The International Package Market – Trends And Opportunities For The Postal Service

RISC REPORT

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Executive Summary

Consumers around the world are increasingly making purchases online. International ecommerce, or the online sale of products to customers in other countries, surged during the COVID-19 pandemic. Even in an uncertain global economy, international ecommerce is expected to continue to increase at rates of up to 20 percent annually until 2030.

The growth in international ecommerce, however, is not translating into increases in international package volumes for most of the world's postal operators, including the Postal Service. In fact, the Postal Service's international volume is in an unprecedented decline. The total inbound volume decreased by 74 percent over the last five years. On the outbound side, pandemic-related supply chain disruptions aggravated structural declines, causing a 38 percent decrease in volume over the same period. As a result, the Postal Service's total international revenue for Fiscal Year (FY) 2022 declined to its lowest level in eighteen years.

To understand key factors driving change in the international package market, their impact on postal supply chains, and identify potential opportunities for the Postal Service, the Office of Inspector General (OIG) conducted market research and interviews. The OIG also commissioned research from an external consultant.

A combination of factors has influenced this decline in volume and revenue, including the emergence of new international supply chain models, increased prices of international lightweight postal package products, new customs data and duties imposed on package shipments, and increased competition brought about by innovations in technology. While previous trends in the international postal market, such as the decline of the international letter business, had taken years to fully materialize, the loss of competitiveness of the post-to-post package channel has occurred in just a few years. Such a disruption has several implications — not all negative — for the Postal Service.

The main driver of the decrease in USPS's international inbound postal package volumes has been large shippers' shift to the commercial channel, consisting of direct entry and commercial customs clearance. Large shippers have increasingly shifted to alternative commercial shipping models where the packages collected in the sending country are consolidated, entered into the U.S. as bulk commercial shipments, and passed on to USPS and other domestic carriers for final delivery. While originating from abroad, these packages generate revenue USPS records as "domestic", not "international." In fact, USPS's Global Direct Entry (GDE) direct injection program has exponentially grown since FY 2017. In FY 2022, it represented about half of USPS's foregone international inbound package volume. As a result, the role of the Postal Service in the international package supply chain is becoming that of domestic delivery provider, which involves both benefits and challenges.

The Postal Service's international outbound postal package products have structurally become either less reliable, slower, or more expensive than the offerings of competitors. In the past few years, pandemic-related capacity shortages and the lack of outbound solutions for smaller merchants are among the factors that have accelerated USPS's longstanding loss of competitiveness in the international outbound package market.

In response, the Postal Service has been working on several measures to protect its international business, such as initiatives to streamline and speed up postal customs clearance for international inbound packages, the development of support services for outbound ecommerce shippers, and improvements to its GDE program. Increases to the rates that USPS charges other postal operators for delivering their lightweight packages have also restored the profitability of its international inbound lightweight products.

Our interviews with key players in the international package business showed their interest in USPS positioning itself more proactively in the international package market and highlighted the importance of a timely response to a fast changing and competitive international market environment. Areas of opportunity include developing commercial shipping options, implementing solutions to make the postal channel more effective and easier to use, and speeding up efforts to combat counterfeit, low-cost shipping labels on packages entering the United States. Stakeholders would also like the Postal Service to provide more clarity on the role it intends to play in the international shipping arena now and in the future.

Overall, the Postal Service has undertaken some measures to protect its international business. However, expanding its share of the international package market may require a more comprehensive portfolio of initiatives and a renewed strategic focus on this business. Within the rapidly changing and increasingly competitive international ecommerce market, the timing for making changes is crucial.

Observations

Introduction

International ecommerce, also known as cross-border ecommerce, involves the online sale and transport of products to customers in other countries. This market has grown substantially over the past five years as consumers around the world have increasingly made purchases online, especially during the pandemic.[1] Despite signs of an economic slowdown, the number of packages shipped across international borders is expected to continue to increase. However, postal operators' share of the international package market has been declining. Several factors, such the evolving business strategies of international shippers, new and complex tax and security regulations, and the increased cost of international postal shipping products have diverted international package flows away from the Postal Service and other postal operators.

This paper will review the factors driving change in the international package market and their impact on the Postal Service. Then, it will analyze the Postal Service's strategic response to market changes as well as opportunities to strengthen its international (also known as cross-border) package business.[2] To identify these opportunities, the OIG conducted interviews with several stakeholders: ecommerce platforms, international package consolidators, foreign posts and other logistics players in the U.S., Europe, and China. These interviews provided an external perspective on the strengths and weaknesses of the Postal Service's international offerings to large shippers and opportunities for USPS to address current challenges. See Appendix A for more details on this project's objectives, scope, and methodology.

Global Ecommerce and Package Volumes are on a Growing Trajectory

Global ecommerce, or the sum of domestic and international online sales across all countries, is increasing. Within this market, international ecommerce is the fastest growing segment. Similarly, international ecommerce in the U.S. represents a small but rapidly increasing segment of the overall U.S. ecommerce market. This has resulted in an upward trajectory of packages shipped to and from the United States.

Trends in Global and U.S. Ecommerce Markets

During the COVID-19 pandemic, global ecommerce surged. As online shopping provided customers an alternative to brick-and-mortar storefronts, ecommerce rose from 15 percent of global retail sales in 2019 to 21 percent in 2021.[3] Despite signs of a slowing global economy and customers returning to physical stores post-pandemic, global online sales, which totaled $5.7 trillion worldwide in 2022, are expected to continue their growth.[4] For example, eMarketer predicts global ecommerce sales to increase 9 percent annually from 2022 to 2026.[5] This will contribute to increased inbound and outbound package volumes worldwide.

Within the global ecommerce market, international ecommerce is a fast-growing segment. In 2022, international ecommerce represented about 6.5 percent of global ecommerce. McKinsey has proposed two future growth scenarios. Their conservative estimates project that international ecommerce will become a $1 trillion market by 2030, growing at 13 percent a year. In an optimistic scenario, the market would grow at 20 percent a year, reaching $2 trillion in 2030.

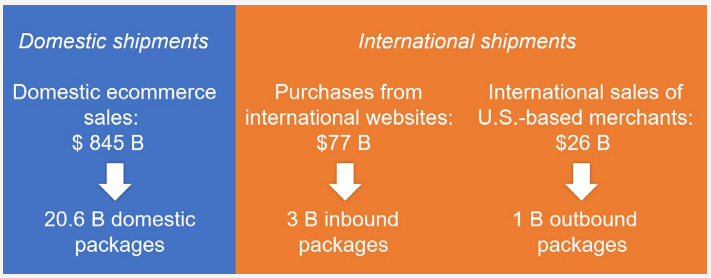
Currently, international ecommerce represents a small segment of the overall U.S. ecommerce market. In 2021, the value of domestic ecommerce sales totaled $845 billion, while US international ecommerce totaled $103 billion, of which ecommerce purchases on international websites totaled $77 billion and international sales of U.S.-based ecommerce merchants were valued at $26 billion.[6]

1 In this paper, we will use "international" and "cross-border" interchangeably. International ecommerce does not include online domestic purchases and instead consists of the total value of goods purchased online and sent from one country to another.
2 For the purposes of this white paper, ecommerce refers to purchases from business to consumer (B2C) and not from business to business (B2B).
3 Morgan Stanley, *Here's Why Ecommerce Growth Can Stay Stronger for Longer*, June 14, 2022, https://us.etrade.com/knowledge/thematic-investing/ecommerce/global-ecommerce-growth-forecast-2022.
4 According to eMarketer, global online sales rose from $3.4 trillion in 2019 to $5.2 trillion in 2021.
5 Greg Bernhart, "Global Ecommerce Sales Growth Report for 2021-2026," Shopify, April 26, 2022, https://www.shopify.com/blog/global-ecommerce-sales.
6 JP Morgan, *Global Ecommerce Trends Report, 2021*, https://www.jpmorgan.com/content/dam/jpm/treasury-services/documents/global-e-commerce-trends-report.pdf, p.14. In 2022, U.S. domestic ecommerce sales reached $1.09 trillion, a 21 percent jump from 2021. John Koetsier,"E-Commerce Retail Just Passed $1 Trillion For The First Time Ever," *Forbes*, January 28, 2023, https://www.forbes.com/sites/johnkoetsier/2023/01/28/e-commerce-retail-just-passed-1-trillion-for-the-first-time-ever/?sh=1fab856d36df.

U.S. International Ecommerce Shipping Trends

The limited size of the U.S. international ecommerce market is reflected in the proportion of shipments to and from the United States compared to domestic shipments. OIG estimates indicate that in 2021, the total number of outbound packages was about 1 billion and inbound packages were over 3 billion. By comparison, the domestic U.S. package market was about 21 billion (Figure 1).[7]

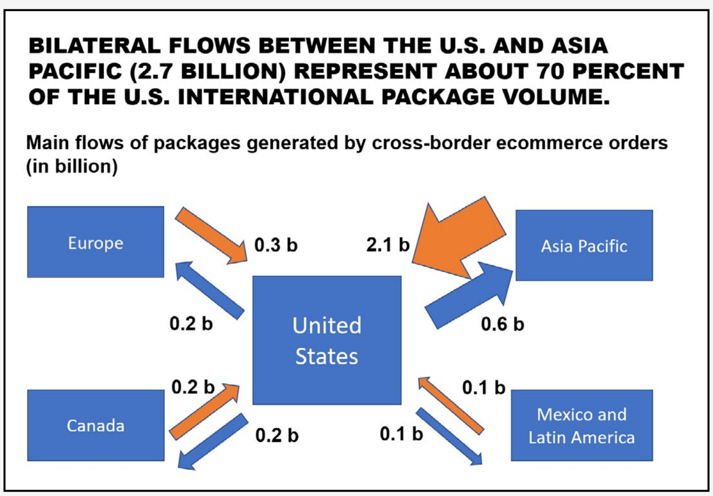
Figure 1: U.S. Ecommerce Market (2021)



Source: OIG analysis

The U.S. international ecommerce shipping market is made up of key bilateral flows. In terms of regional flows, Asia Pacific is the United States' largest trading partner region in both directions (Figure 2).

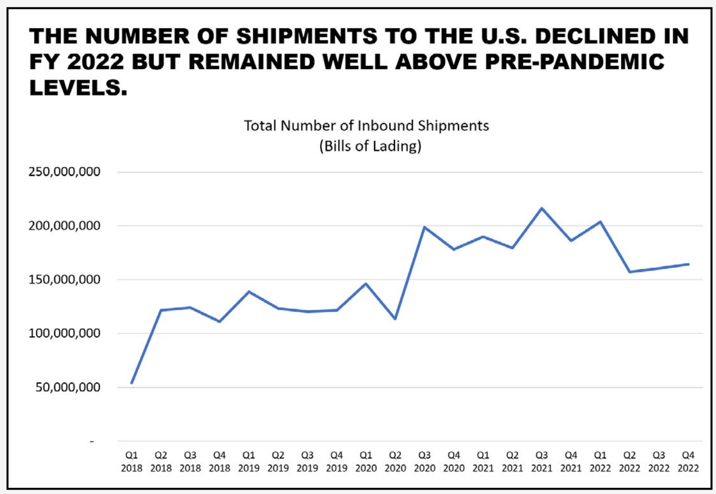
Figure 2: Estimated Flows of Cross-Border Packages from and to the United States (2021)



Source: OIG analysis

In 2022, air carriers from markets in the Asia Pacific region gradually increased flights, but international transportation costs remained high and continued lockdowns in China's factories and warehouses decreased or delayed international shipments.[8] High inflation levels and the fear of an international recession also negatively impacted international trade. In fact, inbound package volume into the U.S. declined by 11 percent in FY 2022 (Figure 3).[9] On the outbound side, comprehensive data was not available for 2022. However, Postal Service's volume data (reported in the following section), as well as volume data reported by other domestic carriers, showed a declining trend. For example, United Parcel Service (UPS) reported that its monthly outbound volumes from the United States had declined about 4.5 percent from May to December 2022 over the same period in 2021.

Figure 3: Evolution of Inbound Shipments Cleared by U.S. Customs and Border Protection (CBP) – FY 2018 to FY 2022



Source: CBP. Statistics include all eligible bills of lading not subject to duties (shipment value below $800).

Despite this short-term decline, the outlook remains positive. In 2022, inbound package volumes remained higher than pre-pandemic volumes (Figure 3). A consolidator interviewed in November 2022 stated that their package volumes to the U.S. were growing again.[10] Additionally, U.S. customers are increasingly shopping abroad. At the beginning of 2022, 41 percent

7 The U.S. domestic and international outbound package markets totaled 21.6 billion packages in 2021 and generated $188 billion in shipping revenue. In 2022, it declined to 21.2 billion. The OIG estimated that, in 2021, the volume of outbound packages was about 1 billion. Pitney Bowes, *Parcel Shipping Index 2022 – Featuring 2021 Data*, 2022, https://www.pitneybowes.com/content/dam/pitneybowes/us/en/shipping-index/22-pbcs-04529-2021-global-parcel-shipping-index-ebook-web-002.pdf, p.2 and p.29, and Pitney Bowes, Parcel Shipping Index – US Edition, 2023, https://www.pitneybowes.com/content/dam/pitneybowes/us/en/shipping-index/pb-2023-parcelshippingIndexInfographic-v5.pdf.

8 IATA, *Air Cargo Market Analysis*, September 2022, https://www.iata.org/en/iata-repository/publications/economic-reports/air-cargo-monthly-analysis---september-2022/.

9 Similarly, bilateral air cargo flows between North America and Asia declined — by 6.3 percent — in FY 2022.

10 Consolidators collect parcels from business parcel mailers and turn them over to the Postal Service and other delivery companies.

of Americans said they were shopping at foreign sites compared to 33 percent in early 2021.[11]

The Postal Service's International Business Has Declined

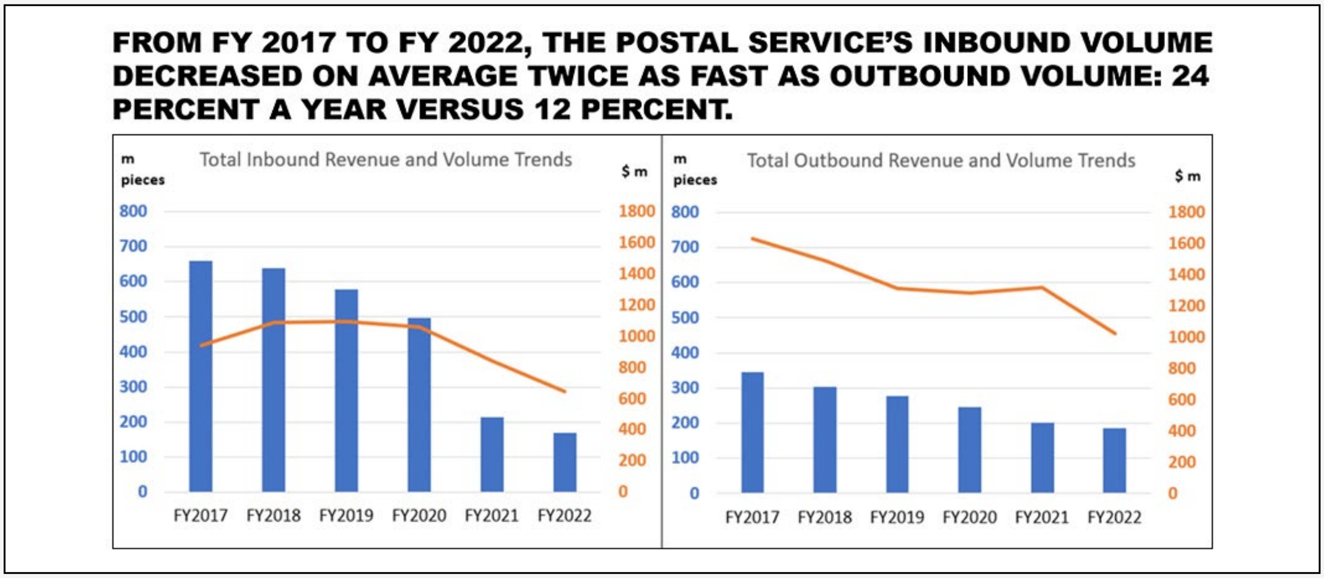
The upward trajectory in the U.S. cross-border ecommerce market has not translated into higher volume or revenue for the Postal Service's international business. In fact, inbound and outbound international volumes have declined substantially (Figure 4). In FY 2022, the Postal Service handled 354 million international mailpieces, of which an estimated 166 million international packages.[12]

- The Postal Service's total inbound international volumes have dropped by 74 percent in five years. USPS's total international inbound volume — including both letters and packages — grew 64 percent from FY 2013 to the peak year of FY 2017, from 402 to 659 million pieces. From FY 2017 to FY 2022, the total USPS's international inbound volume dropped from 659 million to 169 million pieces. This amounts to a total decline of 74 percent, or 31.3 percent per year, on average. Thus, the Postal Service, which had been a net importer of international mail since FY 2015, returned to being a net exporter in FY 2022.

In FY 2022, the Postal Service's' total inbound and outbound international package volume was 166 million pieces, compared to its domestic package volume of 7 billion pieces.

A main driver of this trend was a substantial initial increase in inbound lightweight (up to 4.4 lbs.) [redacted][14] The emergence of new supply chain models that bypass the international post-to-post network as well and other factors contributing to this decline will be discussed in the following sections.

Figure 4: Trends in Postal Service's Total Inbound and Outbound Volume and Revenue (FY 2017-FY 2022)



Source: Postal Service's Public Revenue, Pieces & Weight (RPW) reports.

11 Americans buy from overseas when they find better prices (44 percent), products are not available elsewhere (31 percent), delivery costs are lower (30 percent) and when delivery is faster (26 percent). Paypal, *Turn Shifting Values into Cross-Border Opportunities - Paypal Cross-Border Ecommerce Report*, 2022, https://filecache.mediaroom.com/mr5mr_paypal/184670/Borderless%20Commerce%202022_Report_SMB_EN_US.pdf, p.93.

12 The 166 million estimate was calculated by deducting outbound Single Piece First-Class Mail International (111.6 million pieces) and Inbound International Letter Post (Letters & Flats) & NSA Mail (76.2 million pieces) from the total international volume (354 million pieces) in FY 2022. Postal Service, Revenue, Pieces & Weight (RPW) FY 2022, November 10, 2022, https://about.usps.com/what/financials/revenue-pieces-weight-reports/fy2022.pdf.

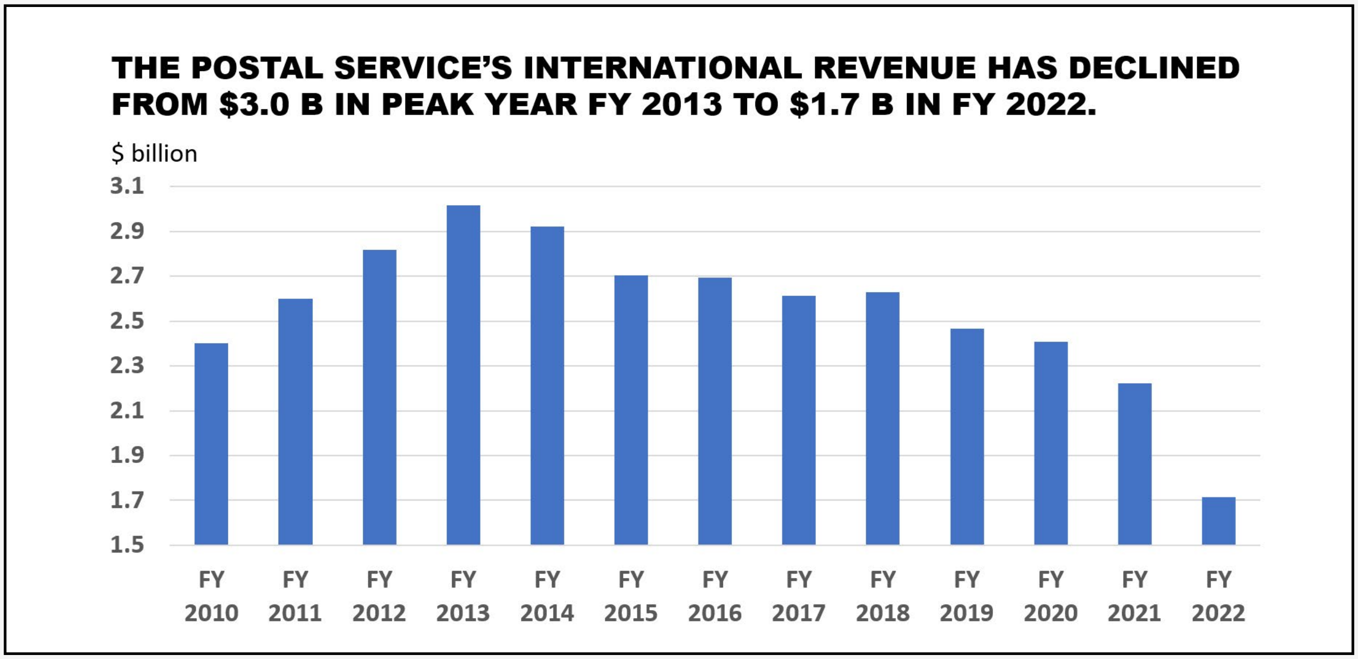
13 Postal Service, "Postal Service Initiates ePacket Service with Hongkong Post," April 20, 2011, https://about.usps.com/news/national-releases/2011/pr11_037.pdf.

14 The Postal Service held [redacted] of the inbound lightweight package segment in FY 2019.

- The Postal Service's international outbound volumes have experienced a long-term decline. USPS's total international outbound volume (letters and packages) peaked in FY 2013 at 268 million pieces but has declined every year since. From FY 2017 to FY 2022, the total outbound volume declined by 38 percent, or 8.9 percent annually, to 185 million pieces. The drop was mostly driven by the volume decline of USPS's major outbound package products, such as small packets, International Expedited Services, Priority Mail International and First-Class International Package Service. For example, the Postal Service's estimated share of U.S. outbound commercial small packets below 4 lbs. volume [redacted] between FY 2014 and FY 2019. Its estimated share of commercial packages above 4 lbs. [redacted] for that same period.[15] In the past few years this [redacted] has continued. From FY 2019 to FY 2022, the volume of Outbound International Expedited Services and Priority Mail International product segments declined at an average annual rate of 13 percent.[16]

Revenue, like volume, followed a decreasing trend, although at a slower pace — 8.3 percent a year on average from FY 2017 to FY 2022, owing to increases on the price of international products discussed later in this paper. Historically, revenue from international products has always represented a relatively small share of USPS's total revenue — it peaked at 4.5 percent in 2013, generating $3 billion. That share has decreased annually ever since, to 2.1 percent in FY 2022 (Figure 5). The Postal Service's international revenue declined by 35 percent from FY 2017 to FY 2022, from $2.6 billion to $1.7 billion — of which about $700 million came from inbound products and about $1.0 billion from outbound — returning to its lowest revenue level since FY 2004.[17]

Figure 5: Postal Service's Total International Inbound and Outbound Revenue FY 2010 - FY 2022 (in $ billion)



Source: U.S. Postal Service.

15 At the time of writing, this was the most recent data available.
16 Negotiated Service Agreements (NSA) volume is excluded.
17 International revenue represents 24 percent of postal operators' revenue on average, according to International Post Corporation (IPC).

Several Factors Contributed to Making the Postal Channel Less Competitive

The Postal Service is not the only postal operator that saw its international volume and revenue decline despite the overall growth in cross-border ecommerce shipments. In October 2022, the Universal Postal Union (UPU) confirmed that the volume of cross-border small packets exchanged through the postal channel was down 77 percent from 2020-2022, consistent with USPS inbound package volume trends.[18] The UPU attributed the decline mostly to changes to the rate system postal operators use to pay each other for the domestic delivery of international mail and packages (terminal dues), as well as to new security, data requirements, and tax applied to cross-border shipments.[19] This section first discusses the emergence of new international supply chain models, then the factors above, as well as the increased competition brought about by innovations in technology.

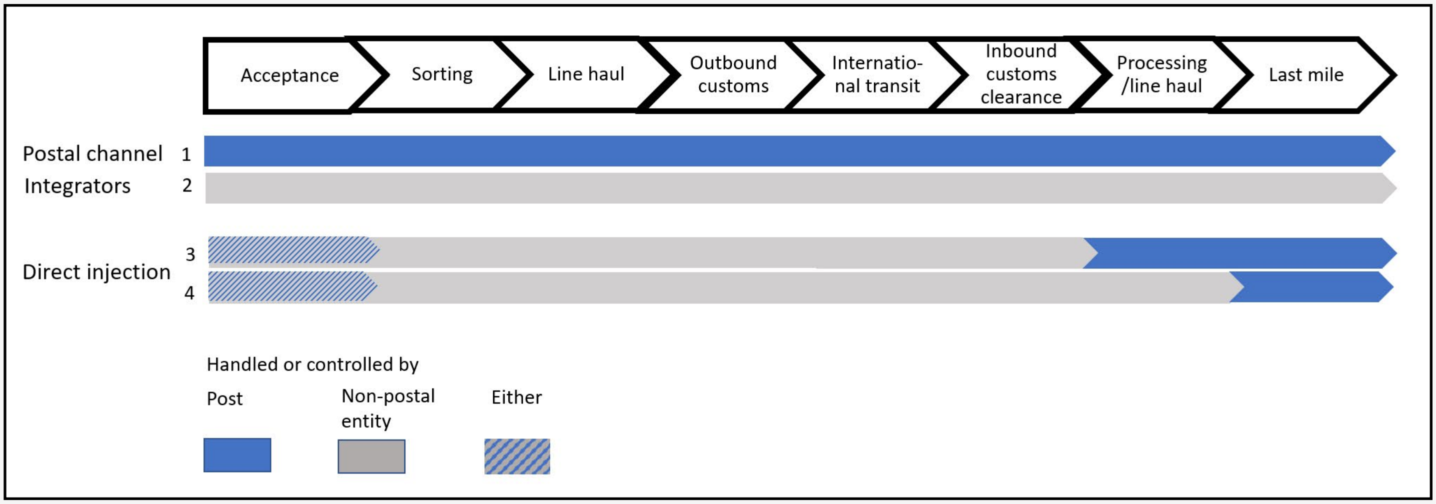
New International Supply Chain Models Have Emerged

Only a few years ago, most cross-border lightweight ecommerce packages, including those from China, were shipped using the post-to-post, or postal channel, where every leg of the journey was controlled by postal operators. In this channel, the sending postal operator handles shipment collection, preparation, and transport to the receiving country, while the receiving post handles postal customs clearance, processing, and delivery. In the past few years, the postal channel has been partially replaced by new international shipping models that limit or even eliminate the role of postal operators from the international supply chain such as the commercial channel — based on direct injection and commercial clearance — and nearshoring, in which international orders are shipped from warehouses located in or near major destination countries.

Direct Injection

Direct injection (also called direct entry) is a key element of the commercial channel model. In this model, packages from a country of origin are collected by different logistics players, such as private carriers (for example, FedEx or UPS), package consolidators, large ecommerce platforms or the domestic postal operator itself. Packages are then grouped together into bulk shipments, labeled with the domestic postage of the country of destination, and shipped overseas. Once within the country of destination, the packages go through a commercial customs clearance process. Once the customs clearance process is completed, shipments are separated into individual packages and then passed to domestic carriers for last-mile delivery (Figure 6).

Figure 6: The Main Package International Supply Chains – Simplified Flowcharts



Source: OIG analysis.

18 The UPU developed a regression model to explain the overall decline in international mail flows, including package flows, between 2020 and 2022. The model also attributed part of the decline to macroeconomic drivers, including the pandemic and the Ukraine war. Universal Postal Union, *Trends and Drivers of International Postal Exchanges*, Presentation by the International Bureau of the UPU, October 2022.

19 In October 2022, the UPU created a study group aimed at exploring potential strategic responses posts could consider to embrace the direct injection/commercial channel model.

When it chooses the postal operator of the destination country to deliver its packages, the sending logistics player or a partner — typically, a package consolidator — can enter the packages into the domestic postal network in different ways. Specifically, it can drop the packages at a postal sorting facility close to the airport where the customs clearance took place for further processing, sorting and transportation to the postal distribution facility that will handle final delivery (Figure 6, #3). Alternatively, the logistics player can transport its packages directly to local postal delivery facilities to take advantage of the higher discounts associated with Postal Service's products such as Parcel Select Destination Delivery Unit (DDU) (Figure 6, #4).[20] The sending logistics player — for example, an integrator — may also completely bypass the postal channel and use other national or regional delivery carriers (Figure 6, #2).[21]

Commercial Customs Clearance Systems

Commercial clearance is another key feature of the commercial channel. While postal customs clearance was originally set up for international small postal volume mostly coming from residential customers without heavy customs data requirements, commercial customs clearance was established to handle bulk business to business (B2B) and business to consumer (B2C) package flows, which involve more complex data and security requirements.

Whereas postal customs clearance processes generally start when goods arrive in the destination country, the commercial clearance process starts earlier — in the country of origin. With commercial customs clearance, customs data and documentation need to be provided to customs authorities in advance (pre-clearance) so any compliance issues can be identified and rectified before arrival. The pre-clearance process speeds up the commercial clearance process for most inbound shipments.[22]

Commercial clearance is also based on the "known shipper" principle: packages from merchants considered low risk are expedited upon arrival. This allows customs authorities to focus attention on the unknown and higher risk shipments. For example, CBP gives such preferential treatment to companies certified under its Customs Trade Partnership Against Terrorism (CTPAT) program. According to CBP, CTPAT members benefit from expedited customs processing and reduced inspection rates. To be certified, a company must show it complies with CTPAT security requirements and has a history of and maintains a high level of legal and regulatory compliance. A more detailed comparison between postal and commercial customs clearance processes is provided in Appendix B.

Faced with the growth of ecommerce packages, CBP has implemented several programs to facilitate the commercial clearance of packages. The Trade Facilitation and Trade Enforcement Act of 2015 exempted from import duties merchandise below a $800 ("de minimis") threshold per day. Most ecommerce packages fall within this category. CBP created Entry Type 86 as a mechanism to allow CBP to collect additional information for these low-value inbound e-commerce shipments. Under this program, importers (shippers, purchasers, or designated customs brokers) can file for electronic release of these packages, under the Section 321 duty-free exemption. Prior to the launch of Entry Type 86, these shipments could not be filed electronically and required importers to provide additional forms. Entry Type 86 now handles a very large volume of inbound ecommerce packages, with 333 million shipments cleared in FY 2022.[23] Another initiative, the Section 321 Data Pilot, is testing acceptance of additional advance data (such as product pictures and links to product listings on online marketplaces) from ecommerce supply chain partners for faster risk assessment purposes.[24]

Such simplifications to commercial clearance processes provide a competitive advantage to the commercial channel over the postal channel, potentially diminishing its value especially to large customers.

Nearshoring

Nearshoring refers to the practice of very large ecommerce merchants and online order fulfillment platforms establishing warehouses in or near major destination countries. This allows orders placed by

20 Parcel Select is the Postal Service's ground delivery service for packages entered in bulk. Shippers pay postage based on the degree in which they workshare (presort and/or transport) their parcels to USPS processing facilities. If they transport to a destination delivery unit (DDU), the Postal Service handles the final delivery to the customer.
21 Integrators are global companies that integrate all aspects of pickup and delivery of packages and freight from door to door.
22 For example, in the UK the commercial clearance of inbound ecommerce packages takes on average one hour, while postal clearance generally takes one to two days.
23 CBP, *Entry Type 86 Frequently Asked Questions*, https://www.cbp.gov/trade/trade-enforcement/tftea/section-321-programs/entry-type-86-frequently-asked-questions.
24 Another initiative is testing software, which allows for the identification of counterfeited, illegal or pirated products before they are shipped from a foreign country to the U.S.

customers on international websites to be delivered from either domestic or nearby warehouses, limiting the risks of bottlenecks at customs and air capacity shortages. For example, packages shipped from China through non-express channels can take one to four weeks to be delivered in the U.S. Through nearshoring, an order placed through a Chinese website by an American consumer can be fulfilled by a warehouse located in Mexico in a Free Trade Zone or in the U.S. If shipped from the United States, it can be delivered in one to three days as a domestic item. Merchants often use data analytics to predict the merchandises that will be in high demand on the U.S. market and ship them from domestic warehouses.

Large logistics companies, such as Germany's Deutsche Post DHL or China's Yun Express (Zongteng Group) and Winit, have very large fulfillment centers in the U.S. For example, Yun Express has two centers located on the East Coast, one on the West Coast, and two in the South. In total, logistics companies based in China have established approximately 2,000 warehouses overseas, up from less than 100 in 2015. As a Chinese official recently stated, "the overseas warehouse model is a new business form of China's foreign trade and an important infrastructure supporting cross-border ecommerce." Large international fashion merchant Shein anticipates that the three distribution centers it plans to open within the next few years will reduce the transit time for its lightweight packages from up to three weeks to 3-4 days.[25]

> "The overseas warehouse model is a new business form of China's foreign trade and an important infrastructure supporting cross-border ecommerce."
>
> - Chinese Official

Like direct injection, nearshoring shifts the traditional boundaries between the domestic and international ecommerce supply chains. While adversely affecting the international postal volume by diverting package flows away from the post-to-post channel, it can benefit postal operators' domestic package business.

International Postal Shipping Products Became More Expensive

In 2019, the UPU terminal dues system, which governs how postal operators compensate each other for the domestic delivery of international mail, was partly reformed. For the most part, the previous system was based upon setting rates by majority agreement among UPU member countries rather than reflecting the true economic cost of inbound international mail delivery. The revised system gives postal operators the option to self-declare their terminal dues rates on inbound small packets — lightweight packages up to 4.4 lbs. — and inbound bulky letters to improve their delivery cost coverage. The postal operators applying the new system set delivery charges annually for these items with the limitation that charges must be aligned with their corresponding domestic rates.[26]

As a result, postal operators, including the Postal Service, have significantly raised their terminal dues rates. For example, in the case of the Postal Service, a lightweight package weighing 200 grams (about 7 oz.) rose from \$1.46 in terminal dues to \$3.66 in July 2020. After further annual increases, full self-declared terminal dues rates for a 200-gram package have risen to \$4.66 for the year 2023.[27]

On the one hand, these increases have allowed posts to improve the cost coverage of ecommerce packets. [redacted] While the new self-declared rates system does not apply to all inbound mailpieces, it has [redacted] impacted the Postal Service's average revenue per inbound mailpiece, [redacted][28]

On the other hand, the shift to higher self-declared rates has led to significant price increases for customers. For instance, shipping a 200-gram untracked package from China to the U.S. through China Post cost 2.7 times more in 2022 than in 2015, an average of 15 percent a year.[29] As a result, the price advantage the postal channel had over other alternatives has greatly decreased. The price of other shipping options, including those based on

25 Isabella Farr, "Fast fashion Titan Shein to Open 1.8M sf Distribution Hub in Inland Empire," *The Real Deal*, September 19, 2022, https://therealdeal.com/la/2022/09/19/fast-fashion-titan-shein-to-open-1-8m-sf-distribution-hub-in-inland-empire/.
26 In addition to the United States, 37 countries apply self-declared rates in 2023.
27 The 2023 figure is based on provisional terminal dues applicable to calendar year 2023 as published in mid-2022.
28 This average revenue is for all inbound mailpieces, including both letters and packages.
29 For an analysis of terminal dues prices and systems in 2015, see USPS Office of Inspector General, *Terminal Dues in the Age of Ecommerce*, RARC-WP-16-003, December 14, 2015, https://www.uspsoig.gov/sites/default/files/reports/2023-01/RARC-WP-16-003.pdf.

direct injection, has increased less dramatically, with average annual increases generally varying from 7 percent to 8 percent a year. As Figure 7 shows, a package shipped from China through direct injection (with last mile delivery handled by USPS and full tracking) generally costs less and/or is delivered faster than if sent through the postal channel.

New Data, Security and Customs Requirements Have Reduced the Postal Channel's Convenience

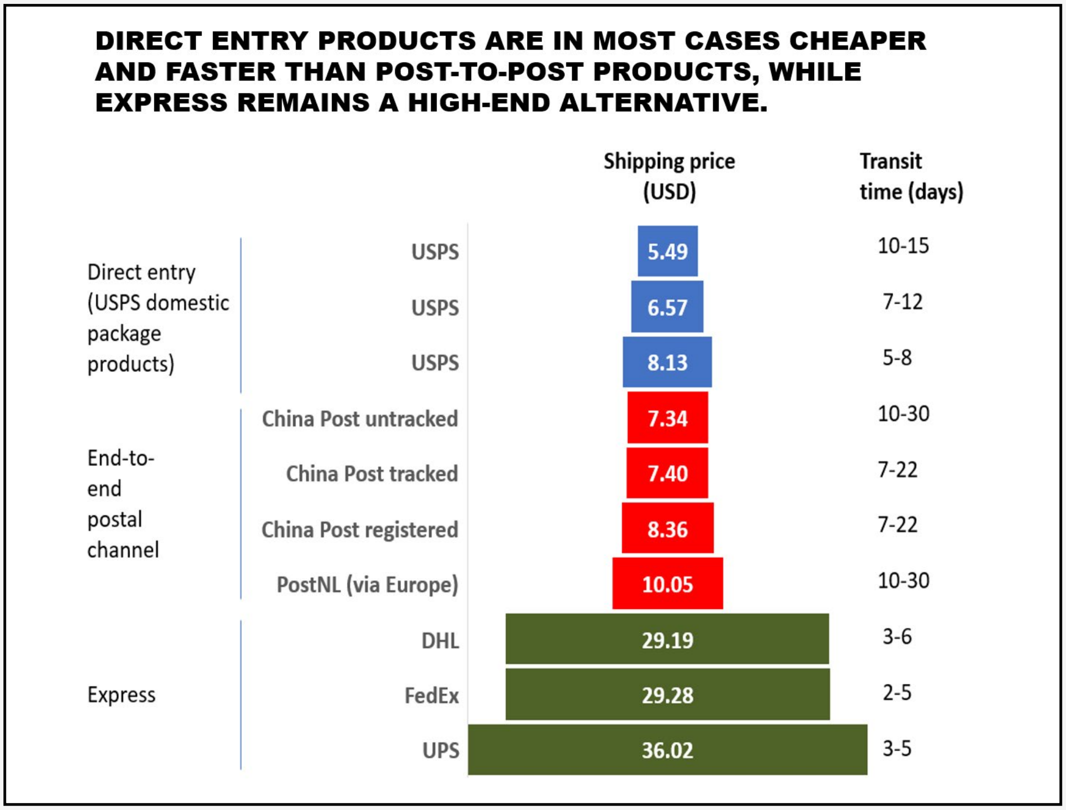
Until recently, shippers sending low value packages through the postal channel needed to provide customs authorities very basic information about the package, including a simple product description. However, the need for customs authorities to improve their security risk assessment and new tax regulations in many countries led to the imposition of new data requirements both on postal operators and their customers. Complying with these new and more stringent rules on data is causing operational challenges to posts while making the postal channel less convenient for customers to use, especially for smaller merchants. The UPU has estimated that these new requirements accounted for about 30 percent of post-to-post volume decline. Such challenges do not affect commercial carriers since similar data requirements already apply to non-postal carriers.

Advance Electronic Data in the U.S.

To reduce the risk of opioids being sent to the U.S. through the mail, Congress passed the Synthetics Trafficking and Overdose Prevention (STOP) Act of 2018. The law requires all postal packages containing goods sent to the U.S. by international posts to have Advance Electronic Data (AED). AED are electronic messages that include the information found on standard customs declarations forms, such as details about the sender, recipient, and contents of the package, as well as information linking the package to the dispatch to indicate in which set of bags or containers it can be found. The data must be provided to CBP before the shipments are loaded on their transporting conveyances destined to the U.S. Since March 16, 2021, these requirements apply to all countries sending postal packages to the U.S., except those given an explicit waiver.[30] Law enforcement agencies, including CBP, use AED to identify packages for further scrutiny before they are allowed into the country. CBP then examines suspicious packages, seizing any contraband.

Figure 7: Examples of Shipping Prices for a 200 g (About 7 Ounces) Package from China to the U.S. Through Different Channels and Carriers (December 2022)

Source: OIG analysis, based on PFC Express shipping calculator.



30 According to the Postal Service, volumes from countries with a waiver represent about 5 percent of all inbound flows.

Requirements for postal AED are not just driven by U.S. legislation. UPU regulations mandating AED requirements similar to the STOP Act also went into effect on January 1, 2021, for all postal operators worldwide. For many posts, however, AED compliance is not yet fully achieved. The different operational capabilities of postal operators make implementation of AED a challenge for many of them.[31] In FY 2022, USPS received AED data on 83 percent of the packages from countries required to provide the data. Ongoing political pressure is focused on USPS to fully comply with STOP Act provisions.[32] Senate Bill S. 986 (STOP 2.0 Act), introduced in March 2023, builds on the STOP Act of 2018 and seeks to further enhance the efforts to prevent the shipment of illegal products into the U.S.[33]

The EU Import Control System 2

In FY 2021, the European Union (EU) started implementing a new customs pre-arrival security and safety program, supported by a large-scale advance data system called the Import Control System 2 (ICS2).[34] Starting in March 2023, EU customs agencies require non-EU posts, including USPS, to transmit a detailed description and a 6-digit product Harmonized System (HS) code for any package shipped to Europe.[35] This additional information is not required under the STOP Act and current UPU regulations, so it represents a new constraint affecting non-European posts, including the Postal Service and its customers. The Postal Service has adapted its systems and processes to allow shippers to provide HS codes.[36] While ICS2 makes using the postal channel to ship to Europe less convenient, it is not clear whether it will have a direct impact on volume. For non-postal carriers, the new ICS2 requirements are much easier to comply with because the provision of HS codes is already an integral part of standard commercial clearance documentation.

New Tax Regulations on Inbound Shipments

The complexities around shipment import tax and customs duties calculation are another factor adversely affecting international ecommerce.[37] International postal processes, as set out in UPU regulations, typically involve the payment of customs tax and duties, and additional handling charges by the recipient upon delivery. This process is called Delivery Duty Unpaid (DDU) or Delivery at Place. Often, customers do not realize their order is DDU. In these instances, they either contact the merchant's customer support line, cancel the order, or refuse to pick it up from customs and return it to the sender, creating additional costs and operational issues for the sending post.

The challenges around DDU shipments have been exacerbated by recent import tax regulation introduced by the EU that now charge sales tax regardless of merchandise value.[38] For example, the EU implemented new tax ecommerce rules in July 2021. Before implementation, merchandise with a value below 22 Euros exported to the EU was exempted from sales taxation in Europe and, therefore, not subject to DDU. With the new tax, many postal packages suddenly became subject to duty. Now that all shipments to Europe are taxable, the collection of additional data, such as the addressee's email and mobile telephone number, has become critically important to achieve streamlined clearance and delivery processes.

Most commercial carriers such as UPS, FedEx, and DHL offer Delivery Duty Paid (DDP) solutions that place the responsibility for import clearance and payment of taxes and/or import duty on the seller rather than the recipient. This translates into a better customer experience and reduced risk of merchandise being returned. Many posts do not yet offer DDP, which places them at a competitive disadvantage as shippers may be tempted to switch to commercial solutions. In 2023, the Postal Service has begun development work on a DDP solution.

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31 For a discussion of AED implementation issues, see OIG, *Implementing Advanced Electronic Data: Challenges and Opportunities, RISC-WP-20-010*, September 30, 2020, https://www.uspsoig.gov/sites/default/files/reports/2023-01/RISC-WP-20-010.pdf.

32 "Klobuchar, Portman Push for Full Implementation of Legislation to Tackle Illegal Opioids Entering the U.S.", Press Release, October 21, 2022, https://www.klobuchar.senate.gov/public/index.cfm/news-releases?ID=134909B8-A3A2-45E1-9DE6-566C29DF0E44.

33 STOP Act 2.0, S.986, 118th Congress (2023-2024), https://www.congress.gov/bill/118th-congress/senate-bill/986/text/is?overview=closed&format=xml.

34 European Commission – Taxation and Customs Union, *New requirements for inbound air shipments to the EU*, June 22, 2022, https://taxation-customs.ec.europa.eu/news/new-requirements-inbound-air-shipments-eu-2022-06-30_en. In practice, European authorities have postponed the full implementation of ICS 2 (Release 2) until July 1, 2023.

35 The HS Code system uses an internationally applied 6-digit number as the basis for classification. The HS consists of 5,300 article or product descriptions. The HS code is needed not only for risk assessment, but also to determine the level of sales tax applicable.

36 The Postal Service has also trained its retail associates and provided detailed information and instructions to shippers that use its different induction channels, such as usps.com or the Global Shipping Software. As of mid-March 2023, changes to the International Mail Manual related to the new HS codes requirements were also in preparation.

37 Escher Group, *The Future of Posts 2022 – Winning the New Delivery Game*, July 28, 2022, https://www.eschergroup.com/resources/the-future-of-posts-2022/#report, pp.22-23.

38 Outside Europe, about 80 countries charge import tax on all merchandise regardless of its value.

Technology Innovations Exacerbate International Competition

The international letter and package market has been very competitive for decades. Competition for postal operators, including USPS, came mostly from private sector carriers, mail and package consolidators, and other postal operators with their own international transportation, processing, and delivery networks. Competitors offered shippers a variety of shipping options differing in terms of price, transit time, and service features, such as full tracking and visibility.

In the past five years, with the exponential growth of international ecommerce, a new generation of online shipping platforms has intensified the competitive pressure on postal operators. Examples in the U.S. include, but are not limited to, BoxC Logistics, Passport Shipping, or Easyship. These platforms help shippers identify the most cost-effective providers for each cross-border supply chain segment (collection, transportation, customs clearance, or delivery). They also combine the assets of various logistics providers to create "one-stop-shop" international shipping solutions, including tracking and compliance with customs and tax data requirements. These platforms, which often do not own any logistics assets, use technology to integrate their systems with third-party supply chain providers such as posts, private sector carriers, transportation companies, customs brokers, and technology partners.

The new types of shipping platforms allow ecommerce shippers to create their own a la carte international supply chains. They also offer data and import tax compliance services and in some cases logistics support services, such as warehousing, and personalized customer service to shippers (Figure 8).

The new types of logistics platforms provide alternatives that drive volume and revenue away from the postal channel. They make it easier for international mailers — in particular those with limited expertise in international operations — to compare offerings and use alternative channels, including commercial clearance and direct entry.

Some technology companies (such as Hurricane, Zonos, Avalara, or Eurora) also provide data compliance services to merchants and shipping platforms. Their offerings include support to product classification codes, duty and tax calculation, payment options, as well as prohibited and restricted goods and denied parties screening.[39] Some postal operators have already partnered with these companies to offer customers assistance with the new data requirements and close a technology gap with competitors.[40]

Implications for USPS

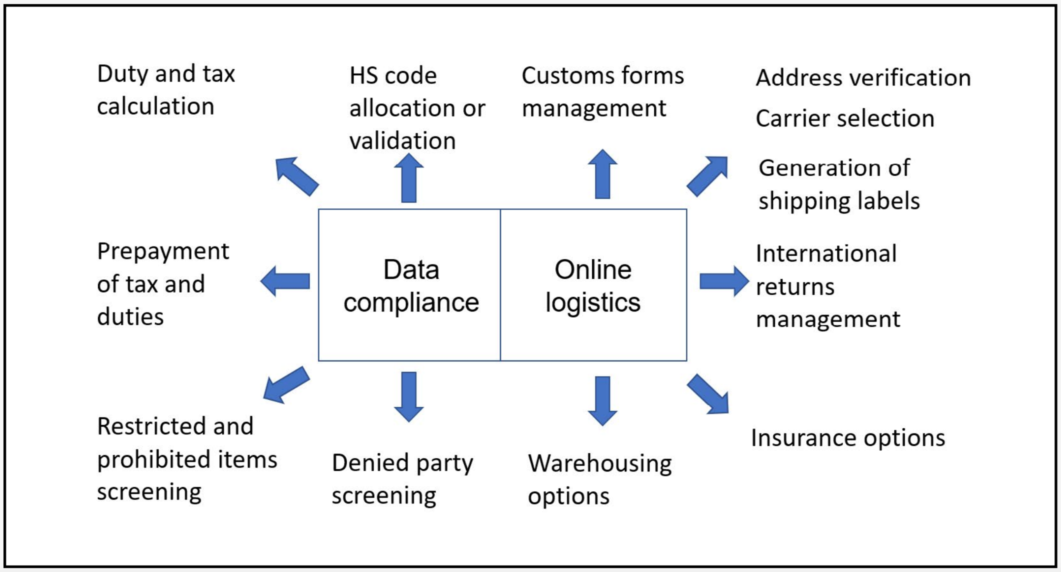
The combination of factors described above explain the decline of USPS international post-to-post volumes. While previous trends in the international postal market, such as the decline of the international letter business, had taken years to fully materialize, the loss of competitiveness of the post-to-post postal package channel has occurred in just a few years. Such a disruption has several implications — not all negative — for the Postal Service.

The main driver of the decrease in USPS's international outbound and inbound postal package volumes has been large shippers' shift to the commercial channel, consisting of direct entry and commercial customs clearance. As a result, the role of the Postal Service in the international package supply chain is becoming that of domestic delivery provider, which involves both benefits and challenges.

39 Denied party screening is the process of identifying whether any parties involved in a transaction can be found on watch lists maintained by multiple U.S. government and international agencies.
40 Hurricane, "International Post Corporation Gives Members Access to Best-In-Class Cross-Border Technology," Press Release, August 16, 2022, https://hurricanecommerce.com/tag/ipc/.

Figure 8: Main Services Provided by New Online Platforms

Source: OIG analysis.



Many International Shippers and Carriers Have Already Switched to the Commercial Channel

OIG interviews confirmed that international consolidators and logistics companies have, to a large extent, shifted from using the postal channel to the commercial channel for most of their shipments to the U.S. Faster customs processes, better prices, and faster deliveries were cited as the main reasons behind this shift.

While they often use direct injection to enter packages into the domestic Postal Service network, these players do not always use USPS for their deliveries. They select different routes and U.S. domestic carriers depending on weight, value, type of merchandise, expected delivery price, and transit time. For example, a large China-based consolidator stated it used USPS only for delivery in rural areas. Several players expressed that they used the Postal Service's delivery services mainly for non-urgent and untracked packages where fast clearance and transit times are less critical, or when USPS is the lowest price option. Figure 9 provides the example of how a large ecommerce logistics player splits its volume to the United States between the Postal Service and commercial carriers.

International Inbound Volumes are Delivered Domestically

On the inbound packages side, direct injection shifts a significant part of the Postal Service's international business to its domestic volume and revenue flows.

In fact, a significant part of the USPS's international inbound package volume is diverted to the Postal Service's Global Direct Entry (GDE) program and delivered as domestic volume. GDE is a 10-year-old initiative aimed at allowing selected U.S. and foreign consolidators, or Postal Qualified Wholesalers (PQWs), to enter international inbound packages as domestic packages at USPS domestic facilities after they have cleared them through commercial customs clearance channels.[41] Through Negotiated Service Agreements (NSAs) with the Postal Service, the PQWs accepted into the GDE Program receive discounted prices based on volumes tendered to the Postal Service.

41 The PQWs that use GDE typically promote the use of the Postal Service's domestic package products to ecommerce shippers located abroad, especially in China. These volumes are mostly comprised of First-Class Package and Priority Mail products, which were the only qualifying products for GDE when the program began.

Figure 9: Case Study: The Shipping Channels Used by a Large Ecommerce Logistics Player

Source: Certis 24.

In FY 2017, GDE volume was [redacted] mailpieces. More recently, however, GDE has benefited from the upsurge in the direct injection of inbound packages reaching [redacted] packages in FY 2022. GDE's total revenue has increased [redacted] from FY 2019 to FY 2022, reaching about [redacted].[42] The increase in GDE volume represented [redacted] of the foregone international inbound Postal Service's volume in FY 2022. Although GDE international packages are identifiable and measured, they are recorded as domestic package products.

Many consolidators directly enter their international volume into the Postal Service's domestic delivery network outside of GDE. These players explained to the OIG that they bring bulk shipments into the U.S. through the commercial customs channel and transport their packages directly to USPS destination delivery units (DDU) to take advantage of Parcel Select DDU (or Parcel Select Lightweight DDU) discounted prices.

Unlike GDE, this additional direct injection volume cannot be identified as originating outside of the U.S. Consequently, total international inbound package volume turned into domestic flows likely exceeds GDE volume. However, it is neither possible to know how many international packages other than GDE are entered into the U.S. as domestic items, nor to quantify the share of these volumes that are delivered by USPS and how much of this volume is transported via its domestic competitors.

Direct Injection Has Benefits and Challenges

Not knowing the full magnitude of direct injection makes it difficult to fully comprehend the financial impact of the shift from the postal channel to direct injection on the Postal Service. Nevertheless, the shift does not necessarily hurt USPS financially. In fact, the Postal Service's Domestic Cost and Revenue Analysis (CRA) and International Cost and Revenue Analysis (ICRA) data show that the cost coverage for the delivery of domestic products such as First-Class Package, Priority Mail, or Parcel Select [redacted] In addition, direct injection allows USPS to apply domestic strengths such as faster and more reliable domestic delivery and worksharing discounts to the international package supply chain.

These benefits, however, are accompanied by several challenges. With direct injection, the Postal Service often does not own the commercial relationship with the foreign shipper. It relies on the consolidator that "sells" the postal last mile to the shipper. Shippers and

42 [redacted]

consolidators can arbitrage between a Postal Service last mile and non-postal alternatives. In the short term, volume-related tiered discounts built into GDE contracts incentivize PQWs to continue to ship large volumes through GDE. In the long term, increased competition and changing user needs can challenge the Postal Service's ability to preserve and grow direct injection volume — just like they impact other segments of the domestic parcel market.

The Structural Decline of Outbound Volume Has Accelerated

Over time, USPS outbound package products have become either less reliable, slower, or more expensive than competitors' offerings. (For a list of Postal Service's main outbound products, please see Appendix C.) Even before the pandemic, the Postal Service's share of the international outbound market was relatively small and shrinking. The Postal Service cited statutory constraints limiting its choice of air carriers as among the major factors impacting competitiveness.[43] Additionally, many outbound business shippers shifted their volumes from USPS to competitors in 2019, when the United States was considering withdrawing from the UPU over disagreement on the revision of the terminal dues system. Shippers were fearing a withdrawal would create market uncertainties and disruptions.

During the pandemic, transportation capacity shortages became an aggravating factor, as the Postal Service suspended the shipment of packages to over 20 countries. For example, the suspension of most shipments to one of USPS's major partners, Australia, started in September 2021. Service only resumed gradually in March and June 2022. As a result of the suspension, the number of First-Class Package International Service (FCPIS) [redacted]

Postal Service management indicated that the uncertainty created by suspensions also led several shippers to permanently shift all their outbound volumes to other carriers, creating volume losses that extended beyond the countries initially affected by suspensions.

Another factor making USPS less competitive in international outbound has been the lack of solutions, such as Delivery Duty Paid (DDP). As already mentioned, DDP helps smaller merchants navigate the complexity of cross-border shipping by calculating how much sales tax and customs duties are due in the destination country, letting foreign online buyers pay them upon purchase rather than upon delivery. Carriers such as FedEx, UPS, and DHL already offer a DDP solution.

USPS Needs to Preserve the Postal Channel

Despite the drop in international package volume sent by large ecommerce shippers and platforms through USPS's post-to-post channel, this channel continues to be very important for smaller (retail) international package shippers and individual customers. Historically, small package shippers have used the international postal channel more frequently than larger ones. For example, in 2019 the Postal Service still held an estimated [redacted][44]

The Postal Service must maintain the viability of the post-to-post channel as part of its mandate to fulfill the universal service obligation for international mail and packages. The obligation is stemming from the United States' membership in the UPU. As a result of the UPU mandate, the Postal Service is committed to participating in a single, global postal territory where all national postal operators enable businesses and individuals to send and receive mail to and from anywhere a postal network is available. This channel involves commercial relationships and a shipping network in place with almost every country in the world, a robust domestic infrastructure built around four international sorting centers to handle volume to and from any international destination, and a wide portfolio of existing international domestic shippers.

The conditions exist for the Postal Service to leverage the value of this channel for smaller shippers while developing additional solutions to cater to the evolving needs of larger international package shippers and platforms.

43 With a few exceptions, the Postal Service must contract for the transportation of mail by aircraft between any of the points in foreign air transportation only with "certificated air carriers" (American flag carriers). See U.S.C.39 §5402.
44 At the time of writing, this was the most recent data available.

Opportunities for the Postal Service

In response to the changes occurring in the international package market, the Postal Service has implemented several measures to address gaps in its offerings and protect its international business. However, several strategic studies about the future of its international business that the Postal Service has been conducting since 2017 concluded that expanding its market share both in the inbound and outbound international ecommerce package market would require a more comprehensive set of measures and higher strategic focus on this business.[45] The Delivering for America 10-year Plan, though, does not mention the development of the international business as a specific strategic objective.[46]

To identify potential further steps USPS could take to strengthen its inbound and outbound package business, the OIG conducted interviews with international logistics players and postal operators to gather their insights and suggestions on opportunities for USPS to enhance its portfolio of international products and services. Their views and perceptions are discussed in this section and summarized in Appendix D. Overall, these interviews revealed international stakeholders' interest in USPS positioning itself more proactively in the cross-border package market and highlighted the importance for USPS to provide a timely response to a fast changing and competitive international market environment.

Enhance Global Direct Entry

The Postal Service highlighted to the OIG ongoing improvements to its direct entry program. To encourage GDE partners to use the USPS domestic package products that have a higher contribution per piece, it is putting in place new contracts that modify current discount structures.[47] In 2021, the Postal Service decided to terminate existing GDE agreements and started moving GDE partners to these new contracts.

From interviews the OIG conducted with current and former users of the GDE program, it emerged that, while some users are satisfied with the program, others see several opportunities for improvement. For example, a U.S. consolidator and former GDE user indicated that the value of the program was limited given that GDE enters into play after packages have cleared customs. For its supply chain, most of the work, including shipment preparation and customs-related formalities, is done before customs. Some logistics players offer more comprehensive solutions that relieve shippers of these steps.

Two current users also raised concerns of what they considered to be abuse in the GDE program. [redacted] To help solve the problem, [redacted] aimed at preventing misuse of GDE rates. [redacted]

Additionally, one large logistics player who accesses GDE rates through a third-party partner highlighted a desire to develop a direct commercial relationship and negotiate a partnership agreement with USPS to help them grow their business to the U.S. Finally, a UK-based consolidator said it had stopped promoting and using GDE due to currency fluctuations and the higher dollar, which increased its costs making it more difficult to compete internationally.

Address the Counterfeit Postage Issue

Two-thirds of the international logistics companies interviewed indicated that counterfeit postage is a serious problem and a major hurdle to the development of their shipping business to the United States. Rogue companies, particularly in China, sell counterfeit, low-cost USPS domestic postage labels online to shippers that affix them to their outbound packages to the United States. These shippers may not even be aware that these labels are counterfeit. Legitimate logistics service providers explained to the OIG that it is impossible for them to undercut prices that, obviously, do not bear any

> **The widespread use of counterfeit USPS domestic package labels by international ecommerce merchants may hurt logistics companies and the Postal Service.**

45 Strategic studies included the World Class International Platform initiative (2017) and a Boston Consulting Group report on the Postal Service's future international strategy (2020). In 2018-2019, the Postal Service conducted additional strategic research to address the operational and commercial consequences of a possible United States withdrawal from the Universal Postal Union and identify alternative shipping channels, including a commercial channel option. The withdrawal was averted as a result of the decisions of the 2019 UPU Congress.

46 The Postal Service's Delivering for America Plan, published in March 2021, outlines strategies to transform the United States Postal Service from an organization in financial and operational crisis to one that "can begin to operate on a financially self-sustaining basis and improve service performance".

47 The Postal Service calculates the contribution per piece as revenue per piece minus attributable revenue per piece.

relation to actual USPS domestic prices. A China-based consolidator also asserted that the counterfeit label issue was one of the main reasons it had switched from USPS to other last-mile delivery competitors. While the magnitude of this issue is not fully known, it does not only impact the competitiveness of international logistics players that use USPS. It also negatively affects USPS's domestic revenue — the Postal Service does not receive any postage payment on packages bearing counterfeit labels — as well as the reputation of its brand.

Overall, the logistics players interviewed called on the Postal Service to undertake measures to stop inbound packages with counterfeit labels. USPS management stated they are aware of the problem, which is being addressed by the U.S. Postal Inspection Service. These players also stated that the Postal Service could do more to create awareness about the issue and inform its customers of its efforts to stem the flow of ecommerce packages entering the mailstream with counterfeit USPS postage labels. In February 2023, the Postal Service issued a press release warning the public about counterfeit postage. In April 2023, it issued a rule amending 39 CFR Part 111. The amended language states that items found in the mail bearing counterfeit postage — which could include inbound ecommerce packages — "will be considered abandoned and disposed of at the discretion of the Postal Service."[48]

Establish a Commercial Channel

The Postal Service is undertaking initiatives to streamline and speed up postal customs clearance for international inbound packages coming through the post-to-post channel. For example, it is installing package sortation machines at the main international sorting centers to automate the sortation of international inbound packages that are on a specific hold by CBP, replacing time-consuming manual and visual scanning by an employee.

In addition, both CBP and USPS told the OIG they were starting to explore ways for international merchants shipping to the U.S. through the postal channel to join the CT PAT program, which could potentially speed up postal clearance processes.

Despite these efforts, the postal operators interviewed by the OIG, who stated they still use the postal channel for most of their shipments to the U.S., admitted to recently losing significant business to commercial competitors. These postal operators, as well as other logistics companies, expressed interest in developing a bilateral commercial channel with the Postal Service to regain some of the ecommerce volume they lost to competition.

Two potential models for developing a commercial channel emerged from OIG interviews:

- "Freight to Post". Similar to Royal Mail in the UK and An Post in Ireland, the Postal Service could partner with commercial brokers, who would work with customs authorities to ensure that packages received as commercial cargo go through commercial clearance. Packages would then be transferred as postal items into USPS's mail and package sorting facilities for processing and final delivery.[49] USPS management told the OIG that such a model [redacted]
- Platform model. This model could involve partnering with a third-party software company to develop a USPS platform integrating the various segments of the international inbound shipping value chain. The platform would ensure a seamless end-to-end experience, as if it were offered by a single provider, from package collection in the sending country to last mile delivery and international returns. OIG interviews showed that several logistics players would be interested in piloting this model with USPS.

In January 2023, [redacted]

Develop Support Services for Outbound Shippers

The Postal Service has undertaken several initiatives on recapturing outbound ecommerce package flows lost to competitors. For example, in 2018 the organization initiated a pilot program (the eGlobal Logistics initiative) to enable a commercial channel from the U.S. to China via commercial delivery

48 Postal Service, "USPS Warns the Public About Surge in Use of Counterfeit Postage," February 15, 2023, https://about.usps.com/newsroom/national-releases/2023/0215-usps-warns-the-public-about-surge-in-use-of-counterfeit-postage.htm and "Counterfeit Postage — A Rule by the Postal Service on 04/11/2023," Federal Register, April 11, 2023, https://www.federalregister.gov/documents/2023/04/11/2023-07566/counterfeit-postage.
49 "Commercial Import to the UK With Royal Mail," Royal Mail, https://www.royalmail.com/business/international/import-to-uk.

provider(s). In March 2020, USPS introduced its Outbound Commercial Provider Initiative (OCPI). Similar to eGlobal Logistics, that new initiative aimed at developing an outbound commercial channel by partnering with private delivery companies, for example, in countries where the domestic post is ineffective. OCPI, however, was put on hold in November 2022. According to USPS, factors that led to it being paused were the economic environment, the difficulty of dealing with airlines and customs due to a lack of a technical interface, and complex pre-sorting requirements from international partners. USPS management said they are reassessing the way forward.

While the above initiatives were aimed at large ecommerce shippers, USPS is also working to keep the postal channel viable for smaller shippers. USPS has partnered with data compliance specialist Zonos to develop a Total Landed Cost Delivery Duty Paid (TLC DDP) solution to help small and mid-size shippers comply with the new tax and customs duties requirements discussed in previous sections. The TLC DDP solution provides mailers using USPS package induction systems a Harmonized Code (HS code), as long as they provide a complete and accurate item description, as well as calculations of taxes and duties. However, online duty payment options are not yet available. These limitations may reduce its value to customers, given that other DDP providers already offer all-in-one calculation and payment solutions. USPS also shared that implementation had taken longer than expected due to the complexity of the Postal Service's IT infrastructure.

Improve Communications With Customers and Partners

A general cross-cutting theme from interviews, especially with U.S. international logistics players, was a need for the Postal Service to improve its strategic communication with customers and partners on its international strategies and, in general, share its view of the role they want to play in the international shipping arena. The perceived uncertainty on the current Postal Service's positioning in this market and its future direction can adversely affect customer retention and potential partnerships. For example, consistent communications from USPS high-level management on international strategies were mentioned as a way to strengthen perceptions of the Postal Service's focus on this business for both current and prospective customers and partners.

> "You know, the Postal Service needs to tell the community that they want to be part of International."
>
> - U.S.-based international consolidator

Conclusion

Although the international ecommerce market and the number of packages shipped across borders is expected to increase, the international package business of postal operators around the world has experienced a loss of competitiveness. Several factors have influenced this decline, including the evolving business strategies of international shippers, new and complex customs tax and security regulations, and the increased price of international postal shipping products.

For the Postal Service, the absence of a USPS commercial postal channel on inbound shipments has caused large international shippers to shift to other carriers. However, a substantial portion of lost international inbound package volumes still entered the network through commercial clearance, recorded as domestic items. Meanwhile, outbound international volume has experienced a structural decline that started well before the COVID-19 pandemic. A need for additional solutions helping U.S. customers, especially smaller ecommerce merchants, navigate the complexity of cross-border shipping may have compounded this issue.

The Postal Service has undertaken some measures to protect its international business. However, expanding its share of the international package market may require a more comprehensive portfolio of initiatives and strategic focus on its international business. OIG interviews revealed international stakeholders' interest in USPS's positioning itself more proactively in this space, with a focus on facilitating commercial package shipments from and to the United States. Given the fast-paced changes in the international package market environment, time is of the essence.

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Appendix A: Additional Information

Objectives

The objectives of this research were to:

- Identify the key factors driving change in the international package market and their impact on the Postal Service.
- Analyze the Postal Service's strategic response, in comparison with other carriers, and identify opportunities for the USPS to strengthen its international package business.

The scope of this white paper was global market trends with a focus on recent years FY 2017 to FY 2022 and their impact on global and USPS package volume, revenue, and channel mix ("end-to-end" postal channel vs direct injection).

Methodology

To accomplish our objectives, the OIG conducted market research and interviews. It also used information from the Postal Service and research commissioned from an external contractor.

Desk research

The project team analyzed market trends affecting USPS international products and services. They focused on market demands as well as logistics, regulatory, competitive, and strategic trends. They assessed their impact on USPS international products and services to identify improvement opportunities.

Interviews

The OIG conducted interviews with representatives from CBP (Intellectual Property Rights and Ecommerce Division), the International Trade Administration, a consultant and former USPS executive, international postal operators, and industry representatives from companies involved in the provision of international shipping platforms, consolidation services, or data compliance solutions. The objective was to gain insight into the strategies, best practices, and perceptions of the Postal Service as a shipping partner to identify opportunities for the Postal Service to strengthen its international business.

The team also interviewed Postal Service experts and executives from different offices involved in the management of the international business, including Global Business, Specialized Sales, and Global Trade Compliance.

Research commissioned from external consultant

The OIG hired Oxford, UK-based consulting firm Certis24 to conduct further market research as well as survey and interview representatives of international posts and private operators. The objective was to help the OIG research market trends and their impact on the overall international mail and package markets; identify the strengths and weaknesses of the Postal Service inbound mail and shipping products and services; gain insights on business shippers' and competitors' international strategies and best practices in response to these trends; and identify potential improvement areas and opportunities for the USPS.

In November and early December 2022, Certis24 gathered the views of 15 companies, including international postal operators, Europe and China-based logistics companies shipping packages to the United States, as well as data compliance companies.

This research was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation. We discussed our observations and conclusions with management on April 12, 2023, and included their comments where appropriate.

Prior Coverage

Title	Objective	Report Number	Final Report Date	Monetary Impact
Audit Report: U.S. Postal Service International Mail Operations and Performance	To assess the Postal Service's international mail operations and performance data. We reviewed key international operations and data, including analyzing 543 packages judgmentally selected at ISCs from May-December 2021.	21-197-R22	June 2, 2022	$0
Management Alert: International Export Package Advanced Electronic Data	To bring significant operational delays of international outbound (export) packages to management's attention.	21-266-R22	December 2, 2021	$0
Implementing Advanced Electronic Data: Challenges and Opportunities	Review the challenges surrounding AED requirements and their potential solutions; examine potential strategies for meeting AED compliance, and examine the potential ways USPS can handle non-compliant items.	RISC-WP-20-010	September 30, 2020	$0
Terminal Dues in the Age of Ecommerce	Examine concerns and assess the impact of terminal dues distortions in the international small package market.	RARC-WP-16-003	December 14, 2015	$0

Appendix B: Comparison of Postal and Commercial Clearances

Table 1: Main Features of Postal Clearance and Commercial Clearance

Postal clearance	Commercial clearance
Best suited for single-piece and C2C shipments and non time-sensitive shipments.	Best suited for bulk B2B and B2C shipments including ecommerce packages.
No customs brokers are involved.	A customs broker takes responsibility for compliance of customs regulations and interfaces with the customs agency.
AED requirements since 2021 per STOP Act and UPU regulations.	In the U.S. the provision of AED aligns with requirements pursuant to the Trade Act of 2002 and other regulations. It is part of the standard practice for commercial shippers.
Clearance usually starts when goods have arrived.	Pre-clearance starts before the shipment has arrived in the U.S., allowing for discrepancies in customs documentation to be identified and rectified before arrival in country of destination.
Duties and taxes are usually paid by recipients upon delivery (Delivery Duty Unpaid/Delivery at Place), which can lead to a poor customer experience for ecommerce.	Offers options for the payment of taxes and duties, including Delivery Duty Paid (duties and tax paid on purchase), ecommerce merchants' preferred option.
No postal pre-clearance system currently in place in the U.S., which may result in delivery delays, in particular if USPS must hold Delivery Duty Unpaid (DDU) packages until customers have paid the applicable duties and fees.	In the U.S., CBP provides pre-clearance for trusted shippers, allowing expedited release and hand over of pre-cleared packages (CT PAT program). In general, pre-clearance facilitates DDP shipping because the customs agency will know that duties and tax for a package have already been paid.
It may be difficult for receiving post to identify and retrieve packages targeted by its customs authority.	Packages targeted by customs authority are easy to identify and retrieve as the clearance process starts before the goods arrive into the country; cleared shipments get a 'green lane' and the items requiring inspection can be flagged before arrival under a 'red lane' process.
Risk assessment based on item-by-item data elements from postal customs forms (CN 22 and CN 23) and postal transport documents (CN 37, CN 38).	Risk assessment based on the provision of a combination of many data elements obtained from bulk manifests, commercial invoices, certificates.

Appendix C: A Primer on USPS International Products

On both the outbound and inbound sides, the Postal Service's package product segmentation follows the long-established distinction the UPU makes between lightweight packages up to 4.4 lbs. – belonging to the UPU letter post category — and parcels up to 70 lbs. (UPU parcel post category). Speed is the other criterion – with the expedited (express) category including high-end products Global Express Guaranteed and Priority Mail Express International, while inbound expedited items are handled as part of agreements with foreign posts.

Intermediaries, large shippers, and foreign posts have contracts (negotiated service agreements or NSAs) with the Postal Service. NSA agreements provide about [redacted] of the Postal Service's international revenue. NSAs may cover several products and include specific conditions regarding volume thresholds or transit time commitments, preparation and other operational requirements, and rates. Outside of NSAs, shippers can also get discounts on their outbound shipments, directly or through consolidators or shipping platforms they use. Starting in 2011 under bilateral agreements, USPS established the ePacket product with China, Hong Kong, and Singapore for small inbound packages up to 4.4 lbs. — a product providing delivery confirmation and First-Class Mail transit time for lightweight ecommerce items. Examples of multilateral agreements with other postal operators include PRIME (on cross-border ecommerce packets) and Interconnect (on cross-border tracked and untracked packets and parcels).

Table 2: Postal Service's Main Outbound Package Products

	Maximum weight	End-to-end service standard	Tracking
First-Class Package International Service	4 lbs	N/A	Electronic delivery confirmation available to 40 countries.
Commercial ePacket	4.4 lbs	4-7 business days, according to wholesalers	Yes. This type of First-Class Package is available only through wholesalers, to about 30 countries.
Priority Mail International (PMI)	70 lbs	6-10 business days	Yes
Priority Mail Express International (PMEI)	70 lbs	3-5 business days	Yes
Global Express Guaranteed	70 lbs	1-3 business days	Yes

Source: Postal Service web site and Asendia

Appendix D: USPS Inbound Package Offerings - SWOT Analysis

The table below presents a summary of the views of the international posts and logistics industry players interviewed by OIG contractor. They reflect their perception of the Postal Service's positioning on the international inbound package market.

STRENGTHS	WEAKNESSES
▪ Strong brand and reputation. ▪ USPS membership of UPU and key international bodies (IPC, KPG) are strategic benefits. ▪ Nationwide coverage is part of the universal obligation but is also something shippers from Asia appreciate. ▪ Service range is broadly satisfactory but added value features need to be addressed. ▪ Customer loyalty from business customers is ensured as long as delivery performance is satisfactory.	▪ Self-declared rates are pushing up prices of e-commerce packages, making postal channels uncompetitive for large country flows (e.g., from Asia, UK, France), and potentially driving volume towards regional carrier commercial networks in the U.S. ▪ A lack of a commercial customs clearance capability and a reliance on postal clearance reduces the Postal Service's capability to handle large cross-border e-commerce volumes. ▪ The perceived lack of value-added options on cross-border package services damages the value of the postal channel. ▪ There is a lack of effective and consistent tracking and enquiry solution. ▪ The lack of extended arrival ports (especially during peak periods). ▪ Customer loyalty from business customers is being stretched due to unreliable delivery performance, which is driving volume to commercial and regional carriers. ▪ An effective international returns management solution is lacking, hampering the ability to support posts shipping e-commerce to the U.S.
OPPORTUNITIES	**THREATS**
▪ Product development should focus more on e-commerce packets and ecommerce market growth. ▪ Introduce new cross-border services for SMEs, marketplaces, and shippers. Solutions should have value-added features included (in-flight changes, and PUDO options). ▪ Introduce an upgraded customs clearance process to combine with brokers. ▪ Extend access into the USPS via other arrival ports (especially during peak periods). ▪ Improve tracking performance and implement a greater use of public tracking portals, which offer more responsiveness to private carriers. ▪ Enhance international customer service through dedicated international customer service teams and quicker tracking responses. ▪ Develop returns management solution for inbound ecommerce. ▪ Negotiate commercial channel bilateral arrangements with Asian posts to help build Asian volume (for example, from Hong Kong). ▪ Focus on sustainability as a selling point to help promotion of international postal services. ▪ Combat fake labels by establishing tighter controls at the origin. Suggestions include: more stringent barcode ranges for tracked products; blacklist shippers across all international markets; creation of a multi-agency UPU task force to investigate.	▪ STOP Act compliance places burdens on data collection by posts, especially for packages from consumers. ▪ The fake label issue potentially damages the Postal Service's international business. Counterfeit postage erodes trust in USPS and USPS's partner international consolidators' ability to sell USPS international products to China-based shippers. ▪ U.S. policy on ETOEs is a challenge, as it restricts international flows and does not support the changing packet and eCommerce market environment.

Source: Certis24

Additional stakeholders’ comments on the Postal Service’s inbound package channel

Remarks relative to international operations

- Tracking — some posts mentioned problems regarding the completeness, reliability, or timeliness of tracking data received from USPS, especially during the 2021 peak season. Other posts and logistics players expressed the wish that end-to-end tracking be extended to all packages shipped to the U.S.
- Entry points — A request for more entry points in the United States for their packages, particularly during peak periods. For example, one post argued that offering access to more designated ports of entry would reduce the risk of customs and logistics bottlenecks, in particular during the peak season.
- Sustainability — A European post recommended that sustainability feature more prominently in USPS service specifications. It argued this would help them promote the use of the postal channel for shipments to the United States because this is a feature international customers are now expecting from posts.

Remarks relative to international customer service

- Responses to other posts’ queries from USPS customer service needed to be quicker and more comprehensive.
- USPS could improve daily contacts with foreign posts and communicate more proactively with other posts about disruptions to operations.
- USPS may consider setting up a local representative office in China to help promote its services to consolidators and other logistics players. Over time, that kind of support could be extended to other Asian countries to take advantage of global manufacturers’ increasingly shifting factories and shipping from China to these countries.

Appendix E: Management's Comments

UNITED STATES POSTAL SERVICE

May 11, 2023

CINDY COBHAM
DIRECTOR, RESEARCH AND INSIGHTS SOLUTION CENTER

SUBJECT: Management Response: The International Package Market – Trends and Opportunities for the Postal Service - White Paper – White Paper (2022RISC007)

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG's) white paper: *The International Package Market – Trends and Opportunities for the Postal Service*.

We appreciate the work that went into the development of this white paper and the recommended opportunities identified from the research to strengthen USPS's inbound and outbound package business.

The USPS agrees with the OIG's conclusion that the Postal Service is under increasing competitive pressure in the international package market. The findings from this report outlined a number of contributing factors that have plagued the global postal model, including higher rates, slower delivery times, limited visibility (end-to-end tracking), increased complexity in customs' procedures, and transportation constraints.

USPS management agrees to further assess the OIG's findings and opportunities identified in the report particularly as follows:

- The USPS currently receives volumes as a result of nearshoring. The USPS will continue to monitor this new shipping model to better understand its possible impacts and opportunities.
- USPS management is interested in further exploring similar opportunities with Customs Border & Protection (CBP) to allow the USPS to utilize Type-86 clearance or build a postal "green-lane" with the objective to obtain customs' clearance prior to arrival as an entrée into establishing a commercial channel.
- The USPS has announced its plans to address the counterfeit postage issue as announced in a recent Industry Alert. Effective May 7, 2023, section 604.8.4 of the Domestic Mail Manual (DMM) will be revised to allow for mail found with counterfeit postage to be labeled as *abandoned* and disposed of at the Postal Service's discretion.
- The USPS will continue to develop services for all of our customers similar to the work that was done to provide Harmonized Systems (HS) codes to address evolving regulatory changes. We remain on schedule to provide delivery duty paid (DDP) capabilities as an option in CY2024.
- The USPS will continue to support the Global Direct Entry (GDE) program as this revenue stream is extremely important to the organization. Internal and

external industry stakeholders are being engaged to assess improvement opportunities.

- USPS will continue to provide consistent communications on international strategies. We will engage the industry to further strengthen our efforts to improve communications.

E-SIGNED by Robert.H Raines
on 2023-05-12 13:17:29 CDT

Robert Raines
Vice President, Business Solutions

cc: *Corporate Audit Response Management*

Jean-Philippe Ducasse, Aaron Anfinson, and Paola Piscioneri contributed to this report.

Contact us via our Hotline and FOIA forms. Follow us on social networks. Stay informed.

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