An Important Responsibility of the UPU and Governments: 
Properly Handling the Relationship between Competition and Universal Services

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Story 1

As one of the most remote areas in the UK, Alston Moor is a unique "social enterprise town" and its rural post office is one of the "social enterprises". Affected by the development of information and communication technologies, the business of this local post office kept declining. After the only postal employee retired, Royal Mail decided to close it. However, it had become part of the daily life of local villagers who decided to buy the post office through community fundraising by issuing community stocks and turning it into a grocery store combined with postal services. As the residents were involved in the investment, this small shop was running very well and has become one of the main social places in the town.

Story 2

The Spiti Valley in northern India has a very remote post office in the world - the Hikkim post office. Hikkim Village is the only village with a post office among a small number of inhabited villages in the valley. The road leading to the village is rugged and hard to travel, with winding rivers and pristine mountains. The Hikkim post office is the main channel for local people to keep in touch with friends and relatives outside. Every day, two postmen travel through the 46-kilometer route in the mountains and send the mails to Kaza, the capital of the Spiti Valley, and the mails are then sent to other parts of India. The Internet is not yet available in the valley, and there are only a handful of mobile phones.

2 http://www.sohu.com/a/274669299_100128987
China's “Cliff Village”, located in the Liangshan Yi Autonomous Prefecture of Sichuan Province, sits in the foothills of 1400-1600 meters above sea level. The villagers need to climb a cliff as high as 800 meters and the 218-step steel ladder in 13 stages if they want to go outside. In order to solve the difficulties of local residents in exchanging physical goods with the outside world, China Post began to use drones to send letters and parcels to the villagers on November 29, 2018. The drone postal route shortened the three-hour postal walking route of "the Cliff Village" to a 20-minute "straight-line lift".

China has a total of 39,000 rural postal offices⁴. Because the mail business is not sufficient to generate profits, no company is willing to provide services in these places. The local residents have to rely on universal postal services to gain access to basic and essential postal services. Like China, in FY 2018, USPS delivered 146 billion pieces of mail to 159 million delivery points, including to rural and remote locations. Private carriers charge many of these locations a delivery surcharge, limit the services offered to these locations, and in a few cases, offer no service at all⁵. If there was no universal postal service, residents in these areas would be isolated from the civilization outside.

I. Times are changing, but the value of universal postal service should not change.

Since its founding in 1874, the UPU has undergone several rounds of major reform during the ups and downs in the past 140+ years, but the universal postal service has always been the very reason for its existence. In accordance with the Universal Postal Convention, in order to support the concept of the single postal territory of the Union, member countries shall ensure that all users/customers enjoy the right to a universal postal service involving the permanent provision of quality basic postal services at all points in their territory, at affordable prices.

We believe that the provision of universal postal service is a compulsory institutional arrangement to ensure equalization of delivery services, and it is by far the most

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³ http://www.xinhuanet.com/photo/2018-11/30/c_1123789024.htm  
⁴ Statistics of the State Post Bureau, 2018  
effective institutional arrangement, a great invention of the mankind and an important achievement of human civilization. It has several distinctive features: first, the wide range of the customers it serves, that is, the universal postal service is required to cover all users in the national or regional territories; second, the affordability of the service price, that is, the universal postal service must be provided at a reasonable price affordable to the user; third, consistency in the standard of service quality, that is, the universal service operators should provide services in accordance with the quality standards stipulated by the state, and cannot freely lower the quality of service due to the relatively low price.

Table 1: Legal Description of Universal Postal Service by the UPU and Some Countries

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<thead>
<tr>
<th>Countries or Organizations</th>
<th>Relevant Legal Provisions</th>
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<tr>
<td>UPU</td>
<td>The definition of universal postal service in the Universal Postal Convention, which was revised at the 16th UPU Congress, remains unchanged. “Universal postal service is the provision of quality basic postal services at all points in their territory, at affordable prices”. It is mentioned in the document that “in order to support the concept of the single postal territory of the Union, member countries shall ensure that all users/customers enjoy the right to a universal postal service involving the permanent provision of quality basic postal services at all points in their territory, at affordable prices.” With this aim in view, member countries shall set forth, within the framework of their national postal legislation or by other customary means, the scope of postal services offered and the requirement for quality and affordable prices, taking into account both the needs of the population and their national conditions. Member countries shall ensure that the offers of postal services and quality standards will be achieved by the operators responsible for providing the universal postal service. Member countries shall ensure that the universal postal service is provided on a viable basis, thus guaranteeing its sustainability.</td>
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<tr>
<td>China</td>
<td>Universal postal service refers to the continuous provision of the postal services to all users within the territory of the People's Republic of China in accordance with the business scope, service</td>
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<tr>
<td>Country</td>
<td>Description</td>
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<tr>
<td>United States of America</td>
<td>The United States Postal Service shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities. The law requires the USPS to receive, transmit, and deliver the written and printed matter, parcels, and other materials throughout the United States, its territories, and possessions.</td>
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<tr>
<td>EU</td>
<td>Member States shall ensure that all users enjoy the right to a universal service involving the permanent provision of a postal service of specified quality at all points in their territory at affordable prices.</td>
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<tr>
<td>France</td>
<td>Postal services shall be provided for all residents within the entire territory of France, in accordance with the prescribed quality standards and at affordable prices.</td>
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<tr>
<td>Germany</td>
<td>The postal universal service shall include at least the postal services stipulated in Article 1 of Chapter 4 of the Postal Law, and shall be provided throughout the territory of the Federal Republic of Germany at affordable prices in accordance with the specified standards.</td>
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<tr>
<td>Japan</td>
<td>Postal services shall be provided at prices as low as possible, without any omissions and on a fair basis, in a bid to promote public welfare.</td>
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<tr>
<td>Russia</td>
<td>The existence of the universal postal service is to satisfy the need of users to exchange letters at affordable prices throughout Russia.</td>
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It is exactly because of these characteristics of the universal postal service that all the inhabitants in the world, rich or poor, can has access to basic delivery services at all times no matter where they live, thus ensuring their basic development rights. It is due to the universal nature that the value of universal postal service has not diminished with the passage of time, but has been shining with the light of civilization.
First, the posts have formed the largest physical distribution network with worldwide coverage, making its traditional value lasting and sublimating. In 2016, the 26th UPU Congress proposed that the mission of the Union is to stimulate the lasting development of efficient and accessible universal postal service of quality in order to facilitate communication between the inhabitants of the world. The Postal Development Report 2018 shows that universal postal service has a significant impact on the international community's goal of achieving the SDGs in the UN 2030 Agenda for Sustainable Development. Universal postal service is particularly relevant in promoting inclusive economic growth and providing decent work for all, fostering innovation and promoting inclusive and sustainable industrialization, and building resilient infrastructure, improving the safety and disaster recovery capabilities of human settlements, and enhancing global cooperation. In this sense, the social value of universal postal service has not only remained unchanged, but also been sublimated. In many countries, universal postal service has far surpassed the narrow scope of communication and delivery, and there has been a phenomenon of providing a wide range of multiple public services on top of the universal postal service network. For example, based on the universal postal service network, China has launched a targeted poverty alleviation project; Japan and India have provided inclusive financial services; the United States has strengthened rural medical services and disasters response and rescue services; Europe has promoted the inclusive development of e-commerce; Brazil has established the import and export trade promotion program for small and micro enterprises.

Second, universal postal service is an important means to narrowing the digital divide in the digital age. The global Internet population exceeded 4 billion in 2017. The global letter volume dropped by 30% while the parcel volume increased by 60% from 2007 to 2016. These figures show that the communication and correspondence functions of the posts are increasingly being replaced by social media apps such as WeChat, Facebook, Twitter, Line, and the circulation of goods is increasingly becoming the main function of postal services. But the global development is extremely uneven, and such imbalance will be amplified especially in the digital age, which is

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6 Preamble of the Constitution of the UPU.
7 UPU, *Postal Development Report 2018: Benchmarking a critical infrastructure for sustainable development*, Berne, Switzerland, April 2018
exactly something what we have to solve. In remote and mountainous areas, deserts, islands, frontiers, grasslands, pastoral areas, snow-capped mountains and other areas, there are towering cliffs, deep forests, steep slopes, narrow pass, sharp bends, difficult roads, scattered villages, and sparsely populated residents. Over there, the cost of delivery is high and the returns slim. It is impossible for private companies to voluntarily serve these areas without considering the returns. At the end of 2018, tens of millions of residents in more than 5,000 villages in China have limited access to postal services. The networks and services of other non-designated operators can only reach towns and cannot reach villages. However, China has hundreds of millions of rural residents. If there is no universal service, the residents of these areas will be left behind by the times and will not be able to enjoy the dividends brought by the digital economy. We have to rely on the universal postal service mechanism to ensure that networks and services are available in these high-cost areas. Similar or even more severe situations exist in many countries in the world.

Even in developed countries, the same challenge is still found. Due to the rise in e-commerce, the USPS’s package business increasingly competes with a robust and growing network of national, regional, and local delivery companies. To respond to these changes and return the USPS to financial stability, the USPS must adopt a new, more targeted business model that is based on providing essential mail and package services for which there is no cost effective, nationwide, private sector substitute. This proposed new business model should be based on the USPS’s role as a provider of “essential services”\(^8\). According to the “Payment Willingness Survey” for postal universal services in some countries, even in developed countries, users will still have to rely on their country for the continuous provision of low-cost delivery services throughout the country. Universal postal service is still an important way to protect people's well-being in the era of digital economy.

Table 2 – Results of the Survey on Willingness to Pay in the United States and Some European Countries

<table>
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<th>Country</th>
<th>Results of the Survey</th>
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<td>United States</td>
<td>The absolute majority of respondents believe that USPS should fulfill its obligation to provide delivery services to all addresses throughout the country; consumers and businesses have strong needs for postal services; low prices are important, and they are willing to accept reduced service quality to maintain low prices; single tariff for first-class mail is important; few consumers and businesses accept digital delivery means (e.g., postal scanning of letters, and email forwarding).</td>
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<tr>
<td>Italy</td>
<td>Both corporate and individual users believe that full coverage of the postal network is important and delivery to each address throughout the country should be guaranteed.</td>
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<td>Poland</td>
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<td>Sweden</td>
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With the development of digital technology and e-commerce and the changes in regulatory environment such as customs and security, new concepts, new philosophies, new regulations and new practices are springing up in the field of universal postal service, pushing countries to re-examine its definition and supporting measures. In the 1970s and 1980s, the private sector appeared in the postal industry and started to compete with postal enterprises, ushering the postal sector in an era of the market liberalization. Later, the linkage between universal service and competition became more and more prominent, which profoundly affected the development of universal postal service. In 2008, the European Union announced that it would completely abolish the postal monopoly by 2012 to enhance industry competition and increase cost efficiency of universal postal service. China revised the Postal Law in 2009, which legalized the private express delivery companies. In 2009, the number of express

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delivery companies increased from over 2,000 to over 20,000, and the number of employees increased from more than 200,000 to 3 million. In 2014, we fulfilled the WTO commitments and fully opened up the domestic parcel delivery market to foreign-funded enterprises. China's delivery service market entered an era of full competition, and the competition is extremely fierce in the market. Although the market dynamics increased the efficiency of the industry, the issue of fairness and the issue of imbalance are still outstanding.

We all know that while the global poverty rate has fallen by more than half since 2000, there are still 783 million people living below the international poverty line of $1.9 a day. Albeit the second largest economy in the world, China's development is extremely uneven. By the end of 2018, there are 16.6 million poor people, whose average income is less than $1.2 a day. If the international poverty line of $1.9 a day is used, this figure will be even larger. Poverty is not only measured by a low-income level, but also by the lack of adequate access to basic public services. According to the statistics of the UPU\textsuperscript{10}, only 91 countries in the world achieved the full coverage of postal services for all their residents across their territories in 2017, and there are still 101 countries with incomplete coverage of basic postal services, indicating that the basic right to subsistence and development of these residents has not been guaranteed.

On the other hand, market competition is not a bullet of silver to fairness and imbalance. Instead, these problems may be magnified by an interest-driven approach, and the gap will be further widened. The role of the market in resource allocation is neither unlimited nor boundless. The contradiction between universal service and competition is deeply rooted in the inherent contradiction between corporate benefits and social benefits. Arthur Cecil Pigou, the famous British welfare economist, believed that if the marginal private benefits and costs are not aligned with the marginal social benefits and costs, it will be difficult to maximize the social benefits by relying entirely on market mechanism\textsuperscript{11}. Without institutional guarantees, companies often tend to cut services or raise prices in high-cost areas (such as rural and remote areas), leaving some residents unable to receive essential services. The development of digital technologies has given rise to the demand for goods-delivery services, has magnified the gap between the rich.

\textsuperscript{10} http://pls.upu.int/pls/ap/ssp_report.CreateReport
\textsuperscript{11} Arthur Cecil Pigou, 1920, the Economics of Welfare.
and the poor caused by the digital divide, and will therefore result in the delivery gap between developed and underdeveloped regions. This needs to be compensated through institutional arrangements for universal service.

Eliminating poverty, ensuring sustainable development, and remedying market failures are the indispensable responsibility of governments. In a fully competitive environment, designated postal operators would be unable to provide services at affordable prices in high-cost areas by way of internal cross-subsidies if they lose the protection of monopoly. In this sense, the responsibility of the government is not weakened, but enhanced. As a big family, we cannot leave weak members behind. The UPU is such a big family. Governments are also protectors of their nationals. How can we ignore those weak members in the family?

III. In a fully competitive environment, the economic sustainability of universal postal service faces challenges.

Faced with the fierce competition from the private sector and the substitution brought by the Internet, the traditional universal postal service is facing the challenge of economic sustainability. This is a fact that we have to admit. On the one hand, the Internet has impacted the traditional letter business and the letter business continued to decline along an irreversible path. From 2007 to 2016, the global letter volume dropped by 30%, and that of China fell by more than 70%. The universal postal service providers lost the original sources of profit. On the other hand, the designated operators have to face “the cream skimming” from competitors. As a result, the designated operators cannot obtain sufficient profits from low-cost areas to compensate for the cost in high-cost areas due to the aggressive competition in low-cost areas.

In the field of universal postal service, the contradiction between universal service and competition broke out in the multilateral remuneration system, because it did cause the imbalance between importers and exporters of international letter-posts. Although the international business only accounts for a small portion of postal services in various countries, for example global cross-border letter-posts accounted for less than 4% of the global postal business\textsuperscript{12}, the loss of importers will further weaken their ability of

\textsuperscript{12} UPU (2016), \textit{Research on Postal Markets – Trends and Drivers for International Letter Mail, Parcels, and
sustaining long-term growth. Therefore, the multilateral remuneration system needs to be reformed to address the issue of imbalance so as to enhance the sustainability of designated postal operators in fulfilling their universal service obligations. With that saying, after the new remuneration rate came into effect in 2018, the problem of imbalance has been greatly alleviated.

**IV. Reform must follow the right direction and it requires holistic system thinking. Any reform should not abate the sustainability of universal postal service.**

Reforming the remuneration system and re-examining the concept and definition of universal postal service are the reform direction jointly proposed by member countries, with which we fully agree. Peter M. Senge\textsuperscript{13}, the founder of systems thinking, said that there will never be a one-to-one correspondence between the phenomenon and the essence in a strict sense. The cure can be worse than the disease and the easy way out usually leads back in\textsuperscript{14}. Reform is a systematic program involving multiple elements that are interrelated and requiring system thinking. We cannot think only of one aspect and neglect the rest. Let us recall what it was like before the UPU was born. Countries exchanged mails on the basis of bilateral agreements, and there were over 1,200 remuneration settlement rates for letters. Lack of transparency and discriminatory practices were commonplace in the mail exchange process. The postal networks based on bilateral agreements were in a maze of different rates, standards and regulations in the 19th century, hindering the rapid development of international trade. In 1863, Postmaster General of the US Postal Service, General Montgomery Blair, called for an international postal conference to explore the formation of a single international postal territory. His vision was fulfilled in 1874, with 22 countries signing the Treaty of Bern, the first international postal convention. The General Postal Union was established. The Treaty of Bern identified the principle of freedom of transit for international mails, unified the international mail settlement rates, simplified the international postal account settlement method, and established the arbitration procedure for disputes between the postal departments of various countries. At that time, as the UPU responded to the people's demand for communication and trade facilitation, the memberships increased rapidly. 4 years later, the General Postal Union was officially

\textit{Express Mail Services – Final Report}

\textsuperscript{13} Peter Senge, 1990, \textit{The Fifth Discipline: The Art and Practice of the Learning Organization}

\textsuperscript{14} Peter Senge, 1990, \textit{The Fifth Discipline: The Art and Practice of the Learning Organization}
renamed “Universal Postal Union” in 1878 and the second congress was held in Paris.

The UPU was born to protect the universal postal service and trade facilitation. Such a role has not been diminished so far. According to the results of a survey conducted by the UPU concerning universal postal service in July 2017, 89% of the responses received from member countries responded that universal postal service is a tool for development, 89% of which believed that postal networks contribute to social inclusion; 84% believed that it will help promote economic development, and 77% believed that it will contribute to the development of SMEs. We must note that we aim to find a solution to improve the economic sustainability of universal postal service, but the wrong reform direction is likely to worsen economic difficulties because if the cost of the postal channel is raised too high in a fully competitive environment, the overall competitiveness and efficiency of the postal network will be reduced, thereby impairing the profitability of designated operators and exacerbating their economic unsustainability. This is not a hypothesis, but a fact.

Redefining the concept of universal postal service should be an important part of the remuneration reform. If small packets, especially those for families and individuals in remote areas, are classified into the competitive business, it will significantly increase the living and transaction costs for poor areas, SMEs and vulnerable groups, and will undermine their basic rights and interests. This runs counter to the mission of the Union. At present, countries around the world have not yet formed a unified and clear definition on the new boundary of universal postal service. Which types of small packets belong to basic services? Which types of small packets are purely commercial services? There is no general agreement yet. We have noticed that both the United States and the European Union are studying the definition and scope of universal postal service to enhance the sustainability of the postal business model. We support such efforts. We believe that on the one hand, all parties should speed up study and promote their respective reforms; on the other hand, we should not rush to make conclusions if there is no common understanding, and the government should first consider the protection of the public's basic postal rights and interests, and must fully protect the social welfare.

15 UPU, CA C 2 2018.1–Doc 7
of the most vulnerable groups.

Therefore, we must be extremely cautious today when addressing the sustainability challenges that competition poses for universal postal services. When dealing with the imbalance in the multilateral remuneration system, we should not run to the other extreme, or even fall back to the chaos of the 19th century. Don't forget Alston Moor in the UK, Hikkim Village in India, and thousands of remote villages similar to them. Any reform should not come at the cost of the rights of subsistence and development of vulnerable groups, SMEs, and underdeveloped regions.

Any reform should be guided by the right methodology, and be progressive rather than radical. No reform can be done overnight. The empirical evidence in many countries tells that a reform needs to have corresponding preconditions and paths. The pace and rhythm of reform should be properly handled. Seeking quick fix to complex issues in a haste will only lead to failure, and success will gradually emerge when we move forward in a solid and steady manner. The reform of the postal sector is usually very difficult. It took some countries over a decade to complete the postal privatization reform, and many countries are still modifying their postal reform plans to be adaptive to changes in the market. The results of each round of reform are only valid for a certain period of time, and thus, a reform is an ongoing process with no end. Any idea of seeking immediate results overnight is unrealistic. For any relevant resolutions adopted, their effects should be reviewed periodically for timely revision.
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