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The UPU and tides of change in the international delivery services market

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The Universal Postal Union (UPU) is an intergovernmental organization which, since 1875, has established the legal framework for the exchange of documents and packages between national postal operators (Posts). This presentation considers briefly how evolutionary changes in the international delivery services market have affected the premises upon which the UPU was founded and imply a need for fundamental revisions in the organization and mission of the UPU in the future.

Prologue

This presentation begins with a prologue recalling a famous “shock and awe” presentation by José Anson, chief economist of the UPU, in 2022. In his presentation, Dr. Anson identified ten extraordinary “shocks” that had shaken the international postal system in the preceding two or three years, causing a calamitous drop in the volume of international mail. [Slide 3] In particular, he estimated the quantitative effects of six major shocks: Covid 19, a steep increase in terminal dues for small packages (fees that Posts pay each other for delivery of inbound postal items), stricter customs controls in the EU and US, the EU’s repeal of an exemption from VAT for low value items, and the Ukraine war. These six shocks accounted for an estimated 73 percent reduction in international mail volume. [Slide 4]

This presentation likewise highlights three events that have shaken the international postal system. The focus of this presentation, however, is over a longer time span, the 150 years since the founding of the UPU. The three events identified in this presentation are not short-term shocks but evolutionary changes that have washed over and reshaped the international delivery services landscape like incoming tides. In light of these tides of change, the presentation suggests four principles for revising the UPU legal framework. [Slide 5] At the end, this presentation returns to Dr. Anson’s six major shocks and suggests they should be interpreted, at least in part, as evidence of basic weaknesses in the UPU’s current legal framework rather than as an extraordinary run of bad luck.

1 Founding of the UPU, 1875

Modern postal service developed in the mid-nineteenth century as a result of a series of technological improvements introduced in the Industrial Revolution. Better technology increased the geographic scale of commercial and social activities. The need for long distance communications increased, and the primary conduit for long distance communications was the exchange of letters via the postal system. Better roads, canals, and early railroads offered the means of providing a speedier, more reliable, and less expensive postal system on a nationwide basis. A modern, convenient, affordable “universal postal service” was pioneered by England in 1840, and the volume of letters exploded. The English reforms were soon

¹ The views in this paper and the accompanying presentation are the personal views of the author only should not be ascribed to any client nor anyone else.

replicated in other European countries and North America. [Slide 7]

By the 1860s, there was a demand for similarly convenient simple and affordable international postal service. After delays, the governments of nineteen European countries, the United States, and Egypt agreed to establish a General Postal Union in 1875, renamed the UPU in 1878. The UPU was established as an intergovernmental organization of necessity. In all founding countries, postal monopoly laws gave a government administration the exclusive right to establish postal services, and government postal services were limited to the national territory. Hence, the only way to arrange for an international postal service was by agreement among governments. The explicit purpose of the UPU's founders was to create a "single postal territory for the reciprocal exchange of correspondence". [Slide 8]

The UPU was an immediate success. Membership grew from 21 countries in 1875 to 50 countries by 1885 and 85 by 1940. After 1945, many new countries joined the UPU in the wake of a period of decolonization. Today the UPU consists of 192 member countries. [Slide 9]

Decision making at the UPU is intergovernmental in format and extremely complex. A general Congress of delegations from all member countries meets every four years to decide the most important issues. [Slide 10] Between Congresses, the UPU is managed by two committees: the Postal Operations Council (POC) and the Council of Administration (CA). The POC is composed of representatives of 48 member countries and deals with operational and commercial matters. The CA is composed of representatives of 41 member countries and considers policy and strategic issues. Committee members are elected by Congress according to political criteria — e.g., proportional representation of geographic regions — and meetings are conducted in seven languages by means of simultaneous translations. [Slide 11] The POC and CA consider reports by other specialized committees which, in turn, consider reports other more specialized committees, working parties, and expert groups. In practice, all meetings are dominated by postal officials, and almost all decisions are decided by the majority.

The founding of the UPU in 1875 was an enormous achievement and a major advance in international cooperation. Despite substantial changes in the composition of the international postal community and the means of transmitting international postal items, the core function of the UPU remained the exchange of letters and documents through the 1990s. A steady increase in the volume of international letters and documents sustained the UPU throughout this period. For more than a century, the basic functioning of the UPU changed little. [Slides 12-13]

2 Express Integrators, 1970s

The first tide of change to reshape the basic premises of international delivery services was the rise of "express integrators". Modern express integrators are private (i.e., non-postal) companies that provide cross border delivery services in which collection in the origin country, international transportation, and delivery in the destination country are all under the control of a single central management. International air transportation between multiple countries is managed as a coherent network, typically using aircraft owned and operated by the integrator on major routes. Customs clearance is managed by the integrator or an "in-house" customs broker. Modern express integrators provide global delivery services for documents and packages that are substantially faster and more reliable than international postal services, albeit at a higher price.

As in the case of the UPU, the origin of modern express integrators lies in a wave of technological improvements. International air transportation became faster, cheaper, and more reliable thanks to introduction of commercial jet aircraft, particularly the Boeing 707 in 1958 and the Boeing 747 in 1970. [Slide 15] Containerization led to similar, if not greater, improvements in international sea transportation. International telephone calls surged due to advances such as communications satellites and digital switching. [Slide 16] These technological improvements made possible the growth of businesses with operations in multiple countries. Multinational businesses, in turn, needed a rapid and reliable international delivery services for “time-sensitive” documents such as financial instruments, bills of lading, shipping documents, engineering and construction plans, petroleum analyses, etc.

The demand for rapid and reliable international document delivery services was met by the development of “couriers”. In the 1970s, courier companies were small startups organized by young men and women in their 20s and early 30s. They had little or no experience in postal or air cargo operations and essentially invented courier services on the fly. A courier company typically transported urgent documents from country to country as the baggage of a passenger on a commercial airline flight. Baggage service was used because it was boarded last, unloaded first, and —unlike cargo —was certain to be boarded on a specific flight. Baggage service took maximum advantage of the speed of the plane and allowed close coordination with collection and delivery services. In contrast to international postal and air cargo services, courier services were centrally managed as a single end-to-end service. The company that made the pick up in the origin country was the same company that made the delivery in the destination country and answerable for any lapses. Using the telex system — a primitive text messaging machine that attached to telephone lines —couriers could provide customers with “tracking and tracking” information for all shipments. International couriers quickly became an indispensable conduit for multinational businesses. Small package services were added in the late 1970s. By the early 1980s, DHL and TNT had emerged as the leading global couriers, led by Larry Hillblom, an American, and Gordon Barton, an Australian, respectively. [Slide 17]

“Express service” also emerged in the 1970s but from different origins. Federal Express (FedEx), founded by Fred Smith, developed the first true express service in the United States. FedEx operated a fleet of small cargo aircraft that each weekday night flew to and from a central hub airport in Memphis, a city in the middle of the US. At the beginning of the evening, the aircraft were located in different cities around the country. Each aircraft was loaded with time-sensitive packages — such as samples, spare parts, and just-in-time inventory — collected during the day. Departure times for all flights were scheduled so that packages would arrive in the Memphis hub in time to be unloaded and quickly sorted. Once sorted by destination, packages were flown back to same cities for delivery as early in the day as possible. The FedEx air cargo network provided an extraordinarily fast and reliable overnight collection and delivery service. As with the international couriers, FedEx closely coordinated collection and delivery with flight operations using advanced communications systems and, in the case of FedEx, the first use of computers. [Slide 18] In the 1980s, United Parcel Service (UPS), the largest parcel company in the US, established an air express service patterned after FedEx. Like the international couriers, express carriers became critical to the business operations of their customers.

Although different in origin, couriers and expresses were similar in essentials. Both were evolved from newly improved transportation and communications technologies to provide a tightly coordinated, centrally managed collection and delivery service that no one

had previously imagined. Both provided speed and reliability far superior traditional postal service. [Slide 19] By the late 1980s, couriers and express companies were combining techniques and expanding into each other's markets. Smaller companies were purchased or ceased by operate. By the mid-1990s, four global "express integrators" had emerged: DHL, FedEx, TNT, and UPS. [Slide 20]

The UPU was concerned about the rise of the international couriers early in their development. In the 1984 Hamburg Congress, the UPU adopted, for the first time, a resolution urging all member governments to use postal monopoly laws to suppress couriers. In 1989, the UPU added EMS (express mail service) as a new category of international postal services, joining the "letter post" and "parcel post". In 1999, the UPU reorganized the EMS by establishing a central coordinating authority, the EMS Cooperative. Nonetheless, EMS service never matched the service quality of the major express integrators. [Slide 21] Even if EMS is included in the same market as the express integrators, the market share of EMS was only about 12 percent in 2000 and has fallen steadily since, reaching about 3 percent in 2023. [Slide 22]

In sum, express integrators, like the UPU itself, evolved in response to a wave of improved technologies. The express integrators made better use of the new technologies than traditional postal services. The rise of the express integrators demonstrated that by the end of the twentieth century improved transportation and communications technologies had made it possible to centrally manage a global network of end-to-end international delivery services that is more efficient, faster, and more reliable than could be achieved by the UPU's intergovernmental coordination of national Posts. [Slide 23]

3 Postal reform, multinational posts, and postal integrators, 1990s

In the late 1980s and early 1990s, leading industrialized countries began to reexamine the principles of traditional postal laws. Formal reviews of the postal laws were completed in New Zealand (1988), Australia (1992), and the European Union (1992). The essential conclusion of such studies was that a modern Post must be permitted, and required, to operate in more commercial manner in order to respond to changing market conditions. Nonetheless, governments were also determined to maintain the basic public services provided by the traditional postal service.

These conclusions implied a need for fundamental reform of postal laws. Over the next 15 years, almost all industrialized countries adopted reforms that included five core elements —

- repealed the postal monopoly and other legal privileges of the Post;
- transformed the Post from a government administration into an ordinary corporation whose shares were owned by government or sold to private investors;
- defined a set of basic, essential, nationwide "universal postal services" that government would ensure and regulate, to be provided by the corporatized Post or by alternative service provider under contract with government;
- authorized the corporatized Post to provide — outside the scope of universal services — additional delivery services and other businesses on a wholly commercial basis; and

- separated regulatory and commercial functions by vesting authority to regulate the Post in one or more government agencies independent of the Post and its competitors.

[Slide 25]

The most significant of the postal reform laws were the Postal Directive of 1997 and implementing legislation in the EU Member States. Amendments to the Directive in 2002 and 2008 eliminated postal monopoly laws throughout the EU. All but one (Cyprus) of the 27 EU Posts were corporatized and several major Posts were privatized, including those of Germany, the Netherlands, and United Kingdom. Postal reform laws were also adopted in New Zealand and Australia. In 2006, the United States adopted a limited postal reform law that substantially commercialized the US Postal Service but did not modify its legal structure or repeal the postal monopoly.

Many corporatized Posts diversified into related businesses such as commercial parcel services, freight forwarding, banking, and e-commerce marketplaces. Beginning in about 2000, corporatized Posts began to establish offices outside their original national territory. These extraterritorial offices of exchanges (ETOs) competed with the national Posts by collecting documents and packages and forwarding them through the international postal system for delivery. By 2024, 39 “multinational Posts” operated 299 ETOs in 35 countries. Virtually all citizens of the EU have a choice of more than one Post for outbound international mail. **[Slides 26-27]**

The largest corporatized Posts went further, following the path of the express integrators by becoming “postal integrators”. These Posts purchased private express, freight forwarding, logistics, and customs brokerage companies and combined them into large integrated end-to-end integrated international networks. **[Slide 28]** The leading example is Deutsche Post, which bought DHL and Danzas, a major freight forwarder. Today, the former Deutsche Post, formally named “DHL Group”, manages over 700 companies in a global transportation network that operates in 220 countries. DHL, which is 80 percent privately owned, claims that it is the number one company in the global express market and number two company in global air freight and ocean freight market. **[Slide 29]** The French Post, La Poste Group, manages more than 300 companies in an integrated network serving 63 countries. **[Slide 30]** International Distribution Services (IDS), formerly UK Royal Mail, operates 80 companies and in 40 countries. IDS is a 100 percent privately owned. **[Slide 31]** One of the early pioneers in this trend, the Netherlands Post, has withdrawn from the field. It bought TNT in 1997 but spun it off in a “demerger” in 2011 (TNT was purchased by FedEx in 2016). In terms of revenue and volume of packages, the postal integrators — particularly, DHL Group — are comparable to the remaining major express integrators, FedEx and UPS. **[Slide 32-33]**

Postal reforms adopted at the national level have also profoundly altered the premises and objectives of the UPU. The UPU was founded as an intergovernmental organization because intergovernmental cooperation was necessary to link to national postal services provided by governments pursuant to postal monopoly laws and limited to the national territory. Postal reform has repealed postal monopoly laws and transformed the major Posts into commercial corporations that can provide international services either through corporate expansion or by agreements with postal and non-postal partners. The premises on which the UPU was founded have been substantially undercut.

Moreover, the participation of corporatized Posts in the UPU led to the

commercialization of the UPU. The primary objective of the UPU has shifted from operation of an intergovernmental service for international exchange of letters to the protection and promotion of the commercial interests of the Posts in competitive markets. This transformation at the UPU has taken place without incorporating essential principles of postal reform at national level, such as repeal of legacy legal privileges and separation of commercial and governmental functions. Unlike at national level, corporatized Posts in the UPU are not restrained from using governmental authority to advance commercial interests. [Slide 34]

In sum, since the early 1990s, a tide of postal reform laws has fundamentally revised the legal framework for postal services in most industrialized countries and many developing countries. Although governments have remained committed to ensuring a basic “universal postal service” throughout the national territory, postal reform laws have transformed the Posts from government administrations into commercial corporations. Postal monopoly laws and other legal privileges of national Posts have been repealed so that corporatized Posts can engage in commercial activities in competitive markets on equal terms with non-postal competitors. Many corporatized Posts have developed multinational postal operations. The largest corporatized Posts have evolved into “postal integrators” by assembling dozens or hundreds of private companies into global transportation networks comparable to those the remaining express integrators. Transformation of the major Posts into commercial corporations has, in turn, commercialized the UPU but without incorporating essential principles of reform adopted at national level such as repeal of legacy legal privileges or separation of governmental and commercial functions. [Slide 35]

4 International e-commerce and e-commerce integrators, 2010s

Since about 2010, the volume of cross border e-commerce has grown enormously, but this tidal change is so new and evolving so quickly that it is impossible to describe with precision. What constitutes “cross border e-commerce” is not even clearly defined. If a consumer in country B orders an article from the website of a company in country A and if the seller then puts the article in a package addressed to the consumer and ships it to country B via the international postal system or a commercial carrier, then the transaction is clearly considered “cross border e-commerce.” If the seller ships the article to an agent in country B as part of a container of addressed packages and the agent breaks down the container and forwards the packages to different consumers in country B via the domestic postal system or commercial carriers, then the transactions are likely also considered as “cross border e-commerce.” If the seller ships unsold articles to an agent in country B and then upon receipt of an order instructs the agent to put the article in a package and ship the package to the consumer via the domestic post or commercial carrier, then the transaction might be considered either cross border e-commerce or domestic e-commerce. In all cases, the consumer has no way to know whether the website of the seller is physically housed on a computer in country A or in country B or in a third country.

Despite definitional uncertainty, the explosive growth of companies such as Alibaba, Amazon, Temu, Shein attests to the success of cross border e-commerce. [Slide 37] UNCTAD estimates that cross border e-commerce grew from about US\$ 240 billion in 2010 to US\$ 3,390 billion in 2023. [Slide 38] Cainiao, a logistics subsidiary of Alibaba, claims to have conveyed 1.5 billion cross border shipments in 2023, roughly two and half times the total number of packages transmitted by the international postal system. [Slide 39] Although Amazon does not publish package volumes, its cross-border volumes are likely comparable to those of Cainiao. [Slide 40]

The UPU has focused on e-commerce as a critical source of future postal traffic since convening of a major strategy conference in Geneva in 2015. The international postal system quickly became the primary conduit for cross border e-commerce, but success was short-lived. After about 2018, it appears that market share of international postal system declined rapidly. The decline was accelerated by the 2020 Covid 19 pandemic which temporarily grounded most of the commercial airline operations on which the international postal system depends. The market of share of the UPU has not recovered with the revival of international airline operations since 2021. [Slide 41]

Instead, the major online platforms have rapidly evolved into “e-commerce integrators” that centrally manage collection, transportation, and distribution of international e-commerce. Unlike the express and postal integrators, e-commerce integrators rarely own the means of transportation. Instead, the e-commerce integrators control such large quantities of shipments that they can control the operations of contract transportation services. Because they are centrally managed, e-commerce integrators can quickly shift traffic from one carrier to another depending shifting market conditions and regulatory regimes. More significantly, as volumes increase, e-commerce integrators transport merchandise in bulk to regional or national fulfillment centers, reducing lower transportation costs and improving service quality for customers. Recent data from the US suggests that e-commerce integrators accounted for 74% of inbound low value shipments. [Slide 42] According to a 2024 McKinsey study:

Cross-border e-commerce is growing 1.5 times faster than domestic orders. China is responsible for approximately 40% of cross-border volumes. . . . By 2028, 10% of global cross-border parcel volumes may be delivered through post, down from 60% in 2016. . . . Commercial parcel and forward-located inventory could be the modes of choice by 2028, comprising approximately 45% and 40% of the cross-border volume, respectively. [Slide 43]

In sum, while it is too soon to offer definitive conclusions, it appears that rapid growth in cross border e-commerce has stimulated the development e-commerce integrators who are able to manage the entire supply chain from an online merchant to a final consumer in another country. E-commerce integrators, like express integrators, rely on central management of global flows using modern communications and computer technologies. Unlike express integrators, e-commerce integrators are seeking affordability and acceptable reliability, rather than maximum speed and near perfect reliability. Nonetheless it seems evident that the central management of global networks provided by e-commerce integrators has proven more efficient and agile than the intergovernmental decision-making of the UPU. [Slide 44]

5 Implications for the future of the UPU

The three tides of change described above have substantially eroded the premises on which the UPU was built in 1875. Four conclusions appear justified.

(1) *Modern integrated cross-border networks are the answer not the enemy for the UPU.*

In 2023, the international postal system transmitted about 1.7 postal items — approximately 1.1 billion documents and 642 packages (including bulky letters, small packets, parcel post, and EMS) — to (probably) hundreds of millions of addressees served by

more than 675,000 post offices. The volume of international mail is approximately equal to the volume of domestic mail handled by the Post in the Netherlands or Brazil.

These figures, however, overstate the basic function of the UPU. The UPU manages only the *international postal transportation network* that links the domestic networks of the national Posts. The international postal transportation network does not transport individual postal items, only containers of mail (air freight containers, trays, mail bags, etc.). Nor does the international postal transportation network deliver to individual addressees or individual post offices. The international postal transportation network only conveys mail containers between the roughly 300 national ports used for dispatch and entry of mail by the Posts in approximately 221 member countries and territories. In short, the international postal transportation network annually transports a few hundred million mail containers between a few hundred national ports. With modern air transportation, the maximum travel time between postal ports is about three days and the average time is probably about a day. Since virtually every international postal port is served by air transportation, it may be assumed that virtually the entire international postal transportation network has access to modern telecommunications services.

While the international postal transportation network is complex, it is no more complex than the transportation networks of the large express, postal, and e-commerce integrators. The success of these global non-postal integrated networks in the last five decades makes clear that, with modern technology, a global transportation network that connects national postal ports (including customs clearance) can be operated more efficiently by central management team than by intergovernmental committees composed 40 to 60 national representatives. In the modern international transportation environment, decision-making by intergovernmental committee is too slow, too political, too cumbersome, and too costly for modern markets.

Nor do the Posts collectively derive a financial benefit from maintaining their own international postal transportation network. A Post profits by providing services in which enjoys economies of scale, primarily last-mile delivery services and, to a lesser degree, first-mile collection services. The more international mail a Post collects or delivers the better. Who provides the international transportation and customs clearance is unimportant. What is important is how the quality and cost of the international postal transportation network affects the volume of mail that Posts collect or deliver at the national level.

In light of such considerations, it seems self-evident that UPU member countries should encourage their Posts to seek ways to use the global integrators to improve the efficiency of the exchange of international postal items. The UPU should reconsider its efforts to develop and manage a modern network of international transportation and customs clearance services when such services are today more efficiently provided by global integrators. [Slide 46]

(2) *The international legal framework for postal services should be aligned with the principles of national postal reforms.*

Over the last three decades, national postal reform laws have been adopted by countries which today account for well over a majority of international postal volume. These countries have recognized that modern Posts must offer two fundamentally different types of services: universal postal services as defined and regulated by government and non-universal commercial services which are regulated by market forces. This insight has implied basic

changes in the legal framework for Posts including transformation of the Post into a normal corporation, separation of governmental and commercial functions, and withdrawal of legacy legal privileges. As a result of postal reform laws, Posts have become more efficient, more innovative, and better adapted to rapidly shifting markets.

At the same time, postal reform at national level has had an opposite, unintended effect on the international postal markets. Commercializing the major Posts without aligning the international legal framework with the principles of national postal reform has transformed the UPU into something it was never intended to be: a commercially-driven intergovernmental organization that uses legacy legal privileges and governmental authority to protect and promote for-profit ventures of Posts in competitive markets. While a handful of large corporatized Post may have benefitted from this transformation, the UPU as a whole has not. As recent UPU analyses by Dr. Anson have made clear, international postal volumes are falling significantly faster than domestic postal volumes or international air cargo volumes.

The legal framework for international postal services no longer serves the public policies that governments have embraced in national postal reform laws. The acts of the UPU should be aligned with the principles of the postal reform laws that have been adopted at national level over the last thirty years. [Slide 47]

(3) Postal reform has eliminated the rationale for an intergovernmental organization with respect to commercial non-universal services.

Establishment of the UPU as an intergovernmental organization was predicated on the premise that governments were necessarily the sole providers of postal services which were limited to the national territory. Under modern postal reform laws, this premise is no longer valid. Postal monopoly laws have been repealed. Posts have been transformed from government administrations into commercial corporations. The services of a Post are no longer limited to the national territory. Insofar as Posts are offering commercial non-universal cross border services, they are no different from freight forwarders or integrators. There is no need nor justification for intergovernmental agreements to facilitate the non-universal cross border services of Posts.

Indeed, government involvement in the commercial non-universal cross border services of Posts is detrimental. Intergovernmental decision-making processes are too slow to keep up to rapidly changing markets. In international markets as well as in national markets, Posts need the same agility as non-postal competitors. More fundamentally, in international markets, as well as in national markets, efficient, undistorted competition requires strict separation of governmental and commercial functions. [Slide 48]

(4) Governments should maintain a limited role in the international exchange of universal postal services.

The UPU should retain a role in the international exchange of universal postal services that corresponds to government's role at the national level. Although postal reform laws have generally ended direct governmental provision of national postal services, government continues to ensure and regulate national "universal services". In this respect, the original goal of a "single postal territory" remains valid. Governments continue to support the objective that the citizens of each country should be ensured access to an affordable and permanent means of exchanging documents and personal packages with citizens of every

other country.

As a practical matter, the only way to provide an “international universal postal service” is to link the universal postal service that each governments ensures its own citizens at national level. No government can afford to ensure a postal service for inbound mail that is separate from and superior to the postal service that is ensured national residents. Inbound international mail is, on average, only about two-thirds of one percent of domestic mail. Nor can government agree not to change revise the scope of its universal postal service as national circumstances require. The only logical and flexible appears to be that in the future governments should agree that residents of all UPU member countries should have a right of non-discriminatory access to national universal services of every other country.

If each country ensures non-discriminatory access to its national universal services, the right of access should not be limited to documents and packages which are dispatched by the national Post or ETOEs in the origin country. Residents in one country should have the right to select any means of conveying documents and packages to another country for delivery by national universal service. As the prevalence of ETOEs has already demonstrated competition in the outbound market of origin countries improves efficiency and expands customer choice without jeopardizing the availability of basic international postal services. [Slide 49]

To sustain an international universal service defined in this manner, it would be appropriate for the UPU to continue several of its current functions, albeit in a more limited manner. Governments should continue to establish basic rules for the international universal service relating to, e.g., ownership of postal items in transit, prohibited items, right of transit, and protection of personal data. In addition, governments should support development of common operational standards that facilitate the exchange of postal items before and after transmission between national universal services. Governments should also enforce transparent, non-discriminatory access conditions for elements of postal infrastructure (as provided, e.g., in article 11a of the EU Postal Directive). Furthermore, governments should agree to maintain appropriate levels of technical and financial assistance to postal services in developing countries while ensuring that aid to developing countries does not undermine efficient, undistorted markets for non-universal services. [Slide 50]

The major 2022 “shocks” to the UPU reconsidered.

In the light of these observations, the presentation revisits the six major “shocks” to the UPU highlighted by Dr. Anson in 2022. [Slide 51] This presentation suggests that these shocks may be seen, at least in part, as evidence of weaknesses in the current UPU governance model as well as unfortunate external events. The six shocks may be recategorized as follows:

Increased terminal dues for small packets. In July 2020, the “terminal dues” rates that the big Posts paid the US Postal Service for delivery of delivery of “small packets” (packages weighing up to 2 kg) sent to the US roughly doubled. Beginning in 2021, the terminal dues rates the big Posts paid each other delivery of small packets were increased by about 15 percent per year for five years. Since terminal dues are (very roughly) half the total end-to-end cost of international postal service, such price increases reduced the competitiveness of the international small packet services for some Posts. Yet this shock was not result of external circumstances but internal abuses. For years economic studies had shown that UPU terminal dues rates benefitted a small number of very large Posts at the expense of smaller

Posts and domestic merchants. A revolt by the disadvantaged Posts was neither surprising nor unreasonable, and the effects of higher terminal dues were positive in many respects. A UPU legal framework more closely aligned with the principles of the national postal reform laws would not have permitted such price agreements in first place.

Stricter customs controls for postal packages in the EU and US. In the 2020s, the EU and US began to impose customs and security controls on postal packages that were similar to those applied to non-postal packages. Since 1920s, UPU Conventions provided that postal packages would be subject to minimal customs scrutiny because the international postal system transmitted only small quantities of personal goods and small samples. Then, when international e-commerce suddenly exploded in the 2010s, large corporatized Posts sought to capture the business as a source of revenue to offset the migration of international letters to email. The UPU's business model, however, relied upon exploitation of legacy customs privileges that were never intended to give Posts a commercial advantage in e-commerce markets. When the EU and US began to apply customs laws more equally to postal and non-postal packages, it was a shock to the UPU's business model but it was also evidence of a weakness in the UPU's governance model. Again, a UPU legal framework more closely aligned with the principles of the national postal reform laws would have required that Posts offer commercial non-universal services such as e-commerce distribution under the same terms as applicable to non-postal competitors.

Pandemic, elimination of the low value exemption from EU VAT on imported merchandise, and Ukraine war. Unlike the preceding examples, these three shocks were exogenous to the UPU. However, the UPU's own analysis suggests that the adverse effects on these shocks on international postal volumes may have been exacerbated to some extent by the UPU's lack of agile decision making compared to, for example, the international air cargo sector. While the shocks were exogenous, it appears likely that the effects were due in part to weaknesses in UPU's governance. [Slide 52]