73%	26%
UK	United Kingdom	100%	38%	97%	43%
US	United States	100%	41%	108%	-

Source: UPU Convention (2019), arts. 28bis, 29; UPU, IB Circular 97/2020 (13 July 2020).

Note: Domestic postage calculated from a linear regression of 70% of retail priority domestic postage rates using approximate average weights for 7 weight steps: 0-20 g, 20-50 g, 50-100 g, 100-250 g, 250-500 g, 500-1000 g, 1000-2000 g.

Table 11 summarises the relative levels of remuneration for an E-format item of average weight (158 grams) provided by the three terminal dues systems in effect in 2021. In each case the level of remuneration is expressed as a percentage of 'equivalent domestic postage', i.e., the portion of domestic postage that corresponds to the services compensated by terminal dues, which, following the approach of the UPU, we have set at 70% of retail domestic priority rates. The four columns in this table are calculated as follows:

- *70% of domestic postage.* Domestic postage for 2021 is calculated from WIK's linear regression of the 2021 domestic E-format rates in countries adopting self-declared rates. By definition, 70% of domestic postage is 100% of the equivalent domestic postage.<sup>239</sup>
- *Normal terminal dues 2021.* Normal terminal dues in 2021 are calculated from the per item and per kilogram terminal dues base rates for 2021 specified in the 2016 UPU Convention as amended in 2019.<sup>240</sup> The normal terminal dues rate for a 158 g E-format item is expressed as a percentage of the equivalent domestic postage for an E-format item of the same weight.
- *Self-declared rates for items to or from US 2021.* Linear self-declared rates for items to or from US in 2021 were specified by the designated operators and announced by the UPU in July 2020.<sup>241</sup> The specific rate for a 158 g E-format item is expressed as a percentage of the equivalent domestic postage for an E-format item of the same weight.

<sup>239</sup> Domestic E-format rates are given in UPU, IB Circular 97/2020, Provisional 2021 quality-linked terminal dues rates (13 Jul. 2020), Table 2 (pp. 46-61). It is assumed that rates in 2021 will be 3% higher than in 2020. WIK's linear regression of the projected 2021 domestic postage rates is calculated from the rates for 7 weight steps using approximate average weights for each (given in parentheses): 0-20 g (average, 15 g), 20-50 g (35 g), 50-100 g (75 g), 100-250 g (175 g), 250-500 g (375 g), 500-1000 g (750 g), 1000-2000 g (1500 g). The WIK's regression differs from the UPU's linear regression for calculating the ceiling rate for a 158 gram item in two major respects. WIK's regression for 2021 domestic postage rates is derived from the projected domestic postage rates for that year; the UPU calculates the ceiling rate for 2021 using 2020 domestic postage rates. In addition, WIK's regression is based on the 7 weight steps used in domestic rates; the UPU's regression includes four additional rates and weights (250 g, 500 g, 1000 g, and 2000 g) which do not correspond to actual weight steps. The UPU's 11-point regression does not accurately reflect the relationship between weight and domestic postage rates because it overweights rates for higher weights and thus artificially increases the rate at 158 grams.

<sup>240</sup> UPU, IB Circular 97/2020, Provisional 2021 quality-linked terminal dues rates (13 Jul. 2020), Tables 1.1 through 1.4 (pp. 13-31).

<sup>241</sup> UPU, IB Circular 97/2020, Provisional 2021 quality-linked terminal dues rates (13 Jul. 2020), Table 3.1 (pp. 36-37).

- *Self-declared rates for items not to or from US 2021.* Linear self-declared rates for items sent to or from countries other than the US in 2021 were specified by the designated operators and announced by the UPU in July 2020.<sup>242</sup> The specific rate for a 158 g E-format item is expressed as a percentage of the equivalent domestic postage for an E-format item of the same weight.

For example, WIK's linear regression of the domestic postage rates for E-format items calculated for Belgium in 2021 yields a rate of SDR 2.45 per item and SDR 3.54 per kg. If terminal dues for delivery of inbound E-format items were equal to 70% of retail domestic rates, then the implied linear terminal dues rate is SDR 1.72 per item and SDR 2.48 per kg. For a 158-gram E-format item, a terminal dues charge of SDR 2.11 would therefore be consistent with equivalent domestic postage. In contrast, under the normal (not self-declared) terminal dues schedule for E-format items, the Belgian designated operator will collect only SDR 1.06 for a 158-gram E-format item, 50% of equivalent domestic postage. Under the full self-declared rates for delivery of E-format items received from the US, the Belgian designated operator will charge SDR 2.25, 107% of equivalent domestic postage.<sup>243</sup> For E-format items received from countries other than the US, the Belgian operator will charge SDR 1.19, or 56% of equivalent domestic postage.

In sum, 40 UPU member countries have introduced self-declared rates for delivery of inbound E-format items beginning on either 1 July 2020 or 1 January 2021. For Group I countries self-declared rates have thus largely replaced normal E-format terminal dues. The United States, and only the United States, has introduced 'full' self-declared rates (i.e., rates approximately equal to 70% of retail domestic postage). Thirty-eight countries have responded to the US by charging full self-declared rates on E-format items received from the US. The same 38 countries, plus the Vatican, have also introduced a much more limited version of self-declared rates for delivery of E-format items received from countries other than the US. Under this second version of self-declared rates, annual rate increases are limited to 15% to 17% per year through 2025. Because of these limits on annual increases, it appears likely that most of these countries not be able to charge full self-declared rates by 2025, although they will be significantly closer to this benchmark.

#### 4.7 Terminal dues proposal for 2022 to 2025 (2020 Convention)

In February 2020, the POC and CA agreed on a proposed revision of the terminal dues system for the period 2022 through 2025.<sup>244</sup> These proposals will be submitted to the Abidjan Congress in 2021 or its replacement for final approval and incorporation in the next UPU Convention. The main elements of the proposed system of terminal dues are:

- 1) *Self-declared rates.* The system of self-declared rates adopted by the Geneva Extraordinary Congress will be continued without change.<sup>245</sup>

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<sup>242</sup> UPU, IB Circular 97/2020, Provisional 2021 quality-linked terminal dues rates (13 Jul. 2020), Table 2.1 (pp. 32-33).

<sup>243</sup> Note that it is possible for a designated operator to establish a self-declared rate that is higher than 70% of domestic postage for a 158 g. E-format item because the UPU's ceiling rate for a 158 gram E-format item is based on a linear regression that overweights domestic postage rates at higher weights (250 g and above). The UPU's 11-point regression artificially increases the rate for 158 g item above the level calculated by WIK's 7-point regression, which appears to provide a more accurate indication of actual postage rates. In short, the UPU's ceiling rate for self-declared rates is not truly 70% of domestic postage at 158 grams.

<sup>244</sup> UPU, 2020 Abidjan Congress, Doc 36, Integrated Remuneration Plan (2021–2024) and Integrated Remuneration System (2022–2025) (20 Mar. 2020).

<sup>245</sup> UPU, 2020 Abidjan Congress, Doc 36, para. 17.

- 2) *Terminal dues groups and Target/Transitional Systems.* The four terminal dues groups will be retained without change. The Target System (Groups I, II, and III) and the Transitional System (Group IV) will be defined in the same way as in the 2016 Convention.<sup>246</sup>
- 3) *Target System formulae.* The target system formulae, used to calculate terminal dues between the cap and floor rates, will continue without revision. The same average weights and the item-to-kilogram ratios will be used. As a result of the 2019 amendments, the target system formulae will apply to calculation of linear rates in the Transitional System as well as the Target System.<sup>247</sup>
- 4) *Cap and floor rates for PG documents.* The cap rates for PG documents will be increased annually by different percentages. The cap rates for Group I flows will increase by 5% per year, for Group II flows by 8.7% per year, for Group III flows by 12.1% per year, and for Group IV flows by 15.6% per year. By 2025, the linear cap rates for all groups will be the same, SDR 0.440 per item and SDR 3.434 per kg. The floor rates for PG documents were the same for all terminal dues groups in the 2016 Convention. This uniformity will be maintained, and the floor rates will increase by 10% in 2022; by 7.5% in 2023 and 2024, and by 5% in 2025.<sup>248</sup>
- 5) *Cap and floor rates for E-format items.* The 2019 amendments equalised the cap rates for E-format items for all terminal dues groups in 2020 and 2021. This uniformity will be maintained. For the years 2022 through 2025, the cap rates for E-format items will increase by 10% per year. The floor rates for E-format items for the years 2022 through 2025 agreed in the 2019 amendments will be maintained.<sup>249</sup>
- 6) *Per kilogram letter post rates below threshold volumes.* As in the 2016 Convention for the year 2021, linear rates for PG documents and E-format items will be converted into per kilogram *letter post* rates for Group II and Group III for annual flows below 50 tonnes. The method for converting the PG and E-format linear rates to per kilogram letter post rates will be updated to reflect the changing composition of the letter post. The proposed per kilogram letter post rate is calculated based on the determination that the average kilogram of letter post contains 3.97 documents weighing 0.14 kilograms and 5.45 E-format items weighing 0.86 kilograms.<sup>250</sup> It should be noted that this new formula indicates a remarkable shift in the composition of international letter post in just four years. In 2014, the UPU found that an average kilogram of letter post included 8.16 documents weighing 0.31 kilograms and 2.72 small packets weighing 0.69 kilograms. The percentage of E-format items in the letter post has increased from 25% to 58%. E-format items now constitute 86% of the letter post by weight.

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<sup>246</sup> UPU, 2020 Abidjan Congress, Proposal 01 (23 Mar. 2020). For an explanation of the classification system adopted by the 2016 Istanbul Congress, see Section 4.4, above.

<sup>247</sup> UPU, 2020 Abidjan Congress, Doc 36, paras. 10, 18; Proposals 20.29.1, 20.30.1 (17 Mar. 2020).

<sup>248</sup> UPU, 2020 Abidjan Congress, Doc 36, paras. 11-14; Proposals 20.29.1, 20.30.1 (17 Mar. 2020).

<sup>249</sup> UPU, 2020 Abidjan Congress, Doc 36, paras. 19-20; Proposals 20.29.1, 20.30.1 (17 Mar. 2020).

<sup>250</sup> UPU, 2020 Abidjan Congress, Doc 36, paras. 21-22; Proposals 20.29.1, 20.30.1 (17 Mar. 2020). This composition is based on a responses of 32 designated operators in a 2018 survey of the composition of letter post exchanged within the Target System. UPU, POC C2 2019.1 Doc 4a Issues relating to the Remuneration Integration Group — Update of the results of the IPK Study (28 Feb. 2019), Annex 1 Table 6c (hereafter '2018 IPK Study'). It appears that the figures in this study have been updated for the 2020 Terminal Dues Proposals.

Table 12 Proposed terminal dues cap and floor rates, 2022-2025 (2020 Convention)

TARGET SYSTEM (PG Documents)						
	Group I flows		Group II flows		Group III flows	
	I ↔ I		II ↔ I & II		III ↔ I, II & III	
PG documents	item	kg	item	kg	item	kg
2022 cap	0.380	2.966	0.342	2.672	0.313	2.443
2022 floor	0.272	2.121	0.272	2.121	0.272	2.121
2023 cap	0.399	3.114	0.372	2.905	0.351	2.738
2023 floor	0.292	2.280	0.292	2.280	0.292	2.280
2024 cap	0.419	3.270	0.404	3.158	0.393	3.068
2024 floor	0.314	2.451	0.314	2.451	0.314	2.451
2025 cap	0.440	3.434	0.440	3.434	0.440	3.434
2025 floor	0.330	2.574	0.330	2.574	0.330	2.574
Avg. ann. Δ cap	5.0%	5.0%	8.8%	8.7%	12.0%	12.0%
Avg. ann. Δ floor	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%
TARGET SYSTEM (E-format items)			TRANSITIONAL SYSTEM			
Group I, II & III flows			Group IV flows			
I, II & III ↔ I, II & III			IV ↔ I, II, III & IV			
E-format items	item	kg	Letter post		kg	
2022 cap	0.864	1.942	2018 cap		7.822	
2022 floor	0.677	1.523	2018 floor		6.376	
2023 cap	0.950	2.136	2019 cap		8.681	
2023 floor	0.711	1.599	2019 floor		6.729	
2024 cap	1.045	2.350	2020 cap		9.641	
2024 floor	0.747	1.679	2020 floor		7.105	
2025 cap	1.150	2.585	2021 cap		10.718	
2025 floor	0.784	1.763	2021 floor		7.459	
Avg. ann. Δ cap	10.0%	10.0%	Avg. ann. Δ cap		11.1%	
Avg. ann. Δ floor	5.0%	5.0%	Avg. ann. Δ floor		5.4%	

Source: UPU, 2020 Congress, Proposals 20.28.1, 20.29.1, 20.30.1 (17 Mar. 2020).

Notes:

- 1) All rates expressed in Special Drawing Rights (SDRs).
- 2) In general, industrialised countries and developing countries with high domestic postage rates apply the cap rates; other countries apply the floor rates. For a relatively small number of countries, terminal dues rates are set between the cap and floor rates based on the application of complex target system formulae that are derived from domestic postage rates for the 20-gram small letter (P) and 175-gram large letter (G).
- 3) For Group II and III flows in the Target System, separate PG and E-format rates (including self-declared rates where applicable) are combined into a per kg rate for letter post for bilateral flows less than 50 tonnes per year.
- 4) A Group IV country may choose to apply the item-kilogram PG (not provided above) and E-format item rates (including self-declared rates where applicable) to an inbound bilateral flow that exceeds 100 tonnes of letter post per year if the average weight per items is unusually low or high.



Table 13 Proposed terminal dues, 2022-2025: thresholds

Destination	Flow threshold	Origin			
		Group I	Group II	Group III	Group IV
Group I	< 25 t	A	D	D	E
	25 t – 50 t	A	C	C	E
	50 t – 100 t	B	B	B	E
	> 100 t	B	B	B	F
Group II	< 25 t	C	D	D	E
	25 t – 50 t	C	C	C	E
	50 t – 100 t	B	B	B	E
	> 100 t	B	B	B	F
Group III	< 25 t	C	D	D	E
	25 t – 50 t	C	C	C	E
	50 t – 100 t	B	B	B	E
	> 100 t	B	B	B	F
Group IV	< 25 t	C	C	C	E
	25 t – 50 t	C	C	C	E
	50 t – 100 t	C	C	C	E
	> 100 t	F	F	F	F
Key	<b>Self-declared rates by destination DO</b>		<b>No self-declared rates by destination DO</b>		
A	Sampling mandatory. Format separation optional. Per-item and kg rate according to art. 28bis.		Sampling mandatory. Format separation optional. Per-item and kg rate according to art. 29.		
B	Sampling mandatory. Format separation mandatory. Per-item and kg rate according to art. 28bis.		Sampling mandatory. Format separation mandatory. Per-item and kg rate according to art. 29/30.4ter		
C	No sampling. Format separation optional. Combined kg rate with E rates art. 28bis		No sampling. Format separation optional. Combined kg rate with E rates art. 29/30.5.		
D	No sampling. Format separation optional. Combined kg rate with E rates art. 29.		No sampling. Format separation optional. Combined kg rate with E rates art. 29		
E	No sampling. Format separation optional. Floor rate (total rate per kg).		No sampling. Format separation optional. Combined kg rate with E rates art. 30.5		
F	Sampling optional. Format separation optional. If not sampled, combined kg rate with E rates art. 28bis. If sampled, per-item and per kg rate art. 28bis		Sampling optional. Format separation optional. Combined kg rate with E rates art. 30.5.		

Source: UPU, 2020 Abidjan Congress, Doc 36 (20 Mar. 2020), Integrated Remuneration Plan (2021–2024) and Integrated Remuneration System (2022–2025), Annex 1.

In brief, the terminal dues proposal for the 2020 Abidjan Congress endorsed by the POC and CA is a continuation of the terminal dues principles and methodologies of the 2016 Convention as modified by the 2019 Geneva Extraordinary Congress. The principal new features are: (i) equalisation of the cap rates for PG documents by 2025 and (ii) increases in the cap rates for E-format items of 10% per year (somewhat higher than previous Conventions). This proposal substantially completes the elimination of differences in terminal dues rates between the Target System and the Transitional System begun by the 2019 amendments. The remaining differences between these two systems will be mainly differences in rules relating to weight thresholds for application of self-declared rates and per kilogram letter post rates.

## 4.8 Inward land rates

In addition to the letter post, the other basic service required by the Convention is parcel post. Postal parcels are packages weighing up to 20 kg.<sup>251</sup> Cross-border parcels comprise only a small percentage of cross-border ‘packages’ — both parcels and small packets — conveyed by designated operators.<sup>252</sup> According the WIK survey of designated operators, parcels account for about 13% of outbound packages and about 4% of inbound packages.

Payments between designated operators for handling and delivering parcel post are called ‘inward land rates’.<sup>253</sup> Prior to 2006, inward land rates were self-declared by designated operators in accordance with a POC recommendation that these rates should be based on domestic costs. The 2004 Bucharest Congress concluded that ‘one of the key factors in reversing the decline in the Post’s share of the global parcels market is to reduce, or at least contain, costs and that, without a vigorous and targeted response, that share will shrink even further.’ Hence, the POC recommended a more centralised system to ‘give Posts an incentive to improve their parcel processing and delivery procedures’.<sup>254</sup>

The system of inward land rates adopted by the Bucharest Congress is still in effect. It replaced self-declared rates with rates set by the Postal Operations Council in the Convention Regulations.<sup>255</sup> The ‘base rate’ for inward land rates was set at 71.4% of each designated operator’s inward land rates in 2004. The base rate is expressed in the form a linear per item and per kilogram rate. The base rate has been increased over the years with adjustments based on inflation in each country, and a uniform floor rate was introduced. The current floor rate is SDR 0.280 per item and 2.85 per kilogram.<sup>256</sup> Base rates are supplemented with a bonus system that rewards track-and-trace services, home delivery, provision of information about delivery standards, and usage of the common internet-based inquiry system. To be eligible for bonuses designated operators must (i) provide the standard UPU barcode (S10) on all outbound parcels; (ii) accept liability for certain actions; and (iii) keep up-to-date the information included in the UPU’s Parcel Post Compendium Online.

In 2015, the POC introduced a new, optional parcel post service to respond better to the development of e-commerce. This service is called ECOMPRO.<sup>257</sup> ECOMPRO includes the following elements: (i) a multilateral rate agreement that is simple, easy, and fast to

<sup>251</sup> UPU, Convention (2019), art. 17.7. Designated operators may agree to higher weight limits.

<sup>252</sup> The UPU does not use the term ‘packages’. As used in this section, the term ‘packages’ includes, in UPU terminology, both (i) ‘goods’ conveyed in the letter post (small packets) and ‘parcels’ conveyed in the parcel post. ‘Packages’ is thus equivalent to the term ‘parcels’ as used in the EU Parcels Regulation, which directed national regulatory authorities to collect data on cross-border parcel delivery services. The WIK survey for this study requested national regulatory authorities to provide data on the volume of inbound and outbound packages (or ‘parcels’ in the terminology of the Parcels Regulation). See Regulation (EU) 2018/644 of the European Parliament and of the Council of 18 April 2018 on cross-border parcel delivery services, OJ L 112, 2.5.2018, p. 19. WIK also requested designated operators to provide inbound and outbound volumes for E-format items and parcels (in UPU terminology).

<sup>253</sup> For a short account of the development inward land rates see POC C 2 RIG 2018.1 Doc 4 Annex 1 Attachment 1, Overview of existing UPU remuneration systems (1 Mar. 2018).

<sup>254</sup> UPU, 2004 Bucharest Congress, Doc 35. Add 1, introduction of a new system of inward land rate setting based on service features provided (4 May 2004), paras. 12-13.

<sup>255</sup> UPU, Convention (2019), art. 25.1.3.

<sup>256</sup> UPU, Convention Regulations (2017), art. 32-201.2.4.

<sup>257</sup> ‘ECOMPRO’ was originally adopted as shorthand for the POC’s ‘E-Commerce Program’. UPU, POC 2014.2 Doc 8, Add 1, Accelerating integrated actions to facilitate e-commerce – UPU E-Commerce Programme (ECOMPRO) (25 Sep. 2014). However, ‘ECOMPRO’ quickly became a label for a specific category of parcel post service. See, e.g., UPU Convention (2016), art. 22.1.1.1 which refers to ‘ordinary parcels (with the exception of parcels in the e-commerce delivery category (“ECOMPRO parcels”)).

implement; (ii) transparent base and bonus rates, (iii) cost coverage through country-specific self-declared base rates, and (iv) base rates and a bonus scheme supportive of a competitive service. At first ECOMPRO's delivery rates were capped at the level of existing inward land rates. The 2016 Convention, however, exempted ECOMPRO parcels from the caps applicable to inward land rates, so ECOMPRO rates became self-declared.

In the next cycle, 2022 through 2025, the POC proposes to modify the inward land rates system by allowing designated operators to introduce self-declared inward land rates as of 1 January 2022. These 'self-declared rates' are not wholly within the discretion of each designated operator. They are subject to a ceiling established by the 2021 inward land rates (base rates) adjusted by inflation.<sup>258</sup> Since inward land rates are established by the POC in Convention Regulations, details of these proposed changes in the system of inward land rates are not spelled out as proposals for the 2020 Abidjan Congress. Specifics will be provided only in the Convention Regulations adopted by the POC after the Congress.

#### 4.9 Supplementary services

'Supplementary services' are extra features which may be provided in addition to the basic services included in the letter post and parcel post. Most supplementary services are optional and provided only after agreement between the origin and destination designated operators. Optional supplementary services listed in the 2016 Convention include insurance for letter-post items and parcels, cash-on-delivery service, tracked delivery service for letter-post items, delivery to the addressee in person of registered or insured letter-post items, delivery of cumbersome parcels, a consignment service for items shipped in bulk, and a merchandise return service. Only the registration service is mandatory.<sup>259</sup>

Under the 2016 Convention the destination designated operator is entitled to charge the origin designated operator a fixed surcharge for two of these supplementary services: registration and insurance. These surcharges apply on top of the base terminal dues rates. Under the Convention Regulations, surcharges can be increased if electronic tracking data is also provided by the destination designated operator. In the 2016 Convention, the destination designated operator's surcharge for the registration service in 2018 was SDR 1.20 rising to SDR 1.40 in 2021. For an insured item, the surcharge was SDR 1.40 in 2018 increasing to SDR 1.70 in 2021.<sup>260</sup> The Convention Regulations adopted by the POC provide for an additional surcharge of SDR 0.69 in 2018 increasing to SDR 0.75 in 2021 if tracking data is provided in conjunction with registration or insurance services.<sup>261</sup>

The terminal dues provisions agreed by the POC and CA in February 2020 for submission to the Abidjan Congress include a proposal to increase surcharges for registered and insured items by 4.5% annually from 2022 to 2025. The POC is also proposing to make tracking a mandatory supplemental service. The POC is submitting two options to the Abidjan Congress for consideration: (i) the tracked delivery service is mandatory for inbound letter-post items (documents and goods) and remains optional for outbound letter-post items (documents and goods) or (ii) the tracked delivery service is mandatory for inbound letter-post items containing goods only and remains optional for outbound letter-post items containing goods and for inbound and outbound letter-post items

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<sup>258</sup> 2020 Terminal Dues Proposals, paras. 23-26.

<sup>259</sup> UPU, Convention (2016), art. 18.

<sup>260</sup> UPU, Convention (2016), art. 28.8.

<sup>261</sup> UPU, Convention Regulations (2017), art. 30-104.4.2.

containing documents.<sup>262</sup> Assuming that one of these two options is approved, the POC is proposing to introduce a surcharge of SDR 0.40 for each item.<sup>263</sup> Approval is not assured, however. Many industrialised countries oppose mandatory tracking because the surcharge is fixed rather than self-declared.

#### 4.10 Alternative remuneration agreements

Under the 2016 UPU Convention, a designated operator may, by bilateral or multilateral agreement, apply other payment systems for the settlement of terminal dues.<sup>264</sup> It is apparent, however, that the ability to negotiate alternative arrangements is limited if UPU terminal dues rates are considered the legally binding default rate. The UPU terminal dues system tends to benefit designated operators who are net exporters to the detriment of designated operators who are net importers. Designated operators who benefit from the UPU terminal dues system are naturally reluctant to agree to alternative arrangements without additional compensation.

WIK asked designated operators whether they considered UPU terminal dues rates to be a legally binding default rate that they must charge for delivery of intra-EEA postal items in the absence of an alternative agreement. All designated operators agreed with this premise with four exceptions (DK, IE, PT, NO).<sup>265</sup> One designated operator, a net importer, commented:

‘The UPU terminal dues are far from being cost-based or market oriented and therefore the starting point for the negotiations is highly challenging. Net exporters are reluctant to negotiate on bilateral rates as they will anyway get the delivery of their items on the below cost coverage UPU rates.’

On the other hand, another designated operator, a net exporter, views the UPU system more positively:

‘The UPU TDs rates and definition help to structure the discussion, the operational standard, the product, and the rates for bilateral or multilateral discussions between European operators. UPU helps to avoid useless transaction cost.’

When national regulatory authorities were asked the same question, the result was more mixed. Most agreed that the UPU terminal dues served as the legal default rate in the absence of an alternative agreement, but 12 NRAs indicated that they do not know the answer and two (DK, IE) replied that in their view the UPU system did not establish a legal default.<sup>266</sup>

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<sup>262</sup> UPU, POC C 2 2020.1 Doc 2c Annex 1, Integrated Product Plan 2021–2024 (22 Jan. 2020), para. 31. Original options 1 and 3 were rejected by POC Committee 2. POC 2020.1 Doc 5 Rev 1, Report of Committee 2 Physical Services and E-Commerce (20 Feb. 2020), para. 10.

<sup>263</sup> 2020 Terminal Dues Proposals, para. 36; Annex 2, art. 28.6bis. In addition, the POC is authorised to supplement remuneration for tracked delivery if required data is electronically transmitted. For the years 2022 and 2023, Group IV countries will receive the surcharge upon confirmation of arrival in the inward office of exchange rather than confirmation of delivery.

<sup>264</sup> UPU, Convention (2019), art. 28.11. This provision will undoubtedly be included in the 2020 Convention as well.

<sup>265</sup> WIK DO Survey, Q 32. One designated operator stated it did not know if the UPU terminal dues served as the legal default.

<sup>266</sup> WIK NRA Survey, Q 27.

WIK asked EEA designated operators about their use of alternative remuneration agreements in the delivery of inbound letter post. The largest designated operators did not provide any information. Based upon the replies of about half of the designated operators, it appears that for letter post received from countries outside of the EEA, designated operators charge UPU terminal dues on 85% to 100% of the inbound volume. For letter post received from countries within the EEA, almost all designated operators appear to be parties to a multilateral agreement called the 'INTERCONNECT Remuneration Agreement – Europe' (IRA-E). For EEA designated operators, it appears that IRA-E terminal dues are applied to about 50% to 90% of inbound intra-EEA letter post items depending on the country. Other bilateral terminal dues agreements are applied to about 15% to 30% of inbound intra-EEA letter post items. UPU terminal dues also account for about 15% to 30% of terminal dues on inbound intra-EEA letter post items, again depending on the country. At least two small designated operators rely on UPU terminal dues for all intra-EEA inbound letter post items.<sup>267</sup>

The IRA-E agreement is organised and administered by the International Post Corporation. According to the International Post Corporation, '*One of the main objectives targeted under the IRA-E was to lower the Terminal Dues level in order for postal operators to be more competitive on the e-commerce market.*'<sup>268</sup> Provisions of multilateral and bilateral terminal dues agreements are confidential and non-public. It is therefore impossible to compare IRA-E rates with UPU terminal dues.

In May and June 2000, the US Postal Service notified the US Postal Regulatory Commission that it had concluded bilateral or multilateral agreements setting reciprocal delivery rates for E-format items (and parcels and EMS items in some cases) exchanged with a number of other designated operators. Virtually all details of these agreements were withheld from public disclosure including the identities of the corresponding designated operators. The Postal Service filings, however, seem to indicate that it has concluded Interconnect agreements<sup>269</sup> with 15 designated operators, probably including most of the significant EEA designated operators. The Postal Service also seems to have concluded non-Interconnect agreements with three more designated operators. All agreements will become effective on 1 July 2020. Based on these announcements, it appears that the UPU system of self-declared rates for E-format items sent to or from the US beginning 1 July 2020 has been substantially replaced by bilateral agreements between the major designated operators. Although rates in these agreements are non-public, they likely reflect continuation of reciprocal mutual discounts compared to the self-declared rates prescribed by the 2019 amendments to the UPU Convention.

In sum, under the 2016 UPU Convention, a designated operator may, by bilateral or multilateral agreement, apply other payment systems for the settlement of terminal dues. For EEA designated operators the most significant alternative agreement is a multilateral agreement called the 'INTERCONNECT Remuneration Agreement – Europe' (IRA-E). The terms and identities of the parties to the IRA-E agreement are non-public. It appears from a WIK survey of EEA designated operators that IRA-E remuneration rates are applied to roughly 50% to 90% of inbound intra-EEA letter post items depending on the Member State. In mid-2020, the US Postal Service announced a series of terminal dues agreements with 18 other designated operators, apparently including 15 parties to the IRA-E agreements. The terms and identities of the parties to these agreements are non-public. It appears, however, that these bilateral and multilateral agreements have largely

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<sup>267</sup> WIK DO Survey, Q 32. NRAs were asked similar questions, but most NRAs appeared to have no information on the terminal dues rates charged by their designated operators.

<sup>268</sup> International Post Corporation, Intercompany Pricing: Facilitating multi-lateral remuneration agreements (web page, no date).

<sup>269</sup> The Interconnect program is described in Section 4.10, below.

replaced the self-declared rates adopted pursuant to the 2019 amendments to the 2016 UPU Convention in exchanges between parties to these agreements.

#### 4.11 Conclusions

Chapter 4 describes the evolution of the UPU's rules which prescribe the payments — or 'remuneration' to use the UPU term — that designated operators make to each other in the provision of international postal services.

The Universal Postal Union (UPU) is an intergovernmental agreement that governs the exchange of documents and parcels among '**designated operators**', i.e., providers of postal services who have been designated by governments of UPU member countries to provide services required by acts of the UPU. Designated operators are, in almost all cases, postal administrations or their corporatised — and in many cases privatised — successors. This chapter reviews the organisation and powers of the UPU and describes UPU rules which prescribe how designated operators compensate each other for services performed in provision of international postal services.

Since the UPU is an intergovernmental organisation, remuneration is governed by intergovernmental agreements, called 'acts'. There are four primary acts. The Constitution and General Regulations establish the main organisational units of the UPU and define their powers. The UPU Convention (formally, the Universal Postal Convention) and the more detailed Convention Regulations prescribe rules and procedures for exchanging mail. The Constitution, General Regulations, and Convention are adopted or amended by the UPU Congress, a general meeting of all 192 UPU member countries which normally convenes every four years. The Convention Regulations are adopted and amended by the Postal Operations Council, a permanent committee of 40 countries (soon to be 48) elected by the Congress. The secretariat of the UPU is located in Berne, Switzerland, and headed by a Director General, elected by Congress. The next regular meeting of the UPU Congress was scheduled for August 2020, but it has been postponed due to the COVID-19 pandemic.

Today the most important type of inter-postal compensation is 'terminal dues'. Terminal dues compensate a designated operator for the cost of delivering inbound letter post items. Before 1969, there were no terminal dues payments. Postal operators compensated each other for delivery of inbound mail by barter. That is, a postal operator delivered inbound mail without charge in return for the right to have its outbound mail delivered in the country of destination without charge. This barter system benefited countries that exported more mail than they imported and countries that traded their own low-cost delivery services for high-cost delivery services of other countries.

In 1969 the UPU agreed to a system of monetary payments for delivery of inbound letter post. Guided by the politics of the UPU (the majority of countries were net importers) and objections from competition authorities (terminal dues were inconsistent with the competition laws in the EU and US), terminal dues have evolved into substantial monetary transfers. Beginning in 1999, the UPU endorsed the principle that terminal dues should become 'country-specific' after an appropriate transition period, i.e., in each country terminal dues should be equal to domestic postage rates for equivalent delivery services. Somewhat arbitrarily, the UPU adopted 70% of retail domestic rates for priority mail as the appropriate benchmark for country-specific terminal dues. Practice did not follow principle, however. Between 1999 and 2016, UPU terminal dues took only minimal strides towards aligning terminal dues with the specific domestic postage rates in each country. Discrepancies between terminal dues and domestic postage continued to foster significant economic distortions in the international exchange of documents and parcels.

The UPU terminal dues system includes more than an agreement on terminal dues rates. The terminal dues system also includes rules that restrain (but do not entirely prevent) bypass of terminal dues rates by means of remail (i.e., posting mail in a foreign country) and extraterritorial offices of exchange (ETOE) (i.e., posting mail in the office of a foreign designated operator located in the mailer's country). In broad terms, the UPU provisions on remail, ETOEs, and IMPC codes reinforce the ability of each designated operator to secure the international outbound letter post business from potential competition by other designated operators and private operators.

In 2016, the UPU Congress in Istanbul adopted the 2016 UPU Convention which, *inter alia*, establishes an extraordinarily complicated terminal dues system. This complexity obscures an underlying simplicity. The purported connection between terminal dues and domestic postage in the Convention is essentially an illusion. For the large majority of international letter post items, terminal dues are set by cap and floor rates that have been negotiated by designated operators and incorporated into the Convention. The cap and floor rates differ somewhat according to the classification of the origin and destination countries into four terminal dues groups. These range from the most industrialised countries (Group I) to the least advanced developing countries (Group IV). The principal new feature of the 2016 terminal dues rates is the introduction of separate schedules of terminal dues for (i) documents in standard-sized envelopes (P and G format) and (ii) goods of all types and documents that do not fit in standard envelopes (E-format). The new schedule for E-format items implied a substantial increase in terminal dues for e-commerce goods exported by developing countries. According to the 2016 Convention, by 2021 designated operators would charge the same terminal dues rates for e-commerce goods received from all but the least developed countries (Group IV). Equalisation of terminal dues rates for small packets eliminated the competitive advantage from previous terminal dues rates that benefitted designated operators from China, Hong Kong, and Singapore, but it continued to keep terminal dues well below equivalent domestic postage rates in the industrialised countries. As it turned out, the terminal dues provisions of the 2016 UPU Convention were in effect for only two years, 2018 and 2019.

Terminal dues for the years 2020 and 2021 were substantially revised by amendments to the 2016 Convention adopted in the 2019 Geneva Extraordinary Congress. The Geneva Extraordinary Congress was precipitated by the refusal of the United States to continue delivery of vast quantities of inbound e-commerce goods at the terminal dues rates agreed in the 2016 UPU Convention and the consequent US decision to withdraw from the UPU. Pared down to essentials, the outcome of the Geneva Extraordinary Congress was an agreement between the government of the United States and the governments of a small number of countries whose designated operators are major net exporters. The exporters agreed to allow the US to, in effect, adopt a reservation to the UPU terminal dues system that allowed the US to charge 'self-declared rates' for delivery of inbound E-format items that were equal to equivalent domestic rates. In return, the United States agreed to continue as a member of the UPU, to pay the UPU CHF 40 million, and to support a six-year extension of a UPU terminal dues system that included an option for other countries to introduce a limited version of 'self-declared rates' in which annual increases were capped at 15% to 17% per year. The limited version of self-declared rates allowed net exporters to continue to extract financial transfers from net importers, albeit at a declining rate. The US and the net exporters jointly agreed to provide developing countries higher terminal dues rates and other inducements to ensure support for the agreement by a majority of UPU member countries.

Pursuant to the 2019 amendments of the 2016 Convention, 40 UPU member countries have introduced self-declared rates for delivery of inbound E-format items beginning on either 1 July 2020 or 1 January 2021. For Group I countries self-declared rates have thus largely replaced normal E-format terminal dues. The United States, and only the United

States, has introduced 'full' self-declared rates (i.e., rates approximately equal to 70% of retail domestic postage). Thirty-eight countries have responded to the US by charging full self-declared rates on E-format items received from the US. The same 38 countries, plus the Vatican, have also introduced a more limited version of self-declared rates for delivery of E-format items received from countries other than the US. Because of these limits on annual increases, it appears likely that most of these countries not be able to charge full self-declared rates by 2025, although they will be significantly closer to this benchmark.

In February 2020, the POC and CA agreed on proposals for the terminal dues provisions to be included the next Convention, in force beginning 1 January 2022. The next Convention was scheduled for adoption by a regular UPU Congress to be held in August 2020, but this Congress has been postponed due to the COVID-19 pandemic. In general, these proposals continue the terminal dues principles and methodologies of the 2016 Convention as modified by the 2019 Geneva Extraordinary Congress. The principal new features are: (i) equalisation of the cap rates for PG documents by 2025 and (ii) increases in the cap rates for E-format items of 10% per year (somewhat higher than previous Conventions). This proposal substantially completes the elimination of differences in terminal dues rates between the Target System and the Transitional System begun by the 2019 amendments. The remaining differences between these two systems will be mainly differences in rules relating to weight thresholds for application of self-declared rates and per kilogram letter post rates.

In addition to terminal dues, the UPU Convention and Convention Regulations provide for several other categories of remuneration. Besides the letter post, the other basic service required by the Convention is parcel post. Postal parcels are packages weighing up to 20 kg. Payments between designated operators for handling and delivering parcel post are called 'inward land rates'. Inward land rates are established by the POC by Regulation. The UPU also establishes remuneration rates for 'supplementary services.' Supplementary services are extra features which may be provided in addition to the basic services included in the letter post and parcel post. Most supplementary services are optional and provided only after agreement between the origin and destination designated operators. Optional supplementary services listed in the 2016 Convention include insurance for letter-post items and parcels, cash-on-delivery service, tracked delivery service for letter-post items, delivery to the addressee in person of registered or insured letter-post items, delivery of cumbersome parcels, a consignment service for items shipped in bulk, and a merchandise return service. Only the registration service is mandatory.

Under the 2016 UPU Convention, a designated operator may, by bilateral or multilateral agreement, apply other payment systems for the settlement of terminal dues. For EEA designated operators the most significant alternative agreement is a multilateral agreement called the 'INTERCONNECT Remuneration Agreement – Europe' (IRA-E). The terms and identifies of the parties to the IRA-E agreement are non-public. It appears from a WIK survey of EEA designated operators that IRA-E remuneration rates are applied to roughly 50% to 90% of inbound intra-EEA letter post items depending on the Member State. In mid-2020, the US Postal Service announced a series of terminal dues agreements with 18 other designated operators, apparently including 15 parties to the IRA-E agreements. The terms and identifies of the parties to these agreements non-public. It appears, however, that these bilateral and multilateral agreements have largely replaced the self-declared rates adopted pursuant to the 2019 amendments to the 2016 UPU Convention in exchanges between parties to these agreements.



## 5 Economic effects of UPU terminal dues

As explained in Chapter 4, under UPU remuneration rules designated operators do not charge each other the same fees as they charge domestic mailers. Most significantly, the terminal dues that designated operators charge each other for delivery of inbound international letter post is often very different from equivalent domestic postage, i.e., the postage the designated operator charges domestic mailers for similar services. This chapter describes, and to the extent possible provides rough quantitative estimates of, the economic effects of UPU terminal dues on designated operators, e-retailers, and consumers.

### 5.1 Types of distortions resulting from terminal dues

Delivery of inbound international letter post is a domestic postal service. After customs clearance at the port of entry, inbound international letter post is treated the same as domestic letter post tendered by a large domestic mailer. Inbound international letter post is sorted at the receiving 'office of exchange' (a UPU term), combined with similar domestic mail for transportation, re-sorted with domestic mail at a destination facility, and delivered with domestic mail to individual addresses. If a designated operator charges foreign designated operators different rates than it charges domestic mailers and other international service providers (e.g., extraterritorial offices of exchanges and private transportation companies) for similar services, then the same economic issues are presented that arise in the case of price discrimination between similar categories of domestic mailers. In principle, an analysis of distortions caused by UPU terminal dues is straightforward. The source of distortion is the difference between the amount that a designated operator charges for delivery of inbound mail and the amount that the designated operator charges for the delivery of similar domestic mail.

#### 5.1.1 Uniformity of terminal dues

A basic characteristic of UPU terminal dues is that they are relatively uniform compared to the wide range of domestic postage rates in different countries. In the EEA area (and in most other economically advanced countries), domestic postage rates are set to cover costs. Costs of producing postal services vary widely depending on such factors as labour rates, geography, infrastructure, and climate. Moreover, pricing strategies differ from operator to operator. Accordingly, domestic postage rates vary tremendously across the EEA area. In 2019, the priority postage rate for a 20-gram letter varied by 933% between the least expensive Member State (Malta) and the most expensive Member State (Italy). Postage rates for a 175-gram small packet varied by 1035% from the lowest (Slovenia) to the highest (Norway). In comparison, terminal dues for delivery of a 20-gram letter and 175-gram small packet in EEA Member States varied by 42% and 24%, respectively. Because of this relative uniformity, UPU terminal dues are rarely equal to domestic postage for similar services.

Evaluating the effects of discrepancies between terminal dues and domestic postage is complicated by the fact that terminal dues are not true market prices. If designated operator A offers to deliver a domestic package for €0.50 and this offer is available to all buyers without additional conditions, then €0.50 is cost of delivery for each buyer. But suppose designated operator A offers to deliver an inbound international package for €0.50 and this offer is available only to foreign designated operator B and only on condition that B also delivers a package for designated operator A for €0.50. In this case, designated operator A is partly compensated by the payment of €0.50 and partly by a

barter exchange of services. The UPU terminal dues system is a part-payment, part-barter system.

To clarify gains and losses in a part-barter exchange consider a simplified example in which the designated operator in country A (DO-A) sends 1 small packet to the designated operator in country B (DO-B) and DO-B sends 1 small packet to DO-A. Assume that each designated operator is obliged pay the same terminal dues charge, 0.50 for delivery by the other designated operator (the monetary units make no difference in the example). In this exchange, who benefits and who loses is determined by the relative costs of the two designated operators.

Table 14 Effect of terminal dues in an exchange of items between A and B

		DO-A is a . . .		
		Low cost operator	Average cost operator	High cost operator
<i>DO-A's inbound service for items from DO-B</i>				
1	DO-A domestic postage per item	0.50	0.75	1.00
2	Value of delivery by DO-A (70% of postage)	(0.35)	(0.53)	(0.70)
3	Terminal dues charge paid by DO-B	0.25	0.25	0.25
4	Net loss for inward delivery	(0.10)	(0.28)	(0.45)
<i>DO-A's outbound service for items sent to DO-B</i>				
5	DO-B domestic postage per item	0.75	0.75	0.75
6	Value of delivery by DO-B (70% of postage)	0.53	0.53	0.53
7	Terminal dues charge paid by DO-A	(0.25)	(0.25)	(0.25)
8	DO-A net gain outbound service	0.28	0.28	0.28
<i>Net gain or loss in 1 for 1 exchange</i>		0.18	0.00	(0.18)

Source: WIK-Consult.

Table 14 provides a numerical example. In column A, DO-A is a low-cost operator. Its domestic postage rate is 0.50 per item. When DO-A delivers an inbound letter post item received from DO-B, it provides a service worth about 0.35, since the UPU estimates that inward delivery is worth about 70% of the retail domestic postage rate. Assume that DO-A charges DO-B 0.25 for inward delivery under the UPU terminal dues agreement. Since DO-A has sold a delivery service worth 0.35 for 0.25, it has lost (undercharged) 0.10 on the inbound service. However, DO-A does better on the outbound service. DO-B is an average-cost operator. Its domestic postage rate is 0.75 per item. When DO-B delivers the letter post item received from DO-A, it is providing a service worth 0.53 (70% of 0.75). DO-A pays DO-B the terminal dues rate of 0.25, so DO-A has a net gain of 0.28 on the outbound service. In the overall exchange of 1 outbound item and 1 inbound item, DO-A has a net gain of 0.18. The explanation is straightforward. DO-A and DO-B are paying each other equal amounts, but DO-A is trading its low-cost delivery service for DO-B's more valuable delivery service. This is like trading Volkswagens for BMWs.

The situation is altered if DO-A is an average-cost operator (column 2) or a high-cost operator (column 3). If DO-A is an average cost operator, then it is trading its average cost delivery service for DO-B's delivery service of equal value. Neither DO-A nor DO-B has a net gain. If DO-A is a high-cost operator, then DO-A suffers a net loss in a 1 for 1 exchange of postal items. DO-A is trading its Ferraris for DO-B's BMWs.

In sum, if two designated operators exchange equal volumes of letter post, then a uniform terminal dues system is a barter arrangement in which DO-A's inbound services are traded for DO-B's inbound services. If both designated operators have the same operating costs, then there is no net benefit for either designated operator. If the designated operators have different operating costs, then the designated operator with lower unit costs (cost per letter post item) benefits at the expense of the designated operator with higher unit costs. The amount of the benefit is the difference between operating costs. The outcome per item is the same whether the exchange is 1 for 1 or 1 million for 1 million. If the volumes are in balance, uniform terminal dues payments cancel out, and the designated operator with the lower unit costs enjoys a net economic gain.

### 5.1.2 Imbalanced flows: exporters versus importers

A second fundamental problem with a uniform (or close to uniform) terminal dues system appears when a designated operator exports more or less mail than it imports. In practice, flows of letter post between DO-A and DO-B are rarely in balance. In a given bilateral relationship, one designated operator is likely to be a net exporter and the other a net importer. If two designated operators have identical costs, the net exporter will experience a net gain from the terminal dues system if the terminal dues rate is lower than the value of inbound delivery. This is typically the case for UPU terminal dues charges in industrialised countries. The reason that the net exporter gains at the expense of the net importer is self-evident. The net exporter is buying more under-priced services than the net importer. The net importer is selling more under-priced services than the net exporter. The loser is the designated operator selling the most under-priced services.

Table 15 Effects of terminal for net exporters and importers

		DO-A is a . . .	
		Low cost exporter	High cost importer
<i>DO-A's inbound service for items from DO-B</i>			
1	DO-A domestic postage per item	0.50	1.00
	DO-A's inbound volume received from DO-B	1000	2000
2	Value of delivery by DO-A (70% of postage)	(350)	(1400)
3	Terminal dues charge paid by DO-B (0.25 per item)	250	0.25
4	Net loss for inward delivery	(100)	(900)
<i>DO-A's outbound service for items sent to DO-B</i>			
5	DO-B domestic postage per item	0.75	0.75
	DO-A's outbound volume sent to DO-B	2000	1000
6	Value of delivery by DO-B (70% of postage)	1050	525
7	Terminal dues charge paid by DO-A (0.25 per item)	(263)	(131)
8	DO-A net gain outbound service	788	394
<i>Net gain or loss in 1 for 1 exchange</i>		688	(506)

Source: WIK-Consult.

In this way the UPU system of relatively uniform and under-priced UPU terminal dues creates winners and losers among the major designated operators. The big winners are net exporters with low unit costs. The big losers are net importers with relatively high unit costs. Table 15 offers a simple example. In Table 15, DO-A is again exchanging letter post items with DO-B. In the first column, DO-A is assumed to be a low-cost net exporter,

sending 2000 items to DO-B while receiving only 1000 items from DO-B. In the second column, DO-A is a high-cost net importer, sending 1000 items to DO-B and receiving 2000 items from DO-B. The mathematics are the same as in Table 14.

- As a net exporter (first column), DO-A enjoys a net economic gain of 688. This may or may not be captured by DO-A as additional profit. If DO-A faces significant competition in its outbound market, DO-A may have to pass some of this gain to mailers in the form of lower outbound postage rates.
- As a net importer (second column), DO-A suffers a net economic loss of 506. Since DO-A cannot reduce the costs of delivering inbound international letter post — employees, for example, must be paid the same wages whether they are delivering domestic mail or inbound international mail — an economic loss in the exchange of international mail must result in higher postage rates for other mailers (either domestic mailers or outbound international mailers) or higher levels of support for universal service by the government.

Developing countries are almost all net importers with a few important exceptions such as China, Hong Kong, and Singapore. However, domestic postage rates in developing countries are usually lower than in industrialised countries so the discrepancy between terminal dues and equivalent domestic postage, if any, is not as severe as in industrialised countries. More importantly, in almost three-quarters of the developing countries, the terminal dues rates are set by the terminal dues floor rate at levels that are above equivalent domestic postage.<sup>270</sup>

In sum, because terminal dues rates in industrialised countries are lower than equivalent domestic postage, all countries that are net exporters to industrialised countries benefit from the UPU terminal dues system at the expense of the industrialised countries that are net importers. In general, developing countries are net importers but they are substantially (but perhaps not completely) protected from similar losses because, due to the floor provision in the UPU terminal dues system, most developing countries charge terminal dues that are higher than equivalent domestic postage.

### 5.1.3 Failure to incorporate cost-causative factors in domestic rates

A third source of incompatibility between terminal dues and domestic postage rates lies in the UPU's over reliance on linear formulae to simplify terminal dues. Domestic postage rates typically depend on the format of the letter post (small letter, large letter, and small packet) and the weight step applicable to each item (0 to 20 grams, 20 to 50 grams, etc.). In large countries, domestic postage rates for packages may also be zoned according to the distance the package must be transported. In the international postal system, it is considered impractical for an origin designated operator to separate outbound letter post mail by foreign weight steps and distance zones. Separation of mail into P, G, and E formats is required only for exchanges of letter post between Group I countries. The UPU avoids domestic weight steps by requiring that all inbound rates must be linear, i.e., expressed in the form of X per item and Y per kilogram. Terminal dues rates for small letters (P) and large letters (G) are combined in a single linear formula. Rates for E-format

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<sup>270</sup> Floor rates that exceed equivalent domestic postage in developing countries are justified by the fact that in many developing countries domestic postage rates are subsidised by government for public policy reasons. It is argued that foreign mailers should not benefit from public subsidies in developing countries. However, there are limits to this justification. UPU floor rates are uniform, so they are unrelated to the public subsidy, if any, in each developing country. Floor rates which exceed the sum of equivalent domestic postage and public subsidy are, in effect, a UPU-determined tax on inbound mail for the benefit of the designated operator in the destination country. The decision on whether to impose a such tax would seem more properly a decision for each national government.

items — goods and documents in bulky packages weighing from 0 to 2 kilograms — are set out in a second linear formula.

The UPU relies on terminal dues rates, which do not adequately reflect the cost-causative factors which shape domestic tariffs. In principle, linearisation of domestic rates is a reasonable simplification for inbound international mail, but linearisation loses coherence with domestic tariffs if carried too far. Separate linear rates for P and G documents could serve as reasonable approximations, but a single linear rate for both P and G documents is unreasonable because the proportions of P and G documents vary substantially in different flows.<sup>271</sup> Likewise, a single linear rate for all E-format items up to 2 kg appears unreasonably inflexible. In domestic tariffs, most of the variation between the 20-gram and the 2-kilogram E-format rates occurs in weights up to 500 grams. According to the UPU, 89% of E-format items weigh less than 250 grams and 96% less than 500 grams. These considerations imply that separate linear rates should be permitted for E-format items weighing less and more than 500 grams.<sup>272</sup>

In short, UPU terminal dues provisions are distortive because they do not, as far as practicable, reflect cost-causative factors incorporated into domestic postage rates.

#### 5.1.4 Transactions affected by terminal dues

Discrepancies between UPU terminal dues and domestic postage rates for similar services lead to several categories of economic distortion. A short summary includes the following situations.

- UPU terminal dues adversely affect nationwide postal services in economically advanced countries by imposing additional costs on domestic or outbound mailers.
- UPU terminal dues generate significant financial transfers between designated operators benefitting some designated operators at the expense of others.
- UPU terminal dues benefit designated operators in developing countries at the expense of designated operators in economically advanced countries.
- UPU terminal dues create competitive advantages for foreign e-commerce merchants to the disadvantage of domestic merchants
- UPU terminal dues distort competition in between designated operators and non-designated operators (including extraterritorial offices of exchange and private transportation companies) in the country of origin (collection and dispatch services), the international transportation market, and the destination country (delivery services).

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<sup>271</sup> For example, according to the UPU studies, flat (G) comprise 17% of documents in flows between Group I countries, but 60% of documents in flows from Group III countries to Group I countries.

<sup>272</sup> Another oversimplification of the UPU is the insistence on air conveyance dues instead of distance zones. Air conveyance dues are per kilogram surcharges that are applied to every kilogram of inbound international letter post. In principle, air conveyance dues are set so that the destination designated operator recovers that average cost of domestic air transportation provided for the average kilogram of inbound letter post. This eliminates an incentive for origin designated operators to provide air transportation to the airport nearest addresses. There is no apparent reason why the origin designated operator cannot separate and transport outbound mail to a large country based on reasonable distance zones. This is, in effect, what a large country like the United States does when it transports its outbound mail to set of smaller countries like the EU Member States.

- UPU terminal dues create incentives for uneconomic remail and ETOE services.<sup>273</sup>

Developing countries, however, are substantially (but not completely) insulated from the adverse effects of terminal dues by a floor rate which allows them to charge terminal dues for delivery of inbound letter post items that exceed equivalent domestic postage in most developing countries.

Discrepancies between terminal dues and equivalent domestic postage may also affect provision of universal postal services required the Postal Directive.<sup>274</sup> Under the Postal Directive, each Member State is required to 'ensure that users enjoy the right to a universal service involving the permanent provision of a postal service of specified quality at all points in their territory at affordable prices for all users'.<sup>275</sup> This obligation applies not only to domestic mail but also to mail from or to another Member State and to mail from or to a third country.<sup>276</sup> However, Member States have discretion in deciding precisely which domestic, inbound, and outbound postal services are covered by the universal service obligation.

Terminal dues do not affect the *cost* of providing postal services for domestic or inbound cross-border mail. As noted above, delivery of inbound cross-border mail is actually a domestic service that is jointly produced with domestic postal services. The cost of sorting, transporting, and delivering a specific document or small package should be the same regardless of whether the mailer is a national or foreign resident.<sup>277</sup> Terminal dues do affect how the cost of operating the national postal network is allocated among mailers. If terminal dues are *less than* domestic postage rates for similar services, then undercharges for foreign mailers may be offset by raising rates for other postal services, either domestic or outbound. If terminal dues are *higher* than domestic postage rates for similar services, then the overcharges for foreign mailers may reduce rates for other mailers, either domestic mailers or outbound mailers.

The effect of terminal dues for *inbound universal postal services* depends on how the universal service obligation is defined and how postal costs are allocated in each Member State. If terminal dues result in an undercharge for delivery of inbound *universal services* (as defined by the Member State), then the designated operator must either (i) raise rates on other universal postal services or (ii) seek assistance from the Member State. If a Member State determines that the universal service obligation as a whole entails a net cost and represents an unfair burden for the designated operator, then the undercharge due to terminal dues could have the effect of increasing the amount that the Member State must (i) compensate the designated operator from public funds or (ii) share between

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<sup>273</sup> In a 2014 study for the U.S. Postal Regulatory Commission, Copenhagen Economics identified a similar list of six types of economic distortions that result from differences between UPU terminal dues and domestic rates for similar services: (i) distortion of competition for last-mile handling of cross-border letter post items; (ii) distortion of competition for first-mile handling of cross-border letter post items; (iii) distortion of demand for delivery within and outside the terminal dues system; (iv) distortion of demand for domestic vs. cross-border delivery; (v) distortion of demand for cross-border delivery originating in transition vs. target countries; (vi) financial transfers between delivery operators. Copenhagen Economics, *The Economics of Terminal Dues: Final report* (30 Sep. 2014) at 11-12.

<sup>274</sup> Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service, OJ L 15, 21.1.1998, p. 14, as amended by Directive 2002/39/EC, OJ L 176, 5.7.2002, p. 21 and Directive 2008/6/EC, OJ L 52, 27.2.2008, p. 3.

<sup>275</sup> Ibid. art. 3(1).

<sup>276</sup> Ibid. arts. 2(11), 3(7).

<sup>277</sup> However, from an operational point of view inbound letter post items, particularly small packages, may create additional handling and processing costs as these items usually do not comply with format and other requirements domestic bulk mailers have to comply with.

providers of services and/or or users.<sup>278</sup> On the other hand, if terminal dues for inbound universal services exceed the domestic postage for similar services, then the designated operator is effectively overcharging foreign mailers compared to domestic mailers. The result could be to reduce the need for increases in the rates of other universal services or a contribution by the Member State. For approximate estimates of undercharges and overcharges for delivery of inbound letter post mail based on a WIK mathematical model, see Sections 5.3.1 and 5.3.2, below, in particular figures 38-45.

Whereas published statements about terminal dues being higher than equivalent domestic postage are unlikely to be found, some designated operators have reported financial losses on inbound international mail that affected the financial position of the universal services. The designated operators of Ireland and Iceland shall serve as examples here. Other postal operators might also be affected but do not report this to the public.<sup>279</sup> The Irish DO An Post reported for 2019:

*'The losses experienced on the delivery of inbound international traffic continued in 2019. These losses are a function of the disadvantageous terminal dues structure particularly in relation to developing countries including China. In 2019 packet traffic from China almost doubled.'*<sup>280</sup>

Further, An Post stated that the total profit within the scope of universal service amounted to € 8.0 million in 2019 while the profit on equivalent domestic services was more than three times higher, € 30.7 million.<sup>281</sup> Another example is the designated operator of Iceland that also reported losses on international inbound services that had to be compensated with revenues from other services, including universal services. Iceland Post explicitly states in its annual report that *'these losses have been offset, when possible, with profits from exclusive rights operations, [...] but also with the profits from other services, such as parcels, products and services sold at post offices and profits from subsidiaries [...].'*<sup>282</sup>

These examples illustrate that UPU terminal dues may harm the financial position of designated postal operators, in particular if flows of inbound E-format items become larger and a significant share of total letter post volume. However, terminal dues below equivalent domestic postage may lead to distortions at the expense of domestic mailers and may harm the financing of the postal universal service.

The effects of terminal dues are different for *outbound universal postal services*. Most of the cost of providing outbound postal service is due to the cost of international air transportation and terminal dues paid to the destination designated operator. Therefore, unlike for inbound postal service, terminal dues do affect the cost of outbound postal service. For outbound *universal* postal services (as defined by the Member State), an increase or decrease in terminal dues will increase or decrease the cost of universal service. However, the cost of outbound universal services affects the ability of the designated operator to provide other universal services only indirectly. The key issue is the net revenue earned from outbound universal postal services, i.e., the difference between the cost of outbound service and the revenue from outbound postage rates charged to mailers. If postage rates for outbound universal services are well above cost,

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**278** Ibid. art. 7(3).

**279** In particular, designated operators in countries that have high wage levels (and thus high delivery costs) and receive large volumes of E-format items from China are more likely to experience losses than DOs with lower wage levels and a low share of inbound items from China.

**280** An Post, Regulatory Report 2019, p. 3.

**281** See An Post, Regulatory Report 2019, p. 6.

**282** Iceland Post, Annual Report 2017, p. 2 f.

then the designated operator will make a profit which can be used to reduce the need for increases in the rates of other universal services or a contribution by the Member State. On the other hand, if the designated operator cannot make a significant profit on outbound universal services — e.g., because of the risk of losing business to competitors — then outbound universal services will not have these positive effects. The effect of outbound universal services on meeting the universal service obligation depends primarily on pricing decisions of the designated operator, not the level of terminal dues paid to foreign designated operators.

In sum, terminal dues which are not aligned with equivalent domestic postage can cause a variety of distortions and anticompetitive effects. Low terminal dues for inbound letter post mail can shift added costs of the national postal network to domestic mailers, whereas high terminal dues can have the opposite effect. Either way, terminal dues which differ from equivalent domestic postage distort competition between domestic and foreign merchants and between designated operators and other providers of delivery services. Such distortions can also affect the provision of universal postal services required by the Postal Directive, but these effects, if any, depend on the scope of the universal service obligation and methods of allocating the costs and revenues of universal services in each Member State.

### 5.1.5 Conclusions

Delivery of inbound international letter post is a domestic postal service. If a designated operator charges foreign designated operators different rates than it charges domestic mailers and other international service providers for similar services, then the same economic distortions are presented that arise in the case of price discrimination between similar categories of domestic mailers.

The measure of the distortions is the difference between the amount that a designated operator charges for delivery of inbound mail and *equivalent domestic postage*, i.e., the postage that the designated operator charges for delivery of similar domestic mail. The UPU terminal dues system sets rates for delivery of inbound international letter post that vary much less than domestic postage rates. Since domestic postage rates vary immensely between countries, the relative uniformity of terminal dues implies large differences between terminal dues and equivalent domestic postage in most countries. Even where domestic postage rates are the same in the origin and destination countries, terminal dues will result in distortions if one designated operator exports more mail than it imports. Moreover, terminal dues also ignore other cost-based distinctions in domestic rates which facilitate efficient decisions by mailers.

Discrepancies between terminal dues and equivalent domestic postage rates imply a variety of distortions and anticompetitive effects. The terminal dues system favours some designated operators at the expense of other designated operators. Low-cost designated operators benefit at the expense of high-cost designated operators, and net exporters benefit at the expense of net importers. Merchants posting e-commerce goods to industrialised countries are advantaged while domestic merchants in those countries are disadvantaged. Low terminal dues for inbound letter post mail can shift costs of the national postal network to domestic mailers, whereas high terminal dues can have the opposite effect. Terminal dues which differ from equivalent domestic postage also distort competition between designated operators and other providers of delivery services. Such distortions can affect the provision of universal postal services required by the Postal Directive, but these effects, if any, depend on the scope of the universal service obligation and methods of allocating the costs and revenues of universal services in each Member State.



## 5.2 A terminal dues model

To evaluate the effect of terminal dues on the letter post exchanged between two designated operators, DO-A and DO-B, an ideal quantitative analysis would be based on the following information:

- the volumes of P, G, and E-format letter post items that DO-A sends to DO-B and that DO-B sends to DO-A, with the volumes and average weights of each flow broken down according to the weight steps used to determine domestic postage;
- the terminal dues per item that DO-A pays to DO-B for delivery of inbound letter post and, likewise, the terminal dues that DO-B pays to DO-A;
- the equivalent domestic postage per weight step that DO-A would have charged domestic mailers for delivery of letter post items similar to those items received from DO-B and visa versa.

To assess the effects of terminal dues on a specific designated operator, the data for all incoming and outbound bilateral flows of mail would then be combined.

An ideal analysis is impossible, however. Most of the required information is not publicly available. Our analysis is therefore developed from a spreadsheet ‘model’ of the international terminal dues system that is based on UPU studies and statistics supplemented by additional WIK research. The model cannot reliably estimate the effects of terminal dues on individual countries because detailed information about the bilateral flows of inbound and outbound letter post is unavailable, and in many cases the total inbound and outbound flows can only be roughly estimated. Nonetheless, a model can provide useful insights into the types and levels of distortions that are implied by the UPU terminal dues system.

The *first step* in building a model is developing a rough estimation of total inbound and outbound letter post flows by country. The volume of outbound and inbound letter post mail in 2018 has been estimated for each EEA Member State and for as many other countries as possible using data from several sources. The UPU maintains an online database of inbound and outbound letter post volumes for each country, but this data set is incomplete. Several of the largest designated operators, both European and non-European, do not report volume information to the UPU. In sum, the UPU database includes reasonably credible outbound letter post volumes for 2018 (or 2016 or 2017) for about 78 of the UPU’s 192 member countries and inbound letter post volumes for about 102 member countries. In addition to individual country data, the UPU publishes annual estimates for total outbound letter post volume of (i) all industrialised countries, (ii) developing countries in five geographic regions,<sup>283</sup> (iii) the EU-15 group of countries, and (iv) the EU-27 group of countries (including the UK but excluding Croatia). These regional figures include estimates for countries for which individual national data are missing in the UPU public statistical database.

In addition to the UPU data, WIK has used data from a survey of designated operators and regulatory/governmental authorities distributed in December 2019. There were 31 countries in the survey: 28 EU countries (then including the United Kingdom), and 3 additional EEA countries (Iceland, Liechtenstein, and Norway). The survey provided inbound and outbound data for (1) the entire letter post, (2) E-format items, (3) postal parcels, and (4) packages (i.e., small packets plus parcels) from about 20 designated operators (DOs) and about 25 national regulatory authorities (NRAs). Response rates

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<sup>283</sup> The geographic regions are Sub-Saharan Africa; South, Central America & Caribbean; Asia-Pacific; Eastern Europe and Central Asia; North Africa and Middle East.

varied by question. The survey also requested breakdowns of volumes according to certain geographic regions including intra-EEA, extra-EEA, US, and China. Overall, the survey data was substantially more complete than the UPU data for EEA countries. Nonetheless, several major designated operators declined to provide data or provided data that appeared incomplete. In key countries, it was impossible to distinguish between the volume of outbound letter post that originated in the country and the volume of letter post, if any, which originated from other countries (re-mail or ETOEs or other consolidators). In several cases data from the DOs and the NRAs appeared inconsistent. In general, the WIK model relies upon the DO data where available.

Finally, WIK collected additional volume data from the European Postal Regulators Group and annual reports or other publications of major designated operators and/or regulatory authorities (both in and outside of the EEA).

In sum, WIK developed reasonably plausible estimates of outbound letter post volumes for 118 countries (including all Group I countries) and Hong Kong (a separate territory of China in UPU statistics) and inbound letter post volumes for 135 countries. These figures probably represent more than 98% of the world's mail. WIK's estimates for the volumes of inbound and outbound letter post at the national level are in many cases only approximate, but in sum this data appears more complete than global and regional estimates of the UPU. The total estimate for outbound volume in 2018 is 3.5 billion, and the total estimate for inbound letter post volume is 4.8 billion items.

The *second step* in developing the terminal dues model is an analysis of the *structure* of inbound and outbound letter post flows between terminal dues groups. This refers to estimates for —

- the proportion of world letter post exchanged in each direction between each bilateral pair of the four UPU terminal dues groups;
- the proportion of P-format, G-format, and E-format items exchanged between each bilateral pair of the four UPU terminal dues groups; and
- the average weight of P-format, G-format, and E-format items exchanged between each bilateral pair of the four UPU terminal dues groups

This analysis is derived from two recent UPU studies: the 2018 IPK Study<sup>284</sup> and the 2019 Flows Study.<sup>285</sup> For example, the IPK Study concludes that flows between countries in Group I (industrialised countries) were composed of 65% P-format small documents, 13% G-format large documents, and 22% E-format items (goods and bulky documents, including registered and tracked items), with average weights of 18, 125, and 299 grams, respectively. In our model, therefore, each flow between two Group I countries is assumed to have these characteristics. This approach is necessarily approximate. In actual

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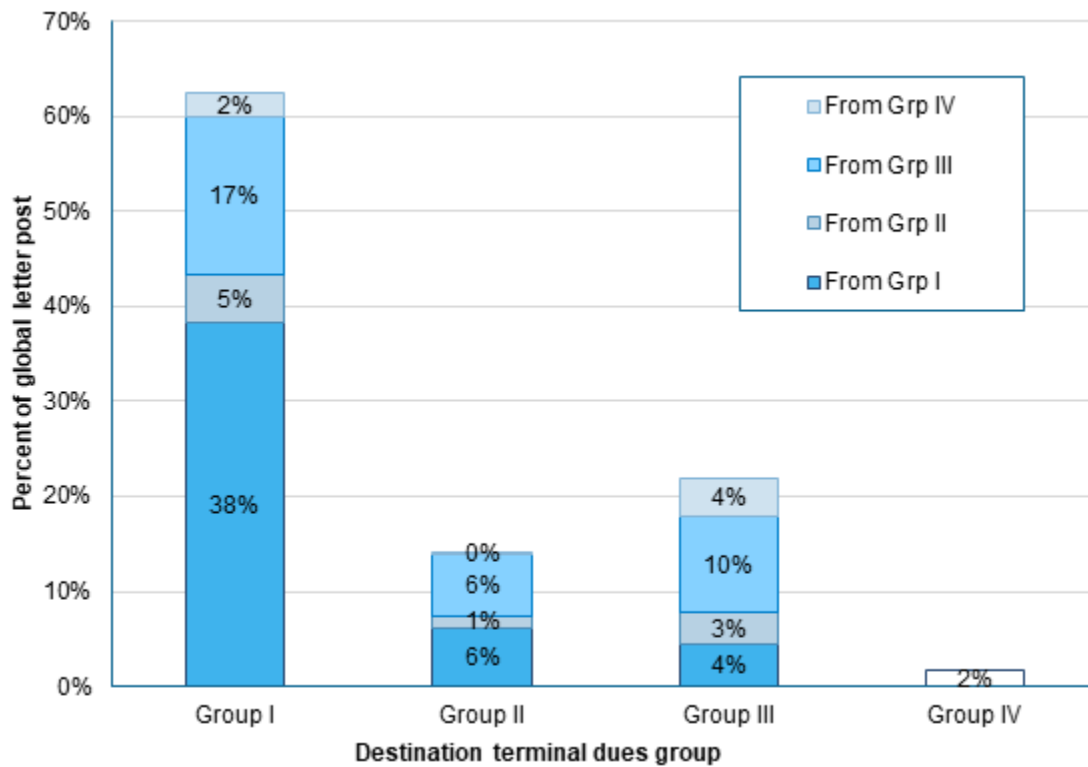
<sup>284</sup> The 2018 IPK Study (items per kilogram) analyzes the structure of the letter post exchanged between terminal dues groups in each direction. For each pair of terminal dues groups, the 2018 IPK study determined, inter alia, the division of the letter post between documents and goods and the proportion P, G, and E formats in each category. Moreover, the IPK study calculated the average weight documents and goods by format. The 2018 IPK study was based on data submitted by 45 countries, including 16 industrialised countries. Data was collected on inbound, not outbound mail, so the effects of incomplete participation are minimised (countries probably receive similar mixes of letter post on average even if they send out different mixes individually). UPU, POC C2 2019.1 Doc 4a Issues relating to the Remuneration Integration Group — Update of the results of the IPK Study (28 Feb. 2019).

<sup>285</sup> The 2019 Flows Study calculated the proportions of priority mail, non-priority mail, supplemental service mail (registered or tracked) for each pair of terminal dues groups. Unlike the IPK study, the Flows Study is based weight rather than volume. The Flows Study was based on inbound data submitted by 62 designated operators, including 13 industrialised countries. Data was collected on inbound, not outbound mail. UPU, POC C2 2019.2 Doc 4a, Issues relating to the Remuneration Integration Group — Results of the mail flow study (14 Oct. 2019).

practice, countries exchange different proportions of mail with different countries, and the allocation of mail by content (documents v. goods) and format (P, G, and E formats) likewise varies. The relative proportions of letter post volume exchanged between pairs of terminal dues groups is derived by combining the relative weights of flows set out in the Flows Study with the average weights per flow developed in the IPK Study. In the model, the proportions of international letter post dispatched or received by each country in exchange with each different terminal dues group are assumed to be the same as for the associated pair of terminal dues groups. For example, France is in Group I. Seventeen percent of the letter post sent to Group I countries comes from Group III countries, so it is assumed that 17% of the letter post received by France comes from Group III countries.

The 30 EEA countries are assigned to three terminal dues groups by the UPU. Seventeen Member States (AT, BE, DK, FI, FR, DE, EL, IE, IT, LU, NL, PT, ES, SE, IS, LI, NO) are in Group I. Group II includes 10 less economically advanced Member States (HR, CY, CZ, EE, HU, LV, MT, PL, SK, SI). Group III includes 3 Member States (BG, LT, and RO). Pursuant to the foregoing structural analysis, WIK estimates that the Group I countries account for about 87% of EEA inbound letter post. The 10 Group II countries account for about 11% of inbound letter post, while the 3 Group countries account for 2%.

Figure 34 Allocation of global letter post flows by pairs of terminal dues groups

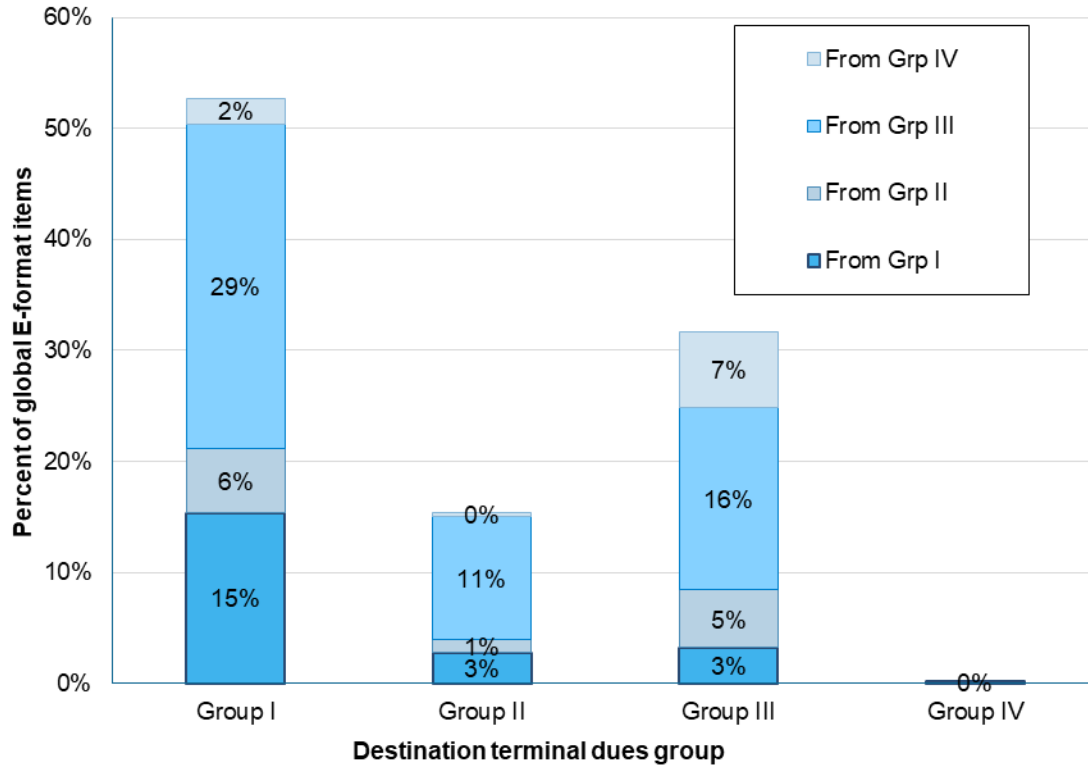


Source: WIK analysis of UPU, POC C2 2019.1 Doc 4a Issues relating to the Remuneration Integration Group — Update of the results of the IPK Study (28 Feb. 2019); POC C2 2019.2 Doc 4a, Issues relating to the Remuneration Integration Group – Results of the mail flow study (14 Oct. 2019).

The IPK and Flows Studies imply the division of global inbound and outbound letter post flows by origin and destination terminal dues group shown in Figure 34. As the first column shows, Group I accounts for about 62% of all inbound letter post. Adding up the Group I segments in all columns indicates that Group I accounts for about 49% of all outbound letter post. Relative flows of documents and E-format items between terminal

dues groups are very different. For example, Group I countries receive 2% of all international letter post documents from Group III countries, but 29% of all E-format items. The allocation of global E-format flows by pairs of terminal dues groups is shown in Figure 35.

Figure 35 Allocation of global E-format flows by pairs of terminal dues groups



Source: WIK analysis of UPU, POC C2 2019.1 Doc 4a Issues relating to the Remuneration Integration Group — Update of the results of the IPK Study (28 Feb. 2019); POC C2 2019.2 Doc 4a, Issues relating to the Remuneration Integration Group – Results of the mail flow study (14 Oct. 2019).

In addition, the IPK and Flows studies provide, for each flow between pairs of terminal dues groups, the breakdown of letter post volume according to format (P, G, and E) and give the average weight for each format. As noted above, the letter post flow from Group I to Group I consist of 65% P-format documents, 13% G-format documents, and 22% E-format items with average weights of 18, 125, and 299 grams, respectively. In contrast the letter post flow from Group III to Group I consists of 2% P-format documents, 2% G-format documents, and 96% E-format items with average weights of 15, 46, and 144 grams, respectively. In short, the letter post from Group III countries to Group I countries is almost all lightweight e-commerce goods. As explained below, this information is crucial to calculation of terminal dues and equivalent domestic postage.

The *third step* in building the terminal dues model is collection of domestic postage rates. Domestic postage rates for 2019 are taken from a 2019 UPU survey<sup>286</sup> and the UPU

<sup>286</sup> UPU, TD\_Impact\_tool\_v31.07.2019 (31 Jul. 2019) (an analysis of the effects of alternative proposals for self-declared rates including a survey of domestic postage for E-format items); TD\_Tariff\_study\_Workspace - Editable (21 May 2019) ( a survey of domestic tariffs).

notices of terminal dues in 2020 and 2021,<sup>287</sup> supplemented by additional WIK research. These sources yielded reasonably plausible 2019 domestic postage rates for PG documents in 100 countries and for E-format items in 124 countries. However, the countries for which domestic postage rates are available are not always the same as the countries for which inbound and outbound letter post volumes are available. Taking both lists into account, the terminal dues model is based on 93 countries for which both volume estimates and domestic postage data are available. These countries almost certainly account for well over 95% of global postal volume.

These domestic postage rates are provided according to standard UPU weight steps. In the model, these weight step rates are converted to linear equivalents (per item and per kilogram rates) for ease of calculation.<sup>288</sup> It is further assumed that domestic postage rates will increase by 3 percent per year from 2020 through 2025. For each destination designated operator, it is assumed that 70% of the retail domestic postage is the appropriate compensation for the delivery service provided for inbound letter post, i.e. the 'equivalent domestic postage'. This is the assumption adopted by the UPU in its terminal dues provisions.

The *fourth step* in preparing the terminal dues model is derivation of terminal dues rates. The normal (i.e., not 'self-declared') terminal dues rates for 2020 and 2021 were established by the 2016 UPU Convention as amended by the 2019 Geneva Extraordinary Congress. The normal terminal dues rates for 2022 through 2025 are assumed to be those proposed by the Postal Operations Council and Council of Administration in February 2020, even though these rates must still be approved by the Abidjan Congress.<sup>289</sup> For each country the terminal dues rates are first calculated from domestic postage rates and then constrained by cap and floor rates in the same manner as used by the UPU.

Self-declared terminal dues used in the model are determined as follows. The model incorporates the self-declared rates announced by the UPU for (1) E-format flows to and from the US beginning 1 July 2020 and (2) for E-format items both to/from the US and from non-US countries beginning 1 January 2021.<sup>290</sup> It is assumed that the self-declared rates for E-format items sent to/from the US will increase in 2022 through 2025 by the same amount as annual increases in domestic postage rates (assumed to be 3%).<sup>291</sup> For self-declared rates for E-format items not sent to or from the US, it is assumed that rates

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**287** Domestic postage rates for 2019 are provided in UPU, IB Circular 113/2019, Provisional 2020 quality of service—linked terminal dues rates (1 Jul. 2019, updated 16 Dec. 2019) (P 20-gram and G 175-grams rates for almost all UPU countries) and IB Circular 51/2020 (1 Jul. 2020) (E-format rates for all weight steps for 31 countries introducing self-declared rates on 1 July 2020 for items sent to/from the US). Domestic postage rates for 2020 are provided in UPU, IB Circular 97/2020 (13 Jul. 2020) (P 20-gram and G 175-grams rates for almost all UPU countries and E-format rates for all weight steps for 40 countries introducing self-declared rates on 1 January 2021 for items sent to/from the US or from other countries). In general, the domestic postage rates in terminal dues notices appear to be the most reliable.

**288** The standard UPU weight steps are as follows. P-format: 0-20 grams, 20-50 g, 50-100 g. G-format: 0-20 g, 20-50 g, 50-100 g, 100-250 g, 250-500 g. E-format: 0-20 grams, 20-50 g, 50-100 g. G-format: 0-20 g, 20-50 g, 50-100 g, 100-250 g, 250-500 g, 500-1000 g, 1000-2000 g. In calculating the linear regression, it was assumed that the average weight for each weight step was the mid-point weight except for the first step. For the first weight step, the average was as assumed to be 13 g (P), 16 g (G), and 15 g (E), as indicated in UPU, POC C2 2019.1 Doc 4a Issues relating to the Remuneration Integration Group — Update of the results of the IPK Study (28 Feb. 2019).

**289** UPU, 2020 Abidjan Congress Doc 36 (20 Mar. 2020).

**290** UPU, IB Circular 51/2020 (30 Mar. 2020) and 97/2019 (13 Jul. 2020).

**291** It should be noted, however, that under the 2016 UPU Convention, a designated operator may, by bilateral or multilateral agreement, apply other payment systems for the settlement of terminal dues. It appears that these bilateral and multilateral agreements have largely replaced the self-declared rates adopted pursuant to the 2019 amendments to the 2016 UPU Convention. See section 4.10, above.

will also increase in 2022 to 2025 by the same amount as annual increases in domestic postage rates but subject to (i) the limits on annual increases in terminal dues for 158-gram items specified in the 2019 UPU Convention and (ii) the restriction on changing the item-to-kilogram ratio by more than 5% per year. The model makes no assumptions about additional countries that may choose to introduce self-declared rates after 2021.

The *final step* is calculation of differences between terminal dues charges and equivalent domestic postage for individual countries using these four datasets. For example, assume that country X is in terminal dues Group I. It is assumed country X receives inbound letter post from the four UPU terminal dues groups in the same proportions as the UPU has found for Group I countries generally and that the letter post received from each terminal dues group is distributed among the three formats (P, G, and E) and have the same average weights per format as the UPU has determined for Group I countries collectively. The volumes and average weights — for P, G, and E format items broken down by origin TD group item — is sufficient to calculate the amount that country X will charge for delivery of inbound letter post using the linear rates for terminal dues (either normal or self-declared) and, similarly, the linear versions of equivalent domestic postage. In each case, separate charges are calculated for PG documents and E-format items. For country X the undercharge (or overcharge) for delivery of inbound letter post implied by the UPU terminal dues system is the total equivalent domestic postage less the total terminal dues charges.

For outbound letter post, it is assumed that country X dispatches letter post to the four UPU terminal dues groups in the same proportions and with the same structural characteristics as found for Group I countries generally. For outbound flows, the terminal dues rates and linear versions of equivalent domestic postage are assumed to be an average of all countries in each terminal dues group.<sup>292</sup> Again, separate charges are calculated for PG documents and E-format items for each destination terminal dues group, and the undercharge (or overcharge) is calculated as the total domestic postage less the total terminal dues charges.

At the outset, it should be noted the global data on letter post volumes presents a threshold challenge. There appears to be a substantial discrepancy between plausible estimates of the global outbound and inbound letter post volumes, although the size, and even the existence, of this gap is obscured by the fuzziness of both outbound and inbound volume data. Estimates of the total volume of outbound international letter post are provided by the UPU annually. As noted above, these estimates are broken down according to several economic and/or geographic groupings. These estimates include uncertain guesses for several of the largest designated operators.<sup>293</sup> Moreover, they likely understate outbound volumes because of the increasing prevalence of remail and ETOEs, volumes which several designated operators regard as commercially sensitive.<sup>294</sup>

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<sup>292</sup> The outbound averages, weighted by volume, are calculated for the 93 countries for which there exists inbound and outbound letter post volume and domestic postage rates for at least E-format items. These averages are approximate because data for many small countries is unavailable. However, given the other estimations and assumptions required for this model, it is unlikely that the incompleteness of this data significantly affects the results.

<sup>293</sup> The UPU Statistics database includes reasonably credible outbound letter post data for 2018 (or 2016 or 2017) for about 78 of the UPU's 192 member countries and inbound letter post for about 102 member countries. However, several of the largest designated operators, both European and non-European, do not provide data for this survey. Lack of cooperation from the major designated operators seriously undermines the reliability of UPU data since the top 20 designated operators account for about 90% of outbound letter post.

<sup>294</sup> Since 2000 several large designated operators have become multinational enterprises, which collect documents and packages from mailers in many countries, often operating through subsidiaries and joint

The UPU's estimate of total outbound letter post in 2018 is 3.6 billion items. However, WIK's survey of the EU and EEA countries suggests that the total outbound volume of industrialised countries in 2018 was about 2.3 billion (including the UK), significantly higher than the UPU's estimate (1.9 billion).<sup>295</sup> WIK's estimate appears to include some, but not all, foreign-origin remail and ETOE mail handled by European designated operators. Combining WIK's estimate for industrialised countries with the UPU's estimates for other economic/geographic groupings implies a total outbound volume in excess of 4.0 billion.

Inbound volume data is also uncertain. Although the UPU does not estimate global inbound volumes, adding together the national inbound volumes reported to the UPU<sup>296</sup> and other estimates by WIK results in a total inbound volume of 4.9 billion letter post items. Among postal officials, inbound volume data is traditionally considered unreliable because designated operators do not count directly the number of inbound postal items received. Instead, they record the weight of inbound mail and estimate the volume using approximate, often out-of-date, figures for the average weight per item. The usual supposition is that inbound volumes are overstated, but there is no way to confirm this. What is clear is that a large fraction of international letter post is now subject to terminal dues based on both volume and weight, so volume estimates for this mail should be reasonably accurate given the financial implications.

The IPK and the Flows Studies provide another way to estimate total global letter post volumes. In combination, these studies imply that the Group I countries accounted for 49.4% of global outbound letter post and 62.5% of global inbound letter post. The WIK estimates for 2018 outbound and inbound letter post volume for Group I countries are 2.30 and 3.40 billion.<sup>297</sup> These figures imply that the total volume of international letter post in 2018 was between 4.7 billion (outbound) and 5.4 billion (inbound) items.

These estimates highlight the uncertain status of international postal statistics. The total letter post volume can, with some plausibility, be estimated at anywhere from 3.6 to 5.4 billion items. Based on currently available information, the most likely total seems to be in the range of 4.0 to 5.0 billion. This is substantially higher than outbound estimates of the UPU's International Bureau (3.6 billion) or the sum of WIK's estimate of the outbound volume of the industrialised countries plus the UPU's estimate of outbound volume for other countries (4.0 billion). It appears that a substantial portion of the international postal system is — like the 'dark matter' of modern physics — incapable of analysis or description using traditional tools. Presumably, this postal traffic is 'dark' only in the sense that it is provided via remail and ETOEs that are not included in national outbound postal

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ventures. Such foreign-origin origin mail appears to be substantially underreported in official accounts, either for reasons of commercial sensitivity or the limited focus of national regulators.

**295** In addition to individual country data, the UPU publishes annual estimates for total outbound letter post volume of (i) all industrialised countries, (ii) the EU-15 group of countries, and (iii) the EU-27 group of countries (including the UK but excluding Croatia). These regional figures include estimates for countries for which individual national data are missing in the UPU public statistical database. In addition to the UPU data, WIK has used data from its survey designated operators and national regulatory authorities as well as from the European Postal Regulators Group and annual reports or other publications of designated operators. WIK's final estimates for the volumes of inbound and outbound letter post of the industrialised countries are still only approximate, but they appear to be more accurate than the overall estimates of the UPU.

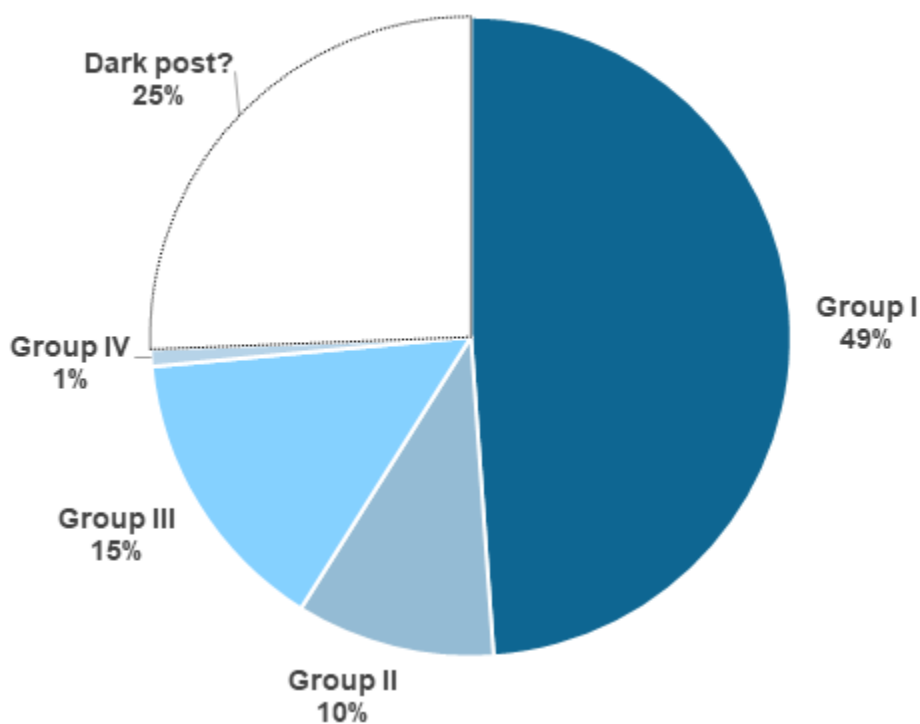
**296** The UPU Statistics database includes reasonably credible outbound letter post data for 2018 (or 2016 or 2017) or about 137 of the UPU's 116 member countries, including only 12 of 28 industrialised countries.

**297** As explained above, the WIK estimates are derived from several sources including UPU statistics, the WIK survey of EEA member states, ERGP data, and a review of publications by the designated operators and regulatory authorities.

statistics.<sup>298</sup> In total, the dark post might account for anywhere between 0.5 to 1.5 billion letter post items annually. Such estimates of the dark post volume offer the only means of estimating the total volume of remail and ETOE mail since designated operators providing these services generally consider such data commercially sensitive and non-public.

As noted above, the WIK terminal dues model is based on data from 93 countries for which both volume estimates and domestic postage data are available. According to available data, the total outbound letter post volume for these countries in 2018 was 3.5 billion, and the total inbound volume was 4.7 billion. This implies a 'dark post' volume of 1.2 billion, 25.6% of total global volume. See Figure 36.<sup>299</sup>

Figure 36 Outbound letter post volume, 2018 (WIK model)



Source: WIK estimates.

To summarize, to evaluate the quantitative effects of the UPU terminal dues system, WIK has developed a mathematical 'model' that estimates differences between terminal dues payments and equivalent domestic postage (assumed to be 70% of retail domestic postage rates) for flows in and out of 93 countries, including all EEA countries. WIK believes that these countries collectively account for at least 95% of global letter post volume. The WIK model is based on estimates of inbound and outbound letter post volumes for individual countries in 2018. While individual country estimates appear

<sup>298</sup> Based on answers to WIK's survey of the designated operators and comparisons between data reported to the UPU and volumes reported in annual reports of some designated operators, it appears that letter post volumes dispatched by ETOEs and/or received as remail and forwarded are often excluded from the individual country statistics reported to the UPU.

<sup>299</sup> This surmise is given some further support by an observation of a senior postal official made during the course of this study. This official estimated that about 30% of inbound mail is now remail, i.e., mail which is dispatched by a designated operator other than the designated operator in the country where the sender resides. The official also noted that only a negligible portion of this remail is channeled through Group IV countries; virtually all of it is forwarded by designated operators in industrialised countries.



credible, when viewed at a global level it is evident that these volume estimates must be incomplete or incorrect because total inbound volume, 4.7 billion, is about 25% greater than total outbound volume, 3.5 billion (including intra-EEA cross-border volumes)). This discrepancy implies a 'dark post' volume (volume of unknown origin) of about 1.2 billion letter post items. Moreover, in the absence of country-level data, the characteristics and distribution of national inbound and outbound flows must be approximated by using broad averages derived from UPU studies. Data on domestic postage rates, mostly from UPU reports, is more reliable but still imperfect. To project this model into the future, WIK has assumed that volumes will remain the same from 2018 through 2025 and that domestic postage rates will increase annually by 3%. These are, of course, not predictions but simplifying assumptions used to generate comparative results.

More generally, it must be emphasized that the WIK model cannot accurately determine differences between total terminal dues and total equivalent domestic postage charges for individual countries either currently or in the future. For a *single* document or small packet of a given weight, differences between terminal dues and equivalent domestic postage (assumed to be 70% of retail domestic postage) can be accurately calculated because the necessary input data is readily available and non-controversial (for the most part). However, calculations of total volumes, total terminal dues, and total equivalent domestic postage depend upon inputs which drawn from imperfect and incomplete datasets, rough estimates, and simplifying assumptions. In some cases, the best available data seems plainly incorrect. With respect to total effects, therefore, the WIK model must be interpreted as only one of several plausible 'models' of the effects of global postal flows that can be constructed from the incomplete data currently available. The model can usefully illuminate the overall implications of terminal dues and future trends, but calculations of total quantities must be considered as illustrative estimates rather than firm figures.

### 5.3 Effects of terminal dues on EEA designated operators

According to the data collected by WIK from the questionnaire and annual reports, the 30 EEA designated operators (excluding the UK) imported about 2.0 billion letter post items in 2018 and exported about 1.5 billion letter post items. E-format items comprise about 34% of inbound letter post: 664 million PG documents and 295 million E-format items. For the outbound letter post, E-format items make up 29% of all items: 839 million PG documents and 345 million E-format items. In contrast, in the terminal dues model, the volumes of outbound and inbound letter post are taken from the WIK survey but the percentages of E-format items are derived from the UPU's IPK and Flows Studies rather than responses to the WIK survey. In the model, the E-format items comprise about 49% of inbound letter post (1.03 billion PG documents and 980 million E-format items) and 28% of outbound (852 million PG documents and 332 million E-format items). While the outbound estimates agree closely, the model implies that the percentage of E-format items in the inbound letter post is substantially higher than reported in the survey (49% versus 34%).

In the following discussion, the *allocation* of letter post volumes between PG documents and E-format items for the purposes of calculating terminal dues and equivalent domestic postage is derived from the terminal dues model rather than the results of the WIK survey. The results of the WIK survey are highly dependent on the answers of a small number of large designated operators.<sup>300</sup> Several of these designated operators operate substantial international networks of ETOEs and mail forwarding services; some declined to provide

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<sup>300</sup> According to the WIK survey, the top five designated operators account for 63% of inbound letter post (81% of inbound E-format items) and 69% of outbound letter post (90% of outbound E-format items).

detailed data in the survey. It is possible that international letter post flows to and from EEA Member States differ significantly from global averages developed by the UPU, but it appears more likely that the WIK survey results are adversely affected by inconsistent approaches in accounting for ETOE and remail traffic and WIK's use of multiple sources to fill out incomplete responses.<sup>301</sup> Since neither approach is fully satisfactory, it must be emphasised that the following quantitative analysis offers rough approximations only.

For the same reasons, conclusions concerning the division of letter post volumes between intra-EEA flows and flows to/from the rest of the world must be viewed with caution. The WIK survey suggests that intra-EEA flows account for 67% of inbound letter post and 44% of inbound E-format items. For outbound services, the figures are 73% of letter post items and 74% of outbound E-format items. These figures are not implausible, but they must be considered approximations.

### 5.3.1 Terminal dues in 2020

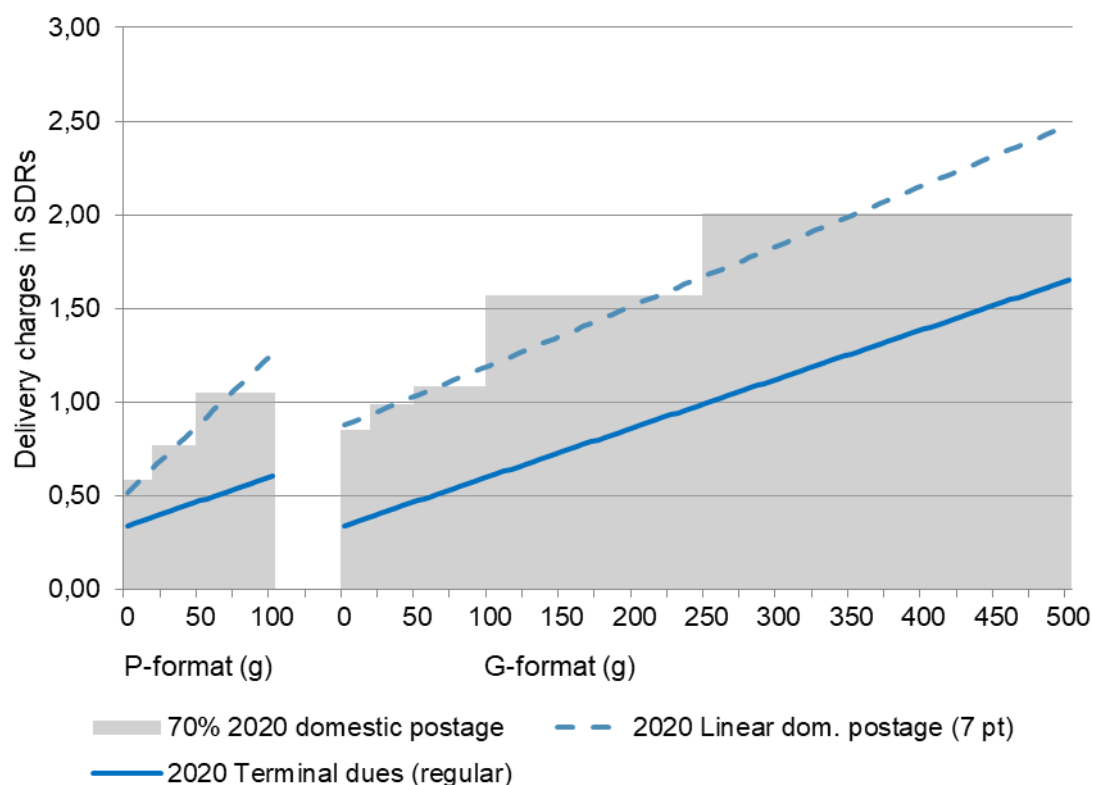
If the UPU terminal dues system were applied to inbound EEA postal flows,<sup>302</sup> EEA designated operators would, on average, substantially undercharge for the delivery of inbound letter post in comparison with domestic postage for similar services. Figure 37 and Figure 38 compare normal (not self-declared) terminal dues and 70% of domestic postage rates in 2020 using averages for all EEA designated operators weighted by estimated inbound volumes.

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**301** In the WIK survey less than half of the estimated total volume of inbound E-format items is based on data provided by directly designated operators. Although the survey also used data provided by national regulatory authorities, the two data categories differ, so the regulatory data was adjusted by estimated factors. Moreover, the UPU expanded the definition of E-format items beginning in 2018 to include goods in P and G formats as well as bulky letters. The UPU also includes insured and registered items in its count of E-format items. It is possible that data from designated operators and national regulatory authorities failed to reflect the new UPU definition, while the UPU's IPK study explicitly takes into account the new UPU definition. For purposes of the model, the relevant definition is the expanded definition of E-format items because this is the basis for E-format terminal dues beginning in 2018.

**302** As noted in Section 4.10, it is impossible to determine to what extent EEA designated operators actually charge UPU terminal dues rates for delivery of inbound letter post because alternative remuneration agreements are non-public. Nonetheless, the UPU terminal dues system affects all alternative remuneration agreements for better or worse because it is generally believed — in the absence of self-declared rates — that UPU terminal dues rates serve as the legal default in the absence of an alternative agreement. An evaluation of the distortions implied by the UPU terminal dues system should therefore be taken into account in the approach of EU and its Member States towards future UPU terminal dues arrangements.

Figure 37 PG-format: terminal dues v. 70% domestic postage, 2020



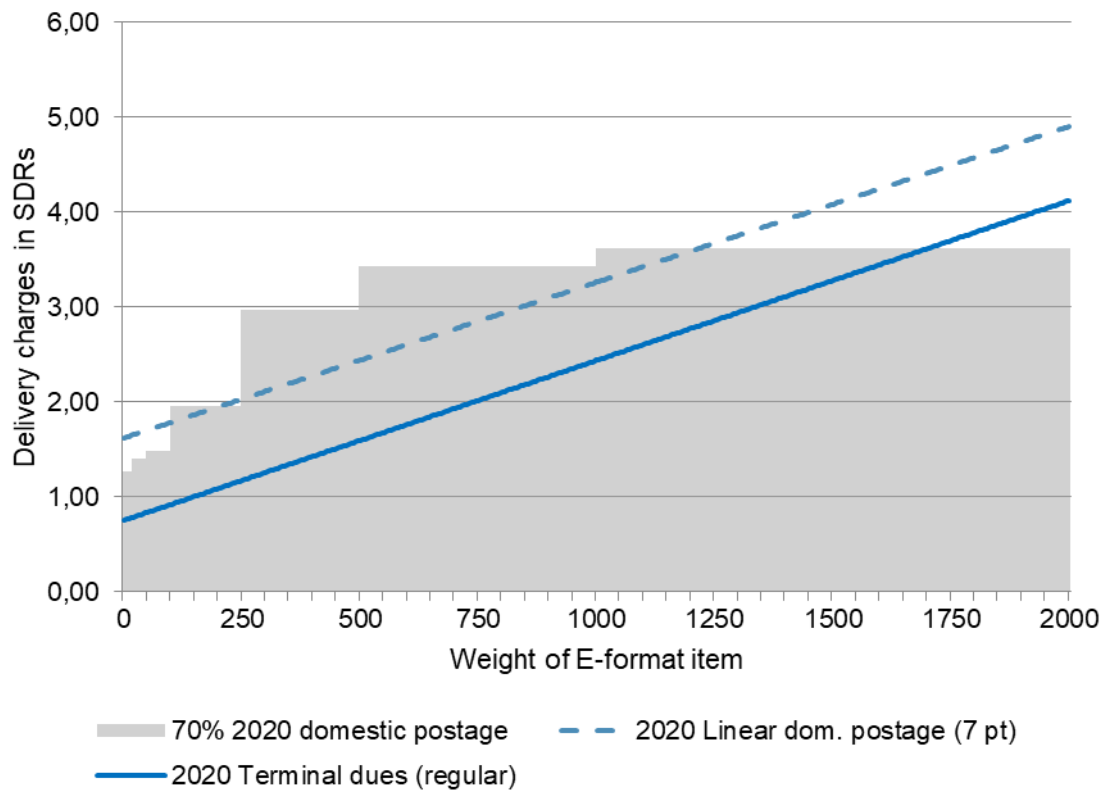
Source: WIK estimates.

Figure 37 shows the approximate difference between normal terminal dues payments and 70% of domestic postage for small letters (P-format) and large documents in flat envelopes (G-format). The grey area shows a weighted average of 70% of the retail domestic postage rates for P- and G-format items using the standard weight steps recognised by the UPU.<sup>303</sup> The dashed lines show a linear regression of these weight step rates. The solid lines show the terminal dues rates. It is apparent that, over most of the weight range of P- and G-format items, UPU compensation for inbound delivery is well below the level of domestic postage that, according to the UPU, should be equivalent to terminal dues. For a typical small letter (P) weighing 18 grams, EEA designated operators are charging foreign mailers about SDR 0.38 for delivery, compared to SDR 0.63 for delivery of similar domestic letters, an effective discount of 40%.<sup>304</sup> For a typical large envelope (G) weighing 113 grams, the discount is about 49% (SDR 0.63 compared to 1.23). According to the model, the total undercharge for delivery of 1.03 billion inbound PG documents in 2020 (received from both EEA Member States and non-EEA countries) is estimated to be approximately SDR 331 million, a 43% discount or about SDR 0.32 per document.

<sup>303</sup> Domestic postage rates have been weighted according estimated inbound letter post volumes in 2018.

<sup>304</sup> This estimate reflects average values weighted according to WIK survey data and other research. As noted above, the model, which is based on global UPU studies of international postal flows, implies somewhat different compositions for inbound letter post and therefore somewhat different weightings.

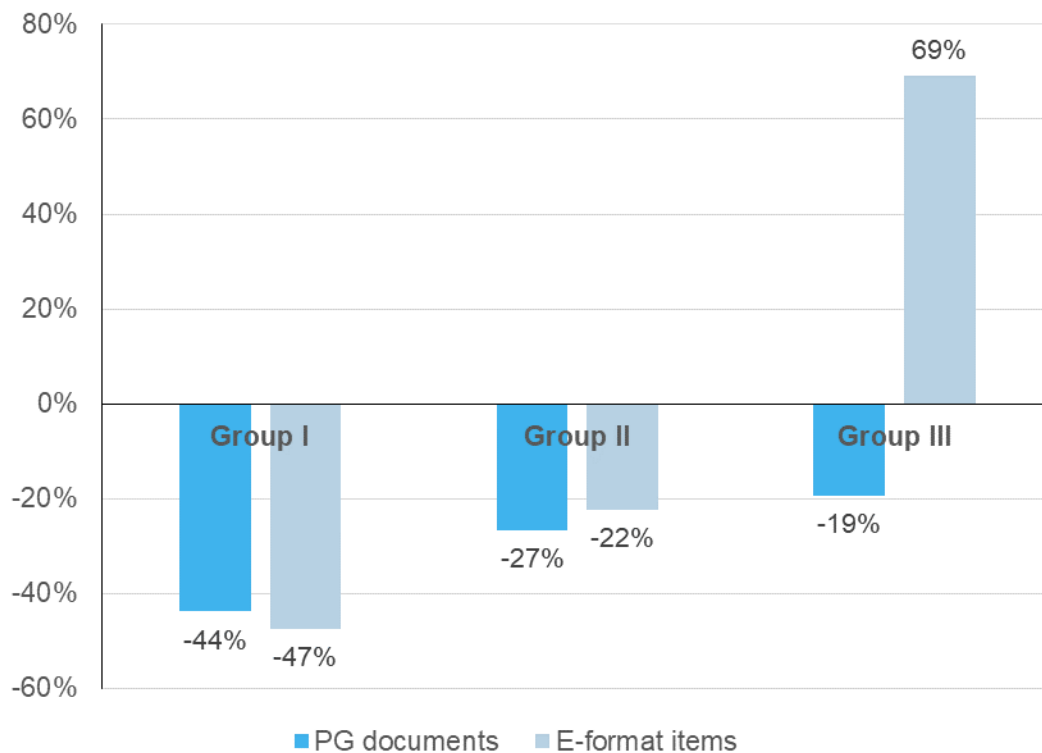
Figure 38 E-format: regular terminal dues v. 70% domestic postage, 2020



Source: WIK estimates.

Figure 38 shows the approximate differences between terminal dues payments and 70% of domestic postage for E-format items — small packets (goods of any shape), bulky letters, and registered or tracked items. As in the previous figure the grey area shows a weighted average of 70% of retail domestic postage rates of EEA designated operators. The dashed line shows a linear regression of these weight step rates. And the solid blue lines show the terminal dues rates. For a typical E-format item, weighing 158 grams, EEA designated operators are charging foreign mailers about SDR 1.02 per item for delivery compared to SDR 1.88 for delivery of similar domestic E-format items, an effective discount of 46%. According to the model, application of normal terminal dues (after the 2019 amendments) implies a total undercharge for delivery of 980 million inbound E-format items in 2020 (received from both EEA Member States and non-EEA countries) of approximately SDR 815 million, an average 43% discount or about SDR 0.83 per item. The introduction of self-declared rates in some Member States for delivery of US-origin E-format items beginning 1 July 2020 will reduce the undercharges slightly (SDR 8 million) implying a discount to 44% or SDR 0.82 per item.

Figure 39 EEA inbound letter post: terminal dues v 70% domestic postage, 2020



Source: WIK estimates.

Note: Terminal dues for inbound E-format items include self-declared rates for items received from US after 1 July 2020.

As described in chapter 4, on 1 July 2020, designated operators were able to introduce self-declared rates for E-format items sent to or from the United States. Thirty-one designated operators announced self-declared rates under this system. The US Postal Service introduced self-declared rates equal to 70% of domestic postage for delivery of all inbound E-format items (except those in letter post flows below UPU specified weight thresholds). Thirty designated operators introduced self-declared rates for delivery of E-format items received from the US: 17 EEA designated operators (AT, BE, DE, DK, EE, FI, FR, EL, HR, IE, IT, LU, NL, NO, PL, PT, and SE) and 13 non-EEA designated operators (including those from the UK and Switzerland).<sup>305</sup> For E-format items sent from the EEA to the United States, terminal dues will increase by about 146% for a typical 158-gram E-format item, whereas terminal dues for E-format items sent from the US to the 17 EEA countries introducing corresponding self-declared rates will increase by about 84%. Assuming continuation of 2018 volumes, in the second half of 2020 EEA designated operators will pay the US Postal Service approximately SDR 17 million more for delivery of E-format items (compared the first half of 2020). In the same period, EEA operators will collect about SDR 8 million more for delivery of E-format items received from the US.<sup>306</sup>

<sup>305</sup> The other 11 designated operators that introduced self-declared rates for inbound E-format items received from the United States are those from Argentina, Australia, Benin, Brazil, Canada, Chile, Japan, New Zealand, Sierra Leone, Suriname, and Uruguay.

<sup>306</sup> In these estimates, it is assumed that the self-declared rates announced by International Bureau in 51/2020 (30 Mar. 2020) are in effect for the second half of 2020 and the normal E-format terminal dues rates (as adjusted by the Geneva Extraordinary Congress) are in effect for the first half of 2020. According to the WIK survey, the US accounts for about 6.0% of outbound EEA E-format items and 2.2%

In sum, in 2020 the US-only self-declared rates will not materially affect the total undercharges for E-format items received or sent by EEA designated operators.

These undercharges for delivery of inbound E-format items do not affect all EEA Member States equally. Undercharges depend on the level of domestic postage rates. Terminal dues (including self-declared rates where applicable) are less of a burden for countries with lower domestic postage rates. For the 17 Group I EEA countries, total undercharges implied by terminal dues in 2020 are about SDR 1.1 billion based on undercharging for delivery of inbound PG documents of 44% and E-format items of 47%. Group II countries (27% discount for inbound documents and 22% discount for inbound E-format items) will experience a shortfall of about SDR 47 million. For the 3 Group III countries, terminal dues will exceed equivalent domestic postage by about SDR 10 million because terminal dues for E-format items are about 69% more than domestic postage.

Although the UPU terminal dues system implies substantial undercharges for most inbound letter post items received by EEA designated operators, terminal dues also imply that EEA designated operators can obtain delivery for *outbound* letter post items at rates that are significantly below equivalent domestic postage in the countries of destination (including other EEA Member States). According to the WIK model, the EEA designated operators annually export about 1.2 billion letter post items, 852 million PG documents and 332 million E-format items. In 2020, terminal dues (including self-declared rates) for delivery of this outbound mail will be about SDR 343 million less than equivalent domestic postage (33% discount).<sup>307</sup>

Undercharges for delivery of inbound and outbound letter post are not interchangeable, however. For inbound mail, undercharges for delivery have no effect on operating costs (cost of labour, equipment, facilities, etc.). If the destination designated operator does not charge adequately for some services, it must raise prices on other services to earn the same total income (or alternatively seek government support). For outbound mail, undercharges for foreign delivery will reduce the operating costs of the origin designated operator, but it may not be possible to turn these cost savings into higher revenues. In a competitive e-commerce export market, EEA designated operators may have to pass on cost savings to customers in order to keep their business. Undercharges for inbound letter post delivery are an actual burden on domestic mailers (or public funds supporting universal services); undercharges for outbound letter post delivery may be a boon for the origin designated operators or they may be a boon for outbound mailers instead.

Moreover, as discussed above, WIK's estimates of the global inbound and outbound volume figures are not comparable. There seems to be a substantial volume of outbound letter post whose origins cannot be attributed to specific designated operators. This 'dark post' accounts for an export volume that is perhaps 25% or more of global inbound volume. The dark post benefits from reduced delivery charges on outbound letter post but does not incur offsetting undercharges for delivery of inbound mail. Globally, the undercharge for delivery of dark post inbound letter post items in 2020 averages about SDR 0.77 per item. While the size of the dark post account is speculative, a missing volume of 1.2 billion outbound letter post items in 2020 would imply that the dark post will benefit from undercharges for delivery of outbound letter post by about SDR 920 million. This calculation assumes all outbound letter post items are delivered at terminal dues rates, including self-declared rates where applicable. Since the European Union is the home of several of the largest and mostly commercially successful designated operators,

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of EEA inbound E-format items (based on a weighted average of 16 respondents). All estimates are derived from the model which, in turn, assumes the estimated volumes of 2018 will be maintained for all calculations through the year 2025.

<sup>307</sup> This calculation assumes that beginning on July 1, 2020, the U.S. Postal Service charges EEA designated operators the self-declared rates announced in UPU, IB Circular 51/2020 (30 Mar. 2020).

some of this gain may accrue to the benefit EEA designated operators participating in dark post activities.

Table 16 Model: effects of terminal dues on EEA designated operators, 2020

<i>Volumes</i>	<b>PG documents</b>	<b>E-format items</b>	<b>Total letter post</b>
Inbound letter post 2018 (mil)	1,033	980	2,012
Outbound letter post 2018 (mil)	852	332	1,184
<i>TDs under 2019 Convention (regular)</i>			
Inbound letter post (mil SDRs)	444	1,006	1,450
Outbound letter post (mil SDRs)	359	382	741
<i>Net gain (loss) from UPU terminal dues (mil SDRs)</i>			
Inbound letter post (mil SDRs)	-331	-815	-1,146
Outbound letter post (mil SDRs)	-124	-290	-414
Net gain (loss) on exchange (mil SDRs)	-207	-525	-732

Source: WIK estimates.

In sum, if the UPU terminal dues system were uniformly applied in all EEA Member States in 2020, designated operators would undercharge foreign mailers (compared to domestic mailers) for delivery of inbound letter post by about SDR 1.1 billion, of which the majority (71%) is due to undercharges for delivery of E-format items. Undercharges for inbound mail delivery necessarily imply higher rates for other mailers or increased government subsidies. On the other hand, EEA designated operators or their outbound mailers would benefit by about SDR 343 million (68% relating to E-format items) from an undercharge by foreign designated operators for delivery of outbound letter post. These estimated inbound and outbound undercharges include letter post items that are exchanged between EEA Member States as well as letter post exchanged with extra-EEA countries.

Estimates for 2020 also include the 'self-declared rates' which, beginning 1 July 2020, will apply to E-format items sent to or from the United States. For these E-format items, terminal dues may be 'self-declared' by the destination designated operator provided they are no higher than a ceiling level of 70% of domestic postage rates for similar services (calculated as prescribed by the UPU Convention). In the second half of 2020, terminal dues for E-format items sent to the US increased by about 146%, whereas terminal dues for E-format items sent from the US to the 17 EEA countries introducing corresponding self-declared rates increased by about 84%. According to the WIK model, in the second half of 2020 EEA designated operators will pay the US approximately SDR 17 million more for delivery of E-format items (compared the first half of 2020). In the same period, EEA operators will collect about SDR 8 million more for delivery of E-format items received from the US.

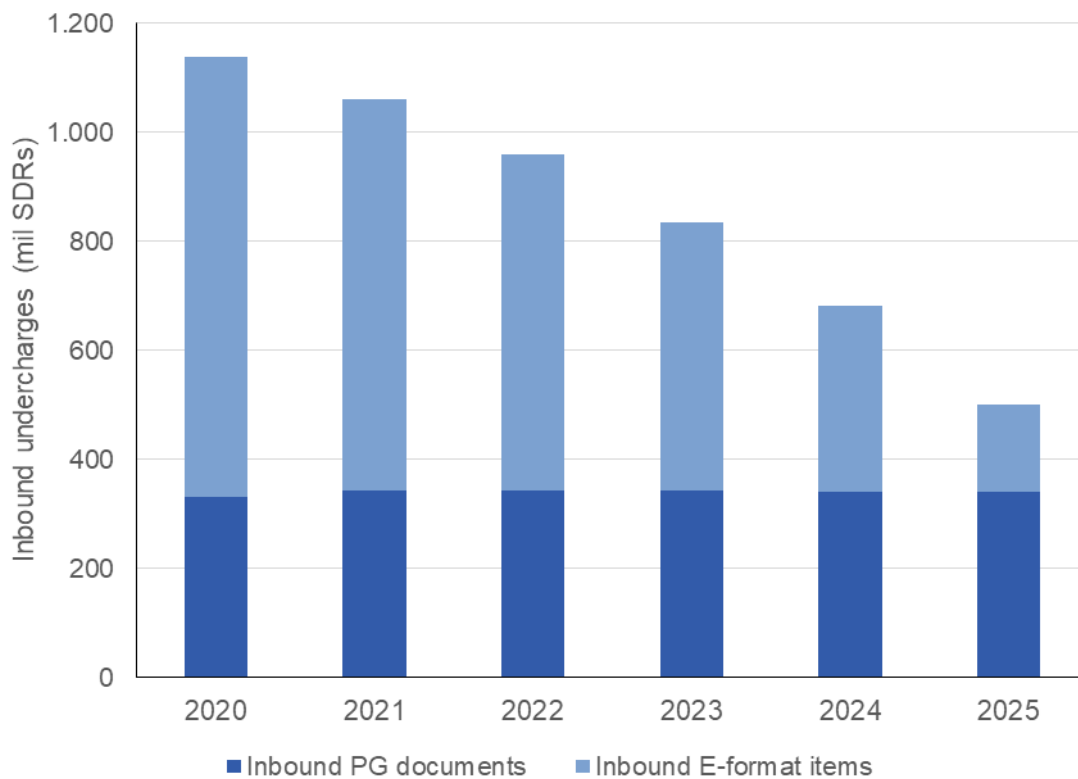
### 5.3.2 Self-declared rates and terminal dues 2021-2025

As explained in Section 4.6 above, beginning on 1 January 2021, the complete system of 'self-declared' terminal dues adopted by the UPU in the 2019 Geneva Extraordinary Congress will be in effect for bilateral letter post flows in excess of minimum thresholds established by the UPU. Globally 40 countries have opted to apply self-declared rates to delivery of roughly three-quarters of inbound E-format items. In the EEA area, 21 Member

States will apply self-declared rates to delivery of more than 80% of inbound E-format items. Under UPU regulations, self-declared rates cannot exceed a ceiling of 70% of domestic postage rates for similar services (calculated as prescribed by the UPU Convention and with possible exceptions in later years). More significantly, except for flows to and from the US, self-declared rates will be limited to annual increases of 15% to 17%. For flows to or from the US, limits on annual increases do not apply so self-declared rates may be set at the 70% ceiling. In total, the new system of self-declared terminal dues will encompass what might be termed a ‘Group I Plus’ collection of countries: 24 of the 28 countries in UPU Group I (industrialised countries), 5 of the 10 EEA countries in Group II (EE, HR, HU, PL, SI), Russia, and 4 prominent South American countries (Argentina, Brazil, Chile, and Uruguay), with 5 relatively small outliers.<sup>308</sup>

Under the assumptions of the WIK terminal dues model, in 2021 EEA designated operators in the self-declared rates system will earn about SDR 123 million more for delivery of inbound E-format items than they would have earned from normal terminal dues. This reflects an increase in terminal dues charges for delivery of inbound E-format items from SDR 1.037 billion under the normal terminal dues rates (as amended in 2019) to SDR 1.160 billion applying self-declared rates for delivery E-format items received from all countries including the US. Nonetheless, in 2021 the UPU terminal dues system including self-declared rates implies that EEA designated operators will undercharge SDR 717 million for delivery of E-format items and SDR 1.06 billion for the entire letter post.

Figure 40 Estimated undercharges for EEA inbound letter post, 2020-2025

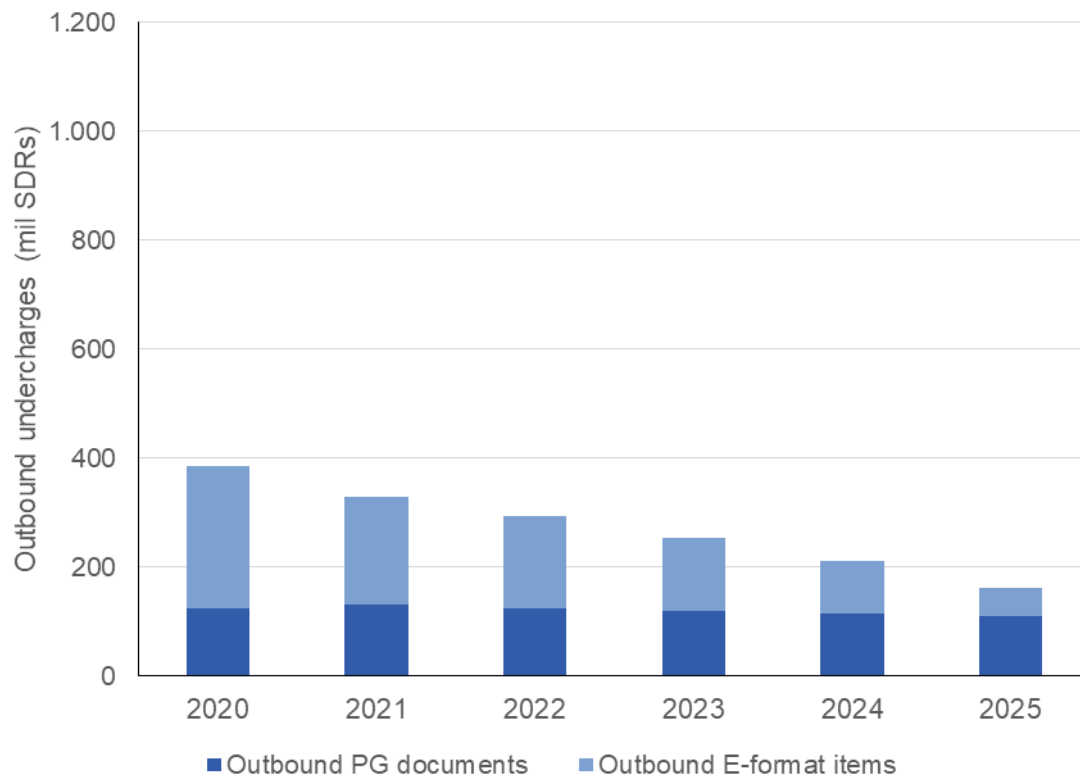


Source: WIK estimates.

<sup>308</sup> The other five countries are: Benin, Bosnia and Herzegovina (only JP BH Pošta d.o.o. Sarajevo), El Salvador, Sierra Leone, Ukraine.



Figure 41 Estimated undercharges for EEA outbound letter post, 2020-2025



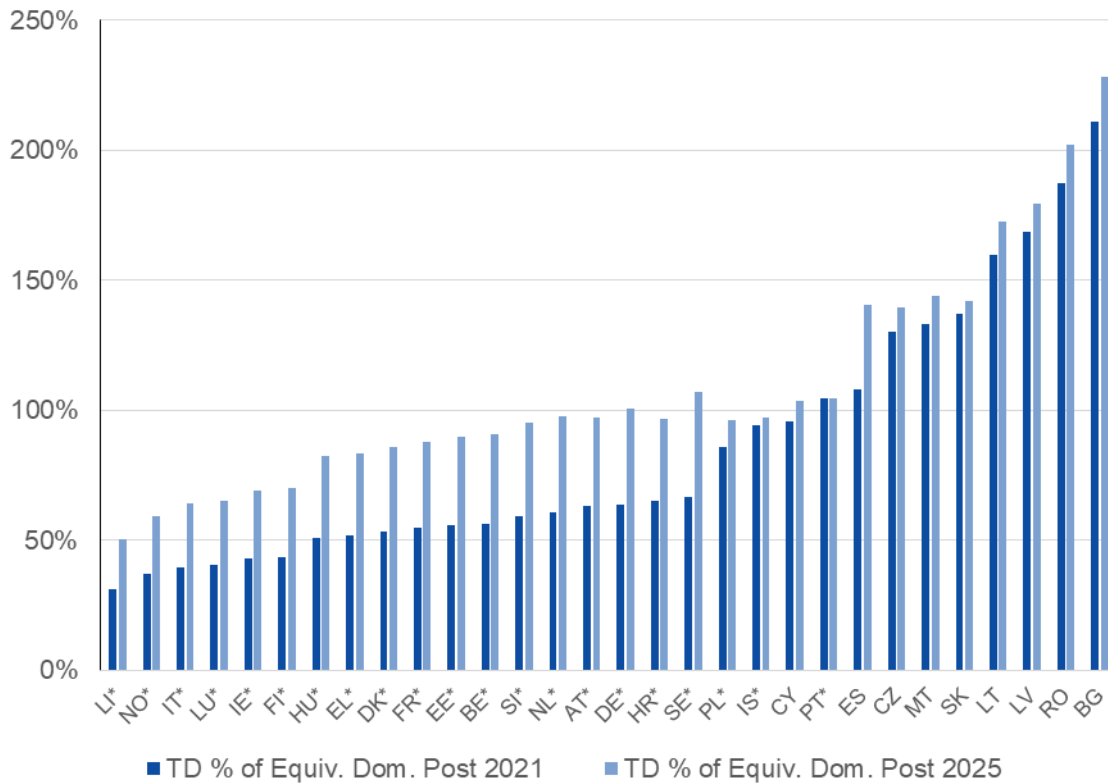
Source: WIK estimates.

The terminal dues proposals for the next UPU Convention make no change in the self-declared rates adopted by the 2019 Geneva Extraordinary Congress and only relatively minor changes in the other terminal provisions of the 2016 UPU Convention. Assuming no change in volumes and a 3% annual increase in domestic postage rates — and applying the self-declared rates introduced in 2021 with maximum annual increases — the WIK model calculates that the total inbound and outbound undercharges implied by the UPU terminal dues system for EEA designated operators shown in Figure 40 and Figure 41. Undercharges for delivery of inbound PG documents, which are ineligible for self-declared rates, will not change significantly, increasing slightly from SDR 331 million in 2020 to 342 million in 2025. Undercharges for delivery of inbound E-format items will be substantially reduced, decreasing from SDR 807 million in 2020 to SDR 159 million in 2025. Similarly, EEA designated operators will benefit less from undercharges in the delivery of outbound letter post due to the introduction of self-declared rates by foreign designated operators. Overall, the undercharge for delivery of EEA outbound letter post will decrease from SDR 385 million in 2020 to SDR 162 million in 2025. In these estimates, both inbound and outbound letter post figures include intra-EEA letter post as well as letter post exchange with non-EEA countries.

Again, it should be noted that changes in terminal dues between 2020 and 2025 will affect different EEA designated operators differently. The 15% to 17% annual limits on increases in self-declared rates for E-format items (other than for items received from the US) means that some EEA designated operators will approach the benchmark of 70% of domestic postage more closely than others by 2025. In the same period, normal terminal dues (i.e., not self-declared rates) will be well above equivalent domestic postage for some EEA designated operators. The different outcomes between Member States depend

on the degree to which domestic postage rates increase between 2020 and 2025. Figure 42 shows differences between terminal dues and equivalent domestic postage (70% of retail domestic postage) for the EEA Member States in 2021 and 2025, *assuming that all Member States raise domestic postage rates for E-format items by 3% annually*. While future domestic postage rates in Member States are unknown, the *relative effects* of the UPU terminal dues system on the different Member States will be the similar across a range of different domestic postage increases.

Figure 42 Terminal dues for E-format items weighing 158 grams as a percent of equivalent domestic postage by EEA Member State, 2021 - 2025



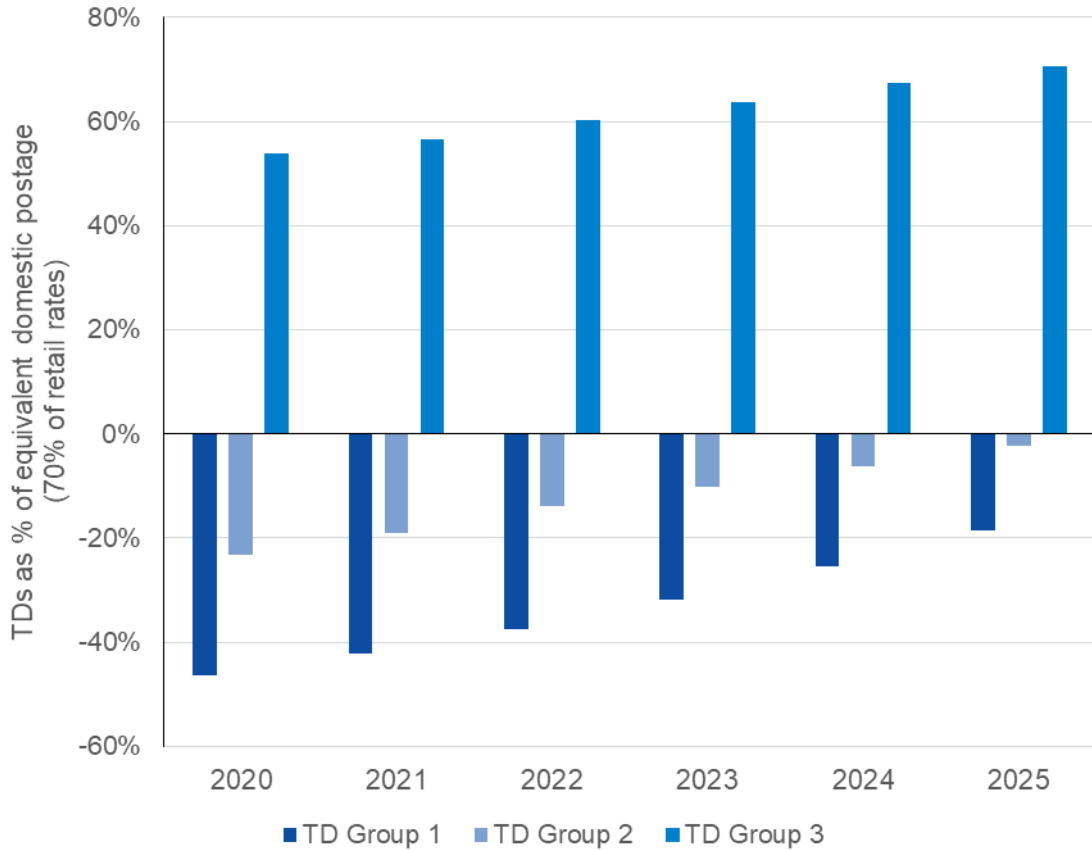
Source: UPU, IB Circular 97/2020 (13 Jul. 2020); UPU Convention (2019), art. 28bis, 29; 2020 Abidjan Congress, Proposal 20.29.1 (17 Mar. 2020); WIK estimates of domestic postage.

Note: Terminal dues for countries with an asterisk (\*) are self-declared rates. Self-declared terminal dues for a 158 E-format items in 2021 are calculated using the linear rates announced by the UPU. For 2025, self-declared terminal dues rates for 2021 have been increased assuming that each designated operator raises self-declared rates by the maximum permitted percentage in 2022 through 2025. Terminal dues for countries without an asterisk in 2021 are the normal terminal dues established by the 2016 UPU Convention as amended in 2019. For the period 2022-2025, normal terminal dues are those proposed by the POC and CA for the next Convention in Proposal 20.29.1. Domestic postage rates for a 158 E-format item in 2020 are calculated using a linear regression of 70% of 2020 domestic postage rates at 7 weight steps; rates are increased 3% per year through 2025.

According to the model estimates, undercharges for delivery of inbound letter post borne by EEA designated operators in Group I and Group II will decrease between 2020 and 2025, while the overcharges collected by Group III designated operators will increase. For Group I Member States, total undercharges for delivery of inbound letter post will decline 54%, from SDR 1.1 billion to 510 million because of a dramatic reduction in undercharges for E-format items, declining from SDR 782 million to 177 million. For Group II Member

States undercharges will be virtually eliminated, dropping 88% from SDR 47 million in 2020 to SDR 6 million in 2025. For Group III Member States, overpayments (i.e., terminal dues in excess of equivalent domestic postage) will increase 52%, from SDR 10 million in 2020 to 15 million in 2025, due entirely to overcharges for delivery of E-format items. See Figure 43.

Figure 43 EEA letter post TDs as a percent of equivalent domestic postage, by UPU TD group, 2020-2025

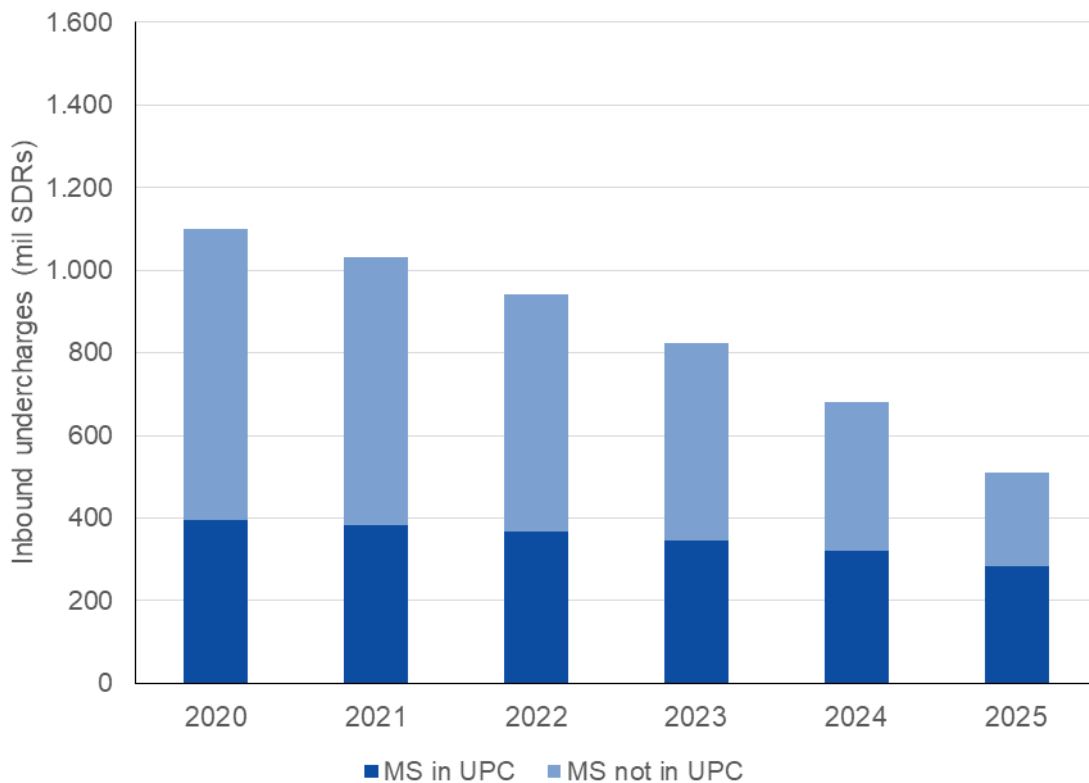


Source: WIK estimates.

For the EEA as whole, the most significant development is the increase in terminal dues for E-format items due to the introduction of self-declared rates in the 17 Group I Member States. However, the diverging treatment of different Member States may raise concerns. In the lead up to the 2019 Geneva Extraordinary Congress, it was evident that, as a general rule, UPU member countries that joined the Universal Postal Coalition (UPC) sought the right to introduce full self-declared rates because they were net importers and therefore adversely affected by terminal dues undercharges. By the same token, those who did not join the UPC were generally net exporters, who benefitted from terminal dues undercharges when all commercial considerations were taken into account. Eight EEA Group I designated operators (DK, EL, FI, IE, IT, IS, NO, SE) were members of the UPC, and nine were not (AT, BE, FR, DE, LI, LU, NL, PT, ES). While the introduction of self-declared rates for E-format items will reduce undercharges for both groups of designated operators, the benefits are not evenly divided. While the undercharges for inbound letter post delivery will be reduced 54% for the EEA Group I designated operators as a whole, for UPC members the reduction will be only 28% while for non-UPC members undercharges will be reduced 68%. The share of the total EEA undercharges for letter

post items borne by the UPC members will increase from 36% to 56%. The reason is that the UPC countries are generally high-cost net importing countries. While all countries that introduce self-declared rates beginning in 2021 will benefit (under the assumptions of the model), the prolongation of limits on annual increases in self-declared rates through 2025 will continue to affect high-cost net importers more adversely than net exporters. See Figure 44.

Figure 44 Inbound TD undercharges by EEA Group I designated operators, by UPC membership, 2020-2025



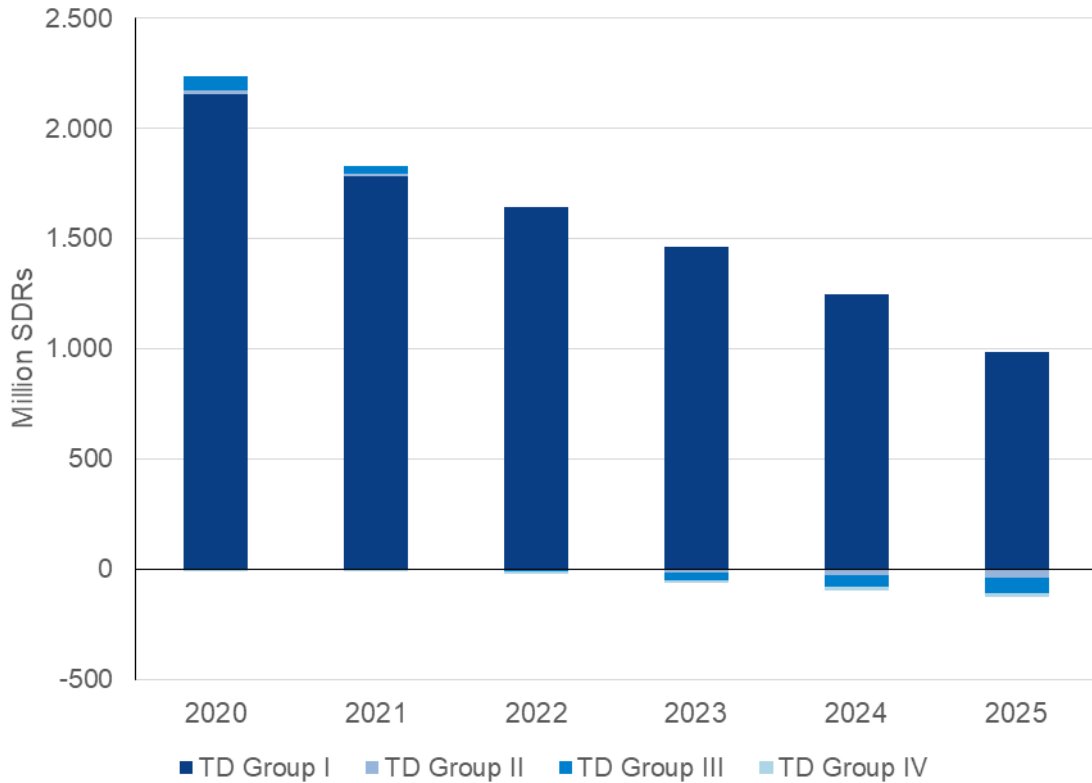
Source: WIK estimates.

The next two figures place these developments for EEA Member States in a broader global context. Using estimates from the WIK model, Figure 45 shows the total undercharge implied by global *inbound* letter post flows, broken down by terminal dues group.<sup>309</sup> As a whole, the UPU terminal dues system (including self-declared rates) is undercharging for delivery of inbound letter post items compared domestic postage charges for similar services. The global undercharge is estimated to be SDR 2.2 billion in 2020, diminishing by 62% to 858 million in 2025. Virtually all (97% in 2020) of the undercharges are borne by the Group I industrialised countries due to the fact that terminal dues in Group I countries are substantially less than equivalent domestic postage. By 2025, the undercharge from Group I countries will be reduced by 54%, dropping from SDR 2.16 billion to 984 million. This is a substantial improvement. On the other hand, in 2025 Group I will be the only terminal dues group still undercharging for

<sup>309</sup> The net financial transfer is calculated as the total undercharge for delivery of inbound letter post (equivalent domestic postage lost less terminal dues received) minus the benefit due to the total undercharge for delivery of outbound letter post (terminal dues paid less equivalent domestic postage saved). Where terminal dues exceed equivalent domestic postage, the 'undercharge' is negative.

delivery of inbound letter post. The other three terminal dues groups will be charging SDR 126 million more for delivery of inbound letter post than charged domestic mailers for similar services. This overcharge will be paid by the Group I countries.

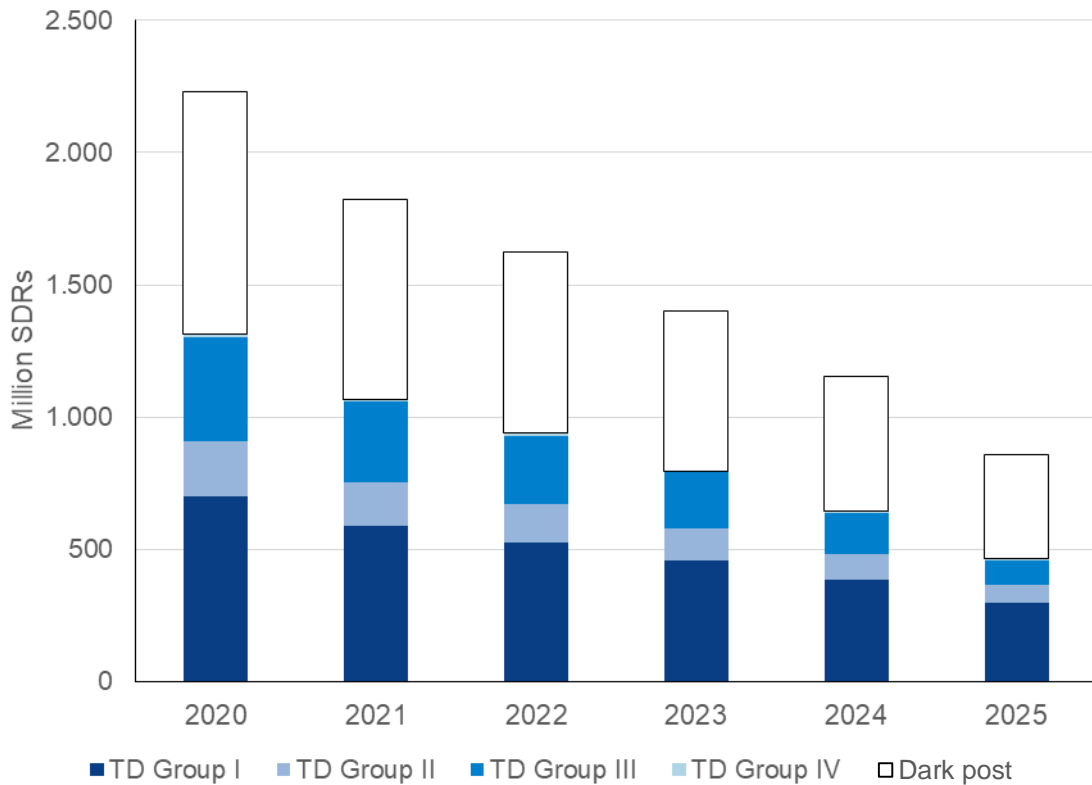
Figure 45 Estimated undercharges for global inbound letter post, 2020-2025



Source: WIK estimates.

Figure 46 considers the same data from the perspective of the *outbound* global letter post. If the inbound global postal system is undercharging for the delivery of letter post items, the outbound global letter post system is benefiting by the same amount. According to the WIK model, the net outbound benefit of SDR 2.2 billion in 2020 is divided among the terminal dues groups as follows: Group I will receive SDR 701 million; Group II, SDR 207 million; Group III, 391 million; and Group IV, SDR 13 million. This leaves SDR 920 million unaccounted for. As explained in Section 5.2, above, it appears that about 25% of the global letter post is not included in the outbound volumes of individual countries in the WIK model. This 'dark post' benefits from undercharges for the delivery of outbound letter post and does not suffer undercharges for delivery of inbound letter post. As a consequence, in 2020 the dark post will benefit from SDR 920 million in undercharges for delivery of outbound letter post. By 2025, the benefits for the outbound global postal system will decline to SDR 858 million, about 61% of which will be due to undercharges for delivery of E-format items. In that year, more than 80% of the benefits due to undercharges for delivery of outbound letter post will be conferred on designated operators in Group I (35%) and the dark post (46%).

Figure 46 Estimated undercharges for global outbound letter post, 2020-2025



Source: WIK estimates.

In sum, beginning 1 January 2021, the complete system of ‘self-declared’ terminal dues adopted by the UPU in the 2019 Geneva Extraordinary Congress will be in effect for bilateral letter post flows in excess of minimum thresholds established the UPU. Globally 40 countries have opted to apply self-declared rates to delivery of roughly three-quarters of all inbound E-format items. In the EEA area, 21 designated operators will apply self-declared rates to delivery of more than 80% of inbound E-format items. Except for flows to and from the US, self-declared rates will be limited to annual increases of 15% to 17%. For flows to or from the US, limits on annual increases do not apply so self-declared rates may be set at the ceiling level prescribed by the UPU Convention: 70% of domestic postage rates for similar services (as calculated by the UPU and with possible exceptions in later years).

For the 21 EEA designated operators, introduction of self-declared rates will substantially reduce the most significant source of distortion implied by the UPU terminal dues system, the undercharging for delivery of E-format items. According to the assumptions of the WIK model, undercharges for inbound E-format items will decrease from SDR 807 million in 2020 to SDR 159 million in 2025. Undercharges for delivery of inbound PG documents are not affected by self-declared rates and will not change significantly, amounting to about SDR 340 million annually. For the total letter post, undercharging for delivery will decline from SDR 1.1 billion in 2020 to SDR 500 million in 2025. On the other hand, EEA designated operators also benefit from undercharges in the delivery of outbound letter post items although to a lesser degree. The outbound undercharge for letter post items will decrease from SDR 385 million in 2020 to SDR 162 million in 2025 (not including possible EEA participation in the dark post).

The benefits of self-declared rates will be distributed unevenly among EEA designated operators. According to the WIK model, for the 17 Group I designated operators, total undercharges for delivery of letter post will decrease 54% from 2020 to 2025. This improvement will primarily benefit the non-UPC designated operators who supported annual limits on increases self-declared rates. They will gain from a 70% reduction in total undercharges by 2025, while UPC designated operators who supported the US call for full self-declared rates will experience only a 28% reduction in the same period. For the 10 Group II designated operators in the EEA, the terminal dues undercharge will be effectively eliminated by 2025. For the 3 Group III designated operators, the net overcharge for delivery of inbound letter post (compared to equivalent domestic postage) will increase from 54% to 71%.

Changes in the UPU terminal dues as applied in EEA Member States are part of a global pattern. In broad terms, the global postal system will undercharge for delivery of international letter post by about SDR 2.2 billion in 2020. The cost of this undercharge will be borne almost entirely by designated operators in Group I industrialised countries. The global undercharge generally benefits the designated operators who are net exporters of letter post, including those unknown designated operators who originate the 'dark post' letter post. By 2025, the global undercharge will be reduced substantially due to the introduction of self-declared rates, to about SDR 858 million according to the WIK model. By 2025, the main beneficiaries of the remaining undercharges will be the designated operators in Group I who are net exporters and designated operators participating in the dark post.

### 5.4 Effects of terminal dues on EEA e-retailers and consumers

#### 5.4.1 Assumptions

In this section we illustrate the effects of self-declared rates on EEA consumers and e-retailers. Regarding the effect on EEA consumers, we emphasise the most relevant e-commerce import stream, from China / Hong Kong to the EEA. We do so for three reasons: (1) China is the country of first choice for international e-commerce purchases of consumers (see Section 2.1); (2) the order value of e-commerce purchases from China is low, particularly if delivered as small packets (3) the vast majority of import packets to the EEA is sent from online sellers in China.<sup>310</sup> Therefore, the model results only refer to additional costs for EEA consumers that order online from Chinese e-retailers. The effects on EEA e-retailers are illustrated by taking account of the total e-commerce exports (in terms of outbound e-commerce consignments) to EEA Member States and non-EEA countries. The analysis is limited to E-format letter post items containing merchandise.

In contrast to the effects on designated postal operators, effects on consumers and e-retailers are indirect as neither consumers nor e-retailers have direct access to terminal dues. Figure 47 shows how terminal dues relate to prices paid by e-retailers and consumers. Terminal dues or self-declared rates are applied by designated operators who offer international postal services to e-retailers. If terminal dues increase, postal operators may pass the additional cost on to e-retailers, who might in turn pass it on to their customers, i.e. consumers.

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<sup>310</sup> The WIK survey revealed that in 2018 around 500 million import packets (E-format) came from extra-EU origins and four-fifths of those were from China, see Section 3.2.

Figure 47 Example of effects on EU consumers by self-declared rates (China to EU)



Source: WIK-Consult.

Illustrating the effects of terminal dues increases on EEA e-retailers and online customers requires two different models.

- The first model considers the effects on EEA consumers who order online and receive small packets with merchandise from China (including Hong Kong). This model is based on our estimated inbound international E-format volumes from China and Hong Kong. The effects on EEA consumers provide a proxy for additional delivery costs that online customers, who order from China, may have to pay after the implementation of self-declared rates for international letter post.<sup>311</sup>
- The aim of the second model is to illustrate the impact of terminal dues increases on EEA e-retailers who export e-commerce consignments by international letter post. This approach makes use of the outbound volumes of E-format items. The results are expressed in Euro, and exemplifies the financial impact of terminal dues increases on EEA e-retailers.

#### *Assumptions on the increases in terminal dues*

The Geneva Extraordinary Congress (2019) agreed on terminal dues increases that became effective in 2020 (see Section 4.5 for detailed information). In addition, the agreements enable designated operators to apply self-declared rates in the future. For operators with annual inbound letter post streams of above 75,000 tonnes, which in practice only qualifies the designated operator of the United States (USPS), self-declared rates may already be applied as of 1 July 2020. Other designated operators may self-declare rates which will become effective from 1 January 2021. The application of self-declared rates is limited within certain boundaries as explained in Section 4.7. Designated operators may take full advantage of self-declared rates from 2025.<sup>312</sup> At that time, self-declared rates are expected to be much higher than the terminal dues applied in 2020.

In order to estimate the impact of the switch from 2020 terminal dues to 2025 self-declared rates, we assume that EEA designated operators apply the self-declared rates as announced in the International Bureau's publication of 13 July 2020.<sup>313</sup> The self-declared rates used in the model reflect those that designated postal operators in EEA Member States would be allowed to apply in 2025 (see Section 5.3.2).

<sup>311</sup> We do not consider the effects on e-retailers based in Asia.

<sup>312</sup> In 2025, DOs will be able to set self-declared rates at the level of 70% of the domestic postage.

<sup>313</sup> See UPU (2020), IB circular 97, 13 July 2020.



*Assumptions on volumes*

The inbound and outbound E-format volumes as estimated in the terminal dues model provide the starting point for the model (see Section 5.2). The same assumed volumes are used for both approaches, i.e. for the application of 2020 terminal dues and of 2025 self-declared rates. This allows us to emphasise the impact of the self-declared rates that will be applied in 2025, without taking other volume effects into account, e.g. resulting from changes in legislation (import VAT reform), economic development, or COVID-19.

As outlined in Section 3.3 in this study, there are several options for sending international e-commerce consignments including designated operators (like China Post), competing consolidators, and express carriers. E-commerce goods of small size and a relatively low value can be sent by letter post.<sup>314</sup> However, online retailers' choice for sending products by letter post does not only depend on size and value, but also on aspects relating to quality of service and customer expectations. During interviews, EEA online retailer associations explained that letter post services were not always the first choice of EEA e-retailers for cross-border delivery, particularly to non-EEA destinations (e.g. China), as quality of service was lower than those of parcel and express services (longer transit times, limited tracking and insurance options).

E-retailers from Asia often sell products of much lower value, weight and size (e.g. small electronic devices, iPhone covers, or toys). They use international letter post services more often than EEA e-retailers. This is also reflected in the total number of E-format items dispatched and received by EEA designated operators: outbound E-format volumes are significantly lower than inbound volumes (see Section 5.3).

Table 17 Volume data (2018) for modelling effects on EEA e-retailers and consumers

EEA designated operators	Volume (million items)
Total outbound E-format items	332
Inbound E-format items from China and Hong Kong	444

Source: WIK estimates.

For estimating the effects on EEA e-retailers, the model is based on total outbound E-format items, i.e. all international outbound E-format items sent by DOs within the EEA, an aggregate volume of about 332 million items in 2018 (see Table 17). This estimate includes intra-EEA items sent from one EEA Member State to another as well as international items to non-EEA countries.

The model on consumer effects is based on inbound E-format items received in the EEA from China and Hong Kong. These volumes are estimated to be more than 440 million items.<sup>315</sup> For simplicity, we assume that all E-format items contain e-commerce goods.

<sup>314</sup> There are no published figures on the share of total e-commerce consignments in the letter post stream.

<sup>315</sup> The WIK survey asked EEA designated operators for the percentage of total inbound E-format items received from China and Hong Kong (see Section 3.2). This estimate is derived by multiplying the weighted average of 16 designated operators that responded to this question and the total estimated volume of inbound E-format items received by EEA designated operators from other Member States and from countries outside the EEA.

*Assumptions on prices paid by e-retailers and consumers*

The indirect relation between changes in terminal dues and changes in costs for online buyers and e-retailers necessitates assumptions on how terminal dues increases are passed on to e-retailers and eventually to consumers (online buyers). The extent to which extra costs are passed on from designated operators to e-retailers and from e-retailers to online buyers depends on the respective competitive situation of designated operators and e-retailers and the respective price elasticity of demand of e-retailers and consumers.

For simplicity, we assume that the EEA and non-EEA designated operators pass on the total increase in terminal dues to EEA and non-EEA e-retailers (100%). In the example, China Post would pass on the total increase in terminal dues to Chinese e-retailers and EEA designated operators would pass on the total increase in terminal dues to EEA e-retailers. This means that we implicitly assume that competition for outbound letter post services would not be significant in EEA Member States and non-EEA Member States, at least for E-format items.<sup>316</sup>

Table 18 Model 1: Examples for illustrating effects on EEA consumers ordering online from China / Hong Kong

	Example 1	Example 2
Price elasticity of EEA online customers ordering from China	Elastic (-1)	Inelastic (0)
Share of terminal dues (cost) increases that Chinese e-retailers pass on to consumers	Low (50%)	High (100%)

Source: WIK-Consult.

Regarding e-retailers there are two options how they pass on delivery cost increases to online buyers. In the first example, Chinese e-retailers would pass on half of the increase to their customers (50%), while in the second example they would pass on the total increase (100%). We assume that online buyers react differently to price increases in both examples. In the first example, we assume a price elasticity of demand of -1. This means that a price increase of 10% would result in an equal decline in demand, 10%. In the second example, we assume that price increases do not affect online buyers' demand (inelastic price elasticity of 0 with stable demand, see Table 18).

Table 19 Model 2: Examples for illustrating effects on EEA e-retailers

	Example 1	Example 2
Price elasticity of EEA and non-EEA online buyers (consumers) ordering from EEA e-retailers	Elastic (-1)	Inelastic (0)
Share of terminal dues (cost) increases that EEA e-retailers pass on to online buyers (consumers)	Low (50%)	High (100%)

Source: WIK-Consult.

Similar to the first model, the second model defines equivalent examples for illustrating the effects on EEA e-retailers (see Table 19). This means that we implicitly assume that

<sup>316</sup> We are of course aware that there is some competition but the EEA designated operators still have a dominant position in this market segment, see Section 3.2.

non-EEA online buyers (consumers) react in the same way on price increases as EEA online buyers.

#### *Assumptions on average value of online buyers' orders*

Finally, we need assumptions on the average value of orders (including delivery fees) for both models.

- For the first model, we assume an average basket value of €7.50 for inbound e-commerce consignments (E-format) from China / Hong Kong to EEA consumers.<sup>317</sup>
- For the second model, we assume an average value of €15 per outbound e-commerce consignment (E-format) sent by EEA e-retailers to other EEA Member States and non-EEA countries.<sup>318</sup>

#### 5.4.2 Effects on consumers

The model calculates the increased cost to consumers if terminal dues increased to the level of self-declared rates under the assumptions set out in the previous section. The following steps were taken:

- 1) Estimate the distribution of inbound E-format volumes from origin countries to EEA Member States (based on the terminal dues model, see Section 5.2);
- 2) Calculate the terminal dues increases for an average item according to the regular terminal dues under the Geneva agreements and self-declared rates (based on the terminal dues model);
- 3) Apply the share of terminal dues increases for inbound items that postal operators pass on to e-retailers according to the assumptions for each example (100%);
- 4) Apply the share of cost increases for inbound items that e-retailers pass on to EEA consumers assumed in each example (50% / 100%);
- 5) Calculate consumers' demand reaction based on the assumed price elasticities in each scenario;
- 6) Re-calculate the volumes of inbound international E-format items after taking account of the demand reaction;
- 7) Calculate the additional delivery costs for consumers who buy online from China / Hong Kong.

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<sup>317</sup> This has been confirmed in interviews for this study.

<sup>318</sup> This is consistent with IPC research. In their most recent consumer survey, they reported that 44% of cross-border purchases had a value below €25. This share includes orders delivered by designated operators and other carriers as small packets and parcels. It is reasonable to assume that the average value of e-commerce consignments sent as small packets (E-format) is mostly lower than €25. See IPC (2020), Cross-border e-commerce shopper barometer 2019, p. 13.

Table 20 Potential effects on consumers ordering online from China / Hong Kong

	Example 1	Example 2
Price elasticity of EEA online customers ordering from China	Elastic (-1)	Inelastic (0)
Share of terminal dues (cost) increases that Chinese e-retailers pass on to consumers	Low (50%)	High (100%)
<b>Results</b>		
Additional costs to EEA online customers ordering from China (total)	EUR 232 million	EUR 506 million
Additional costs to EEA online customers ordering from China (per item)	EUR 0.56	EUR 1.14
Additional revenue for EEA DOs	EUR 463 million	EUR 506 million

Source: WIK estimates.

If self-declared rates were fully applied in 2020, total additional delivery costs for consumers ordering from China and Hong Kong in the first example would be €232 million. In the second example, the additional costs would amount to €506 million for all EEA consumers buying online from China, see Table 20. On average, EEA online customers would pay either an additional €0.56 (50% of the average increase in terminal dues) or €1.14 (100% of the average increase in terminal dues) per E-format consignment from China/Hong Kong.

These examples illustrate the potential cost effects for consumers buying online from Chinese e-retailers or platforms – actual market outcomes might be different. In the first example, we assume a price elasticity of  $-1$ . However, if the elasticity was significantly higher (in absolute terms), e.g.  $-5$  (meaning that demand would decline by 50% if prices increase by 10%), total additional costs for EEA online buyers and additional revenue for EEA DOs would be considerably lower.<sup>319</sup> However, as long as the price elasticity is below zero EEA online buyers would experience a loss in welfare as it inhibits their consumption of cheap Chinese products.

Simultaneously, the EEA DOs could benefit from increased terminal dues because they improve the cost coverage of international inbound E-format items possibly resulting in domestic letter post products being less encumbered with costs of the delivery of inbound E-format items (see Section 5.1.4 for the discussion on the impact on universal postal services).

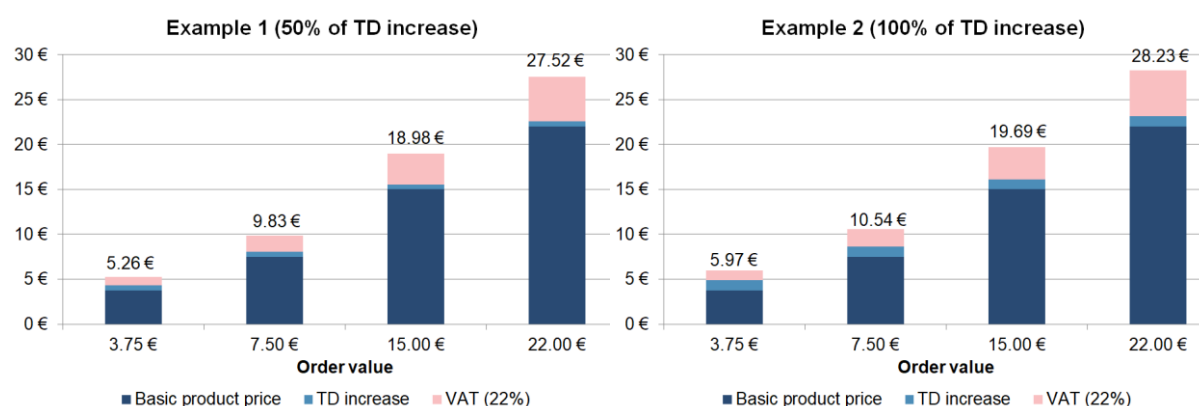
In the first example, DOs would receive about 34 million fewer E-format items from China and Hong Kong, while the higher terminal dues on the remaining inbound E-format items would still result in additional revenue of €463 million. In the second example the volume would be not affected. In that very specific case, online buyers completely bear the additional cost resulting from the increase in terminal dues by assumption (€506 million). As volume would remain unchanged, DOs' revenues from the delivery of inbound E-format items from China would increase by the same amount.

<sup>319</sup> Research on price elasticity for goods bought online seems to indicate that demand for typical online goods has its own price elasticity of demand below  $-1$ . Ellison, G. and Fisher Ellison, S. (2001), 'Search, Obfuscation, and Price Elasticities on the Internet' found that price elasticity for low-quality memory modules is extremely elastic, with a price elasticity of  $-51.8$ . Other authors found price elasticity in electronic markets for search products (i.e. whose quality can be determined via web-based information, in contrast to experience products such as beauty services or apparel) was higher than for experience products, but still between 0 and  $-1$ . See Lee, K. and Lee, B. (2013), 'Price Elasticity in Electronic Markets: Evaluating Quality and Product Information for Search and Experience Products'.

These examples illustrate the potential effects on EEA consumers. The actual behaviour of China Post as designated operator, Chinese e-retailers and EEA online buyers, however, may be different from the examples and depend on manifold factors including product categories, product-specific price elasticities, consumer income, competition and many other factors. Moreover, in our examples, we assume that the terminal dues would jump to the level of self-declared rates immediately instead of gradually over five years (2021-2025) as agreed at the Geneva Extraordinary Congress. That said, the actual effects on EEA consumers (and thus EEA DOs) might be much weaker than in the examples.

In the examples, the additional cost per item for EEA consumers appear significant, in particular, if it is related to an e-commerce order of low value. For an order with a basic product price of €4, for example, the increase would range between 14% and 29%. However, changes to the application of the import VAT on low-value goods,<sup>320</sup> leading to higher prices for imported goods, might have a more significant impact on the total order value (see Chapter 6 for a detailed discussion of this topic). Figure 48 illustrates the effect of import VAT on the total order value and how it would add to price increases resulting from the application of self-declared rates based on the examples presented. It does not take into account any likely extra charges from EEA DOs for the handling of the import VAT clearance.<sup>321</sup> The basic order value is displayed on the horizontal axis with different values up to €22.<sup>322</sup>

Figure 48 Comparing effects of import VAT and increases in terminal dues on low-value orders up to €22



Source: WIK estimates.

<sup>320</sup> For low-value goods (< €150), which are typical content of E-format postal items, consumers will have to pay import VAT on all imported items, but still no customs charges.

<sup>321</sup> In the case of Sweden, consumers have to pay SEK 75 (~€6.95) of handling fee for inbound international e-commerce orders, and additional VAT whose rate is 25 per cent. For a €15 purchase, VAT amounts to €3.75, totalling a price increase of €10.70. See PTS (2019), Import VAT on low-value items: the Swedish experience, presentation by Anders Hildingsson at WIK Koenigswinter Postal Seminar. Extra handling fees for import VAT clearance would only emerge if non-EU e-retailers and platforms do not apply the IOSS (Import One Stop Shop), see Chapter 6 for more detail.

<sup>322</sup> We assumed an average order value of EUR 7.50 in the model. The order value of EUR 22 was selected because it is the amount that is usually VAT-free under current de-minimis rules for imports.

Figure 48 shows that with increasing order value the effect of the import VAT by far outweighs the effect of increased terminal dues in both examples. Only for very low order values (below €7.50) are the effects fairly similar.

In the most recent cross-border e-commerce shopper survey, IPC reports that consumers ordering online from Asian websites are fairly price-sensitive. If faced with an absolute price increase of €10, more than one third of consumers would stop buying from Chinese e-retailers, and 41% would order 'slightly less'.<sup>323</sup> A decrease in demand seems inevitable if all cost-driving aspects for cross-border online orders (from non-EEA destinations) would be taken into account (terminal dues, import VAT, and potential handling charges of DOs).<sup>324</sup>

### 5.4.3 Effects on e-retailers

In order to provide a full picture of the impact that self-declared rates will have on EEA stakeholders, e-retailers are also taken into account. Self-declared rates for delivery of international E-format items will not only increase delivery costs for e-retailers in China but also for those within the EEA. The model takes into account the assumptions described in Section 5.4.1. The effect on e-retailers is based on the volumes of outbound international letters in E-format to EEA as well as non-EEA destinations.

The following steps were taken to estimate the cost increases for e-retailers:

- 1) Estimate the distribution of outbound E-format volumes to EEA and non-EEA destination countries (based on the terminal dues model);
- 2) Calculate terminal dues increases for an average item according to the regular terminal dues under Geneva agreements and self-declared rates (based on the terminal dues model, see Section 5.2);
- 3) Apply the share of terminal dues increases that designated operators pass on to e-retailers according to the assumptions for each example (100%);
- 4) Apply the share of cost increases for outbound items that e-retailers pass on to EEA and non-EEA consumers assumed in each example (50% / 100%)
- 5) Take consumers' demand reaction into account based on the estimates for price elasticity and purchase value of the order according to the assumptions;
- 6) Re-calculate the volumes of outbound international E-format items after taking account of the demand reaction;
- 7) Calculate the financial effects on e-retailers' margin based on (3) and (6), and subtract the price increases due to higher delivery costs on consumers (4).

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<sup>323</sup> See IPC (2020), Cross-border e-commerce shopper survey 2019.

<sup>324</sup> The Swedish experience with introducing VAT for all inbound e-commerce items in 2016 has shown that consumers reacted by substantially reducing demand. See PTS (2019), Import VAT on low value items: the Swedish experience, presentation by Anders Hildingsson at WIK Koenigswinter Postal Seminar.

Table 21 Financial effects on EEA e-retailers' margin

	Example 1	Example 2
Financial effect on EEA e-retailers' margin (total)	-€203 million	€0
Financial effect on EEA e-retailers' margin (per consignment)	-€0.64	€0

Source: WIK estimates.

Note: The financial effect does not include the impact on e-retailers' total sales.

Self-declared rates induce increases in delivery costs for EEA e-retailers that could harm their financial position depending on their ability to pass on these extra costs to their customers. From the examples (according to the model), the negative impact could range between 0 and €203 million in 2020, relative to terminal dues under the Geneva Congress agreements (see Table 21). If they fully pass on the extra cost on their customers, as illustrated in example 2, their margin would not be affected at all.

There could be also a demand reaction of consumers if e-retailers increase shipping prices for consumers (see Section 5.4.2). E-retailers therefore may lose a fraction of their sales and revenues as total prices (including shipping costs) increase. Based on our assumptions on the price elasticity and the average value of the cross-border purchases, the volumes *not* sent within the international postal system would amount up to 14 million items in Example 1. In the second example, we assume demand is inelastic so volumes would remain stable. The assumed average purchase value of a cross-border e-commerce consignment (outbound) is €15. Therefore, EU e-retailers would lose between €0 and € 212 million<sup>325</sup> in total revenues (if self-declared rates were fully applied in 2020). Such revenue losses might add to the financial effects displayed in Table 21.

These examples are hypothetical because they depend on many factors, including the behaviour of EEA designated operators regarding the extent to which they would pass on the increases in terminal dues to EEA e-retailers. Moreover, for destinations within the EEA we expect that self-declared rates are of less relevance. As highlighted in Section 3.2, there is notable competition on outbound letter post items mainly by designated operators that have established ETOEs inside the territory of those EEA Member States (and the UK) with significant export volumes of e-commerce consignments. Moreover, in many cases, EEA consumers order online from neighbouring countries. In that case, it is much more likely that the items are collected in the country of origin (e.g. Germany), consolidated and transported to the country of destination by road (e.g. to Austria) and then delivered at domestic rates (direct injection). Moreover, from the WIK survey among designated operators for this study, it became clear that many EEA designated operators apply remunerations agreed within the 'INTERCONNECT Remuneration Agreement – Europe' (see Section 4.10). It is very likely that INTERCONNECT terminal dues are higher than the current terminal dues because of higher quality requirements, but most probably lower than self-declared rates which could be considered as the upper limit.<sup>326</sup> Even for exports to non-EEA countries (e.g. to China) it is very likely that EEA e-retailers organise the delivery of the online orders by other means than within the international postal system (with final delivery by China Post).

<sup>325</sup> Calculated as change in volumes times average purchase value.

<sup>326</sup> The agreed remunerations are not publicly available.

*Effects on the competitive situation of EEA e-retailers*

The developments in remuneration for E-format items have the potential to improve the competitive situation of EEA e-retailers. European e-retailers, particularly in high-cost countries (e.g. the Nordic countries or France), were concerned that the delivery of an e-commerce order from China into the EEA was cheaper than the delivery of an e-commerce order within the same country.

At the Geneva Extraordinary Congress, a significant increase in terminal dues has been agreed for the next few years. As discussed in previous sections, these increases might contribute to improving the cost coverage of imported E-format items and to levelling the playing field between EEA and non-EEA e-retailers at least with regard to delivery costs. However, terminal dues are not the only reason for low prices offered by Chinese e-retailers, and self-declared rates alone will not have the effect of levelling prices with EEA online shops. The general expectation of interviewed e-commerce experts was that increased delivery costs and prices for Chinese e-commerce products would not result in significantly increased demand for equivalent products from EEA e-retailers because the prices of products from Chinese e-retailers are expected to remain much lower than those of EEA e-retailers despite the increase in terminal dues.<sup>327</sup>

However, in addition to self-declared rates, other factors could become relevant in the near future. Changes in VAT legislation will enter into force in 2021 (see Chapter 6). These changes aim at obliging e-retailers from non-EU countries to charge import VAT even on low-value e-commerce items that are currently exempted from VAT due to de-minimis rules. Additional import VAT charges will not only increase prices for consumers, as it will also increase administrative costs for non-EEA e-retailers and their delivery partners, including designated operators.

EEA consumers are progressively becoming more used to fast delivery, tracking, and other features such as advance notifications of delivery. Receiving e-commerce orders as E-format items usually does not include such value-added features. To meet customer expectations, large e-retailers and Chinese e-commerce companies are using alternative e-commerce supply chains away from the traditional postal delivery chain (designated operator to designated operator) with long delivery times and limited transparency (see Section 3.3.4 for more detail).

For EEA e-retailers, these developments could contribute to levelling the competitive situation. Asian e-retailers that build up a presence in the single market will have to pay either higher terminal dues (or bilaterally agreed rates) or domestic rates in case of direct injection. In addition, if e-commerce consignments are delivered from a warehouse within the EU, non-EEA e-retailers will have to cope with product security regulations, patent law, and other legislation such as social standards for warehouse workers and corporate taxes. Although products that do not comply with EU standards may not be imported to the EU (whether by designated operators or other transport modes), in practice many infringements of health and safety standards are detected at customs controls.<sup>328</sup>

Comparing the impact of terminal dues increases with the import VAT and customs reforms as well as the impact of other legislation, non-postal factors appear to have an

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<sup>327</sup> One of the top reasons for German consumers to use platforms like Wish or Aliexpress is to make a bargain. Low prices are very important, and consumers are willing to accept lower quality and longer delivery times if prices are low. See IFH Köln (2020), ECC-Club Studie 2020, Abenteuer, Nervenkitzel oder Risiko. Warum Kund\*innen bei Wish und Co. bestellen.

<sup>328</sup> Health and safety issues constituted more than 40% of detected cases at border controls, according to European Commission (2018), Report on the EU customs enforcement of intellectual property rights: Results at the EU border, 2017.



even greater impact on levelling the playing field for EU e-retailers than the reform of the remuneration system.<sup>329</sup> That said, UPU terminal dues increases are an important precondition for other effects to unfold.

## 5.5 Conclusions

Chapter 5 describes, and to the extent possible provides rough quantitative estimates of, the economic effects of UPU terminal dues on designated operators e-retailers, and consumers.

Delivery of inbound international letter post is a domestic postal service. If a designated operator charges foreign designated operators different rates than it charges domestic mailers and other international service providers for similar services, then the same economic distortions are presented that arise in the case of price discrimination between similar categories of domestic mailers.

The measure of the distortions is the difference between the amount that a designated operator charges for delivery of inbound mail and *equivalent domestic postage*, i.e., the postage that the designated operator charges for delivery of similar domestic mail. The UPU terminal dues system sets rates for delivery of inbound international letter post that vary much less than domestic postage rates. Since domestic postage rates vary immensely between countries, the relative uniformity of terminal dues implies large differences between terminal dues and equivalent domestic postage in most countries. Even where domestic postage rates are the same in the origin and destination countries, terminal dues will result in distortions if one designated operator exports more mail than it imports. Moreover, terminal dues also ignore other cost-based distinctions in domestic rates which facilitate efficient decisions by mailers.

Discrepancies between terminal dues and equivalent domestic postage rates imply a variety of distortions and anticompetitive effects. The terminal dues system favours some designated operators at the expense of other designated operators. Low-cost designated operators benefit at the expense of high-cost designated operators, and net exporters benefit at the expense of net importers. Merchants posting e-commerce goods to industrialised countries are advantaged while domestic merchants in those countries are disadvantaged. Low terminal dues for inbound letter post mail can shift costs of the national postal network to domestic mailers, whereas high terminal dues can have the opposite effect. Terminal dues which differ from equivalent domestic postage also distort competition between designated operators and other providers of delivery services. Such distortions can affect the provision of universal postal services required by the Postal Directive, but these effects, if any, depend on the scope of the universal service obligation and methods of allocating the costs and revenues of universal services in each Member State.

To evaluate the quantitative effects of the UPU terminal dues system, WIK has developed a mathematical 'model' that estimates differences between terminal dues payments and equivalent domestic postage (assumed to be 70% of retail domestic postage rates) for flows in and out of 93 countries, including all EEA countries. WIK believes that these countries collectively account for at least 95% of global letter post volume. The WIK model is based on estimates of inbound and outbound letter post volumes for individual countries in 2018. While individual country estimates appear credible, when viewed at a global level it is evident that these volume estimates must be incomplete or incorrect because total inbound volume, 4.7 billion, is about 25% greater than total outbound volume, 3.5 billion

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<sup>329</sup> This has been confirmed in interviews.

(including intra-EEA cross-border volumes). This discrepancy implies a 'dark post' volume (volume of unknown origin) of about 1.2 billion letter post items. Moreover, in the absence of country-level data, the characteristics and distribution of national inbound and outbound flows must be approximated by using broad averages derived from UPU studies. Data on domestic postage rates, mostly from UPU reports, is more reliable but still imperfect. To project this model into the future, WIK has assumed that volumes will remain the same from 2018 through 2025 and that domestic postage rates will increase annually by 3%. These are, of course, not predictions but simplifying assumptions used to generate comparative results.

More generally, it must be emphasized that the WIK model cannot accurately determine differences between total terminal dues and total equivalent domestic postage charges for individual countries either currently or in the future. For a single document or small packet of a given weight, differences between terminal dues and equivalent domestic postage (assumed to be 70% of retail domestic postage) can be accurately calculated because the necessary input data is readily available and non-controversial (for the most part). However, calculations of total volumes, total terminal dues, and total equivalent domestic postage depend upon inputs drawn from imperfect and incomplete datasets, rough estimates, and simplifying assumptions. In some cases, the best available data seems plainly incorrect. With respect to total effects, therefore, the WIK model must be interpreted as only one of several plausible 'models' of the effects of global postal flows that can be constructed from the incomplete data currently available. The model can usefully illuminate the overall implications of terminal dues and future trends, but calculations of total quantities must be considered as illustrative estimates rather than firm figures.

Using its terminal dues model, WIK estimates that if the UPU terminal dues system were uniformly applied in all EEA Member States in 2020 (in accordance with the assumptions underlying the model), designated operators would undercharge foreign mailers (compared to domestic mailers) for delivery of inbound letter post by about SDR 1.1 billion, of which the majority (71%) is due to undercharges for delivery of E-format items. Undercharges for inbound mail delivery necessarily imply higher rates for other mailers or increased government subsidies. On the other hand, EEA designated operators or their outbound mailers would benefit by about SDR 343 million (68% relating to E-format items) from an undercharge by foreign designated operators for delivery of outbound letter post. These estimated inbound and outbound undercharges include letter post items that are received from or sent to other EEA Member States as well as letter post exchanged with extra-EEA countries.

Estimates for 2020 also include the 'self-declared rates' which, beginning 1 July 2020, will apply to E-format items sent to or from the United States. For these E-format items, terminal dues may be 'self-declared' by the destination designated operator provided they are no higher than a ceiling level of 70% of domestic postage rates for similar services (calculated as prescribed by the UPU Convention). In the second half of 2020, terminal dues for E-format item sent to the US increased by about 146%, whereas terminal dues for E-format items sent from the US to the 17 EEA countries introducing corresponding self-declared rates increased by about 84%. According to the WIK model, in the second half of 2020 EEA designated operators will pay the US approximately SDR 17 million more for delivery of E-format items (compared the first half of 2020). In the same period, EEA operators will collect about SDR 8 million more for delivery of E-format items received from the US.

Beginning 1 January 2021, the complete system of 'self-declared' terminal dues adopted by the UPU in the 2019 Geneva Extraordinary Congress will be in effect for bilateral letter post flows in excess of minimum thresholds established the UPU. Globally 40 countries

have opted to apply self-declared rates to delivery of roughly three-quarters of all inbound E-format items. In the EEA area, 21 designated operators will apply self-declared rates to delivery of more than 80% of inbound E-format items. Except for flows to and from the US, self-declared rates will be limited to annual increases of 15% to 17%. For flows to or from the US, limits on annual increases do not apply so self-declared rates may be set at the ceiling level prescribed by the UPU Convention: 70% of domestic postage rates for similar services (as calculated by the UPU with possible exceptions in later years).

For the 21 EEA designated operators, introduction of self-declared rates will substantially reduce the most significant source of distortion implied by the UPU terminal dues system, the undercharging for delivery of E-format items. According to the assumptions of the WIK model, undercharges for inbound E-format items will decrease from SDR 807 million in 2020 to SDR 159 million in 2025. Undercharges for delivery of inbound PG documents are not affected by self-declared rates and will not change significantly, amounting to about SDR 340 million annually. For the total letter post, undercharging for delivery will decline from SDR 1.1 billion in 2020 to SDR 500 million in 2025. On the other hand, EEA designated operators also benefit from undercharges in the delivery of outbound letter post items although to a lesser degree. The outbound undercharge for letter post items will decrease from SDR 385 million in 2020 to SDR 162 million in 2025 (not including possible EEA participation in the dark post).

The benefits of self-declared rates will be distributed unevenly among EEA designated operators. According to the WIK model, for the 17 Group I designated operators, total undercharges for delivery of letter post will decrease 54% from 2020 to 2025. This improvement will primarily benefit the non-UPC designated operators who supported annual limits on increases self-declared rates. They will gain from a 70% reduction in total undercharges by 2025, while UPC designated operators who supported the US call for full self-declared rates will experience only a 28% reduction in the same period. For the 10 Group II designated operators in the EEA, the terminal dues undercharge will be effectively eliminated by 2025. For the 3 Group III designated operators, the net overcharge for delivery of inbound letter post (compared to equivalent domestic postage) will increase from 54% to 71%.

Changes in the UPU terminal dues as applied in EEA Member States are part of a global pattern. In broad terms, the global postal system will undercharge for delivery of international letter post by about SDR 2.2 billion in 2020. The cost of this undercharge will be borne almost entirely by designated operators in Group I industrialised countries. The global undercharge generally benefits the designated who are net exporters of letter post, including those unknown designated operators who originate the 'dark post' letter post. By 2025, the global undercharge will be reduced substantially due to the introduction of self-declared rates, to about SDR 858 million according to the WIK model. By 2025, the main beneficiaries of the remaining undercharges will be the designated operators in Group I who are net exporters and designated operators participating in the dark post.

Under the assumption that all designated operators would fully apply self-declared rates in 2020, consumers in the EEA ordering online from China might have to face additional costs. Under the assumption that Chinese e-retailers pass on 50% of the increase in delivery costs to their customers these could amount to €0.56 per item on average and in case of 100% to €1.14 per item from China or Hong Kong. Consequently, this might lead to a decline in demand for cheap Chinese products, although this would not necessarily convert into demand for products from EEA e-retailers.

The future increases in remuneration for international E-format volumes will be a stepwise process, and considerable changes in VAT regulation during this time will occur before remuneration will be lifted to the maximum level of self-declared rates. Depending on

order values, the additional import VAT and possibly handling charges might have an even larger impact on prices than higher terminal dues for many online customers ordering from China.

The former low level of E-format terminal dues had only been possible because many EEA designated postal operators received compensation below equivalent domestic postage rates for delivery of these commercial flows. In that situation, the major beneficiaries were Chinese e-retailers who could ship their goods at sub-cost rates, at the cost of designated operators and e-retailers within the EEA. Moving to self-declared rates will reduce the advantage of Chinese e-retailers in delivery costs, and might have – depending on their pricing strategy and online customers' demand reaction – benefits for EEA DOs. It could improve their financial position in the provision of universal services by limiting the losses for the delivery of inbound packets from China as experienced for example by An Post and Iceland Post.

EEA e-retailers who export e-commerce goods in the letter stream might have to face increasing delivery costs especially to non-EEA consumers due to increases in remuneration for international postal services. The effect on the financial position of EEA e-retailers depend on how much EEA e-retailers pass on to their customers, and on their demand reaction to these price increases. However, the impact might be fairly limited as many EEA e-retailers also use alternative parcel and express services for the delivery of e-commerce consignments to non-EEA destination countries.

Even though terminal dues increases are not sufficient to harmonise price levels between Chinese and EEA e-retailers, we expect terminal dues increases combined with legislative changes on VAT and customs will have an effect on the supply chains of e-retailers outside of Europe. In particular, Asian e-retailers could intensify their presence with warehouses and distribution centres within the EU. This would contribute to establishing similar conditions between European and Asian e-retailers, not only in the postal markets but also regarding product security, patent laws and consumer protection.

## 6 Customs, security and VAT for postal imports

The global growth in e-commerce activities in recent times is presenting new challenges regarding the implementation of import VAT and customs and security procedures. This also impacts on the volume of goods being imported as postal consignments from outside of the EU, mainly small and low-value items. Some reasons for this being that postal consignments are afforded simplified customs procedures as well as benefitting from low-value consignment import VAT and duty relief, where applicable. As a result, designated postal operators are able to process, clear and deliver goods that are imported via the postal stream with less hassle compared to other operators (e.g. private/express carriers) who remain subjected to more rigorous customs procedures.

Additionally, the exemptions from VAT and customs duty for low-value postal consignments make those products purchased from outside of the EU comparatively cheaper than identical products purchased within the EU, for which VAT would be charged. This places third country sellers and e-retailers at an advantage over EU sellers and e-retailers offering the same products.

In light of this, the European Commission has made reforms to the VAT legislation, to be implemented on 1 July 2021, which abolishes the de minimis VAT exemption for imported low-value goods with the result that all goods imported into the EU will be charged VAT to level the playing field between EU and non-EU sellers and e-retailers. While all postal consignments will now be required to be accompanied with a customs declaration, certain provisions for simplified customs procedures will remain, including the exemption from customs duty for low-value items. Moreover, an Import One Stop Shop and special arrangements for postal operators and couriers regarding the collection of VAT has been established to streamline this process.

The current simplifications and exemptions, where applicable to postal consignments, have unfortunately also opened the door to misuse of the postal network as senders falsely declare the contents and/or value of postal consignments in order to benefit from them. Furthermore, fraudulent behaviour may also lead to the importation of illegal and prohibited items where the customs and security checks for postal consignments are inadequately implemented.

To ensure the provision of more reliable and accurate information on customs declarations and improve the safety and security of postal imports, the Union Customs Code Import Control System 2 (ICS2) was adopted by the European Commission and it will require advance cargo information for all postal consignments being imported to the EU. As of 15 March 2021, postal operators and express carriers in air transport are obliged to provide the minimum dataset relating to the entry summary declaration (i.e. pre-loading ENS). This will enable EU customs authorities to carry out the necessary security and safety risk assessments before the items are loaded on an aircraft or before arrival in the customs territory of the EU. Therefore, the ability of customs administrations and designated operators to send and receive electronic advance data (EAD) will be crucial.

This chapter describes the VAT and customs procedures related to postal imports and the role of designated operators, and compares it to the procedures and roles of private/express carriers. The issues of fraud and misuse of the postal network for importing illegal and prohibited items are discussed in Section 2.3. Moreover, we discuss and analyse the reforms to the EU legislation and regulations that affect the VAT, customs and security procedures for the importation of postal consignments from 2021 onwards. Surveys conducted among EU universal service providers and customs administrations inform the analyses and provide insight to the current and future challenges that

designated operators and customs authorities face regarding the importation of postal items. Information on how designated operators are preparing for the reforms is also presented.

## 6.1 Current framework for postal imports

### 6.1.1 EU VAT Directive

The most relevant legislation on the common system of value added tax (VAT) in the EU is commonly known as the VAT Directive.<sup>330</sup> In general, VAT on imported goods becomes chargeable at the moment of importation<sup>331</sup> and payable to the tax authority of the Member State where transport of the goods ends and the importer is recognised as liable to pay VAT.<sup>332</sup>

As of 2015, under the Mini One Stop Shop (MOSS) introduced by the Commission, traders supplying telecommunications, broadcasting and e-commerce (TBE) services to private consumers charge VAT at the rate of the Member State of consumption. However, they can register VAT in a Member State of their choice (Member State of identification), unless the trader's business is established in the EU, and submit a single VAT return providing the total value of TBE services supplied and the related VAT, by the relevant VAT rate, in each Member State of consumption and paying the total amount of VAT declared in the MOSS VAT return. The Member State of identification then transfers the VAT owed to the Member State of consumption.<sup>333</sup>

Exemptions from VAT on goods imported to the EU are provided for in Article 143 of the VAT Directive. Of particular interest for this study is Article 23 of Directive 2009/132/EC<sup>334</sup> (commonly referred to as the *de minimis* VAT rule or the low-value consignment VAT rule (LVCR)) which exempts imported goods up to the value of €22 from import VAT. Its intention was to reduce the administrative burden and cost involved for businesses and Member States.<sup>335</sup> This is particularly relevant for postal consignments that predominantly contain items of low value, and thus often benefit from this relief.

### 6.1.2 Customs and security regulation in the EU

The European Union is one of the global leaders in modernising customs controls so that they can be applied more effectively to postal consignments. In 2013, the EU adopted a comprehensive customs reform, namely the Union Customs Code (UCC). The Union

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<sup>330</sup> European Union. Directive 2006/112/EC of 28 November 2006 on the common system of value added tax.

<sup>331</sup> Article 70 of the VAT Directive.

<sup>332</sup> Article 32 of the VAT Directive.

<sup>333</sup> See European Court of Auditors (2019), Special Report No 12/2019, E-commerce: many of the challenges of collecting VAT and customs duties remain to be resolved.

<sup>334</sup> European Union Council Directive 2009/132/EC of 19 October 2009 determining the scope of Article 143(b) and (c) of Directive 2006/112/EC as regards exemption from value added tax on the final importation of certain goods.

<sup>335</sup> Europe's Fiscal Studies (2018). Modernization of e-commerce imports into the EU – A customs and VAT perspective.

Customs Code<sup>336</sup> (UCC) contains a comprehensive set of customs rules and procedures applicable to goods that are brought into or taken out of the EU customs territory.

For the purpose of this study, the focus of this section will be on exceptions from the standard procedures for postal consignments related to security and safety provisions and the exemption from import duty for low-value consignments.<sup>337</sup>

#### *Waiver of lodging an entry summary declaration for postal consignments and low-value consignments*

One of the measures affecting all modes of transport was the introduction of the Entry Summary Declaration (ENS) by regulations 648/2005 and 1875/2006.<sup>338</sup> Operators have to provide advance cargo information for consignments into the EU through the lodging of an electronic declaration. This requirement entered into force on 1 January 2011. For the lodgement and processing of the ENS an IT system, the ICS (Import Control System) was implemented.

In Regulations 648/2005 and 1875/2006, postal items were exempted from the ENS submission requirement. This was due to the fact that at this time postal processes were still mainly paper-based. Exceptions that waive the lodging of an ENS for postal items are provided for by the EU Commission Delegated Regulation 2015/2446 (hereafter referred to as UCC-DA).<sup>339</sup> In this regard, the UCC-DA stipulates that:

- until the dates of the upgrading of the UCC Import Control System (ICS2 Release 1 due to deploy on 15 March 2021), the lodging of an ENS for goods in postal consignments shall be waived;<sup>340</sup> and
- until the dates of upgrading of the UCC Import Control System, the lodging of an ENS for consignments containing goods with an intrinsic value that does not exceed €22 may be waived, provided that risk analysis can be carried out by the customs authorities using the information contained in, or provided by, the system used by the economic operator.<sup>341</sup>

#### *Exemption from import duty for low-value consignments*

The UCC makes provision for relief or exemption from import duty in accordance with Regulation 1186/2009.<sup>342</sup> It sets out a number of special circumstances for which relief from import duties and export duties are granted. Of particular interest is the relief from import duty payable for consignments of negligible value, for example:

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<sup>336</sup> European Union. Regulation No 952/2013/EU of the European Parliament and of the Council of 9 October 2013 laying down the Union Customs Code.

<sup>337</sup> Customs security covers all modes of transport of goods crossing the border into the EU. Measures to strengthen the security of the supply chain take into account the particularities of the different modes of transport.

<sup>338</sup> European Union. Regulation (EC) No 648/2005 of the European Parliament and of the Council of 13 April 2005 amending Council Regulation (EEC) No 2913/92 establishing the Community Customs Code; European Union. Commission Regulation (EC) No 1875/2006 of 18 December 2006 amending Regulation (EEC) No 2454/93 laying down provisions for the implementation of Council Regulation (EEC) No 2913/92 establishing the Community Customs Code.

<sup>339</sup> European Union, Commission Delegate Regulation (EU) 2015/2446 of 28 July 2015 supplementing Regulation (EU) No 952/2013 of the European Parliament and of the Council as regards detailed rules concerning certain provisions of the Union Customs Code.

<sup>340</sup> Article 104(2) of the UCC-DA as amended by Delegated Regulation 2020/877 of 3 April 2020.

<sup>341</sup> Article 104(4) of the UCC-DA as amended by Delegated Regulation 2020/877 of 3 April 2020.

<sup>342</sup> European Union. Council Regulation (EC) No 1186/2009 of 16 November 2009 setting up a Community system of reliefs from customs duty.

- consignments containing goods for which the intrinsic value does not exceed €150,<sup>343</sup> and
- consignments with personal gifts sent by a person from outside of the customs territory of the Union to someone within the customs territory of the Union up to a value of €45.<sup>344</sup>

Items in bundled consignments (i.e. a group of different packets that are sent together in one consignment under the same customs declaration) may also qualify for exemption from import duty if, despite the total value of the grouped consignment exceeding €150, the intrinsic value of the individual packages are valued under €150, and provided that each separate package of the bundled consignment is addressed individually to an addressee located within the EU.<sup>345</sup>

#### *Simplifications in lodging a customs declaration for postal consignments and low-value consignments*

All goods intended to be placed under a customs procedure shall be covered by a customs declaration appropriate for the specific procedure.<sup>346</sup> In principle, customs declarations have to be lodged electronically.<sup>347</sup> However, there are exceptions depending on the type of transaction and the value of the goods. In this regard, Article 141 of the UCC-DA deems certain goods to be declared for release for free circulation. For example,

- items of correspondence are deemed to be declared for release for free circulation by their entry into the customs territory of the Union;<sup>348</sup>
- goods in postal consignments which benefit from the relief from import duty (in accordance with Article 23 to 27 of Regulation 1186/2009) shall be deemed to be declared for release for free circulation by their presentation to customs pursuant to Article 139 of the UCC, provided that the data required (e.g. CN 22 or CN 23 declarations) are accepted by the customs authorities;<sup>349</sup>
- goods with an intrinsic value<sup>350</sup> not exceeding €22 are deemed to be declared for release for free circulation by their presentation to customs pursuant to Article 139 of the UCC, provided that the data required are accepted by the customs authorities.<sup>351</sup>

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**343** Article 23 of Regulation 1186/2009.

**344** Article 25 of Regulation 1186/2009.

**345** Europese Fiscale Studies (EFS). 2018. Modernisation of e-commerce imports into the EU – A customs and VAT perspective; Tilburg University (2018). How does the withdrawal of the low-value consignment relief in the EU VAT law impact the tax obligation of EU and non-EU taxpayers?

**346** Article 158 of the UCC.

**347** Europese Fiscale Studies (2018). Modernization of e-commerce imports into the EU – A customs and VAT perspective.

**348** Article 141(2) of the UCC-DA.

**349** Article 141(3) of the UCC-DA.

**350** The definition of “intrinsic value” means (a) for commercial goods: the price of the goods themselves when sold for export to the customs territory of the Union, excluding transport and insurance costs, unless they are included in the price and not separately indicated on the invoice, and any other taxes and charges as ascertainable by the customs authorities from any relevant document(s); (b) for goods of a non-commercial nature: the price which would have been paid for the goods themselves if they were sold for export to the customs territory of the Union. (Article 1(48) of the UCC-DA, as amended by Delegated Regulation 2020/877 of 3 April 2020.)

**351** Article 141(5) of the UCC-DA, in accordance with Article 4(1) of Directive 2017/2455/EU.



From the above, postal consignments clearly benefit more from simplified customs procedures than commercial consignments, since postal consignments up to a value of €150 are declared for release for free circulation, but commercial consignments only up to €22.

### 6.1.3 UPU provisions and programmes

In this section, a description is provided of some of the provisions and programmes set out by the Universal Postal Union (UPU) relating to customs procedures of postal items. Additionally, consideration is given to the development of a system for the exchange of electronic advance data (EAD) between designated operators and customs administrations.

#### 6.1.3.1 Postal customs procedures

The UPU Convention<sup>352</sup> is a set of rules concerning the treatment of international postal services among member countries of the UPU. Postal operators traditionally do not provide customs authorities any data on individual consignments, but instead a summary manifest summarising the total mail shipment ('receptacles'). Data on individual consignments can be provided on simplified paper customs forms developed by the UPU which are completed by the sender and attached to the consignment. The UPU developed the CN 22 and CN 23 forms to accompany all letters and parcels, respectively, and are treated as formal customs declarations by customs authorities. These forms are intended to assist customs authorities in their risk profiling and improve collection of duties and taxes, as well as supporting postal operators in enhancing service delivery. The CN 23 form is more comprehensive in the information that it can contain and is used for higher value packets or parcels (above SDR 300), whereas the CN 22 is mainly used for small, low-value packets.

From the WIK survey on designated operators, the respondents were asked to provide an estimate of the share of imported small packets that are accompanied by either a CN 22 or CN 23 customs declaration or no customs declaration at all (see Table 22). From the responses it is clear that the majority of small packets are currently accompanied by CN 22 declarations ranging between 70% and 100% of total imported small packets. Moreover, this indicates that the majority of small packets contain low-value goods. The shares of imported small packets accompanied with a CN 23 declaration ranges between 0% and 20%, whereas the shares of imported small packets with no customs declaration range between 0% and 10%.

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<sup>352</sup> As published in the UPU Convention Manual. Update 1 – June 2019.

Table 22 Percentage of imported small packets by accompanied type of customs declaration

Country	No customs declaration	With CN 22	With CN 23
Austria	10%	85%	5%
Bulgaria	0%	98%	2%
Czech Republic	0%	90%	10%
Denmark	0%	80%	15%
Greece	5%	90%	5%
Spain	10%	75%	15%
France	1.5%	98.5%	0%
Croatia	2%	93%	5%
Italy	0%	100%	0%
Norway	5%	94%	1%
Portugal	1%	89%	10%
Romania	0%	90%	0%
Sweden	5%	80%	15%
Slovenia	10%	70%	20%

Source: WIK survey on designated operators.

### 6.1.3.2 Electronic Advance Data (EAD)

After October 2010, discussions between postal operators and customs authorities were initiated on how to use advanced data submissions in the postal model for security purposes. In 2012, at the UPU Congress in Doha, Article 9 of the UPU Convention on postal security was changed to include advanced data submission for risk analysis purposes. Since 2010, the EU has conducted extensive work with the postal community and international partners (US, Canada, WCO, ICAO, UPU, and KPG), as well as during the EU postal pilot. In the Postal Pilot (2012-2014), where 8 EU Member States' Customs Authorities and Postal Operators participated, the EU assessed implementation options for advance electronic data submission. Hereby, global postal standards such as the electronic customs declaration CN 23 and the relevant UPU messaging standards (ITMATT, CUSITM, CUSRSP)<sup>353</sup> were used and took specific mail data flows into account (i.e. between origin and destination posts, and between destination post and Customs in the Member State of destination).<sup>354</sup>

An advantage of the exchange of EAD is that it allows customs administrations to leverage the data supplied by the designated operator at the origin, to facilitate its

<sup>353</sup> ITMATT is a UPU messaging standard used for provision of electronic customs information (i.e. electronic CN 22/23) captured and transmitted by the origin designated operator to the destination designated operator at the time of mailing or dispatch; CUSITM is a message used by a designated operator to transmit mail item information to its customs administration. It covers the electronic representation of existing UPU CN 22/23 and CP 72 paper forms; CUSRSP is a message used by a customs administration to transmit mail item information to its designated operator, usually in response to a CUSITM message. See WCO-UPU guidelines on the exchange of electronic advance data (EAD) between designated operators and customs administrations.

<sup>354</sup> [https://ec.europa.eu/taxation\\_customs/general-information-customs/customs-security/security\\_en](https://ec.europa.eu/taxation_customs/general-information-customs/customs-security/security_en).

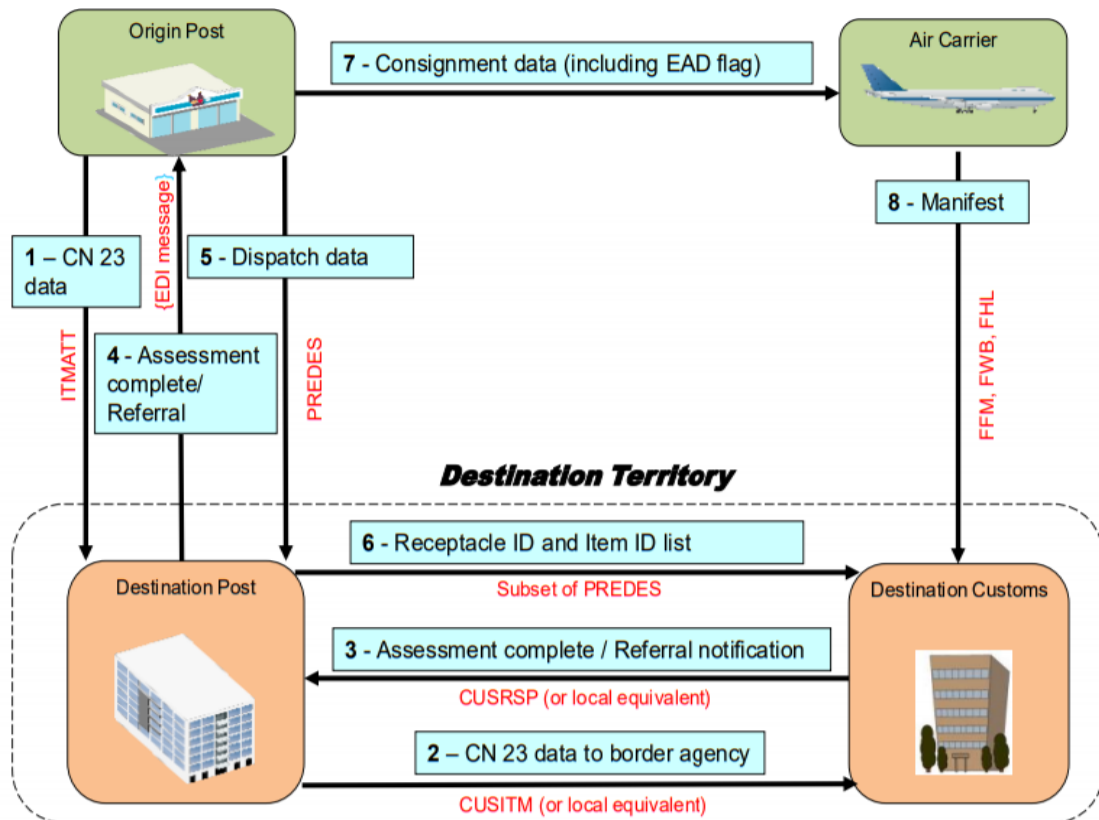
customs decisions in advance and thereby ensure more efficient customs processes. This enables the customs authority at destination to identify suspicious or risky items in advance, while ensuring the uninterrupted flow of legitimate postal consignments.<sup>355</sup>

Furthermore, the UPU proposes that assessment procedures be implemented by which the appropriate destination authorities are able to clear the item to be conveyed by air to the destination country. The response on aviation security decisions should be made available within minutes on the receipt of item-level data. Only the items that have been assessed and cleared for air conveyance, or have been processed in compliance with defined security referral procedures, should be dispatched.

*Developing a model and software for electronic information exchange*

The Postal Operations Council (POC) of the UPU has been developing a Global Postal Model (GPM) to align with stricter national customs and security controls for the transmission of customs and security data between postal operators at origin and destination, and between postal operators and customs authorities. In this regard, the WCO (2017) notes that a seamless flow of information will enable Customs to gather all relevant information regarding the shipment, in turn allowing faster clearance of large numbers of legitimate shipments, while controlling illicit trade.<sup>356</sup> Figure 49 provides a flowchart of the exchange of information within the GPM.

Figure 49 The Global Postal Model for electronic advance data (flowchart)



Source: UPU. 2019. POC C1 CG WCO-UPU CC 2019.1-Doc 5b. WCO-UPU guidelines on data capture and compliance with the CN 22/CN 23 (flow zero).

<sup>355</sup> UPU. 2018. POC C1 CG 2019.1-Doc 5a. First version of the joint WCO-UPU EAD guidelines.

<sup>356</sup> WCO Study Report on cross-border e-commerce (March 2017).

The UPU has also been developing software, namely the Customs Declaration System (CDS), to enable the exchange of advance data between designated operators and customs administrations that relates to the data exchange flows of the GPM. Furthermore, it allows for interconnectivity with other systems to exchange declaration and customs responses, as well as supports automated risk assessment and calculation of duties and taxes through a rules engine and plug-in application programming interface (access for other IT systems). The CDS can either be implemented by a central system hosted at the UPU or it can be self-hosted, allowing for smoother system integration, fine-tuning for high volumes, and local control of the data held by the system.

### *Challenges for implementing EAD*

Some challenges surrounding the effective exchange of EAD include:

- designated operators and customs authorities should develop/maintain IT systems that allow them to effectively communicate with each other;
- data quality is crucial for risk management, and therefore it requires complete and accurate descriptions provided by senders and mailers;
- data privacy, data protection and security legislation need to be taken into account to allow for data sharing between designated operators and between designated operators and customs administrations (multilateral and bilateral agreements).

The EAD roadmap implementation plan endeavours to provide clear-cut tasks and timelines, and to develop a strategy to provide UPU members and stakeholders with a definitive plan to implement the GPM with the flexibility to add new items. While the GPM is targeted to be operational by 1 January 2021, the indications from POC meetings are that this is unlikely to realise. For example, the UPU reported that by June 2020 designated operators in the EU-27 plus NO, CH and the UK all receive ITMATT messages, but only 25 sent ITMATT messages. In Western Europe, Southern Asian and Oceania, the proportion of designated postal operators sending ITMATT messages was over 60%, in the Americas and Eastern Europe around 50%, and in Africa around 24%.<sup>357</sup> At the 2<sup>nd</sup> Public Stakeholder Workshop for this study during September 2020, the UPU informed that approximately 100 designated operators worldwide are now sending ITMATT and PREDES messages. Furthermore, the UPU has published circulars to assist designated operators towards being ready by the date of implementation, which is an important step in the right direction.

However, these statistics do not allow any conclusions on the completeness and accuracy of the data transmitted. These numbers cast serious doubt on postal operators to fully comply with customs EAD requirements. It is therefore unlikely that the GPM will be ready for implementation by the beginning of 2021 even though the transmission of EAD among designated operators will become mandatory by January 1<sup>st</sup>, 2021.

Non-postal operators are already providing customs authorities with detailed data for each individual consignment in an electronic transmission submitted prior to arrival at the port of entry and, for a minimal set of security-related data (7+1 PLACI data), prior to loading on the aircraft in the port of departure. The electronic information of consignments is generated by non-postal operators themselves.

According to the UPU, where possible, the information on customs declarations should be shared electronically in advance with customs authorities to enable them to conduct

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<sup>357</sup> UPU (2020), POC C1 CG 2020.1-Pres 4. ITMATT readiness status update. Further indications on the lack of readiness of designated operators are provided in UPU (2020), POC C1 CG 2020.1-Pres 8, Progress of the work on the treatment of small packets lacking S10, ITMATT.

efficient risk assessments. In light of the implementation of the UCC ICS2, the electronic exchange of information between postal operators and customs authorities will be mandatory as of 15 March 2021. Due to non-EU postal operators having to comply with different regional requirements complicates their task ensuring that correct information is provided. Therefore, it is crucial that the ICS2 and the broader GPM are aligned.<sup>358</sup> The UPU Customs Declaration System (CDS) is one such system that allows for the exchange of electronic advance data (EAD) between designated operators and customs authorities.

#### 6.1.4 Customs procedures for postal imports in practice

To analyse the customs procedures relating to postal items and the roles of designated operators in the EU, this section presents the results from online surveys (hereafter WIK surveys) conducted among designated operators and customs administrations. From their responses, we are able to provide an overview of the customs procedures that apply to designated operators for imported postal items, and highlight some of the differences observed between Member States.

##### *Customs processing centres in EU Member States*

For an overview of the number of customs processing centres and major ports of entry for imported postal items in the Member States, Table 23 provides the information captured by the WIK survey for customs administrations. From the table, it appears that most Member States have a single or only a few customs processing centres, implying centralised customs procedures in those countries with only one processing centre. Two interesting cases from the responses that merit further explanation include:

- Romania with 53 customs processing centres, which the Romanian Customs Authority explained by referring to each of the country's 41 districts having at least one postal processing (sorting) centre, with Bucharest having multiple processing centres. From our understanding, the main customs processing centre that deals with the majority of imported goods (including postal items) is located at the Henri Coanda International Airport in Bucharest.
- Slovakia imports international postal items from outside of the EU through Vienna Airport in Austria where they are processed for customs and security clearance as per agreement between the Slovakian Post and Vienna Airport. The goods are then sent to Slovakian Post offices under the intra-EU transit procedures for final distribution to the addressees. In contrast, express items arrive directly in Bratislava and are subject to standard customs procedures.

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<sup>358</sup> Feedback from PostEurop following the 2nd Public Stakeholder Workshop for this study presented by WIK-Consult on 22 September 2020.

Table 23 Number of customs processing centres and major ports of entry for postal consignments in Member States

Member State	Number of customs processing centres	Major ports of entry for postal consignments
Belgium	1	Airports and road networks; All cargo is transported to the Brussels hub of the designated operator where goods are customs cleared.
Cyprus	4	Larnaca Airport
Czech Republic	1	Airport
Estonia	2	Airport and sea port
Finland	1	Airport
France	3	Airport and road networks; The majority of postal imports from non-EU countries to mainland France are carried by air and in that case arrives at Roissy-Charles de Gaulle Airport in Paris. International postal items from Andorra and Switzerland can also be transported by road/truck.
Croatia	1	Franjo Tuđman Airport, Zagreb
Hungary	1	Budapest Airport
Ireland	4	Dublin Port and Dublin Airport
Lithuania	1	Airport (Vilnius International and Kaunas International); Road and rail, but in smaller quantities (e.g. Kena Railway Station and Medininkai Road Border Crossing); All postal consignments are released for free circulation at the Postal Customs Post of Vilnius Territorial Customs Office.
Romania	53	Airport Henri Coanda, Bucharest (Otopeni Calatori Border Customs Office)
Slovenia	1	Ljubljana Airport and road and rail networks.
Slovakia	5	Postal items are imported through Vienna Airport (Austria) due to its close proximity to Bratislava.**

Source: WIK survey on customs administrations.

### *Role of designated operators in EU Member States*

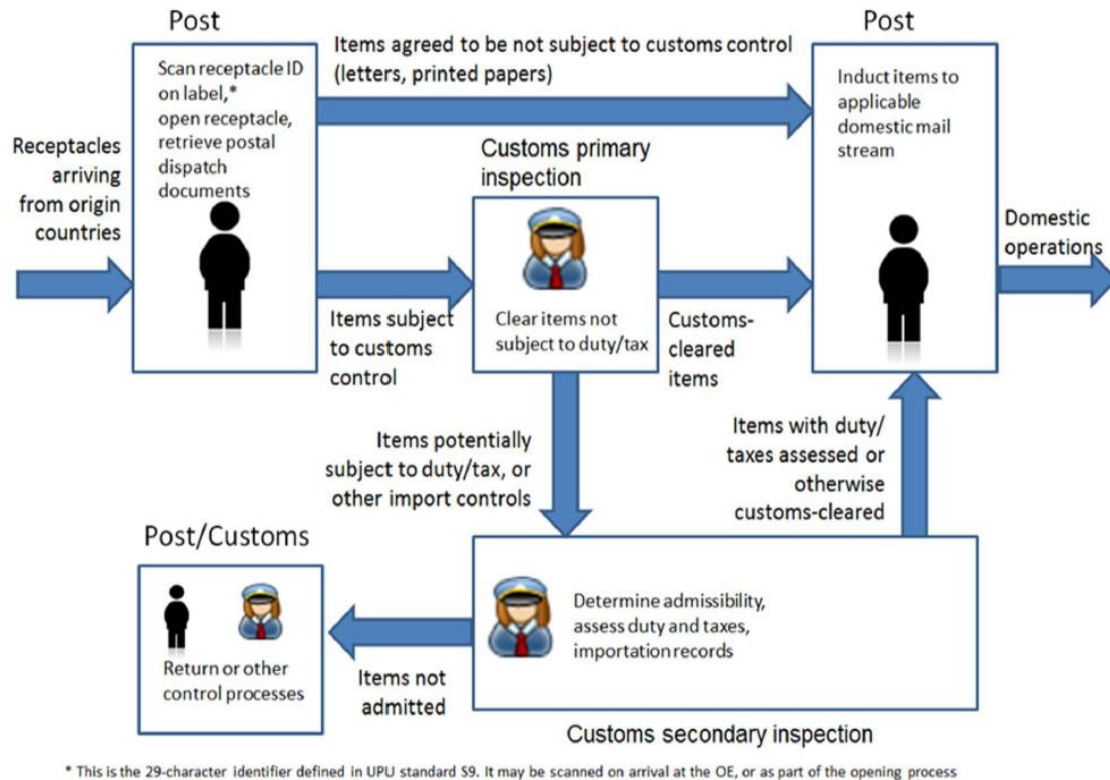
According to the information received from respondents of the WIK surveys, many of whom provided links to websites of national customs administrations, it appears that the standardised simplified customs procedures for postal consignments, as prescribed by European legislation, are applied throughout the Member States, while in some Member States the customs procedures are adapted to their national rules and regulations.<sup>359</sup> The

<sup>359</sup> Since customs procedures are defined at EU level by the UCC, Member States are obliged to adhere to these procedures and rules. However, the implementation of the common procedures and rules could vary across Member States.

ECA identified that the different approaches in various Member States for implementing controls on cross-border e-commerce may lead to distortions in the internal market.<sup>360</sup>

An example of a customs procedure for postal imports provided in the WCO-UPU Postal Customs Guide is depicted in Figure 50. Other examples, which deviate from this model to varying extent, depending on the national requirements in different Member States, are provided in this section.

Figure 50 Example of a postal customs procedure



Source: WCO-UPU Postal Customs Guide (2018).

Upon arrival of postal consignments in the EU, the designated operator in the Member State of destination is tasked with lodging the customs declaration and presenting the necessary consignments for customs control (e.g. consignments subject to import VAT and/or customs duty, or containing illegal or prohibited goods). Other general tasks to be carried out by designated operators relating to customs procedures, according to the tasks described by respondents to the WIK survey on designated operators, include:

- notifying the consignee of consignments placed under customs supervision;
- when required, collecting additional information from the consignee/sender;
- notifying the consignee of the amount of import duties and taxes payable and collecting this payment from the consignee on behalf of customs authorities;

<sup>360</sup> European Court of Auditors (2019), Special Report No 12/2019, E-commerce: many of the challenges of collecting VAT and customs duties remain to be resolved.

- temporary storage or warehousing of consignments subject to customs supervision; and finally
- delivering the customs cleared consignments to the addressee.

Some more specific customs tasks carried out by designated operators, as reported from the WIK survey, which vary across Member States, are presented in Table 24.

Table 24 Customs tasks of designated operators specific to certain Member States

Member State	Tasks of DOs related to customs procedures
Austria	Verify ITMATT data; Risk analysis of each dataset; Electronic submission of customs declarations; Customs inspection on demand
Belgium	Pay taxes, customs duty and other fees to the customs authority, in advance, on behalf of the consignee; Open packages in the event of incomplete or incorrect data on the (paper) CN 22 or CN 23 document, or if the document is missing
Croatia	Scanning of postal shipments
Czech Republic	Conduct X-ray scanning of items
Denmark	Calculate customs duty and tax
Estonia	Providing an online portal to recipients of postal items imported from outside of the EU enabling them to make the customs declaration themselves
Greece	Electronic submission of customs declaration
Hungary	Act on behalf of consignees as direct representative
Ireland	Pay customs duty and tax on behalf of consignee, in advance, to customs authority
Italy	X-ray scan 40% of consignments valued below €22; Calculate VAT and customs duty
Norway	Daily clearance of import duties by the following day
Portugal	Consignments valued above €22 require validation of the value and description of goods from the 'customers' (presumably, the supplier)
Romania	Acts as declarant (indirect representation) for consignments valued under €10 (VAT threshold in RO); Optional service to act as customs broker (direct representation) on behalf of addressee, including payment of customs duty, for items above €10
Spain	Calculate customs duty and tax; Electronic submission of customs declaration and communication with customs authority; Scan items for safety and security inspection by health and security agencies
Sweden	Calculation of duties and taxes
Slovenia	Collected customs duties are paid periodically to the customs authority; Provide a channel of communication between recipient and customs authority

Source: WIK survey on designated operators.

Moreover, certain tasks were identified from the responses of the WIK survey on customs administrations related to the application of customs and security laws performed by designated operators in different Member States, but which are not carried out by private transportation companies. These identified tasks are presented in Table 25. It should also



be noted that the Finnish and Hungarian customs administrations reported that there is no difference in the tasks performed by designated operators and private transportation companies, whereas the Slovenian customs administration stated that there are no specific tasks in place for the designated operator.

Table 25 Customs tasks carried out by designated operators, but not private transportation companies

Member State	Customs tasks of DOs not carried out by private transporters
Belgium	Open and check packages under customs supervision and set aside those packages that contain a risk to be handled by the appropriate authority, including setting aside packages for customs regarding customs related issues
Cyprus	Customs officers are assigned by the customs authority to different postal depots to carry out the necessary customs controls
Czech Republic	Scan items using X-ray machines
Estonia	Manually analyse the risk of postal items based on its own risk criteria and those set out by customs
France	Three main differences identified: <ul style="list-style-type: none"> <li>• La Poste must attach a CN 22 or CN 23 customs declaration to each parcel</li> <li>• EU rules on postal transit require La Poste to affix a yellow label on the outermost packaging of postal items brought into the EU and transported from one part of the customs territory to another</li> <li>• the volume of parcels being carried by any designated operator in the EU is far more significant than the volume carried by any other company.</li> </ul>
Slovakia	The designated operator is primarily only the transporter of the items and provides a channel of communication between the consignee and the customs administration

Source: WIK survey on customs administrations.

From the WIK survey responses, it is clear that postal operators have specific tasks related to customs that do not necessarily apply to express and other operators. The tasks performed by designated operators are aimed at simplifying and streamlining the customs procedures of imported postal items. This enables designated operators to clear postal items quicker than what express or other operators are able to clear similar parcels, since the latter have to comply with standard customs procedures.

*Designated operators may be authorised to complete certain customs formalities normally carried out by the customs administration*

In general, the customs authority receives the customs declaration from the designated operator and undertakes the necessary customs formalities, determines the duty and taxes payable, and clears the items for release for free circulation. If provided for by national customs legislation, designated operators may act on behalf of the customs authority to calculate the tax and import duty payable by the addressee, provided the amount is verified by the customs authority upon presentation of the goods for customs clearance. From the WIK survey on designated operators, the operators of the following Member States indicated that they are responsible for calculating the import duty and tax on postal consignments: DK, ES, IT, and SE (also see Table 24). This allows postal consignments to be customs cleared quicker while other operators and express carriers are not afforded the same authorisation.

### *Designated operators' role in collecting information for lodging the customs declaration*

The information required by the designated operator at destination to complete the customs declaration is provided by the sender, or designated operator at origin, either by exchange of electronic information (ITMATT) or on a standardised paper-based form, e.g. CN 22 or CN 23 customs declarations. In the case of paper-based declarations, it should be noted that the information shared thereon cannot be provided in advance. As a result, customs authorities in destination countries are currently required to manually review the declarations which can be a time-consuming process especially given the large number of goods sent by post as small packages, leading to delays in the process and hampering trade facilitation.

Additionally, if the information required to lodge the customs declaration is incomplete or inaccurate, it may lead to delays in clearing the consignments through customs and its delivery to the recipient. In cases where electronic systems are used to lodge the customs declaration, the system may even reject submissions of customs declarations with missing information. Generally, when this happens, the designated operator is tasked with requesting the addressee to provide the necessary documentation to complete the customs declaration. This has cost and service delivery implications for the designated operator at destination who has to appoint additional resources for completing the customs formalities. In some Member States (e.g. BE and RO), the designated operator may, with the authorisation from the customs authorities, open packages for which the data are incomplete or incorrect to validate the contents and its value and enable them to complete the customs declaration.

For the aforementioned reasons, improving the mechanisms for collecting and sharing information on postal imports is crucial for relieving the administrative burden on postal operators and customs authorities and for combatting fraud.<sup>361</sup> For example, Denmark has an automated customs system in place that enables risk assessment of customs declarations and VAT amounts are collected automatically, resulting in the release of legitimate consignments, not picked out for control, within 15 minutes.<sup>362</sup> The requirements of electronic advance data for postal consignments, as envisaged by the UCC ICS2 and the UPU CDS, can be reasonably expected to improve the collection and sharing of data, and thus improve customs and security procedures for postal consignments. In contrast to many designated operators, express carriers have already implemented electronic systems for tracking and tracing consignments and are thus in a good position to provide electronic information to customs authorities (see OECD 2018).

### *Designated operators' role as customs representative*

It is worth noting that the designated operator does not always fulfil the role of representative for the purpose of declaring the goods for release for free circulation, i.e. direct or indirect representation of the addressee (see Table 26). For example, in Slovenia, where postal consignments received from outside of the EU that are subject to relief from VAT and/or import duty, the designated operator will be regarded as the declarant and, if necessary, the debtor (acting as indirect representative). For postal imports not under VAT or import duty relief, the consignee is responsible to provide all documents and information required for customs clearance of the goods to the customs authority. Where the necessary information does not accompany the consignment, or it is incomplete, such that the designated operator requires clarification, an additional fee may be charged by the designated operator in accordance with their price list for customs services.

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<sup>361</sup> See OECD (2018), Misuse of small parcels for trade in counterfeit goods.

<sup>362</sup> WCO (2017). Study Report on cross-border e-commerce.

Table 26 Designated operator acting as customs representative

Survey question	Yes	No
Do you (the DO) act as a customs representative?	AT, BE, BG, CZ, EL, ES, FR, HU, IT, LT, MT, NL, NO, PT, RO, SI, UK	CY, DK, FI, HR, IE, PL, SE, SK

Source: WIK survey on designated operators.

In Member States where the designated operator does not act as a representative, they are not responsible for lodging the customs declaration. Instead, in accordance with the UCC, it is the responsibility of the consignee. Nonetheless, the consignee may decide to appoint the designated operator as his representative for customs purposes, where such services are provided by the designated operator. In contrast, private/express operators are generally regarded as being a customs representative.

In Member States where the designated operators indicated that they indeed act as a representative, there may be additional charges or handling fees which form part of the import duties payable by the consignee. The handling fees charged by designated operators vary considerably across Member States, and there is very little transparency on how these fees are determined. Table 27 provides examples of the fees charged by designated operators in different Member States for providing customs clearing services to the consignee.

Where designated operators act on behalf of the consignee as the declarant, they may also be regarded as the debtor and held liable to pay the tax and customs duty to the customs authority. The import charges (incl. customs processing fee charged by the designated operator) can then be collected from the addressee upon delivery of the consignment, e.g. in BE, HU, IE, NL, and SI. Conversely, it may be required that the addressee first pays the tax and customs duty to the designated operator (or in some cases make direct payment to the customs authority) before the goods can be delivered and released for free circulation, e.g. in DK and SE.

As mentioned before, private or express operators are generally regarded as a customs representative or declarant, therefore they carry more customs responsibilities than some designated operators and may even be held liable for paying tax and customs duty on behalf of the consignee.

Table 27 Customs service fees charged by designated operators

Customs service fees	DO	Description of fees
Flat rate fees	UK:	GBP 8
	CZ:	CZK 100
	PT:	€12
	EE:	€10 for consignments valued up to €150
	LT:	€8.69 for consignments valued up to €150
	DK:	DKK 160 for consignments with a value >80 DKK
	CH:	CHF 13
Fees based on type of customs procedure	ES:	Presentation to customs (P2C) fee: €5.60 Simplified procedure: €19.03 + P2C Standard procedure: €24.38 + P2C
	DE:	VAT collection: €6 Customs clearance: €28.50 (+P2C)
	NO:	Simplified procedure: NOK 149 Standard procedure: NOK 299
	SE:	VAT collection: SEK 75 VAT and customs collection: SEK 150
Fees based on the size or type of package, or the type of recipient	FR:	Small packet: €12 Parcel: €15 Express package: €21
	HU:	Commercial recipient: HUF 11,100 (~€33.70) Private recipient: HUF 3,500 (~€10.63)
Fees based on the value of the package	EL:	Value up to €22: €3 Value above €22 up to €150: €15 Value above €150 up to €500: €20 Value above €500 up to €1,000: €25 Value above €1,000: €50
	IE:	1% of the value of the packet, minimum €10

Source: WIK survey responses from designated operators and WIK research.

### *Designated operators' role in dealing with returned goods*

When imported goods are returned, for whatever reason, an application for the invalidation of the customs declaration needs to be submitted by the declarant in order to receive reimbursement of import duties paid on the goods. From the WIK survey responses, it is evident that the EU regulations relating to returns of imported goods are implemented in the Member States. Since the application for invalidation of the customs procedure has to be made at the customs authority by the declarant, the involvement of the designated operator is limited to cases where they indeed act as the declarant. The procedures relating to returns and repayment of customs duties or taxes in Member States, according to WIK survey responses of designated operators are presented in Table 28.

Table 28 Procedures related to returns and repayment of customs duties and taxes

Member State	Please describe the procedure in case of returns/repayment of customs duties or taxes
Austria	Electronic application needed to invalidate the customs declaration; Export verification required to get a refund of duty/tax; Simplifications to the processes are under review
Belgium	Returns are re-exported from the customs warehouse or temporary storage; Repayment of duties and taxes are exceptional, since the DO only pays the duties or taxes upon successful delivery
Denmark / Sweden	As items do not leave the office of exchange/customs area before the duties and taxes are paid, repayment does not occur
Greece / Poland	If items are delivered, the DO is not involved in the procedure for returns or repayment of customs duties and taxes; For undelivered items, the cancellation of the customs declaration by the customs authority is done on the DO's request
France	Returned goods are systematically presented to customs office who validates the non-delivery of the shipment – reasons for non-delivery is required and the package must be full; Each request requires the invalidation of the initial import declaration; The shipment must be open to a "Return to Origin" procedure and include an export customs declaration; The DO files the application for the refund; The refund is paid electronically to the DO's bank account; Returned goods must be declared by the DO within 3 months if there customs duties and within 3 years if there were VAT
Hungary	The DO offers an export postal customs agent service for a fee (approx. €12)
Ireland	For undelivered items, the DO presents them to customs and requests reimbursement for the charges involved – the item is then returned to the origin operator
Italy	The DO only requests repayment of duties above €10 in case of returns of parcels
Norway	The DO has to apply to customs for repayment of duties, and to tax authorities for repayment of VAT, complicating the process
Portugal	Undelivered items are returned to customs warehouse for export authorisation; Following the export authorisation and dispatch to the origin, a refund is requested from customs
Romania	If the DO has already paid customs duty on behalf of the addressee, and the items are not delivered, the DO has to complete a file for every undelivered item and produce documents that the item has left the EU, with original content intact. Then repayment of import duties (VAT and customs) can be requested
Slovenia	Undelivered items returned directly from temporary storage facility; Invalidation of declaration through a tailor made IT solution for the DO
United Kingdom	If recipient doesn't pay the taxes, duties and other fees due within 21 days from the date on the notification received, the item will be returned to the sender

Source: WIK survey on designated operators.

Where goods are returned by the recipient, it is their responsibility to apply for a refund of the customs duties and taxes from the customs authority, as is the case in FI, LT, and SI. In fact, in BG and ES, it is reported that there are no processes in place for designated operators to deal with returned goods and the repayment of customs duties and taxes, or it doesn't apply to them, e.g. in CY, and EL. On the contrary, MT reported that the designated operator makes the request for the refund from the customs authority before returning the postal item.

In other cases, where postal consignments are not delivered before the payment of the taxes and customs duties are received from the addressee, e.g. in BE, DK, SE, and UK, there is no need for the repayment of such charges since payment was never made. Conversely, in IE, PL, PT, and RO, designated operators pay the customs duties and taxes on behalf of the addressee and, in the case of undelivered postal consignments, they are responsible for the application for the reimbursement of these charges from the customs authorities for their own account. This would be a similar procedure for express operators, since they are generally regarded as a customs representative or declarant.

### *Differences of designated operators' roles in relation to express operators*

The roles of postal operators in the EU under the current regulatory framework differ considerably across Member States regarding specific tasks carried out by designated operators as indicated from the WIK survey results (see Table 24). Nonetheless, the common customs procedures and rules related to postal consignments appear to be followed in all Member States. In contrast to other operators, who have to comply with standard customs procedures, a designated operator may be permitted by the customs authority to carry out certain tasks in the customs procedure, some on behalf of the customs authority, that allow them to clear postal items quicker and with less hassle (see Table 25).

The different procedural requirements relating to VAT, customs and security of goods imported by designated operators and express carriers, resulting from the current regulatory framework, are highlighted in Table 29.

Regarding electronic submission of customs declarations, express operators appear to be better poised as they already have such systems in place which could be integrated to communicate with customs authorities, whereas postal operators would require significant investment in setting up new electronic systems to exchange customs information with customs authorities electronically. The requirements of electronic advance data for postal consignments, as envisaged by the UCC ICS2 and the UPU CDS, can be reasonably expected to improve the collection and sharing of data, and thus improve customs and security procedures for postal consignments.

The role of designated operators in dealing with returned goods depends on whether they acted as the declarant or as a customs representative on behalf of the consignee. If that is the case, then the designated operator will be responsible for submitting the application for the invalidation of the customs declaration and for the application for repayment of import duties on the goods from the customs authority (see Table 28). This would be a similar procedure for express operators, since they generally are regarded as a customs representative or declarant.

Table 29 Procedural differences of designated operators and express carriers

	Economic operator	Current regulatory framework
VAT	DO	<ul style="list-style-type: none"> <li>Below EUR 22 – no VAT collection</li> <li>Below EUR 150 – VAT collection from consignee</li> <li>VAT clearance typically in Member State of destination</li> </ul> <p>There is a perceived lack of compliance with procedures for VAT and customs duty collection by DOs compared to express operators.</p>
	Express	<ul style="list-style-type: none"> <li>Below EUR 22 – no VAT collection</li> <li>Below EUR 150 – VAT collection from consignee, or liable to pay VAT on behalf of consignee in some cases</li> <li>VAT clearance typically in Member State of entry</li> </ul>
Customs	DO	<ul style="list-style-type: none"> <li>Simplified customs declarations, e.g. CN 22/23 forms</li> <li>Below EUR 22 – no customs declaration</li> <li>Below EUR 150 – declared for release for free circulation upon presentation to customs</li> <li>Not always regarded as the declarant or customs representative; therefore</li> <li>Unclear/inconsistent extent of liability for false/incomplete information on customs declarations</li> </ul>
	Express	<ul style="list-style-type: none"> <li>Standard customs declarations</li> <li>Below EUR 22 – declared for release for free circulation upon presentation to customs</li> <li>Typically regarded as the declarant or customs representative, in some cases liable to pay customs duty and taxes on behalf of the consignee</li> <li>Could incur sanctions or revocation of the status as AEO if they don't comply with data accuracy and completeness of customs formalities</li> </ul>
Security	DO	<ul style="list-style-type: none"> <li>Lodging of ENS waived provided the data required (CN 22/23) are accepted by customs</li> </ul>
	Express	<ul style="list-style-type: none"> <li>Below EUR 22 – lodging of ENS waived if risk analyses can be carried out by the customs authority given the information contained in, or provided by, the system of the express carrier</li> <li>Already providing detailed electronic data for each consignment prior to arrival at the port of entry; and</li> <li>Already providing PLACI (7+1) before loading of goods on the aircraft</li> </ul>

In conclusion, it is clear that under the current customs and VAT regime designated (postal) operators are afforded more flexibility in their responsibilities than express or other operators, which allow postal consignments to be cleared with less hassle and fewer requirements compared to an express consignment containing the same goods.

### 6.1.5 Liability for data accuracy and completeness of the customs declaration in the current system

The UPU Convention Regulation Article 20-001, paragraph 1, states that “designated operators shall accept no liability for customs declarations”. It continues to say that senders are solely responsible for completing customs declarations. To assist senders and facilitate swift clearance of items, designated operators should inform them on how to comply with customs formalities, and to ensure that CN 22 and CN 23 declarations are completed in full. Additionally, UPU Convention Article 23, paragraph 3, also states that

“designated operators shall accept no liability for customs declarations in whatever forms these are made or for decisions taken by the Customs [authority] on examination of items submitted to customs control.”

This exemption does not apply to private or express carriers as authorised economic operators (AEOs) who could incur sanctions if they do not comply with the due diligence rules regarding data accuracy and completeness of customs formalities. These sanctions may include the suspension or even the revocation of the status as AEO that would deeply damage their reputation as a credible service provider and would therefore harm their business significantly.<sup>363</sup>

#### *Does this liability exemption contradict the UCC?*

According to Article 15 of the UCC, any person directly or indirectly involved in the accomplishment of customs formalities or in customs controls shall provide customs authorities with the necessary documents and information, in an appropriate form, to complete those formalities and controls. Furthermore, the person (or the representative of such person) who lodges the customs declaration shall be held responsible for the accuracy and completeness of the information given in the customs declaration and supporting documentation, and, where applicable, for compliance with all of the obligations relating to placing goods under the customs procedure concerned, or to conduct the authorised operations.

In other words, where postal operators act as a customs representative they are liable for the accuracy and completeness of the customs declaration – the same applies to express carriers that typically act as a customs representative.

It is clear that there is inconsistency between the UCC and the UPU Convention regarding the liability of designated operators for the submission of inaccurate and incomplete customs data, which leads to uncertainty about which rule takes precedence. This issue was also raised at the 2<sup>nd</sup> Public Stakeholder Workshop related to this study, where opposing views of the stakeholders were tabled. Therefore, there is a need for clarification on how the rules should be applied and consideration should be given to harmonising the different sets of rules thereby removing any uncertainty and confusion in future.

#### *Do designated operators face penalties or fines for submitting incomplete or inaccurate information?*

Whether penalties, fines or sanctions are imposed on postal or express operators is a matter of national customs legislation, which may vary considerably across Member States. There is a lack of consistency and transparency regarding the extent to which designated operators may be held liable in Member States. Moreover, this leads to problems in the enforcement of liability for designated operators in the EU. This is evident from the WIK survey responses of designated operators, where it was reported that in a number of Member States, designated operators (just like any other declarant) may not be exempt from penalties or fines for the submission of incomplete or inaccurate customs declarations pursuant to their respective national customs legislations (see Table 30).

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<sup>363</sup> Interview UPS, 15 July 2020.



Table 30 Exemption of designated operators from penalties or fines for submission of incomplete or inaccurate security or customs data

Exempt from liability for information submitted via:	Yes	No	Uncertain / No answer
Advanced Electronic Data	DK, EL, MT, NL, NO, PT, SE, UK	AT, BG, CY, CZ, ES, FI, FR, HR, HU, IE, IT, LT, RO, SI	BE, PL, SK
CN 22 or CN 23 customs declarations	DK, EL, MT, NL, NO, PL, PT, RO, SE, UK	AT, BG, CY, ES, FI, FR, HR, HU, IE, IT, LT, SI	BE, CZ, SK

Source: WIK survey responses from designated operators.

Note: Following the entry into force of the ICS2 and the new VAT rules, it will be required that an electronic declaration be submitted for all goods imported into the EU, which may invalidate the exemption relating to paper-based customs declarations.

A considerable challenge facing designated operators and customs administrations alike relates to missing or inaccurate information provided by senders for completing customs declarations, including electronic and paper-based declarations (respondents citing missing or inaccurate information as a significant challenge include BE, CY, ES, FR, HU, LT, NL, NO, RO, and SI). Table 31 presents some measures implemented by designated operators in attempting to ensure that the electronic advance data that they receive are accurate.

Many respondents indicated that designated operators are dependent on the information they receive from third country postal operators and that there is no practical way to ensure that the data provided by third country postal operators are complete and accurate. In this regard, a feasible solution is to encourage closer cooperation between EU and foreign designated operators. In this regard, work has already been done to improve the quality of data received from non-EU countries.<sup>364</sup> Another possibility involves imposing sanctions on foreign operators that do not comply with providing complete and accurate electronic customs information.

<sup>364</sup> Feedback from Correos, Spain during the 2<sup>nd</sup> Public Stakeholder Workshop for this study presented by WIK-Consult on 22 September 2020.

Table 31 How do designated operators ensure that electronic advance data is accurate?

Member State	How do you (the DO) ensure that information provided in Advanced Electronic Data is accurate?
Austria	Plan to implement an internal risk analysis tool for ITMATT data
Belgium	Can only insist to our customers (sellers/trade partners) on the importance of complete and accurate data to ensure clearance without delay at destination
Bulgaria	Check and control – implying opening and confirming contents of package
Denmark	Can only follow up that the information is there
Spain	Can only advise export and import customers on what data should be provided and how to provide it, e.g. by website, data capture guide, or other channels.
France	Non-EU postal operators have to ensure they are compliant with EU and/or UPU standards. It will be really difficult to ensure the availability of data required by the EU that go beyond the ITMATT standard.
Croatia	Additional controls in the exchange office
Hungary	Data capturing software is provided for commercial and private individuals – currently, only for parcels. Certain data fields are marked as mandatory for products from outside the EU. Furthermore, format controls are applied for certain fields, e.g. e-mail has to have a specific format.
Ireland	Every data capture platform includes a declaration, which is the same as on physical documents CN 22, CN 23, etc. Physical documents generated as part of the data capture process requires a customer declaration and signature.
Italy	If further information is need, the recipient is contacted
Malta	Field format verification
Netherlands	Provide explanatory notes on completing the form, and screening of postal parcels
Portugal	Provides a Clearance Portal, allowing for easy exchange of information between the DO and the recipient.
Romania	Compare the electronic data with the information available on the CN 22/CN 23 attached to the items. Missing / incomplete / inaccurate data are entered manually.
Slovenia	Additional procedures to check items after arrival

Source: WIK survey on designated operators.

*What is the position of customs administrations on imposing penalties or fines on designated operators for submitting incomplete or inaccurate data?*

While some leniency may be granted by customs authorities due to the reliance on the information provided by the sender<sup>365</sup> and for minor mistakes which can easily be corrected, customs authorities maintain that it remains paramount that complete and accurate information be submitted. Descriptions of the extent to which designated

<sup>365</sup> From the panel discussion at the 2<sup>nd</sup> Public Stakeholder Workshop for this study presented by WIK-Consult on 22 September 2020, DG TAXUD confirmed that if a designated operator can prove that they submitted the information received from the origin, it will limit their liability.

operators are held liable in different Member States are provided in Table 32. According to the WIK survey responses, the best way to ensure complete and accurate information is received from the sender at origin is to develop or improve the cooperation between the sender at origin and the destination designated operator.

Table 32 To what extent, if any, is the Designated Operator liable to fines or other penalties for submission of inaccurate or incomplete customs and security data?

Member State	Extent of liability for designated operators
Belgium	<ul style="list-style-type: none"> <li>The designated operator is liable if it knowingly tries to deceive customs or commits fraud.</li> <li>The designated operator is not liable for inaccurate or incomplete customs data, because of their reliance on third party data and their inability to refuse goods as a universal service provider.</li> </ul>
Cyprus	<ul style="list-style-type: none"> <li>No proviso is made in the customs legislation regarding the designated operator.</li> <li>During a Committee meeting on ICS2, the Commission informed Member States that no penalties should be imposed.</li> </ul>
Estonia	<ul style="list-style-type: none"> <li>Designated operator is held liable on the same basis as any other person.</li> </ul>
Finland	<ul style="list-style-type: none"> <li>The fines or other penalties imposed on the designated operator for the submission of inaccurate or incomplete customs and security data are determined by the national customs legislation.</li> </ul>
France	<ul style="list-style-type: none"> <li>The designated operator is responsible for the accuracy and completeness of the information given in the customs declaration under Article 15 of the UCC.</li> <li>When acting in indirect representation (most situations), under Article 18 of the UCC, the designated operator is liable to fines or other penalties as provided for in the French Customs Code.</li> </ul>
Croatia	<ul style="list-style-type: none"> <li>National legislation determines how the customs legislation of the EU must be implemented.</li> <li>Submission of incorrect data in the entry summary declaration is a serious customs offense</li> </ul>
Hungary	<ul style="list-style-type: none"> <li>The designated operator is normally liable if they lodge the relevant declaration (as a representative), but not for minor mistakes.</li> <li>An incomplete declaration is refused by the IT system.</li> </ul>
Ireland	<ul style="list-style-type: none"> <li>Currently no liability as no electronic transmission of data is available until the upgrade of the National Import System (referring to Article 144 of the UCC-DA).</li> </ul>
Lithuania	<ul style="list-style-type: none"> <li>Like other operators, the designated operator is liable to administrative penalties for the submission of incomplete information to the customs authorities in accordance with national law (Code of Administrative Offenses).</li> </ul>
Slovenia	<ul style="list-style-type: none"> <li>There are no specific fines or penalties for designated operators – they are liable as any other declarant.</li> </ul>
Slovakia	<ul style="list-style-type: none"> <li>Penalties are awarded for violation of the national customs legislation (§72 of Customs Act No. 199/2004 Coll., as amended) relating to “inaccurate or incomplete data in the declaration”.</li> </ul>

Source: WIK survey for customs administrations.

Customs administrations were asked whether they foresee any differences to the rules for imposing fines or penalties on designated operators for submission of incomplete or

inaccurate PLACI data (as required by ICS2 Release 1) compared to other transportation companies. Only three Member States responded, providing mixed results, which follows:

- Belgium opined that differences to the rules for imposing fines are foreseen due to the nature of designated operators, and mentioned the fact that they are required under UPU rules to accept shipments (private transportation companies operate under different circumstances).
- Estonia indicated that there are no differences for imposing fines or penalties between designated operators and other transportation companies.
- France explained that the EU common repository (IT system) may automatically reject incomplete PLACI data, regarding mandatory information. Therefore, it would be up to each Member State to implement a control policy up to the implementation of ICS2. Nonetheless, processing differences between postal and express operators are not foreseen.

#### *What does this mean for implementing electronic advance data?*

The lack of liability of designated operators for violations of customs requirements is also a major concern relating to the implementation of the GPM.<sup>366</sup> However, with the entering into force of the UCC ICS2 in 2021, designated operators and express carriers will be required to submit the minimum ENS data prior to loading the aircraft, which imposes some liability on the designated operator, and express carrier, at destination to ensure the data is complete and accurate. Otherwise, in the absence of electronic data, the information will have to be entered into the system manually by the designated operator at destination. Failing to provide the minimum ENS data will result in a consignment not being shipped. For the non-EU postal operators, or senders, they will have to provide complete and accurate ITMATT data to the designated operators at destination and be prepared to receive referral messages where additional information on specific items is requested.<sup>367</sup>

#### 6.1.6 Conclusion

The current framework regarding VAT, customs and security regulations makes provisions for simplified procedures for postal consignments and exemptions from VAT and import duties for low-value consignments. As a result, designated operators are afforded more convenient customs procedures for goods sent by post compared to express and other operators for importing similar goods. Furthermore, the relief or exemption from VAT for low-value consignments benefits non-EU retailers and online marketplaces, since similar goods sold in the EU are subject to VAT. Consequently, the EU has proposed reforms to the regulations to address these situations which will enter into force in 2021. These reforms are discussed in the next section.

The UPU Convention sets out rules for designated operators regarding the treatment of international postal services, which include the use of CN 22/23 forms as customs declarations. These forms are traditionally paper-based which present certain challenges and limitations which have led to the development of electronic exchange of such information (ITMATT messages or electronic CN 23).

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<sup>366</sup> See WIK-Consult (2019), Development of Cross-border E-commerce through Parcel Delivery.

<sup>367</sup> UPU. 2020. POC C1 CG 2020.1-Pres 7c. Issues relating to electronic advance data, ICS2, European Union VAT update.

Additionally, for improving the safety and security of postal imports the UPU has developed a system (the GPM) whereby electronic information is exchanged between designated operators and designated operators and customs authorities in advance, i.e. before loading the items on the aircraft. The electronic advance data (EAD) allows customs administrations to facilitate its customs decisions and ensure more efficient customs processes. The GPM is expected to be launched on January 1st, 2021 but doubts remain whether designated operators will have the necessary systems in place by that date. Data accuracy and completeness also remain issues that may hamper the successful implementation of the GPM and EAD.

Regarding the role of postal operators relating to customs procedures, the results from the WIK surveys indicated that there are many differences in the tasks that designated operators carry out compared to express or other operators. Furthermore, in the application of the prevailing customs regulations, designated operators' roles as customs representatives and dealing with returned goods also differ considerably across Member States. The simplified customs procedures and certain authorised tasks of designated operators enable them to clear postal items quicker than express or other operators for similar items, since the latter have to comply with standard customs procedures.

Finally, the UPU exempts designated operators from liability for customs declarations in whatever form they are submitted. This suggests that there is a conflict with the UCC which determines that postal operators are liable for the accuracy and completeness of customs declarations where they act as a customs representative. There is a lack of consistency and transparency regarding the extent to which designated operators may be held liable in Member States, which leads to problems in the enforcement regarding liability of designated operators in the EU for data accuracy and completeness of customs declarations.

## **6.2 Reforms of EU import VAT and customs procedures in 2021**

With reference to earlier sections in this chapter, it was mentioned that the current EU customs and VAT regulations allow for certain privileges relating to the importation of low-value consignments, especially for items imported in small packages by post. Given the rapid growth in global e-commerce, increasing volumes of small and low-value items are shipped by postal and express operators to consumers in the EU, putting carriers and customs authorities under increasing pressure to facilitate e-commerce trade while also ensuring the implementation of necessary customs and security procedures.

The implementation of the import VAT reform was originally scheduled for January 1<sup>st</sup>, 2021. The launch was postponed to July 1<sup>st</sup>, 2021 due to the COVID-19 pandemic so that this reform starts later than the ICS2 Release 1 that is scheduled for March 15, 2021.

### **6.2.1 Diminish VAT fraud: Import VAT for all commercial low-value consignments**

The EU Directive 2017/2455/EU sets out to remove the relevant provisions relating to the VAT exemption (i.e. de minimis VAT rule or LVCR for VAT) for low-value consignments, which will take effect on 1 July 2021.

Under the current VAT exemption, imported goods valued below the value threshold (€10/€22, depending on national legislation of Member States) are comparatively cheaper than if the same goods are bought within the EU and subject to VAT – this puts EU sellers at a competitive disadvantage. As a result, a substantial amount of potential VAT revenue

is being lost by Member States (estimated approximately EUR 5 billion per year).<sup>368</sup> By requiring all goods imported to the EU to be charged VAT, the new VAT rules will allow for more equal competition between EU and non-EU (e-)retailers, and also broaden the scope for VAT revenue collection.

Furthermore, the removal of the VAT exemption on low-value consignments aims to address VAT evasion by fraudulent sellers, who report items as having a lower value to benefit from such an exemption. It may also reduce the opportunity of counterfeit goods being imported, that is typically cheaper and may have benefited from the VAT exemption. The ECA (2019) agrees that the problems of undervaluation and import of goods ineligible for the LVCR are being addressed by the new rules, but they are likely to continue to exist, albeit to a lesser degree.<sup>369</sup> Moreover, the requirements of new articles added to the VAT Directive<sup>370</sup> on improved cooperation between tax authorities and payment service providers are considered very useful to combat undervaluation fraud.<sup>371</sup>

Removing the LVCR for VAT, however, means that more consignments would have to be cleared for VAT through customs upon arrival in the destination Member State. Therefore, the European Union has made provisions to simplify the collection of VAT for consignments with goods valued under €150 by introducing an Import One Stop Shop (IOSS) and special arrangements, tailored in particular to the business model of postal and express/courier operators, when the IOSS is not used.

Non-EU online sellers or electronic interfaces/platforms (EI) can register on the IOSS,<sup>372</sup> for which they will obtain a unique VAT IOSS number, and which will allow them to charge VAT to the online buyer upon sale of the goods according to the VAT rate of the Member State of consumption,<sup>373</sup> i.e. the moment of taxation is shifted from the physical importation to the moment of the online purchase. As a result, the seller or electronic platform becomes responsible for collecting the VAT from the buyer/consignee. The seller or electronic interface then has to declare and pay the VAT collected to the relevant tax authorities of the Member State where they are registered for IOSS on a monthly basis, i.e. they are not required to declare and pay VAT after every transaction. The new rules place increased obligations on online marketplaces,<sup>374</sup> however, they will benefit from more reliable customs procedures on importation enabling guaranteed customer service and smoother importation processes which reduce the lead time of the e-commerce consignments.

The registration platform that allows non-EU online sellers and EIs to apply for IOSS VAT numbers will start in April 2021, thus three months before the LVC VAT relief will be

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<sup>368</sup> European Commission. 2016. Proposal for a Council Directive amending Directive 2006/112/EC and Directive 2009/132/EC as regards certain value added tax obligations for supplies of services and distance sales of goods. COM (2016) 757 final, 01.12.2016.

<sup>369</sup> UPS also referred to the ECA study and remarked that the VAT e-commerce package will not solve the VAT evasion problem – comment from UPS during the panel discussion of the 2<sup>nd</sup> Public Stakeholder Workshop for this study presented by WIK-Consult on 22 September 2020.

<sup>370</sup> Articles 243a to 243d of the VAT Directive.

<sup>371</sup> European Court of Auditors (2019), Special Report No 12/2019, E-commerce: many of the challenges of collecting VAT and customs duties remain to be resolved.

<sup>372</sup> “Non-EU vendors will be able to make use of the OSS by designating a person established within the EU (“intermediary”) to fulfil their VAT obligations under the OSS in their name and on their behalf. Article 369m is therefore added to the RVD [new VAT Directive]. This Article makes further clear that, apart from designating an intermediary, a non-EU person can be duly authorised to use the OSS if certain conditions are met.” (EFS 2018, p. 14).

<sup>373</sup> It should be ensured that traders can only introduce a valid VAT rate in the IOSS VAT returns. See ECA (2019).

<sup>374</sup> EuroCommerce (2019). Creating a level playing field for retail in Europe.

abolished. As of July 2020, it is therefore not possible to provide a reliable forecast to which extent the most important online platforms, including the Chinese platforms AliExpress, JD.com, Wish and other international platforms like Amazon and eBay as well as large non-EU e-retailers, will register for the IOSS number. However, to avoid the disruption of the postal/express e-commerce imports (as experienced during the COVID-19 pandemic for international postal consignments) we assume that these platforms have a strong incentive to comply with the new rules. Therefore we expect that after a transition period the share of low-value e-commerce consignments without an IOSS number will most probably become negligible. This step might even strengthen the already strong position of online platforms for international e-commerce sales. Moreover, as platforms become liable for import VAT this may enhance their efforts to check applications of potential online merchants for their platforms with more due diligence.

In order to improve enforcement of the collection of VAT, the ECA (2019) recommends that Member States should produce periodic estimates of the compliance VAT gap on e-commerce and that the Commission should assist with developing a methodology in this regard.

Postal operators will receive electronic information (ITMATT) on the consignment that allows them to lodge a customs declaration which should include the VAT IOSS number.<sup>375</sup> Private/express operators already receive electronic information on their consignments. The electronic information under the IOSS should also include the IOSS number of the seller/platform. Therefore, when the goods are presented to the customs authority with a valid VAT IOSS number following their arrival in the EU,<sup>376</sup> they are not required to collect VAT on these goods, thereby speeding up the customs process.

In the event that a supplier or electronic platform opts to not use the IOSS, or where an IOSS number is incorrectly used,<sup>377</sup> special arrangements for postal operators and couriers are set in place regarding the collection and payment of VAT to customs authorities at importation, aiming to simplify and facilitate the customs process, namely:

- Postal and express service providers are permitted to make monthly payments to customs authorities for the VAT they effectively collect from the consignee;<sup>378</sup>
- Member States may allow using the standard VAT rate for all goods to facilitate the declaration process.

It is important to note that the IOSS and special arrangements will only apply to goods that are valued under €150 and are not subject to excise duties. Furthermore, the special arrangements also only apply if the addressee resides in the Member State of importation.

While the relief from import duties for goods with an intrinsic value not exceeding €150 (Article 23(1) and Article 25(1) of the CSR) will remain, it will be required to lodge an import customs declaration (with a reduced dataset)<sup>379</sup> for each consignment. Furthermore, customs authorities will be required to collect the VAT information from the

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<sup>375</sup> The VAT IOSS number will prove that VAT is declared under the IOSS scheme and will allow customs authorities to identify these consignments. (See EFS 2018).

<sup>376</sup> Goods subject to IOSS can be declared for release for free circulation anywhere in the EU.

<sup>377</sup> In the event of a wrong IOSS number, the customs declaration needs to be amended to indicate that the goods be imported under the special arrangements. If VAT was already paid under the wrong IOSS number, and the consignee accepts to pay VAT under the special arrangements, the VAT paid to the vendor can be reclaimed by the consignee.

<sup>378</sup> Not to be confused with the Swedish case in Section 6.2.1, which uses a different approach where the DO may be held liable for the payment of VAT.

<sup>379</sup> The reduced declaration refers to column H7 of the data requirements table in Annex B of the UCC-DA.

customs declaration and share it with the Commission's Surveillance system that will make monthly IOSS listings available, containing information on the total value of goods imported under a given IOSS ID number during a given month, to the relevant tax authorities. This is regarded as a positive step towards achieving more transparency in the implementation and enforcement of the IOSS.

In accordance with Article 143a of the UCC-DA, which deals with customs declarations for consignments of low value, from the date of the entry into force of the new VAT e-commerce rules, a person may lodge a customs declaration for release for free circulation containing the specific dataset referred to in Annex B (of the UCC-DA) in respect of a consignment which benefits from a relief from import duty,<sup>380</sup> under the condition that the goods in that consignment are not subject to prohibitions and restrictions. The specific dataset in Annex B refers to column H7 of the data requirements table, also referred to as the "super-reduced dataset", which is based on the contents of the electronic CN 23 declaration (ITMATT message) but claimed to require three times less data than a standard customs declaration.<sup>381</sup>

Moreover, regarding the customs declaration for goods in postal consignments, Article 144 of the UCC-DA determines that a postal operator may lodge a customs declaration for release for free circulation containing the reduced dataset, as referred to in column H6 of the data requirements tables in Annex B.<sup>382</sup> This customs declaration for release for free circulation of goods in postal consignments other than those referred to in Article 143a of the UCC-DA shall be considered to have been lodged and accepted by the act of their presentation to customs, provided the goods are accompanied by a CN 22 declaration or a CN 23 declaration.

The aforementioned reforms are aimed at simplifying customs procedures of low-value consignments on importation for both designated operators and express carriers<sup>383</sup> as well as levelling the playing field between EU and non-EU sellers. The Commission also noted that the new VAT rules will "in no way interfere with other customs rules and regulations concerning safety and security, nor with the existing customs simplification measures already in place."<sup>384</sup> Furthermore, the ECA (2019) found that the EU legislation aligns with the main principles of the WCO's immediate release guidelines, which are particularly relevant for postal and courier freight.<sup>385</sup> Table 33 provides an overview of the data requirements for the import clearance of postal consignments as of 1 July 2021.

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**380** Refers to Articles 23(1) and 25(1) of the CSR regarding goods with an intrinsic value below €150.

**381** According to Article 143a(2) of the UCC-DA, the super-reduced dataset for the release for free circulation will not apply for imported (or re-imported) goods that are exempt from VAT in accordance with Article 143(1)(d) of the EU VAT Directive (Directive 2006/112/EC) and, where applicable, moved under an excise duty suspension in accordance with Article 17 of Directive 2008/118/EC. Article 143(1)(d) of the VAT Directive deals with exemption of import VAT for imported goods dispatched or transported from a third territory or a third country into a Member State other than that in which the dispatch or transport of the goods ends. Article 17 of Directive 2008/118/EC deals with the movement of excise goods under a suspension of excise duty within the territory of the Community, including where the goods are moved via a third country or a third territory.

**382** Column H6 of Annex B of the UCC-DA is applicable, provided that the value of the goods does not exceed €1 000, no application for repayment or remission is made in relation to them, and they are not subject to prohibitions or restrictions

**383** UPS and Post Italiane stressed that the same rules should apply uniformly to all operators – comments during the 2<sup>nd</sup> Public Stakeholder Workshop for this study presented by WIK-Consult on 22 September 2020.

**384** Europese Fiscale Studies (2018). Modernization of e-commerce imports into the EU – A customs and VAT perspective.

**385** European Court of Auditors (2019), Special Report No 12/2019, E-commerce: many of the challenges of collecting VAT and customs duties remain to be resolved.



Table 33 Summary of data required for the release of imported postal consignments

Value	Present	From 1 July 2021
Up to €22	<ul style="list-style-type: none"> <li>No entry summary declaration (ENS)</li> <li>No customs declaration</li> <li>Presentation to customs (often using CN 22)</li> </ul>	<ul style="list-style-type: none"> <li>ENS* (CN 23 + carrier filing**)</li> <li>Customs declaration with super-reduced dataset (H7)</li> </ul>
Between €22 and up to €150	<ul style="list-style-type: none"> <li>No ENS</li> <li>Customs declaration (CN 22/CN 23) for VAT purposes</li> </ul>	
More than €150	<ul style="list-style-type: none"> <li>ENS (Annex 9, Appendix A of Regulation 2016/341/EU)</li> <li>Standard customs declaration CN 22/CN 23 for VAT and customs purposes</li> </ul>	<ul style="list-style-type: none"> <li>ENS* (CN 23 + carrier filing**)</li> <li>Standard customs declaration (possibility with reduced dataset (H6) up to €1 000)</li> </ul>
Items of correspondence	<ul style="list-style-type: none"> <li>No ENS</li> <li>No formal customs declaration</li> <li>Declaration by any other act: crossing of borders</li> </ul>	<ul style="list-style-type: none"> <li>No changes foreseen to current rules</li> </ul>

Source: DG TAXUD presentation “EU customs procedures and import VAT: On the way to 2021” at WIK Postal Seminar, 9-10 December 2019, Königswinter.

Notes: \*The submission of an ENS is an obligation of the UCC ICS2 Release 1 that will apply as of 15 March 2021. The ENS will comprise the dataset of column F43 (supplemented by F44) of Annex B of the UCC-DA; \*\*The carrier filing will only be applicable from the implementation date of UCC ICS2 Release 2, i.e. 1 March 2023.

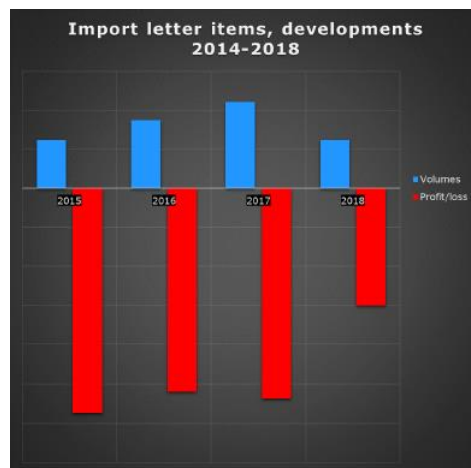
An example of the impact from removing the VAT exemption on low-value imports from outside the EU is presented for Sweden in Case study 2. Basically, this example illustrates the potential impact of the special arrangement on online purchases from China for the case that the non-EU online seller / EI does not apply for an IOSS number. Most notably, the volume of postal e-commerce imports halved in the same year that the VAT exemption was removed. This example shows that the enforcement of VAT collection on all postal e-commerce imports by the postal operator resulted to a significant reduction in e-commerce purchases from the Chinese online platform Wish because of the time-consuming, expensive and extremely inconvenient process for the consumers. Consequently, the online platform Wish had a strong incentive to establish the vendor-based VAT collection model which allows for a smoother handling at the customs office and thus shorter lead times.

## Case study 2 The effect of no VAT exemption in Sweden

In January 2018, the Swedish customs authority (Tullverket) decided that PostNord Sweden has to immediately ensure VAT declarations and payments for all items from “the first” SEK on consignments from non-EU countries. It was negotiated to start on 1 March 2018. The new rules are applicable to all extra-EU consignments of a value up to €150 (SEK 1,600). They require that PostNord Sweden is responsible to collect VAT from the addressee of low-value consignments. To handle this change, PostNord established a temporary customs warehouse as well as new procedures and hired around 450 new employees. The company invested in a new IT-system for handling customer notifications and payments with a capacity to handle up to 150,000 items a day. Additionally, PostNord Sweden introduced a handling fee of SEK 75 (ca. €7).

In June 2018, a simplified VAT handling solution was launched together with one of the major Chinese e-commerce platforms (Wish). With the new system, Wish collects the VAT upon purchase, places a special label on the packages and pays a handling fee to PostNord. In addition, electronic information about the items are sent to PostNord in an EDI file. On arrival in Sweden, the label is scanned and with prepaid VAT, the consignment can be VAT declared immediately and, after approval by the Customs Office, forwarded to the recipient. At the end of the year, handling was moved to a new customs warehouse in Rosersberg next to Stockholm. PostNord invested in advanced OCR and sorting technology to improve the level of automation in handling these consignments.

PTS highlighted that PostNord had to change its procedures in a very short period of time to be able to charge VAT. The rapid change in operations led to long lead times in the handling of the consignments, resulting in reduced reliability in deliveries, an increased number of complaints and thus long waiting times in PostNord’s processing of complaints. This situation has significantly improved until end of 2018. The new procedures have halved the number cross-border import letters (see the next figure) in 2018.



Sources: PostNord (2019), Annual and Sustainability Report 2018 and PostNord (2018), PostNord and Wish in cooperation for smoother e-commerce, media report of 14 June 2018; PTS, Swedish Postal Market 2019; Anders Hildingsson (PTS), Import VAT on low value items: the Swedish experience, presented at the 18th WIK Königswinter Postal Seminar, 9-10 December 2019.

### 6.2.2 Enhancing security and safety of postal imports: ICS 2

In general, goods imported to the EU must be covered by an entry summary declaration (ENS) which must be lodged at the customs office of first entry, and must contain all the necessary information to enable risk analysis for security and safety purposes. In the

context of postal traffic, the ENS should be lodged at the customs authority at the destination post.<sup>386</sup> The Commission has set up a new electronic system in its Implementing Decision (EU) 2019/2151 (the Work Programme).<sup>387</sup> The implementation of the UCC Import Control System (ICS2) will stepwise replace ICS1 and expand the controls to postal low-value consignments. It will be implemented through three releases, namely:

- Release 1 as of 15 March 2021 – obligation on postal operators and express carriers in air transport to provide the minimum dataset (i.e. ENS pre-loading dataset);
- Release 2 as of 1 March 2023 – obligation on air general, air express and air postal cargo to transmit the full ENS dataset;
- Release 3 as of 1 March 2024 – implementation of the complete new ENS obligations related to business and risk management processes for all imports in maritime and inland waterways and road and rail traffic (including goods in postal consignments transported by these means).

The ICS2 aims to strengthen the pre-arrival safety and security of goods entering the Union by the provision of ENS information in more than one submission and/or by different persons, and the exchange of that data and risk analysis results among the customs authorities.<sup>388</sup> With the deployment of ICS2 Release 1, postal operators and express carriers are required to provide the minimum dataset of the ENS (i.e. ENS pre-loading dataset) in advance for all postal/express consignments sent by air transport.

Following the amendment of the UCC-DA adopted on 3 April 2020, the customs office of first entry refers to the customs office which is competent for customs supervision at the place where the means of transport carrying the goods arrives or, where applicable, is destined to arrive, in the customs territory of the Union from a territory outside that territory;’ (see new Article 1(15) of the UCC-DA). Therefore, in the postal context, this would be the customs office at the postal operator in the destination country (which can be different from the country of entry).<sup>389</sup>

The time-limits for lodging the ENS for goods transported by air are determined in Article 106 of the UCC-DA. Article 106(2)<sup>390</sup> determines that, from the date of deployment of ICS2 Release 1, postal operators and express carriers have to lodge the minimum dataset of the ENS as soon as possible and at the latest before the goods are loaded onto the aircraft. From the date of deployment of ICS2 Release 2, the same will also apply to other economic operators (air freight forwarders).<sup>391</sup> With the deployment of ICS2 Release 2, where only the minimum dataset was provided as mentioned previously, the other particulars of the ENS shall be provided as soon as possible, or

- at the latest by the time the aircraft departs, for flights with duration of less than four hours, or

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**386** Interview with DG TAXUD.

**387** European Commission. Commission Implementing Decision (EU) 2019/2151 of 13 December 2019 establishing the work programme relating to the development and deployment of the electronic systems provided for in the Union Customs Code.

**388** Commission Implementing Directive 2019/2151.

**389** Article 127 of the UCC.

**390** As amended by Commission Delegated Regulation 2020/877.

**391** Article 106(2a) of the UCC-DA as amended by Commission Delegated Regulation 2020/877.

- at the latest four hours before the arrival of the aircraft at the first port of entry in the EU, for other flights.<sup>392</sup>

The advance electronic lodging of the ENS (minimum or full dataset) enables customs authorities in the country of destination to identify potentially dangerous items even before they are loaded onto the aircraft, thereby improving the safety of postal/express consignments imported by air transport. ICS2 Release 2 and 3 will extend the security and safety measures to other operators and modes of transport in the future, further improving the safety standards of goods imported to the EU.

From a customs standpoint, the information provided in the advance ENS may be used by postal/express operators to complete and submit customs declarations of postal/express consignments to the customs authorities. In the postal context, the ENS is based on the contents of the electronic CN 23 customs declaration i.e. on ITMATT data entries (and therefore on the same dataset as for the customs clearance procedure for low-value consignments described in the previous section). In this regard, postal operators and express carriers will be treated more equally with respect to customs and security procedures.

As mentioned before, where postal and express operators act as a customs representative on behalf of the consignee, they are responsible for the completeness and accuracy of the information in the ENS and customs declaration (refer to Article 15 of the UCC). Failure to provide the requisite advance minimum dataset, or pre-loading ENS, will result in the consignments not being loaded on the aircraft, since the customs authority cannot complete its pre-loading security controls. If electronic data for the full ENS is missing, the designated operator or express carrier is required to gather the information from the consignee or sender and enter it manually. As long as the customs declaration cannot be completed from the ENS data and filed with the customs authority, the goods cannot be cleared, and will have to be stored until the necessary information is obtained. Therefore, it is crucial to ensure that complete and accurate electronic information is exchanged between origin and destination designated operators from the start, to guarantee smooth customs and security procedures.

The ECA (2019) found that the EU regulatory framework follows international best practice promoted by the WCO and OECD in most aspects, and concluded that the new regulatory framework introduces positive developments which will resolve some weaknesses of the current framework, but undervaluation remains to be addressed. They also recommend that the definitions of terms in the legislation are clear to ensure Member States have harmonised controls for the import of low-value consignments.<sup>393</sup>

### 6.2.3 Conclusion

As previously mentioned, currently there are differences in the regulatory procedures relating to VAT, customs and security for goods imported by designated operators and express carriers. The aforementioned reforms aim to ensure a more level playing field among these delivery operators. Table 34 presents the changes to the regulatory framework following the reforms in 2021 which will be applicable to both designated operators and express carriers, and thus leading to more equal treatment regarding VAT, customs and security procedures.

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<sup>392</sup> Article 106(1) and (3) of the UCC-DA as amended by Commission Delegated Regulation 2020/877.

<sup>393</sup> European Court of Auditors (2019), Special Report No 12/2019, E-commerce: many of the challenges of collecting VAT and customs duties remain to be resolved.

Table 34 Levelling the playing field between designated and express operators

	Economic operator	Current	After the 2021 reforms
VAT	DO	<ul style="list-style-type: none"> <li>Below EUR 22 – no VAT collection</li> <li>Below EUR 150 – VAT collection from consignee</li> <li>VAT clearance typically in Member State of destination</li> </ul> <p>There is a perceived lack of compliance with procedures for VAT and customs duty collection by DOs compared to express operators.</p>	<ul style="list-style-type: none"> <li>Below EUR 150 – No import VAT collection required under IOSS; Special arrangements scheme (optional monthly remittance of VAT collected) if not under IOSS</li> <li>VAT clearance in Member State of destination mandatory</li> </ul> <p>Pros: Simplified procedures for collection of import VAT and more equal procedures between economic operators; Levelling the playing field among EU and non-EU sellers and online retailers</p>
	Express	<ul style="list-style-type: none"> <li>Below EUR 22 – no VAT collection</li> <li>Below EUR 150 – VAT collection from consignee, or liable to pay VAT on behalf of consignee in some cases</li> <li>VAT clearance typically in Member State of entry</li> </ul>	<p>Cons: Additional costs incurred by economic operators, and human and physical capacity constraints</p>
Customs	DO	<ul style="list-style-type: none"> <li>Simplified customs declarations, e.g. CN 22/23 forms</li> <li>Below EUR 22 – no customs declaration</li> <li>Below EUR 150 – declared for release for free circulation upon presentation to customs</li> <li>Not always regarded as the declarant or customs representative; therefore</li> <li>Unclear/inconsistent extent of liability for false/incomplete information on customs declarations</li> </ul>	<ul style="list-style-type: none"> <li>All imports require lodging of a customs declaration (additional administrative burden for economic operators)</li> <li>Below EUR 150 – “super reduced dataset” for customs declarations (based on electronic CN 23)</li> </ul> <p>Pros: Simplified customs procedures applicable to both postal and express operators</p> <p>Cons: Uncertainty regarding liability of designated operators for false/incomplete information on customs declarations remains; Increased administrative burden of economic operators leading to human and capacity constraints</p>
	Express	<ul style="list-style-type: none"> <li>Standard customs declarations</li> <li>Below EUR 22 – declared for release for free circulation upon presentation to customs</li> <li>Typically regarded as the declarant or customs representative, in some cases liable to pay customs duty and taxes on behalf of the consignee</li> <li>Could incur sanctions or revocation of the status as AEO if they don't comply with data accuracy and completeness of customs formalities</li> </ul>	

	Economic operator	Current	After the 2021 reforms
<b>Security</b>	<b>DO</b>	<ul style="list-style-type: none"> <li>Lodging of ENS waived provided the data required (CN 22/23) are accepted by customs</li> </ul>	<ul style="list-style-type: none"> <li>Pre-loading ENS (minimum dataset of ENS, i.e. PLACI) required for postal and express consignments in air transport (as of 15 March 2021)</li> <li>Full ENS to be lodged before arrival at port of entry for all goods in air transport (as of 1 March 2023)</li> <li>Failure to provide complete and accurate information for the pre-loading ENS, will result in consignments not being loaded on the aircraft</li> <li>For as long as complete and accurate information for the full ENS is not submitted, the consignment cannot be cleared by customs authorities</li> </ul> <p>Pros: Customs authorities able to risk assess consignments even before loading on the aircraft; Equal procedures for postal and express operators</p> <p>Cons: Requires costly integrated IT systems for seamless communication between economic operators and customs authorities</p>
	<b>Express</b>	<ul style="list-style-type: none"> <li>Below EUR 22 – lodging of ENS waived if risk analyses can be carried out by the customs authority given the information contained in, or provided by, the system of the express carrier</li> <li>Already providing detailed electronic data for each consignment prior to arrival at the port of entry; and</li> <li>Already providing PLACI (7+1) before loading of goods on the aircraft</li> </ul>	

Source: WIK assessment.

It is worth noting that the efforts towards achieving equal treatment of designated operators and express carriers, while simultaneously improving the processes relating to VAT, customs and security regulations, have both advantages and disadvantages. The advantages include achieving simplified customs procedures and processes for collecting, and improving the safety and security measures for imported goods, whereas the disadvantages stem from an increased administrative burden and additional costs for delivery operators for complying with the new regulations. The challenges relating to the implementation of the reforms are discussed in more detail in Section 6.3 based on the results from the WIK online surveys.

### 6.3 Challenges for designated operators and customs authorities

This section is dedicated to providing an overview regarding the challenges foreseen by designated operators and customs administrations, based on their responses from the WIK surveys, regarding the implementation of the EU VAT e-commerce package (Directive 2017/2455/EU) and the UCC ICS2 Release 1 reforms as described in the previous section.

### 6.3.1 VAT e-commerce package

It should be noted that many of the WIK survey responses of designated operators on the challenges foreseen relating to customs clearance of postal goods after the entry into force of the new VAT e-commerce package closely aligns, not surprisingly, with the challenges identified in a Position Paper by PostEurop (2019).<sup>394</sup> The most notable challenges that designated operators from the WIK survey identified are summarised in Table 35.

The expected increase in volumes of items to be processed follows from all imported goods being charged VAT and requiring a customs declaration for each consignment from the date of implementation of the VAT e-commerce package. Having the necessary processes, skills and equipment in place to enable designated operators to cope with the larger number of these items in the future is of high importance to ensuring smooth and reliable customs clearance of imported goods. Therefore, given the large volumes, it is crucial that the rules are made clear and simple to ensure its effective implementation.<sup>395</sup> This challenge is regarded as transitory as it can be expected that over time, designated operators will overcome the initial problems that come with such a change in operations (see Section 6.4).

Under the current VAT exemption regime (for goods < EUR 22), designated operators and express carriers may be incentivised to clear imported items for VAT and customs in the country of first entry, i.e. not having to present items to customs in the country of entry and again in the country of destination, thereby reducing their administrative burden and costs.<sup>396</sup> But under the new rules, imported goods have to be presented to customs and VAT collected in the country of destination, thus resulting in potential additional administrative costs and burden for postal and express operators.

Designated operators also expect that the removal of the VAT exemption for low-value consignments could lead to increased delivery costs of packages.<sup>397</sup> These additional costs could deter non-EU sellers selling products into the EU and there is no guarantee that consumers will automatically opt to buy similar items from EU sellers.<sup>398</sup> The European Express Association (EEA) also commented that requiring separate customs declarations for each consignment under the IOSS could “lead to further disruptions through additional submissions, processing and costs for traders and ultimately increased prices for end consumers.”<sup>399</sup> The administrative burden and cost associated with collecting VAT on low-value items are perceived to be disproportionate to the amount of VAT actually collected.<sup>400</sup>

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<sup>394</sup> PostEurop (2019). Position Paper on the “VAT e-commerce package”.

<sup>395</sup> Comment from UPS during the panel discussion of the 2<sup>nd</sup> Public Stakeholder Workshop for this study presented by WIK-Consult on 22 September 2020.

<sup>396</sup> Interview with DG TAXUD.

<sup>397</sup> See Europese Fiscale Studies (2018) and Copenhagen Economics (2017).

<sup>398</sup> Feedback from PostEurop referring to the Copenhagen Economics (2017) study following the 2nd Public Stakeholder Workshop for this study presented by WIK-Consult on 22 September 2020.

<sup>399</sup> EEA Position Paper (2019) Ensuring modernised EU VAT rules for e-commerce.

<sup>400</sup> See Copenhagen Economics (2017). Effects of removing the VAT de minimis on e-commerce imports. A study for PostEurop.

Table 35 Main challenges for designated operators regarding the VAT e-commerce package

Challenge	Impact	Importance	Remedy?
1. Increased volume of items to be processed	Transitory	High	Make IOSS obligatory after a transition period Make awareness campaigns with origin posts on new rules, especially to encourage use of IOSS
2. Additional costs for DOs for collecting VAT	Permanent	High	Make IOSS obligatory after a transition period
3. Incomplete / incorrect data in electronic messages from the origin	Permanent	High	Promote the implementation of the GPM Allow DOs and express carriers to refuse acceptance of consignments with incomplete / inaccurate data
4. Uncertainty about application of special arrangements scheme	Transitory	Low	EC to provide a guidance document
5. Greater risk of undeliverable items leading to storage constraints	Transitory	Medium	Make IOSS obligatory after a transition period Make awareness campaigns with origin posts on new rules
6. Adoption rate of the IOSS by EIs, or incorrect use of the IOSS	Transitory	Low	Make IOSS obligatory after a transition period; Additional fees charged by DOs and express carriers for items requiring VAT collection Make awareness campaigns with origin posts on new rules, especially to encourage use of IOSS
7. Backlogs for goods imported under the IOSS at the border	Transitory	High	Customs offices should provide a "green lane" for goods imported under the IOSS
8. Uncertainty about the handling of returned items under the IOSS or special arrangements scheme	Permanent	Low	Include instructions in the guidance document*
9. Assessment of the €150 threshold under IOSS	Transitory	Low	Include instructions in the guidance document*

Source: WIK survey on designated operators and WIK assessment.

Note: DG TAXUD informed that a document on VAT Explanatory Notes and Customs Guidance had recently been published on 30 September 2020, available at [https://ec.europa.eu/taxation\\_customs/sites/taxation/files/vatecommerceexplanatory\\_notes\\_30092020.pdf](https://ec.europa.eu/taxation_customs/sites/taxation/files/vatecommerceexplanatory_notes_30092020.pdf).



An impact assessment study by the European Commission (2016) on removing the VAT exemption and introducing a VAT OSS for importing small consignments found that in the best scenario there could be an increase in VAT revenue of EUR 7 billion in 2020, while also cutting administrative (compliance) costs by 55% to EUR 1.9 billion.<sup>401</sup> Based on the same evidence, but under more conservative assumptions, Copenhagen Economics (2017), in a study on behalf of PostEurop,<sup>402</sup> found that although the IOSS would provide for simplification of VAT collection and reduce the annual processing costs, the cost of removing the de minimis VAT exemption still outweighs the maximum potential of additional VAT revenues (i.e. processing cost of EUR 1.9 billion compared to maximum potential VAT revenue of EUR 0.3 billion, even after IOSS). If the IOSS is not used, i.e. VAT collection under the current system, the processing cost following the removal of the LVCR is even higher (EUR 2.7 billion). This implies that processing costs under the special arrangements would also be higher than under the IOSS, since it requires more work for designated operators.

However, the positive impact of the IOSS is driven by the simplification of customs procedures, i.e. moving VAT collection away from the border, and reducing the administrative burden on designated operators, express carriers, and customs authorities. During the 2<sup>nd</sup> Public Stakeholder Workshop for this study, designated operators and express carriers expressed their desire that the IOSS be made mandatory for all online marketplaces and non-EU (e-)retailers. However, the European Commission does not have jurisdiction outside of the EU to enforce mandatory IOSS implementation, thus bilateral agreements with countries of major non-EU (e-)retailers should be considered.

Furthermore, with the exchange of electronic data between designated operators and customs authorities becoming increasingly essential, reliable and complete ITMATT data are of high importance to ease the impact on the clearance procedure of postal consignments and in particular e-commerce packages. This challenge is considered to be one that is difficult to find solutions, even in the long-term, for ensuring that complete and accurate electronic data are exchanged. Additionally, there will be costs incurred and more effort involved for designated operators in obtaining required information to complete the customs declaration. Efforts towards closer cooperation with non-EU parties have been undertaken by designated operators and would be beneficial to ensuring better quality data. Another recommendation may be to impose sanctions on suppliers of goods that do not comply with providing complete and accurate ITMATT data.

Some Member States mentioned there might be specific challenges with collection of certain data elements, e.g. personal identity number of the recipient (FI), or HS tariff codes (FR and HU).<sup>403</sup> A particular problem may arise from possible discrepancies in the data requirements between EU ITMATT messages and WCO-UPU standard ITMATT messages (FR). However, it should be possible to harmonise the ITMATT message standards without much difficulty, for example, provisions are already made to allow for the IOSS number in the UPU ITMATT message.<sup>404</sup>

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<sup>401</sup> European Commission (2016), Impact assessment accompanying the document Proposals for a Council Directive, a Council Implementing Regulation and a Council Regulation on Modernising VAT for cross-border B2C e-Commerce. COM(2016) 757 final / SWD(2016) 382 final.

<sup>402</sup> Copenhagen Economics (2017). Effects of removing the VAT de minimis on e-commerce imports. Commissioned by PostEurop.

<sup>403</sup> In a statement by the EEA (2018), they expressed that goods description has proven more effective than the 6-digit HS code, for security and safety risk assessment. This stems from the express industry's IT systems being able to identify anomalies in the descriptions, and therefore, the use of HS codes would mean that these intelligence indicators will be lost. See EEA (2018) Mandatory provision of 6-digit HS code will not solve issue of poor data.

<sup>404</sup> Interview with Poste Italiane.

Also, some difficulties are foreseen in dealing with the compatibility and integration of electronic information across various clearance methods, e.g. IOSS, Postal Delivered Duty Paid, self-assessment of import duties and tax via customs authorities' future websites, etc. (HU and PT). PostEurop (2019) reported that postal operators do not believe that all operators will be sending electronic data, with the necessary quality, for customs purposes by the start of 2021, and that there will be a slower transition to compliance.<sup>405</sup> Therefore, a transitional period should allow designated operators enough time to integrate their electronic systems.

The greater risk of undeliverable items stems from the possible refusal by consignees of consignments that were previously exempted from import VAT (< €22) (BE). This in turn could lead to storage capacity problems (ES) as more items will remain in designated operators' possession awaiting a resolution for the eventual delivery, return or destruction of these items. Delays in deliveries, or unexpected VAT charges could also lead to increased complaints by consignees (BE). These challenges are also only foreseen in the initial stages of the VAT reform, until consumers become more informed about VAT being charged on all imports and can thus be considered as low priority.

Designated operators expressed a perceived lack of interest among traders to opt into the IOSS (BE and FR). Some respondents suggested that the IOSS be made mandatory for online marketplaces for it to function properly (ES and IT). Insufficient adoption of the IOSS will require a large number of consignments to be cleared under the special arrangements for postal operators and express carriers, which would require more resources and manual customs clearance of these consignments. However, this is considered as a transitory issue and low importance as it may be expected that the use of the IOSS will improve the implementation of simplified customs procedures by moving the collection of VAT away from the border. By making the IOSS mandatory, it could resolve this problem, but uncertainty on its enforcement outside of the EU remains.

One case in favour of the IOSS, made by postal operators, is that vendors or electronic platforms that effectively use the IOSS could ensure quicker and more reliable customs clearance (i.e. "green lane"), and thus delivery of their consignments. Additional clearance fees charged by the postal operator when VAT is paid upon importation is another incentive for vendors or electronic interfaces to opt for the IOSS (customers will pay the all-inclusive price online without any surprise taxes and charges upon importation). Furthermore, if buyers are aware that a vendor or electronic interface is registered for IOSS, it may add to their credibility as a supplier.

There is a risk for backlogs for goods imported under the IOSS at the border. The "green lane" refers to a simplified procedure where items under the IOSS can be identified and fast-tracked for release for free circulation, ensuring customers' satisfaction and expectations are met, which is also in the interest of customs authorities. This may be reasonably expected to occur since inclusion of an IOSS number in the electronic information received from the vendor should indicate that VAT has been charged and collected at the time of the purchase, triggering such a "green lane". Conversely, if no IOSS number is presented, the consignment may be processed under the special arrangements, where applicable.

A study by Lamensch (2018), on behalf of the European Parliament's Special Committee on Financial Crimes, Tax Evasion and Tax Avoidance (TAX3), notes that it is imperative that customs authorities are able to verify the IOSS number and that it belongs to the supplier of the goods. In the case of goods sold via online platform, the online platform's IOSS number should be provided to activate the simplified customs procedure. However,

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<sup>405</sup> PostEurop (2019) Position Paper on the "VAT e-commerce package".

there is a risk of online platforms' IOSS numbers being abused where sellers present IOSS numbers even for goods not sold over the online platform. Moreover, the author states that monthly listings of IOSS declarations will not be sufficient to address this issue.<sup>406</sup> In this regard, DG TAXUD commented that pilot projects with various electronic interfaces (EIs) will commence in 2021 where they will send the data directly to customs authorities. The aim is to gather relevant information on how such reporting can become mandatory to EIs in the medium term.

With respect to items returned under the IOSS, the addressee may apply for reimbursement of the purchase price of the item including VAT from the vendor, who may deduct the reimbursed amount of VAT from its next monthly remittance of VAT to the relevant tax authority, if remittance of the VAT had already occurred. Under the special arrangements, the return policy follows the same procedures as for goods imported under a standard customs procedure. Therefore, this is considered as a marginal problem which may be clarified in a guidance document by the Commission.<sup>407</sup>

Furthermore, uncertainty surrounds the assessment of the €150 threshold (BE, DK, IE, IT, and SE), e.g. triggered by a difference in the exchange rate at the time of purchase (relating to VAT) and the time of importation (relating to customs duty), or in the event of grouped/split consignments. These situations may lead to discrepancies at importation in determining whether the goods qualify for simplified customs procedures. However, the Commission can easily address these concerns by providing some clarification and guidance on the required procedures. It is suggested that the purchase value of the goods are used for customs clearance at importation, ensuring that exchange rates don't influence the value of the consignment for the purpose of clearing the items through customs. Furthermore, it is recommended that items in bundled (grouped) consignments be treated individually for the collection of VAT under the IOSS.

Designated operators argue that the simplified customs procedures under the LVCR benefit postal operators and their customers (consumers and businesses), as well as customs authorities by reducing the costs of processing and collecting revenue on lower-value items. However, as mentioned before, while the abolition of the LVCR for VAT will mean that postal operators and express carriers have an additional responsibility for processing customs declarations and collecting VAT on low-value imports, where applicable, its overall aim is to serve the greater interest of the EU, by providing a more level playing field for EU enterprises in a growing global e-commerce market, and more equal and improved customs and security procedures between postal and express operators.

### 6.3.2 ICS2 Release 1

The implementation of ICS2 Release 1 touches all e-commerce consignments that are either imported by designated operators using the international postal network or by international express carriers. For security purposes, the minimum pre-loading ENS dataset for postal and express consignments in air transport (relating to ICS2 Release 1) is based on the 7+1 PLACI dataset that currently also applies to other transportation

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<sup>406</sup> Lamensch, M. 2018. VAT fraud – Economic impact, challenges and policy issues. Conducted on behalf of the European Parliament's Special Committee on Financial Crimes, Tax Evasion and Tax Avoidance (TAX3). The author also does not expect fraud prevention under the special arrangements would be improved, as those currently making false value declarations will not suddenly start acting differently.

<sup>407</sup> A guidance document on the VAT reforms has been provided by the EC on 30 September 2020, available at [https://ec.europa.eu/taxation\\_customs/sites/taxation/files/vatecommerceexplanatory\\_notes\\_30092020.pdf](https://ec.europa.eu/taxation_customs/sites/taxation/files/vatecommerceexplanatory_notes_30092020.pdf).

companies. Therefore, the advance electronic message sent between postal operators (ITMATT), and between express operators, will include the 7+1 PLACI dataset, but may also include other details required for customs clearance of postal and express consignments. From ICS2 Release 2 and 3, the full ENS dataset will be applied to all consignments and across all transport channels.

Express carriers must already provide customs authorities with detailed data for each individual consignment in an electronic transmission submitted prior to arrival at the port of entry and, for a minimal set of security-related data (7+1 PLACI data), prior to loading on the aircraft in the port of departure. UPS indicated that it would be logical to link its current system to the ICS2.<sup>408</sup> Additionally, international express carriers are authorised economic operators in most EU Member States which implies a high security and safety standard for the complete supply chain. They already have systems in place to ensure that the electronic data submitted for security and safety purposes is complete and accurate. Furthermore, express carriers normally have a single network and global databases (i.e. information that circulates within the same organisation, inevitably making transmission of data simpler and timelier). In contrast, designated operators have to invest in IT systems for the electronic exchange of data, as well as they must rely on the quality of the information received from the sender through another operator or customs agency.<sup>409</sup> For these reasons, express carriers are much better prepared for the launch of ICS2 Release 1 than the designated operators. UPS, for example, does not see any severe challenges in this respect.<sup>410</sup>

The reform requires for postal imports that the ENS pre-loading dataset is lodged by the designated operator in the country of destination. This requires that the designated operator in the country of origin electronically transmits a complete and accurately fulfilled customs declaration according to the ITMATT format. ITMATT data entries are based on the contents of the CN 23 form and can be used to produce the pre-loading minimum data set. The contents of CN 23 basically reflect the data necessary for a complete ENS that become mandatory in March 2023 for all imports via air freight.

From the responses to the WIK survey on the implementation of the ICS2 Release 1, as of 15 March 2021, the challenges foreseen by designated operators mainly relate (1) to the electronic systems to be used for the exchange of pre-loading security information from third country operators with designated operators and customs administrations in the destination country, (2) the readiness of the designated operators in the countries of origin to transmit electronic advance data and (3) to the completeness and accuracy of ITMATT data transmitted by the designated operators of the countries of origin.

The major concerns of designated operators in the EEA countries are listed below:

- The integration and compatibility of electronic systems to allow for using ENS data (e.g. EAD, ITMATT, PREDES) to complete and submit customs declarations and for providing presentation notification messages. (AT, BE, EL, FR, IE, IT, and PT)
- Incomplete/incorrect electronic ITMATT provided by third countries. (AT, BE, CY, ES, FR, HU, IE, LT, NL, NO, RO, SI, and UK)
- Given the large volume of items for which ENS has to be submitted, there are a number of operational challenges foreseen. For example, limited availability of

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<sup>408</sup> Comment from UPS during the 2<sup>nd</sup> Public Stakeholder Workshop for this study presented by WIK-Consult on 22 September 2020.

<sup>409</sup> Feedback from PostEurop following the 2<sup>nd</sup> Public Stakeholder Workshop for this study presented by WIK-Consult on 22 September 2020.

<sup>410</sup> Interview UPS, 15 July 2020.

human resources, storage capacity problems, additional costs in developing and implementing IT systems, etc. (BG, CY, ES, FI, FR, HU, NL, NO, PL, PT, RO, SI, SK, and UK)

- The treatment and timing of receiving referral/control messages from customs authorities (e.g. do not load (DNL), request for information (RFI), etc.). (ES, FR, and UK)

In their responses, the Danish and Swedish designated operators remarked that the ICS2 is mainly concerned with pre-arrival security checks and therefore would not impact customs procedures at destination. However, if additional security checks will be required at the port of entry, significant challenges and backlogs will exist.

As mentioned among the challenges relating to the new VAT rules, the provision of accurate and reliable advance electronic data is paramount for the success of the ICS2. This includes the readiness of EU designated operators and customs authorities for implementing the necessary IT systems, enabling the exchange of customs and security information in advance of the goods being loaded onto the aircraft. This requires significant investment by the stakeholders to ensure such systems are in place or being developed. From follow-up discussions with some customs authorities from the WIK surveys, it was indicated that the necessary systems should be ready for implementation by the deployment date in most Member States. Furthermore, designated operators have been working on improving the quality of data received from non-EU countries (ES).<sup>411</sup>

However, it is anticipated that not all items will be covered by an ITMATT message as of 15 March 2021 (FR). Moreover, there is a perception that the lack of liability (or penalties) of designated operators at the origin could possibly lead to a high volume of items with no ITMATT data available for submitting the ENS upon arrival, if not received at pre-loading (ES). Incomplete/missing or incorrect electronic information (ITMATT) from third countries will mean that designated operators have to complete the ENS pre-loading data and customs declarations manually, resulting in a strain on available human resources and possible delays or backlogs at the destination designated operator. As long as the customs declaration cannot be completed from the information provided by the sender, the goods will not be released. In turn, this could lead to dealing with increasing customer complaints, further piling onto the burden of designated operators.

In addition to the requirement for providing pre-loading security information of postal consignments to customs authorities at destination, the ICS2 also requires a presentation notification from the air carrier upon arrival of the goods at the destination designated operator. This has been identified as a significant hurdle (ES and FR), since the IT system required to manage these messages would only be expected to be operational in 2023 (FR), creating uncertainty about how these messages should be communicated as of the date of implementation of ICS2 Release 1 (i.e. 15 March 2021).<sup>412</sup>

The main concern relating to the exchange of referral/control notification messages from the customs authority at destination, relayed via the designated operator at destination to the designated operator at origin, is the ability to risk assess the items and send these messages within the specified time window (2 hours). A 24/7 communications channel

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<sup>411</sup> Feedback from Correos, Spain during the 2<sup>nd</sup> Public Stakeholder Workshop for this study presented by WIK-Consult on 22 September 2020.

<sup>412</sup> It is further noted by the French designated operator that the presentation notification will be required to complete the customs declaration. For the customs declaration to be validated on arrival, the H7 dataset is required to provide the ENS status of the item. Then, assuming that the presentation notification system will be ready in 2023, the H7 customs declaration could theoretically be accurate and relevant enough as of 2023.

between designated operators and customs authorities at destination is foreseen in the form of a shared trader interface (STI) platform.<sup>413</sup> For example, this would ensure that a “do not load” referral (DNL) was not made in error or due to system failure (ES). Furthermore, for non-AEO economic operators, it would not be possible to receive the control notification before the formal entry of goods in the EU territory, which could result in unmanageable volumes of postal items and the necessity to store them until a control notification is received (FR). Doubts also remain whether customs authorities would have these processes in place by the 2021 deadline (UK).

Overall, the major concerns are borne by the risk that the designated operators outside the EU and outside Europe will neither be ready for the transmission of electronic advance data nor for ensuring the completeness and accuracy of the ITMATT or the paper-based CN 23 form. For this reason, it is necessary to promote the implementation of the GPM at all designated operators (see Section 6.1.3.2). Moreover, the designated operators in the EU (or in the industrialised countries generally) should consider establishing contractual sanctions on designated operators at least in those countries that are important exporters of postal consignments containing goods, i.e. China Post, Singapore Post, and USPS) based on bilateral agreements. At PostEurop/UPU level sanctions are currently under discussion as option to fine designated operators in case of non-compliance with the transmission of electronic advance data.<sup>414</sup>

In the WIK survey, customs administrations were asked whether they foresee any differences in the submission of PLACI data (as required by ICS2 Release 1) by the designated operator as compared to similar data by other transportation companies. Some potential differences that were identified include:

- For designated operators, who rely on data received from postal operators at origin, a lack of ICT infrastructure at the origin could present challenges for submitting PLACI data. Private transportation companies, who generate the data themselves, have fewer problems because they already have IT infrastructure in place. Express couriers should have virtually no problems in this regard. (BE and FR)
- The minimum dataset to be lodged pre-loading are different for postal consignments compared to express consignments as prescribed by the UCC-DA Annex B (columns F4c and F3b, respectively). (IE)
- The ITMATT data submitted by postal operators are more complete than the PLACI data (7+1 data) submitted by other transport companies. (RO).
- Procedures relating to ICS2 Release 1 will only be in place for designated operators, and not for other transportation companies in Croatia and Lithuania.

It is also worth noting that seven of the thirteen respondents to the WIK survey on customs administrations replied that they do not foresee any differences regarding the submission of PLACI data following the implementation of ICS2 Release 1 (CY, EE, FI, FR, HU, LT, and SI). A potential reason for this was provided as designated operators are committed to implementing the UPU Convention, whereas other transport companies are not (CY). Overall, not many differences with significant implications appear to be expected in this regard.

Finally, since COVID-19 has undoubtedly affected the volume of mail and the method of transportation it should also be borne in mind that this presents an unforeseen obstacle

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<sup>413</sup> Feedback from PostEurop following the 2nd Public Stakeholder Workshop for this study presented by WIK-Consult on 22 September 2020.

<sup>414</sup> Interview PostEurop Chair, TF Study on international postal services, 28 July 2020.

for designated operators and their ability and/or capacity to invest and make major changes to their systems and processes for facilitating the new customs regulations. In this regard, PostEurop has expressed doubts about postal operators being ready for implementation of the reforms by the 2021 deadlines.<sup>415</sup>

#### 6.4 How are stakeholders preparing for the reforms?

In general, designated operators and customs authorities in all Member States report to be working together in project groups and taskforces, also in co-operation with the European Commission and other global postal role players in workshops, to ensure that they will be ready for the implementation of both the new VAT Directive (on 1 July 2021) and the ICS2 Release 1 (on 15 March 2021). The responses to the WIK surveys provide an impression all Member States have ongoing programmes or projects in place and that, in principle, they will be ready by the time of implementation of the reforms, although some teething problems may arise. In this section, we mention some of the ongoing operations in Member States as they prepare for these deadlines, as provided for by the WIK surveys.

Automation of customs clearance processes is a top priority for designated operators in most Member States as they search for a solution to cope with the increase in the volume of postal consignments to be declared for customs clearance across different import VAT collection schemes (i.e. IOSS, special arrangements, standard procedure) (e.g. BE). In many cases, this includes investing in the development of IT systems that will allow the exchange of information across and between the IT systems used in terms of ITMATT messages, pre-loading data and ENS messages relating to ICS2, and the EU common repository.<sup>416</sup>

For example, in Romania, there is collaboration with an external IT service provider to ensure the exchange and translation of ITMATT messages to be lodged to the Shared Trader Interface (STI). A sorting machine has also been acquired that can capture data in the event that no electronic information is received. An application has been made to acquire authorised economic operator (AEO) status for implementing the special arrangements and payment of import VAT in 2021. Furthermore, a security procedure that aligns with S58 and S59 UPU standards will be implemented at the office of exchange, or airport. The Romanian Post is reported to have already begun with the implementation of the functional and technical common specifications relating to the ICS2 system.

In Portugal, an internal task force was established to analyse models that may predict postal traffic flows from 2021 onwards, which will be processed by new sorting equipment that supports decisions relating to pre-advance information, i.e. sorting equipment that take customs authorities' pre-loading referral messages into account, upon arrival of goods.

Poste Italiane reported that they are renewing the customs clearance process in co-operation with the Italian Customs Authorities. The information contained in the ITMATT message received from the postal operator in the country of origin will be used as the basis to complete the customs declaration including submitting the ENS to the STI, before the arrival of the goods. Poste Italiane is of the opinion that it is possible to be ready for the VAT Directive, but the challenges as set out in the previous section need to be addressed by legislative intervention before the implementation of the reforms.

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<sup>415</sup> Feedback from PostEurop following the 2nd Public Stakeholder Workshop for this study presented by WIK-consult on 22 September 2020.

<sup>416</sup> Member States that indicated investment or concerted efforts to developing the necessary IT systems include: AT, BE, CY, CZ, EE, ES, FI, FR, IE, IT, LT, MT, NL, NO, PL, PT, RO, SI, SK, and UK.

Posten Norge reported that, as part of their internal preparations, they are developing Capture-at-Source (CAS) IT solutions for private and business exporters to provide the required EAD/ITMATT data. Quality reports will be compiled to monitor the quality and performances of ITMATT data, striving for continual improvements. Furthermore, another IT solution is being explored which will allow them to create an ITMATT message, even if it is missing on the package, by means of OCR or video-coding and/or manually by their staff.

The Slovakian Post has been preparing a pilot operation with electronic communication with the Slovakian Customs Authority. Furthermore, contacts with anti-terrorism and aviation safety authorities have been established, with whom workshops are planned to be held on setting up common processes.

Some designated operators (e.g. CY and MT) have indicated that they participate in the Postal Duty Delivery Paid (PDDP) program of the IPC, which will enable e-commerce platforms to collect VAT upon purchase and settle the amount between the origin and destination designated operators. The PDDP is also intended to manage postal items imported under the IOSS. In this regard, ITMATT messages are used to treat and convey the information, which enables the use of the UPU's CDS to handle those IOSS items that are not dispatched through PDDP.

In Spain, a new office of exchange (OE) is being built to facilitate the processing of the expected increased number of cross-border postal consignments, and an internal multidisciplinary team is being trained to monitor the application of the VAT Directive and ICS2. Ongoing consideration is also given to more frequent coordination meetings with the customs authority and achieving accreditation as an authorised economic operator. Furthermore, staff and customers will be duly informed about the new requirements.

In France, La Poste has been engaging in discussions with non-EU postal operators, to ensure the relevant data for ICS2 and low-value consignments are provided, and discussions with other EU postal operators to share a common vision towards cooperation with non-EU postal operators. Other Member States, including EL, FI, HU, NL, as well as NO and the UK, have also been engaging with international postal partners to discuss how to exchange and improve the quality of ITMATT messages. The French Customs Authority reported that it is on track with the implementation timeline as set out by DG TAXUD, with IT conformance test being conducted from June 2020 and tests with economic operators, including foreign posts, planned for the end of the year or early 2021.

In some cases (CZ and LT), new employees are being hired and trained by designated operators to strengthen the workforce available for dealing with the increased volume of postal items requiring customs declarations. In other cases (FI and PL), solutions are being considered to increase warehousing/storage space, and increasing the processing areas.

## 6.5 Conclusions

- Currently, the EU VAT Directive allows for exemption of VAT collection for imports up to a value of €22. Additionally, the Union Customs Code provides for an exemption from collection of customs duties for imports up to a value of €150. Due to the large volume of low-value consignments, these simplified customs procedures aim to facilitate cross-border trade by reducing the administrative burden and cost involved for Member States.
- Historically, national customs laws do not apply the same customs and security controls to goods transported by the international postal system as they do to



similar goods transported by non-postal services. In general, the differences between 'postal customs' and 'commercial customs' procedures are as follows:

- Non-postal operators must provide customs authorities with detailed data for each individual consignment in an electronic transmission submitted prior to arrival at the port of entry and, for a minimal set of security-related data (7+1 PLACI data), prior to loading on the aircraft in the port of departure. The electronic information of consignments is generated by non-postal operators themselves. Like postal operators, non-postal operators also benefit from a simplified customs procedures for consignments subject to LVCR for import VAT. Non-postal operators are liable for failure to take adequate measures to ensure the completeness and accuracy of customs data. Non-postal operators are also liable to customs duties as they usually act as direct representatives of their customers.
- Postal operators traditionally do not provide customs authorities any data on individual consignments, but instead a summary manifest summarising the total mail shipment. Data on individual consignments can be provided on simplified paper customs forms developed by the UPU which are completed by the sender and attached to the consignment. UPU customs forms (CN 22 and CN 23) provide for less data that are normally required by national customs authorities, especially for consignments valued less than SDR 300 (CN 22). The WIK survey among designated operators revealed that vast majority of postal consignments (more than 80%) is labelled with the CN 22 form. Postal operators may also be authorised to carry out certain customs tasks on behalf of customs authorities. Under the UPU Convention, neither the destination nor the origin designated operator is liable for incomplete or inaccurate customs data. Designated operators at destination are wholly dependent on the information received from origin designated operators. Customs duty, if any, is generally collected from the addressee by the destination designated operator and remitted to customs.
- However, Article 15 of the UCC places responsibility on any person involved in the accomplishment of customs formalities or in customs control to provide complete and accurate information to the customs authority for the customs declaration and ENS. This includes both, postal and non-postal operators acting as direct representative of the consignor or indirect representative of the consignee. Whether penalties or fines are imposed on postal operators that are in breach of this rule is a matter of national competence and implemented differently across Member States, as evident from the WIK survey responses. There is a lack of consistency and transparency regarding the extent to which designated operators' liability for accuracy and completeness of customs is enforced.
- A significant limitation of paper-form customs declarations is that they can only be assessed upon arrival at the destination operator. Because of the difficulty of reviewing paper forms and the absence of liability for faulty information, customs authorities essentially have no control over goods imported by post. Based on substantial but still fragmentary evidence, it appears that postal consignments were significantly more likely than non-postal consignments to escape payment of applicable duty or contain forbidden items such as illegal drugs, firearms, and goods that violate intellectual property laws.
- The European Union is one of the global leaders in modernising customs controls so that they can be applied more effectively to postal consignments. In 2013, the EU adopted a comprehensive customs reform, namely the Union Customs Code (UCC). Beginning 15 March 2021 (ICS2 Release 1) the EU will require postal operators and express carriers to submit to customs authorities, in electronic

format, a minimal set of security-related data for each postal/express consignment prior to loading on the aircraft in the port of departure. Beginning 1 March 2023 (ICS2 Release 2), the EU will require an 'entry summary declaration' (ENS) in electronic format in advance of arrival at the port of entry for all goods in air traffic. By March 2023, custom controls for low-value goods (less than €150) imported by post will, in principle, be the same as for other imported goods. ICS2 Release 3 (1 March 2024) will extend the security and safety measures to other modes of transport including sea, rail and road.

- The advance ENS information enables customs authorities in the destination country to identify potentially dangerous items even before they are loaded onto the aircraft. Due to the specificities of the international postal network the postal operator in the country of destination is obliged to launch the pre-loading minimum data set. The fact that these security and customs procedures apply to postal operators and express carriers (and other carriers in the future) provides for more equal treatment of items imported via either of these distribution channels.
- Failure to provide the requisite advance minimum dataset, or pre-loading ENS, will result in the consignments not being loaded on the aircraft, since the customs authority cannot complete its pre-loading security controls. In the case of incomplete or inaccurate ENS data, resulting in failure to provide the requisite information to lodge a customs declaration, it will result in the consignment not being released and thus placed in temporary storage, i.e. delaying the customs process and longer lead times. In this regard, for non-EU postal operators to comply with EU data requirements, and ensure its accuracy and completeness, it is important that EU regulations and the broader GPM are aligned.
- The EU is also revising its VAT rules. The EU concluded that an exemption from VAT for imported consignments valued up to €22 was unfair to EU merchants (for whom there was no exemption) and resulted in substantial losses in tax revenue, often as a result of fraudulent understatement of the value of consignments. Beginning 1 July 2021, the EU will eliminate the €22 exemption. While this change will apply equally to postal and non-postal carriers, postal operators will be more deeply affected because the international postal system conveys the large majority of such consignments. For this reason, the new VAT legislation provides that, for items valued under €150, VAT can be collected via an Import One Stop Shop (IOSS), under which foreign e-commerce marketplaces and online sellers will be required to ensure payment of VAT for goods shipped to the EU at the time of the online purchase. Where the IOSS is not used for VAT collection, the postal or non-postal carrier may account for VAT on consignments under the special arrangements scheme, which allows for periodic (monthly) payment of the VAT effectively collected from addressees. Under this scheme postal operators and express carriers will have to transmit a customs declaration with a super-reduced dataset for each low-value consignment to the customs office.
- It is apparent that a broad adoption of the IOSS by non-EU vendors and online marketplaces is crucial for its success. The potential advantages of using the IOSS should be emphasised as ensuring fast and reliable customs clearance of e-commerce consignments, and meeting consumer demands for reliable delivery of orders. The voluntary adoption of the IOSS by international online marketplaces and non-EU online sellers raises uncertainty on the enforcement of the scheme. Registration at the IOSS will start in April 2021, three months before the launch of the system, so that, as of July 2020, it is not clear to which extent (1) online marketplaces and online sellers will make use of this option and (2) VAT clearance under the special arrangements scheme for low-value consignments will be applied.

- Nevertheless, challenges for the implementation of the VAT and customs reforms remain, including available human and physical resources not only at designated operators and but also at customs authorities in coping with large volumes of consignments to be processed, incomplete or inaccurate electronic customs and security data received from the origin, and the readiness for the exchange of this electronic information between and among designated operators and customs authorities by the deadlines.
- Complete, accurate and reliable advance electronic data transmitted by the designated operators from the countries of origin will be crucial to ease the impact of both reforms, the VAT collection by postal and express carriers as well as the lodging of a pre-loading dataset by postal operators. For both datasets, the customs declaration for low-value consignments and the reduced ENS, are based on the elements of the CN 23 form (ITMATT) for international postal consignments. Challenges relating to data accuracy and completeness of advance electronic customs and security data are expected to remain for the foreseeable future. This may result in additional costs for the designated operators for obtaining the required information for completing the ENS pre-loading dataset (they are obliged to lodge) and ensuring the accuracy of the data (which is even more challenging) as well as for completing the customs declaration under the special arrangements scheme.
- The UPU, in cooperation with the World Customs Organisation, has been developing an electronic system (Customs Declaration System) whereby designated operators and customs authorities can exchange electronic advance data (EAD) in line with its Global Postal Model (GPM). This shall enable customs authorities to carry out pre-arrival customs and security assessments of international postal consignments, in turn allowing faster clearance of a large number of legitimate consignments, while controlling for illicit trade. The planned implementation date of the GPM is 1 January 2021; however, serious doubts were expressed at recent POC meetings on whether most designated postal operators would be ready by this date.
- The challenges foreseen by designated operators mainly relate to the electronic systems to be used for the exchange of pre-loading security information. These include the integration of different data capturing systems, dealing with incomplete/incorrect electronic ITMATT data and its resulting operational challenges, and the timely exchange of referral/control notification messages from customs authorities and designated operators. Incomplete/missing or incorrect electronic information (ITMATT) from third countries will result in designated operators having to complete the reduced pre-loading ENS dataset and customs declarations manually, resulting in a strain on available human resources and possible delays or backlogs at the destination designated operator.
- Given the reforms are successfully enforced, stakeholders expect that these enhancements will improve the EU's ability to prevent the importation of dangerous or illegal packages and support the accurate and even-handed collection of duty and taxes. The ECA found that the new regulatory framework introduces positive developments which will resolve some weaknesses of the current framework, but undervaluation remains to be addressed. Addressing the various risks and challenges relating to the prevention of importing packages with dangerous or illegal contents (including counterfeit) is a complex task and could not be expected to be resolved completely at the customs border neither by the customs authorities nor by postal and express operators or freight forwarders involved.

- From the WIK surveys, it is evident that designated operators and customs administrations have been tirelessly working in cooperation among themselves, as well as with the Commission and other international postal organisations (e.g. UPU, IPC, etc.), and other Member States to develop new IT systems or improve existing ones, and increase their capacity to deal with the expected increase in volumes of postal items to be customs and VAT cleared. From the reported timelines and preparations made relating to the reforms, it appears that most, but not all, Member States will have the necessary systems in place in time for the implementation of the reforms.
- Despite enormous progress in the modernisation of EU customs laws as applied to imported postal consignments, there remains a critical unsettled question: How will the new customs requirements be enforced? For non-postal consignments a failure to provide complete, accurate, and timely customs data can be punished with a range of enforcement actions including monetary fines levied against the carrier and impounding or refusing entry to the consignments. Under the UPU Convention, however, 'designated operators shall accept no liability for customs declarations in whatever form these are made or for decisions taken by the Customs on examination of items submitted to customs control.' Moreover, designated operators are obliged to 'observe the security requirements defined in the UPU security standards' and EU member countries are prohibited from implementing any security measures that 'hamper worldwide mail flows' by failing to take into consideration the specificities of the international postal system. These provisions of the UPU Convention appear to be potential obstacles to the enforcement of the planned EU customs and security reforms.

## 7 Conclusions and future outlook

### 7.1 Conclusions

Global e-commerce has dynamically grown and cross-border e-commerce plays a significant role, promoted by international online market places. EEA consumers increasingly make cross-border purchases from sellers within and outside the EU. China, the UK and Germany are the most preferred e-commerce origins for European consumers' cross-border shopping. Cross-border e-commerce has boosted imports of e-commerce consignments, in particular low-value consignments subject to VAT relief, from the Asia-Pacific region to the industrialised Member States in Europe and North America. A significant share of these consignments is delivered within the international postal network, mainly as small and lightweight postal consignments ('E-format') especially from countries like China.

Essentially, there are two competing import channels for non-EU imports of addressed e-commerce consignments. The postal import channel makes use of the conditions and privileges of the designated operators under the rules of the Universal Postal Union. The commercial import channel with players like international express companies, consolidators (without relation to designated operators), freight forwarders and (e-commerce) fulfilment service providers, have to comply with the general customs legislation and security as well as safety rules. A handful of large designated operators including Deutsche Post DHL, La Poste and PostNL developed to international service providers for the e-commerce industry.

The dominant position of designated operators (and associated consolidators) in the international distribution of lightweight e-commerce goods is supported by, and perhaps the result of, two favourable circumstances rooted in provisions of the UPU Convention. First, the e-commerce business is catalysed by the fact that designated operators in the industrialised countries (the main consumers of international e-commerce) charge foreign designated operators terminal dues – fees for delivery of lightweight postal consignments – that are substantially less than postage rates for similar domestic services. Second, governments apply customs and security controls less strictly to international postal consignments than to similar non-postal consignments. While these are favourable circumstances for designated operators, they also introduce distortions in the larger market for distribution of e-commerce.

In principle, the UPU terminal dues system implies substantial distortions in international e-commerce markets, both between EEA Member States and between the EEA and other countries. If the UPU terminal dues system were applied to all cross-border postal flows to and from EEA Member States, WIK estimates — very approximately and disregarding unknowns such as changes in volumes due to COVID-19 — that in 2020 EEA designated operators would charge SDR 1.1 billion less for delivery of inbound letter post items than they would charge domestic mailers for similar services. Terminal dues imply distortions that adversely affect EEA designated operators who are net importers, EU merchants generally, and alternative distribution channels, among others. The primary beneficiaries are the designated operators who are net exporters and international e-commerce marketplaces selling to consumers in industrialised countries.

Distortions implied by the UPU terminal dues system will be substantially reduced, roughly by half, as a result of reforms adopted by the UPU in 2019. The central reform is a provision that grants designated operators a limited right to 'self-declare' terminal dues rates for the delivery of imported e-commerce goods (and other E-format items). Higher

self-declared rates, constrained by limits on annual increases, have been agreed for the period 2021 through 2025. Nonetheless, distortions implied by the UPU terminal dues system will persist. It is unlikely that terminal dues for E-format items will be equal to domestic rates for equivalent services in all or even most of the EEA industrialised countries by 2025 (except for flows received from the US for which full self-declared rates may be introduced in 2020). Significant undercharges for delivery of inbound documents will continue essentially unchanged through 2025.

In practice, for EEA designated operators, much of the distortion implied by the UPU terminal dues system is indirect. Most large letter post flows to, from, and between EEA Member States are governed by alternative bilateral and multilateral terminal dues agreements which replace UPU terminal dues rates. Even so, the UPU terminal dues rates are significant. UPU terminal dues rates influence alternative arrangements because UPU terminal dues are considered the binding default rates, and designated operators are usually unwilling to accept less favourable terms without additional incentives.

An evaluation of the distortions *actually* caused by inter-postal remuneration arrangements has become practically impossible given the lack of transparency with respect to the international postal volumes and remuneration rates of the major designated operators. As the international postal system has been transformed into a competitive e-commerce business — especially but not only for the major designated operators — operational statistics have become commercially sensitive and non-public. In addition, postal e-commerce operations are now multinational in scope and far more complex. Designated operators do business in a constantly changing commercial environment of multiple distribution channels for e-commerce goods. In this world, traditional public postal statistics are largely uninformative.

Under the assumption that all designated operators would fully apply self-declared rates in 2020, consumers in the EEA ordering online from China might have to face additional costs. Under the assumption that Chinese e-retailers pass on 50% of the increase in delivery costs to their customers these could amount to €0.56 per item and in case of 100% to €1.14 per item from China or Hong Kong. Consequently, this might lead to a decline in demand for cheap Chinese products, although this would not necessarily convert into demand for products from EEA e-retailers.

The former low level of E-format terminal dues meant that many EEA designated postal operators received compensation below equivalent domestic postage rates for delivery of these commercial flows. In that situation, the major beneficiaries were Chinese e-retailers who could send their goods at sub-cost rates, at the cost of designated operators and e-retailers within the EEA. Moving to self-declared rates will reduce the advantage of Chinese e-retailers in delivery costs, and might have – depending on their pricing strategy and online customers' demand reaction – benefits for EEA DOs in the sense that their financial position could be improved by, for example, limiting the losses for the delivery of inbound packets.

EEA e-retailers who export e-commerce goods in the letter stream might have to face increasing delivery costs especially to non-EEA consumers due to increases in remuneration for international postal services. The effect on the financial position of EEA e-retailers depend on how much they pass on to their customers, and on their demand reaction to these price increases. The total impact might be fairly limited as many EEA e-retailers not only use international letter post services for the delivery of e-commerce consignments to non-EEA destination countries.

Like the introduction of self-declared terminal dues rates, the reform of the customs and import VAT regulations also have the potential to substantially affect the international

flows of e-commerce goods, especially those conveyed and / or delivered by designated operators. In 2013, the EU adopted a comprehensive customs reform, the Union Customs Code (UCC). Beginning 15 March 2021 (ICS2 Release 1) the EU will require postal operators and express carriers to submit to customs authorities, in electronic format, a minimal set of security-related data for each postal/express consignment prior to loading on the aircraft in the port of departure. Beginning 1 March 2023 (ICS2 Release 2), the EU will require an 'entry summary declaration' (ENS) in electronic format in advance of arrival at the port of entry for all goods in air traffic. By March 2023, security and safety controls for low-value goods (less than €150) imported by post will, in principle, be the same as for other imported goods. ICS2 Release 3 (1 March 2024) will extend the security and safety measures to other modes of transport including sea, rail, and road.

Beginning 1 July 2021, the EU will eliminate the €22 exemption. While this change will apply equally to postal and non-postal carriers, postal operators will be more deeply affected because the international postal system conveys the large majority of such consignments. For this reason, the new VAT legislation provides that, for items valued under €150, VAT can be collected via an Import One Stop Shop (IOSS), under which foreign e-commerce marketplaces and online sellers will be required to ensure payment of VAT for goods shipped to the EU at the time of the online purchase. Where the IOSS is not used for VAT collection, the postal or non-postal carrier has the option to account for VAT on consignments under the special arrangements scheme, which allows for periodic (monthly) payment of the VAT effectively collected from addressees. Under both these schemes postal operators and express carriers will have to transmit a customs declaration with a super-reduced dataset for each low-value consignment to the customs office.

These reforms should significantly improve collection of applicable duties and taxes, enhance public safety, and diminish distortions in international e-commerce markets. Complete, accurate and reliable advance electronic data transmitted by the designated operators from the countries of origin will be crucial to ease the impact of both reforms, the VAT collection by postal and express carriers as well as the lodging of a pre-loading dataset by postal operators. Both datasets, the customs declaration for low-value consignments and the reduced ENS, are based on the elements of the CN 23 form for international postal consignments. Challenges relating to data accuracy and completeness of advance electronic customs and security data are expected to remain for the foreseeable future. This may result in additional costs for designated operators obtaining the required information for completing the ENS pre-loading dataset (they are obliged to lodge) and ensuring the accuracy of the data (which is even more challenging) as well as for completing the customs declaration under the special arrangements scheme.

Assuming that the customs and VAT reform are adequately enforced this will create a more level playing field for postal and the commercial import channels. The online sellers' decision will then be less driven by low transport costs and the benefits of the postal customs procedure but more by cost-reflecting prices, quality of service and other commercial considerations. This will promote a disintegration of the global postal supply chain into two elements: (1) commercial consolidation, freight forwarding and customs clearance provided by large postal operators, express operators, freight forwarders and e-commerce fulfilment service providers and (2) transport within the EU and final delivery in the EU Member States of destination where postal operators (among other delivery operators) will still play an important role in the future.

If there is a concern about the effects and fairness of cross-border e-commerce, a useful first step would be the development of more appropriate statistical systems. It is apparent that international e-commerce is becoming increasingly significant for international trade flows, yet reliable statistics are unavailable. Defining appropriate statistical systems will

not be easy. It is not clearly apparent how international e-commerce can be distinguished from domestic e-commerce and to what extent different channels for international e-commerce (postal versus non-postal, end-to-end shipment versus bulk freight and intra-EU distribution, etc.) can or should be differentiated. Nonetheless, the Commission might consider, for example, improving the retail and international trade statistics by differentiating between sales channels (online / offline) for physical goods, digital goods and services separately.

A fundamental challenge in the development of appropriate statistical systems for international e-commerce flows will be clarification of cross-border postal statistics.

- The major EEA designated operators have become primary providers of commercial multinational logistics. For these undertakings operational statistics have the same commercial sensitivity as for non-postal providers of similar services. Even if the major designated operators were willing to disclose such information, the underlying e-commerce activities are so different from traditional postal activities that aggregated data is effectively meaningless. The statistical picture of cross-border e-commerce would be materially clarified by treating commercial cross-border logistics services provided by designated operators (including consolidators like ETOE and sales agents associated with designated operators) as trade statistics which are defined and treated in same manner as trade statistics relating to similar services provided by non-postal operators.
- At the same time, clarifying cross-border postal statistics would shed more light on the evolution of traditional international postal services, such as the postal dispatch of documents and non-commercial goods collected in the designated operator's home country. Such data will become necessary if the Commission or Member States should seek improvements in traditional international postal services and reform of the Universal Postal Union (a high-priority at the UPU itself).

After long consideration, the European Union has adopted legislation that will apply customs, security, and VAT controls to imported e-commerce goods in a manner that is more effective and fairer towards competing postal and non-postal channels. In the course of this study, however, it became clear that public data on enforcement is insufficient to evaluate implementation of these measures. To ensure the effective and fair implementation of this legislation, the Commission might consider the benefit of periodic publication of summary statistics that indicate for each channel (e.g., postal, express, freight) such information as the proportion of imported postal and non-postal consignments accompanied by complete and accurate advance electronic data; the number of fines or seizures; the number of items denied entry; etc.

Effective enforcement of EU customs, security, and VAT legislation might also be undercut by provisions of the UPU Convention purporting to reserve to the UPU authority over the application of national border controls to postal shipments. Disputes between the EU and the UPU in this area have a long history. To ensure the effective and fair implementation of EU legislation in this regard, the Commission might consider encouraging Member States to adopt appropriate measures at the next UPU Congress that would definitively clarify the legal authority of the European Union to fully implement EU customs and security measures free of potential conflict with the Universal Postal Convention or Convention Regulations.



## 7.2 Future Outlook

The Commission asked us to discuss the future developments in international e-commerce and international postal services within the next five to ten years. Even before the COVID-19 pandemic, retail experts did not provide forecasts on global B2C e-commerce beyond 2025. This is not surprising: Ten years ago nobody had foreseen that global e-commerce would experience these growth rates we observe today. In the current situation marked by the implications of the pandemic for the economy, social life and supply chains, any forecasts are particularly uncertain.

Within the next few years, COVID-19 will have a strong impact on the overall economy which will affect e-commerce and postal services. Moreover, it appears that COVID-19 is an accelerator for e-commerce, generally, and the organisation of the e-commerce supply chains, in particular. There are two conflicting trends: on the one hand, the pandemic will cause a global recession which will affect consumer buying behaviour and purchase power. By trend, the effect on e-commerce and delivery services would be negative. On the other hand, the lockdown of local retail and general restrictions in the context of the pandemic have led to a soar in e-commerce, at least for some product categories like groceries and electronics. This has predominantly benefitted intra-EEA e-commerce sales (domestic and regional e-commerce markets like the Nordic and the Baltic countries or Benelux)<sup>417</sup> as international logistics and the international postal system (between continents) have been disrupted in the COVID-19 crisis. For example, the UPU reported that for the first five months of 2020 worldwide cross-border postal volumes had fallen by 21%.<sup>418</sup> For now, we do not see any COVID-19-related factors that could promote international e-commerce stronger than domestic e-commerce. On a very general basis, one could argue that the pandemic increases the e-commerce customer base, which might result in more cross-border purchases once international logistics run more smoothly. As the pandemic is still ongoing we do not attempt to forecast quantitatively but we have identified the most important drivers and risks for the development of cross-border e-commerce and international postal services in the long run.

To illustrate the level of uncertainty that is inherent in forecasts for cross-border e-commerce, we highlight the major (pre-COVID-19) forecasts. Their common feature is that international e-commerce was expected to grow substantially before the virus occurred but the level of expected sales is very different.

- eMarketer estimated in May 2019 that global B2C e-commerce sales will more than double to USD 6.5 trillion in 2023.<sup>419</sup>
- Accenture-AliResearch estimated in 2016 that global cross-border B2C transaction values would more than quadruple from USD 236 billion in 2014 to USD 994 billion by 2020<sup>420</sup>.
- Zion Market Research estimated in August 2019 that the global cross-border B2C e-commerce market is expected to reach around USD 4.8 trillion by 2027.<sup>421</sup>

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<sup>417</sup> For the emergence of regional clusters in e-commerce and delivery within the EEA, see WIK-Consult, Development of cross-border e-commerce through parcel delivery, Study for the European Commission, DG GROW (February 2019), Section 3.3.6.

<sup>418</sup> UPU (2020), The COVID-19 crisis and the postal sector, May 2020.

<sup>419</sup> eMarketer, May 2019; <https://www.emarketer.com/content/global-ecommerce-2019>; accessed 7 March 2020.

<sup>420</sup> AliResearch / Accenture (2016), Global Cross Border B2C e-Commerce Market 2020, p. 2 and McKinsey (2016), Digital Globalization: The New Era of Global Flows, March 2016, p. 34-35.

<sup>421</sup> Zion Market Research (2019), Global Cross-Border B2C E-Commerce Market Is Expected To Reach Around USD 4,856.1 Billion By 2027, press release of 19 August 2019.

- There are fewer published forecasts after the begin of the pandemic. A forecast for Europe by Cross-Border Commerce Europe (June 2020) estimates that total cross-border online sales will increase by 85% between 2019 and 2022, from EUR 132 billion to EUR 245 billion (including travel services).<sup>422</sup>

While the general trend towards growing e-commerce has accelerated during the COVID-19 pandemic and is expected to continue thereafter, we need to take the negative effect of the Brexit into account. The level of intra-EEA e-commerce sales will be significantly affected by the Brexit entering into force by the end of 2020. The UK is the largest e-commerce market in Europe and the largest European exporter of e-commerce consignments to many EEA Member States. Of course, with the exit of the UK from the EU the intra-EEA e-commerce market will significantly shrink for both, aggregated domestic e-commerce sales as well as cross-border sales between EEA Member States. For the UK online sellers, the Brexit will most likely result in increased transit time (backlogs at customs offices) and costs (customs and VAT clearance) for e-commerce exports to the EU-27 as well as for imports from the EU-27.

However, cross-border e-commerce (understood as a purchase on a foreign website) does not necessarily translate directly into cross-border delivery. We have to take into account that e-commerce purchases placed at a non-EU online merchant (either directly or on online marketplaces) do not necessarily mean that the e-commerce consignment is dispatched in the country or region where the merchant is registered. Furthermore, the merchant may not deliver e-commerce consignment by using designated operators. This study analysed in detail the profound changes in the international postal remuneration system and the reforms of the customs and import VAT regulations. These changes will particularly affect the international postal e-commerce flows and the designated postal operators.

In our view, the international postal transport of e-commerce consignments will be increasingly replaced by two alternative models: 1) Dispatch by consolidators (bundled e-commerce consignments) and 2) EU warehouse-based fulfilment. Key drivers are:

- shorter lead times by commercial freight forwarders to match increasing customer expectations on delivery times;
- air freight will be increasingly transported on (more expensive) commercial air cargo planes instead of benefitting from cheaper belly cargo in passenger planes as a consequence of the COVID-19 pandemic;<sup>423</sup>
- From July 2021 on, equal treatment of postal and commercial imports in customs clearance and abolition of the LVCR (if adequately enforced);
- From 2023 on (with ICS2 Release 2), equal treatment of postal and commercial air freight in customs clearance with regard to security and safety rules (if adequately enforced).

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<sup>422</sup> Cross-Border Commerce Europe (2020), Cross-Border Commerce Europe publishes the second edition of the "TOP 500 Cross-Border Retail Europe": an annual ranking of the best 500 European cross-border online shops, media release of 4<sup>th</sup> June 2020, (<https://www.cbcommerce.eu/press-releases/press-release-cross-border-commerce-europe-publishes-the-second-edition-of-the-top-500-cross-border-retail-europe-an-annual-ranking-of-the-best-500-european-cross-border-online-shops>).

<sup>423</sup> Due to the COVID-19 pandemic international postal freight transport was disrupted. Before the pandemic, postal freight transport basically relied on belly cargo in passenger flights. The Airforwarders Association, for example, estimates that around 40% of the air cargo volume that travels through Hong Kong was in the belly of the passenger planes before the COVID-19 pandemic. See Transport Intelligence, Hong Kong protests harm logistics operations, 5 September 2019.

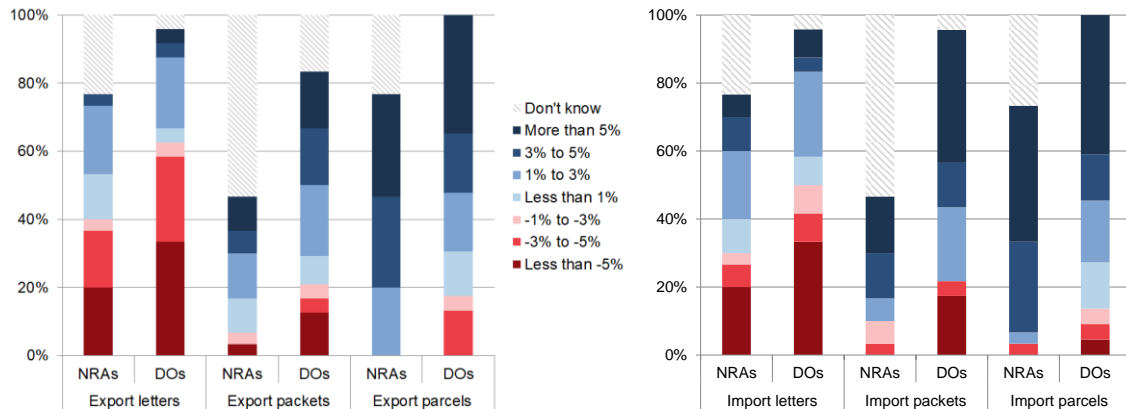
Short delivery times are important for e-commerce sellers and online marketplaces for customer retention. For this reason, we expect a general trend towards placing goods nearer to the consumer. Big data analytics in combination with artificial intelligence will help to identify which product categories should or should not be stored closer to the online buyer. The global online marketplaces Amazon and Alibaba already promote these technologies for this purpose. However, we do not expect that the import of international e-commerce consignments into the EEA will completely vanish but that there will be a shift from intercontinental to interregional e-commerce deliveries with warehouses based nearer to the consumers within the single market. On a smaller scale, this has happened on domestic e-commerce markets in the past: about ten years ago, big e-retailers in large EU Member States started to build up a network of regional warehouses to shorten the distance to their customers.

The final delivery in the country of destination will then be organised in cooperation with local carriers. Regarding local delivery, designated postal operators still have a dominant market position in many Member States partly due to cost benefits from joint delivery of letters and parcels. However, it is imaginable that within one decade, in many Member States, letters will be delivered on less than five days a week, e.g. already in Denmark, Italy, Norway and planned in Sweden. Under these circumstances the cost benefit may persist but at much lower levels of quality of service. The time needed until final delivery of small e-commerce consignments would substantially increase. In this scenario, e-commerce consignments would rather be delivered by either parcel carriers (including designated operators) or by other emerging players in local and urban delivery markets that ensure the timely delivery at the premises of the consumer or at alternative pick-up points like parcel lockers and parcel shops.

Overall, we expect that the international postal system will become less important for the linehaul of international e-commerce consignments. At regional (e.g. Benelux or the Nordic countries) or national level, designated operators will continue playing an important role for final delivery if they successfully adapt their services to the needs of the e-commerce industry and their customers.

But what does this mean for the future development of international postal volumes? In the WIK survey (accessible from December 2019 to mid-February 2020, i.e. before the COVID-19 lockdown), we asked designated operators and national regulatory authorities as well as ministries in 30 EEA Member States (including UK) about their expectations on the future development of international postal exports and imports.

Figure 51 Expectations of NRAs and DOs regarding the development of international postal volume over the next five years



Source: WIK survey.

Notes: NRA/MIN Survey: 30 respondents (26 EEA countries)

DO Survey: 24 (export) / 23 (import) respondents (24 / 23 EEA countries).

The majority of the respondents of the WIK survey expect that export letter post will further decline over the next five years, see Figure 51. The expectation for the future volume development of export packets and parcels is much more optimistic. Many respondents still expect growing export volumes for cross-border consignments containing goods. The expectations appear more mixed for the future development of import postal volumes. However, the majority of the respondents expect a growth of import packages with international e-commerce as major driver for these developments.

There are several risks for future volumes especially of import e-commerce packages from extra-EU origins. The combination of the abolishment of the LVCR for merchandise with a value below €22, changes in the postal remuneration systems and other developments may result in a drop especially of import packets from extra-EU origins (including the UK in case of a no-deal Brexit). The key drivers are summarised and explained in Table 36.

Table 36 Drivers for the future development of international postal volume

Drivers	Description
Technology	<p>IT infrastructure (fixed and mobile broadband access)</p> <p>Documents: Emergence and use of electronic communication, advertising and information (newspapers and magazines) channels</p> <p>Goods: E-commerce penetration and usage at country level</p> <p>Innovations in e-commerce technology</p>
Economic development	<p>Impact of economic developments on general demand (retail) with corresponding effects on consumption and business activities</p> <p>Global recession due to COVID-19 pandemic</p> <p>Trade disputes between China, the EU and the United States</p>
Competition	<p>International: Emerging non-postal import models for international e-commerce consignments and a general shift to EU warehouse based fulfilment</p> <p>Intra-EU/domestic: E-commerce platforms and delivery platforms increasingly compete with postal, parcel and express carriers.</p>
Air freight charges	<p>Disruption of international supply chains during the COVID-19 pandemic has resulted in increasing air freight charges and backlogs at international airports and ports</p> <p>General trend to switch from belly cargo in passenger planes to commercial air cargo forwarders to reduce the supply chain risk may push air cargo charges</p>
Remuneration / terminal dues	<p>Increasing terminal dues and, more importantly, the planned application of self-declared rates (E-format) result in higher delivery costs for non-EU online sellers particularly from China.</p> <p>Increasing local delivery costs due to declining letter volume in all Member States result in steadily increasing rising postal tariffs which additionally drive terminal dues.</p>
Import VAT	<p>Abolishment of LVCR results in rising consumer prices for low-value extra-EU online purchases in the 'Direct to Consumer' import model</p>
Customs clearance	<p>Higher detection rates of counterfeit and undervalued items with negative impact on the import of non-EU low-value consignments</p> <p>Changes in the customs clearance procedures due to enhanced safety and security rules require significant investments (ICS2 Release 1).</p> <p>Additional costs for DOs for tackling the special arrangement (investments in storage, more manpower for customs clearance purposes (indirect representative for consignees)</p>
Quality of service	<p>Disruption of the international postal network has increased international transit times of international postal items due to backlogs at airports and shift to alternative transport modes, from air to sea (e.g. USPS) and rail (e.g. China Post).</p> <p>The transit time for some postal imports from non-EU countries is expected to rise driven by backlogs at the customs office due to incomplete and/or inaccurate ITMATT for customs (import VAT) and security &amp; safety purposes (ICS2).</p> <p>Letter volume decline may result in relaxed USO with reduced delivery and collection frequency resulting in longer transit times and making joint delivery of letters and e-commerce consignments less attractive</p>
Brexit	<p>The development of international postal flows refers to EU-27/brex. For the UK online sellers, the Brexit will most likely result in increased transit time (backlogs at customs offices) and costs (customs and VAT clearance) for e-commerce exports to the EU-27 as well as for imports from the EU-27.</p>

Source: WIK assessment.

Table 37 summarises our expert opinion on the impact of each driver on the development of international postal volumes. Postal consignments containing goods refer to postal packets. Intra-EEA traffic means domestic and intra-EEA outbound consignments.

Table 37 Estimated impact of the different drivers on international postal volume for the next five years (EU-27brex)

Drivers	International letters (documents)	Postal consignments (goods) EEA exports to non-EEA destinations	Postal consignments (goods) Non-EEA imports	Postal consignments (goods) Intra-EEA traffic
Technology	--	++	++	++
Economic development	--	-	-	-
Competition	0	--	--	-
Air freight charges	-	-	-	0
Remuneration / terminal dues	0	-	-	+
Import VAT	0	0	--	0
Customs clearance	0	0	--	+
Quality of service	--	-	--	-
Brexit	0	+	+	+

Source: WIK assessment.

Notes: No impact (0), Low negative impact on volume (-), high negative impact on volume (--), low positive impact on volume (+), high positive impact on volume (++)

Overall, we expect that the international letter post volume containing documents will significantly decline mostly driven by the switch from physical to electronic exchange of documents. The expected economic development will stress this development as business customers want to save costs and therefore embrace digital alternatives.

Postal consignments containing goods with non-EU destinations may slightly grow, depending on the economic development in key export markets like US, Russia or China. Designated operators may benefit from this if they have a successful packet and parcel business. However, we expect the international platforms like Amazon and Alibaba will also further develop their logistics networks to handle international e-commerce consignments to China, India or the United States. For international postal imports to the EEA we expect a drastic decline that is fuelled from a combination of many factors, including competition (with alternative import models), costs (freight charges, increased terminal dues and launch of self-declared rates for import packets, costs and effort for customs clearance), more equal treatment of postal and non-postal consignments in customs clearance, and the abolishment of the LVCR.

The Brexit transforms the UK from an EU Member State to a non-EU country resulting in higher costs and reduced quality of service for e-commerce exports from the UK to the EU. The UK is the biggest exporter of e-commerce consignments in the EU and an important importer in letter post volume including packets. It is the largest e-commerce

market with a significant share of e-retailers selling to the single market. The Brexit moves the UK from a member of this single market to a non-EU country similar to countries like the US or China but without any specific trade agreement with the EU, so far. This will affect UK online sellers' strategies for international e-commerce fulfilment from the UK to the EU. We expect that UK online sellers will shift some of their stocks from UK warehouse based to EU warehouse based fulfilment. Amazon, for example, recommends their UK sellers to "consider splitting [their] inventory and sending it to a fulfilment centre in the UK and the EU, so that [they] have sufficient stock either side of the new customs border"<sup>424</sup> This shift will positively affect both, intra-EU deliveries in general and postal intra-EU deliveries in particular.

Overall, we expect that the intra-EU postal e-commerce consignments will be the winners in this game, as non-EU e-retailers or online marketplaces will increasingly set up warehouses in an EU Member State. We foresee significant growth of intra-EU postal consignments, cross-border and domestic (by direct injection) and affecting both packets and parcels. In many EU Member States the designated operator will still be one of the preferred delivery channels for e-commerce consignments because of the nationwide postal networks and the significant efforts made to adjust and improve service provision to better meet the needs of the e-commerce industry and of online buyers.

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<sup>424</sup> Amazon Seller Central, Brexit guidance, <https://sellercentral.amazon.co.uk/gp/help/external/9KF67HWNN2FQ2NJ>, extracted 30 July 2020.

## Appendix 1: Target System Formulae in the 2016 UPU Convention

In the 2016 UPU Convention, the calculation of terminal dues in the Target System — flows between countries in Groups I, II, and III — begins application of the **target system formulae**. The 2016 UPU Convention directs that:

The rates per item and per kilogramme are separated for small (P) and large (G) letter-post items and bulky (E) and small packet (E) letter-post items. They shall be calculated on the basis of 70% of the charges for a 20-gramme small (P) letter-post item and for a 175-gramme large (G) letter-post item, exclusive of VAT or other taxes. For bulky (E) and small packet (E) letter-post items, they shall be calculated from the P/G format line at 375 grammes, exclusive of VAT or other taxes.<sup>425</sup>

The Convention further provides that ‘The Postal Operations Council shall define the conditions for the calculation of the rates as well as the necessary operational, statistical and accounting procedures for the exchange of format-separated mails’.<sup>426</sup>

Accordingly, the Convention Regulations describe the calculations used to derive two **linear rates** — rates expressed in the form of X per item plus Y per kilogram — which purportedly derive terminal dues ‘on the basis of’ 70% of retail domestic priority postage rates.<sup>427</sup> One linear rate provides ‘**country-specific**’<sup>428</sup> terminal dues rates for PG documents; the second formula provides country-specific terminal dues rates for E-format items. In practice, however, the target system formulae incorporate several arbitrary constants which deprive the resulting linear rates of any meaningful connection to the specific domestic postage rates in each destination country.

To illustrate application of the target system formulae, consider a postal operator whose domestic postage rates are those set out in Table 38. These are not the rates of a specific post operator, but an unweighted average of the 2019 weight step rates of postal operators in Group I (industrialised countries).

The target system formulae derive linear rates for both PG documents and E-format items from 70% of the domestic priority postage rates for a 20-gram small letter (P-format) and a 175-gram large letter (G-format) in the destination country. The UPU assumes that the delivery services compensated by terminal dues constitute 70% of the end-to-end priority

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<sup>425</sup> UPU Convention (2016), art. 28.5.

<sup>426</sup> UPU Convention (2016), art. 28.6.

<sup>427</sup> Convention Regulations (2017), art. 30-107.

<sup>428</sup> The term ‘country-specific’ was introduced into the UPU vocabulary in the 1999 UPU Convention, art. 47.3: ‘The provisions of the present Convention concerning the payment of terminal dues are transitional arrangements, moving towards a countryspecific payment system’. At that time, ‘country-specific’ meant terminal dues that were aligned with the domestic postage rates (or domestic costs, if obtainable) in each destination country. The Beijing Congress instructed the Postal Operations Council to develop a system of country-specific rates for implementation in the industrialized countries beginning 2004. 1999 Beijing Congress, Resolution C46/1999 (‘determine the relation between domestic tariffs and costs in each industrialized administration to establish the appropriate percentage and mixture of tariffs to apply as terminal dues for each industrialized administration’). In 2002 and 2003, the POC declined to do so in a series of deeply divided meetings. UPU, Summary Record of the 2002 POC (9 Jul. 2002); Summary Record of the 2003 POC (18 Jun. 2003). Since the 2004 Bucharest Congress, the UPU has adopted the practice of referring to terminal dues established under the rules of the Target System as ‘country-specific’ even though — after application of the arbitrary target system formulae, caps, and floors — they do not meet the criteria of Resolution 46/1999 and are not in any sense specific to the domestic postage rates or domestic costs of service in each destination country.



service compensated by retail priority domestic postage.<sup>429</sup> Evidence for this assumption is scant, however; at a minimum, it appears likely that the relationship between terminal dues and equivalent domestic postage varies significantly from country to country and year to year depending on national circumstances and pricing policies.

Table 38 Example of a domestic postage tariff for letter post items

	Standard UPU weight steps						
	0-20 g	20-50 g	50-100 g	100-250 g	250-500 g	500-1000 g	1 kg-2 kg
P-format	0.771	0.905	1.228				
G-format	1.132	1.225	1.412	2.107	2.787		
E-format	2.414	2.747	2.624	3.214	4.635	5.418	6.221

Source: UPU terminal dues studies (2019); WIK-Consult research (2020).

Note: All rates are expressed in Special Drawing Rights (SDRs). VAT, if applicable, is excluded.

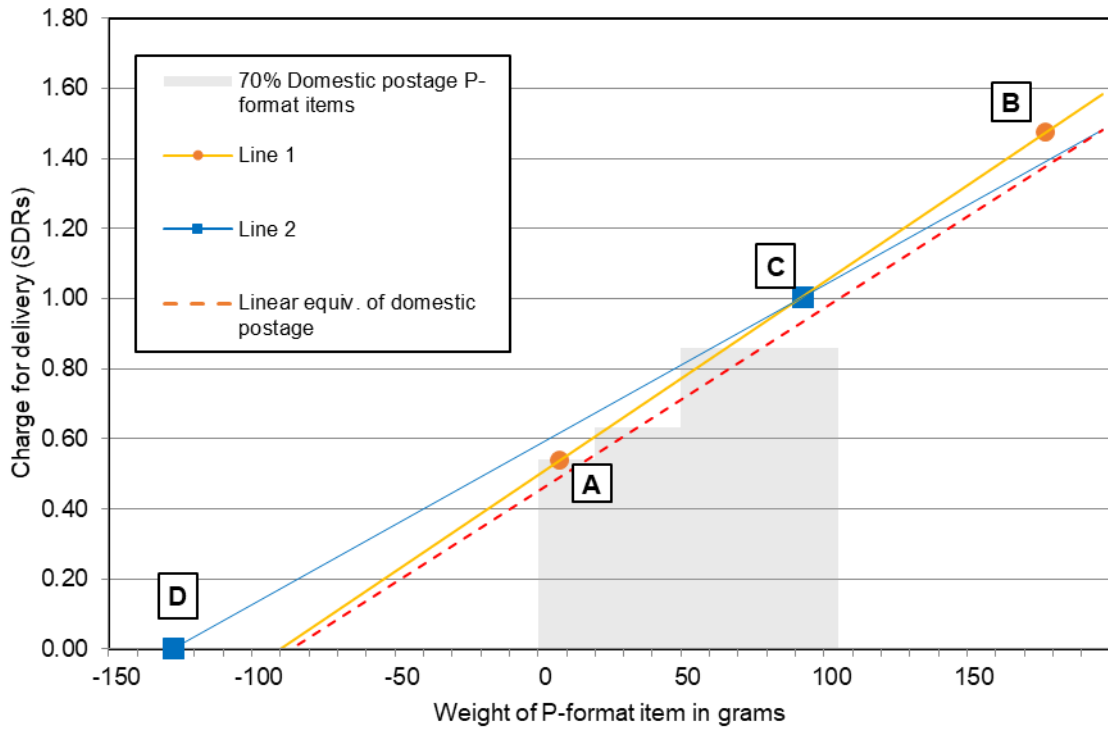
For PG documents, the UPU first calculates the linear rate implied by the two domestic rates and weights — 70% of the 20-gram letter rate at 10 grams<sup>430</sup> (point A in Figure 52 and Figure 53) and 70% of 175-gram flat rate at 175 grams (point B). These two points imply a linear rate formula for P- and G-format documents of SDR 0.483 per item and 5.667 per kg (line 1 in Figure 52 and Figure 53). Yet combining these two rates in this way assumes that rates for a 20-gram P document and a 175-gram G document are mathematically related — i.e., that the increase from one rate to the other shows how rates for P and G documents increase with weight. This may be true in some countries, but in many other countries, there is no such relationship. The rate schedules for P documents and G documents are separate schedules based on the different costs of handling small and large envelopes. For example, for the rates shown in Table 38, 70% of the P-format rates imply a rate increase of SDR 5.225 per kg while 70% of the G-format rates imply a quite different rate increase of SDR 3.297 per kg. In this example, therefore, the increase in rates from 70% of the 20-gram P document to 70% of the 175-gram G-document, SDR 5.667 per kg, has no logical relationship to either P document rates or G document rates or even a weighted average of the two.<sup>431</sup>

<sup>429</sup> The UPU calls the ratio between terminal dues and domestic retail rates the **cost-to-tariff** ratio, although it is unrelated to costs.

<sup>430</sup> For this purpose, the UPU assumes that the average weight for a PG document in the 0 to 20 gram weight step is 10 grams, although UPU studies indicate that it is significantly heavier. The 2014 IPK study in advance of the 2016 UPU Convention found that the average weights for 0-20 gram P-format item was 12 grams and for a 0-20 gram G-format item was 13 grams. UPU, POC C3 LPRG 2014.2 Doc 4a, Results of the items per kilogramme (IPK) study (10 Oct. 2014), Annex 1, table 7. Current UPU studies suggest that the average weights in 2018 were 13 grams (P-format) and 16 grams (G-format). UPU, POC C2 RIG 2019.1, Update of the results of the IPK Study (8 Jan. 2020), Annex 1, table 8a.

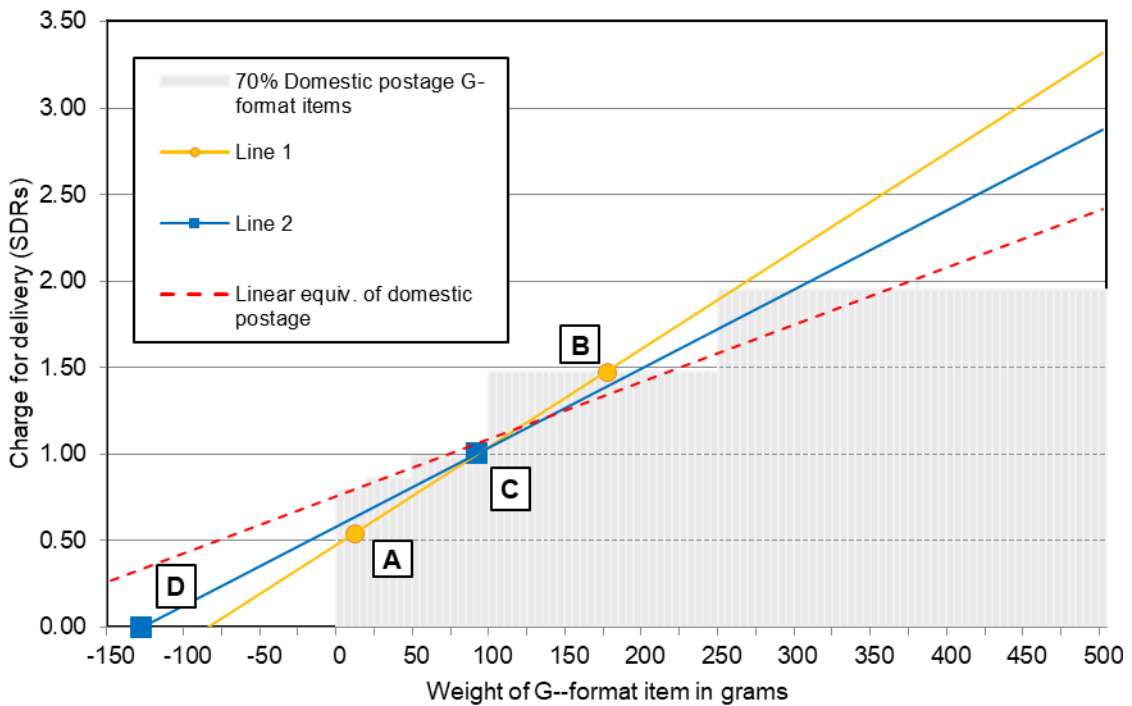
<sup>431</sup> Assuming that P documents and G documents composed 82% and 18% of PG documents (the proportions in 2018), respectively, then a weighted average linear rate for PG documents would be SDR 0.519 per item and 4.871 per kg.

Figure 52 Target system formula applied to P-format documents



Source: WIK-Consult.

Figure 53 Target system formulae applied to G-format documents



Source: WIK-Consult.

For both P (Figure 52) and G (Figure 53) documents, this first linear rate (line 1) is used to calculate the delivery rate for an item weighing 91.9 grams, the average weight of a *letter post* item (not the average weight of PG documents) in 2014.<sup>432</sup> Using this point, the rate and weight at 91.9 grams (C), and an x-intercept of -128 grams (D) a second linear rate is constructed (line 2). In UPU terminology, the negative of this x-intercept is expressed as 12.8% and called the ‘**item-to-kilogram**’ ratio. The value of the item-to-kilogram ratio (or x-intercept) is taken from the item-to-kilogram ratios implied by the cap and floor rates for PG documents.<sup>433</sup> It is a negotiated value unrelated to the domestic postage rates in any country and appears wholly arbitrary.<sup>434</sup>

The second linear rate (line 2) works out to SDR 0.584 per item and 4.566 per kg. This is the UPU’s tentative linear terminal dues rate for all PG documents. This linear rate is not mathematically related to 70% of the original domestic postage rates for P or G documents (Table 38). For comparison, actual linearisation of 70% of the P and G-format domestic rates is shown as dashed red lines in Figure 52 (SDR 0.463 per item and 5.225 per kg) and Figure 53 (SDR 0.767 per item and 3.297 per kg).<sup>435</sup>

<sup>432</sup> UPU, POC C3 LPRG 2014.2 Doc 4a, Results of the items per kilogramme (IPK) study (10 Oct. 2014), Annex 1, table 9.

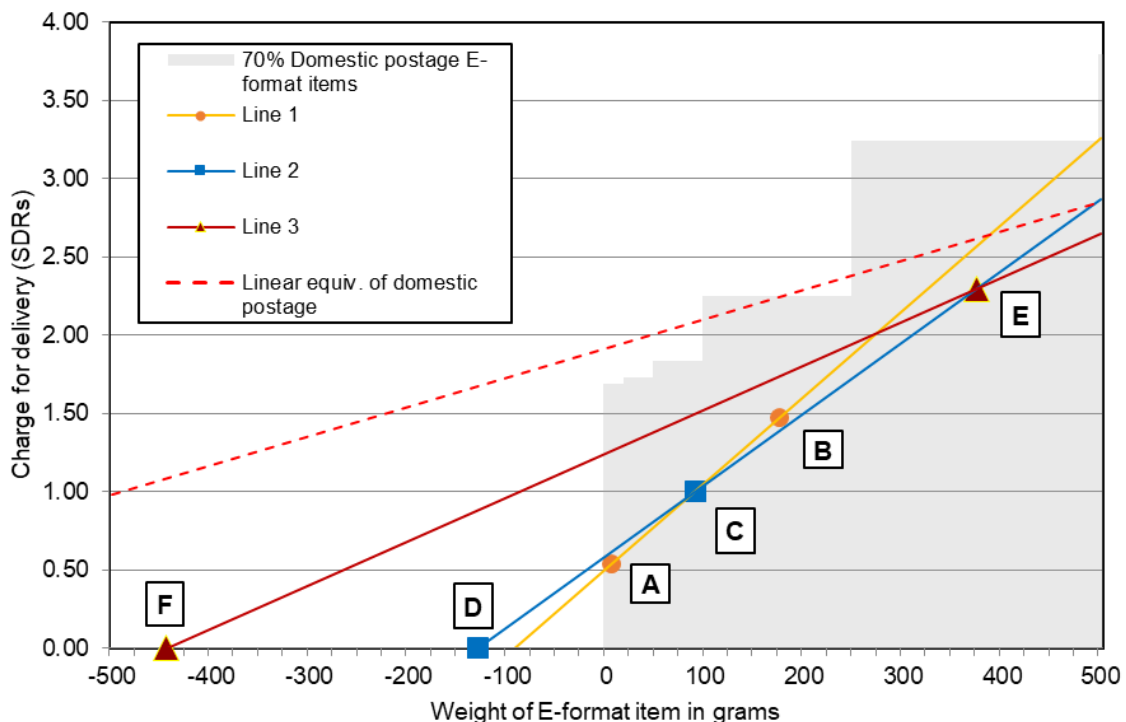
<sup>433</sup> The item-to-kilogram ratio is equal to the per item rate divided by the per kilogram rate. For example, for a linear rate of SDR 0.227 per item and SDR 1.774 per kg — the linear floor rate for the Target System in 2018 — the item-to-kilogram ratio is said to be 12.8% (0.227/1.774). Mathematically, the item-to-kilogram ratio is the negative of the weight, -0.128 kg, that forms the x-intercept of the line defined by this linear rate. Under the 2016 UPU Convention, the item-to-kilogram ratio is fixed at 12.8% for all of the cap and floor rates for PG documents for the years 2018 through 2021.

<sup>434</sup> The UPU has used the item-to-kilogram ratio of 12.8% to define the cap rates for terminal dues since 2001. A POC survey of 2014 domestic postage rates in Target System countries found an average item-to-kilogram ratio of 18.5% with a variation in the average item-to-kilogram per group ranging from 13.9% (Group 1.1) to 17.7% (Groups 1.1, 1.2, 2, and 3). There is no indication of the range in item-to-kilogram ratios per country. UPU, POC C3 LPRG 2015.1 Doc 6 Annex 2, Study on item-to-kilo ratio (26 Mar. 2015). WIK’s review of 2019 domestic postage rates for P and G documents in industrialised countries found that national item-to-kilogram ratios for P documents varied from 1% to 79% and for G documents from 6% to 61%. In many instances, the item-to-kilogram was infinite because rates do not vary with weight.

<sup>435</sup> The dashed red lines are calculated from 70% of the rates shown in Table 38 and the mid-point weights for each weight step except for the first. The weight for the 0-20 gram P-format weight step is set at 13 grams, and the weight for the 0-20 gram G-format weight step is set at 16 grams. These are approximately the average weights reported in the latest UPU survey. UPU, POC C2 RIG 2019.1 Doc 9e, Update of the results of the IPK study (20 Dec. 2018) (2018 IPK study).

Application of the target system formulae to E-format items is similar but requires an additional step. The UPU calculates lines 1 and 2 from 70% of the domestic rates for a 20-gram P-format letter and 175-gram G-format flat in the same way as for PG documents even though in many countries rates for E-format items are very different from those for P and G documents. Line 2, SDR 0.584 per item and 4.566 per kg, is then used to calculate the rate for an item weighing 375 grams, the midpoint in the 250 to 500 gram weight step.<sup>436</sup> This point, the rate and weight at 375 grams (point E in Figure 54 and Figure 55) and an x-intercept of -445 grams (F) — an item-to-kilogram ratio of 44.5% — are used to define line 3. Like the item-to-kilogram ratio of 12.8% used in calculations for PG documents, the item-to-kilogram ratio of 44.5% for E-format items is consistent with the politically negotiated cap and floor rates but unrelated to domestic postage rates.<sup>437</sup> Figure 54 shows these calculations for a weight range of 0 to 500 grams so the points in the calculations can be shown clearly. However, the calculations apply to the full range of weights for E-format items, 0 to 2 kilograms as shown in Figure 55.

Figure 54 Target system formulae applied to E-format items, 0-500 grams

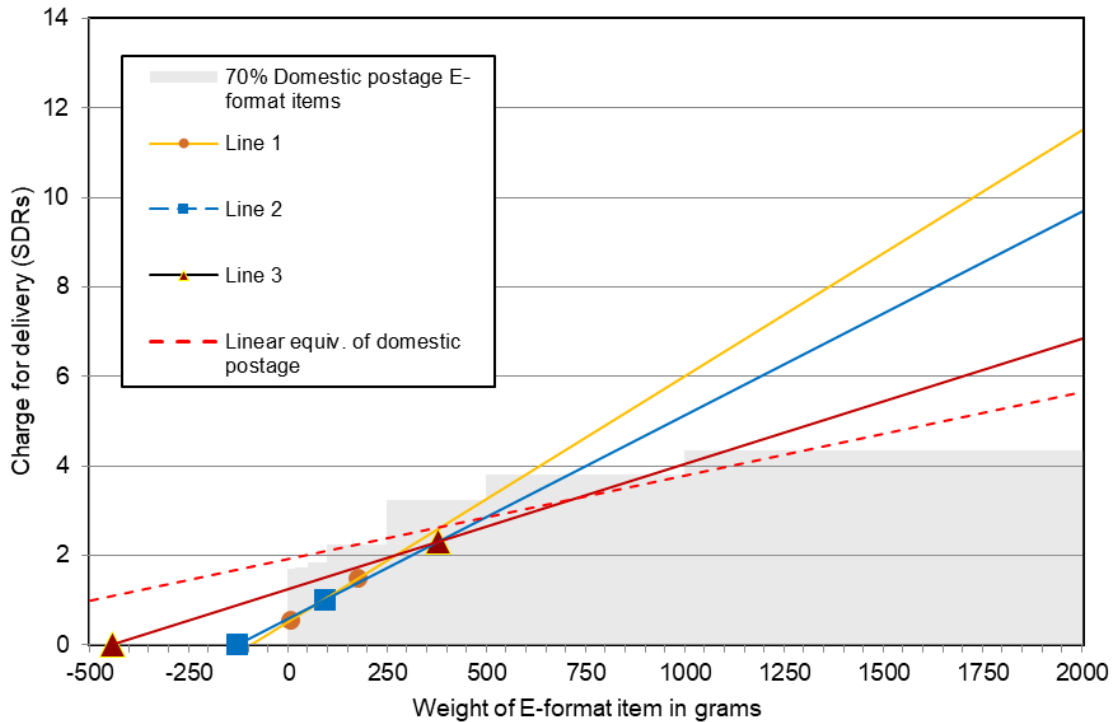


Source: WIK-Consult.

<sup>436</sup> The 2014 IPK Study found that in 2018 the average weight for weight for a E-format item was 255 grams. There is no empirical basis for using a weight of 375 grams to construct the terminal dues rates for E-format item rates; it was the result of political negotiation in the POC working party.

<sup>437</sup> A POC survey of 2014 domestic postage rates in Target System countries found an average item-to-kilogram ratio of 45.1% with a variation in the average item-to-kilogram per group ranging from 62.3% (Group 1.1) to 50.4% (Groups 1.1, 1.2, 2, and 3). There is no indication of the range in item-to-kilogram ratios per country. UPU, POC C 3 LPRG 2015.1 Doc 6 Annex 2, Study on item-to-kilo ratio (26 Mar. 2015). WIK's review of 2019 domestic postage rates for E-format items in industrialised countries found that national item-to-kilogram ratios varied from 16% to 906%. In some countries (AT, DE, LU, CH), the item-to-kilogram ratio is infinite because rates do not vary with weight.

Figure 55 Target system formulae applied to E-format items, 0-2000 grams



Source: WIK-Consult.

This third linear rate (line 3), SDR 1.247 per item and 2.180 per kg, is the tentative linear terminal dues rate for E-format items. However, there is no mathematical relationship between this linear rate and 70% of the domestic postage rates for E-format items in the destination country. In both figures, the dashed red line shows the actual linearisation of the domestic postage rates for E-format items (SDR 1.917 per item and 1.873 per kg).<sup>438</sup>

The target system formulae can be expressed more precisely using algebra. In sum, the terminal dues charge for schedule x is given by following equation:

$$T_x(w, s) = R_{WS}w + R_{PS} \tag{1}$$

where  $T_x$  is the terminal dues charge prescribed by terminal dues schedule x for an item of weight  $w$  and shape  $s$ . The shape,  $s$ , can have only two values:  $pg$  refers to the terminal dues schedule for PG documents and  $e$  refers to terminal dues schedule for E-format items (small packets and bulky letters).

<sup>438</sup> The dashed red lines are calculated from 70% of the rates for E-format items shown in Table 38 and the mid-points for each weight step except for the first. The weight for the 0-20 gram E-format weight step is set at 15 grams.

In the 2016 UPU Convention, the linear terminal dues rate for PG documents is given by the following equations:

$$M = (P_2 - P_1)/(0.175 - 0.010) \quad (2)$$

$$R_{Wpg} = 70\% \times \left( \frac{P_1 + M(W_{LP} - 0.1)}{W_{LP} + K_{pg}} \right) \quad (3)$$

$$R_{Ppg} = K_{pg}R_{Wpg} \quad (4)$$

In equation (2),  $P_1$  and  $P_2$  are the domestic postage rates for a 0 to 20 gram letter and a 175-gram flat, respectively.  $M$  is the slope, i.e., the per kilogram rate, of the line joining the points established by the postage rate for a 10-gram P document and a 175-gram G document, i.e.,  $(P_1, 0.010)$  and  $(P_2, 0.175)$ .

In equation (3),  $R_{Wpg}$  is the per kilogram component of the linear rate for PG documents.  $W_{LP}$  is the average weight for letter post worldwide in 2014, 0.0919 kg, not the average weight for PG documents.<sup>439</sup> The constant  $K_{pg}$  is the negative of the x-intercept expressed in kilograms, i.e., the 'item-to-kilogram ratio'. In equation (2), the numerator gives the domestic postage rate for an item of weight  $W_{LP}$  implied by the linear rate determined by the points  $(P_1, 0.010)$  and  $(P_2, 0.175)$ . This rate and the weight  $W_{LP}$  establish point C in Figure 52 and Figure 53. In the denominator, if  $K_{pg}$  were zero, the per kilogram rate would be  $M$ , the per kilogram rate found in equation (1). However, addition of the  $K_{pg}$  term modifies the per kilogram rate so that it becomes the slope of a line determined by point C and an x-intercept of  $-K_{pg}$ . The result is multiplied by 70% because terminal dues compensate the destination post office only for local delivery in the destination country, as explained above.

In equation (4),  $R_{Ppg}$  is the per item component of the linear rate for PG documents. This is the y-intercept implied by the x-intercept  $(-K_{pg})$  and the per kilogram rate,  $R_{Wpg}$ .

The linear terminal dues rate for E-format items in the 2016 UPU Convention is given by the following equations:

$$R_{We} = R_{Wpg} \times \frac{W_E + K_{pg}}{W_E + K_e} \quad (5)$$

$$R_{Pe} = K_e R_{We} \quad (6)$$

In equation (5),  $R_{We}$  is the per kilogram component of the linear rate for E-format items.  $W_E$  is set at 375 grams, and  $K_e$ , the item-to-kilogram ratio, is set at 0.445. Both values are agreed by the UPU by political negotiation but unrelated to domestic postage in the destination country.<sup>440</sup> The effect of the ratio  $(W_E + K_{pg}) / (W_E + K_e)$  is to modify the per

<sup>439</sup> UPU, POC C 3 LPRG 2014.2 Doc 4a, Results of the items per kilogramme (IPK) study (10 Oct 2014), table 9.

<sup>440</sup> According to the logic of the UPU methodology, this should be set at the average weight per E-format item, 255 grams. UPU, POC C3 LPRG 2014.2 Doc 4a, Results of the items per kilogramme (IPK) study (10 Oct. 2014), Annex 1, table 9.

kilogram component of the linear rate for PG documents so that it becomes the slope of a line determined an x-intercept of  $-K_e$  and the point on the PG linear rate at 375 grams (point E in Figure 54).

In equation (6),  $R_{Pe}$  is the per item component of the linear rate for E-format items. This is the y-intercept implied by the x-intercept ( $-K_e$ ) and the per kilogram rate,  $R_{We}$ .

In sum, the target system formulae establish two linear terminal dues rates: for PG documents,  $R_{Ppg}$  per item and  $R_{Wpg}$  per kilogram, and for E-format items,  $R_{Pe}$  per item and  $R_{We}$  per kilogram. Neither linear rate approximates the domestic postage rates equivalent to terminal dues in the destination country except by coincidence.

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Publications Office  
of the European Union

doi:10.2873/649900  
ISBN 978-92-76-27174-1