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Despite Donald Trump's attack on the international postal system, he might be in for a nasty surprise in the mail next year

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One of the joys of my childhood in nondescript public housing in the heart of England was the annual cascade of Christmas cards that dropped through the letterbox in the weeks leading up to December 25. We received hundreds, which quickly festooned the walls along with all manner of Christmas decorations, bringing a temporary orgy of colour to England's long, grey winters.

This was the heyday of Britain's postal services, before the internet, email, WhatsApp, Skype and "e-fulfilment". While I love the convenience that electronic communication has brought, I mourn the loss of those morning moments of excitement as mail clattered through the letterbox onto the hall carpet – Christmas cards in particular. If I get four or five cards this year, I will be impressed.

No surprise, therefore, to see so many of the world's postal services nowadays descending into crisis, haemorrhaging cash, being privatised and procrastinating over their universal service pledges. Even here in Hong Kong, losses on operations amounted to HK$224 million (US$28.6 million) in the 2018-19 financial year.

But dozens of other postal services, most of them government-controlled, share similarly awful arithmetic. Linked with losses and efforts to cut costs, strikes have threatened postal operations around the world, from the UK and Finland to Brazil and Sri Lanka.

None are deeper in the mire than US Postal Services (USPS), which employs more than 600,000 people, and has annual revenues of US$70 billion.

As volumes of first-class mail, USPS's most popular product, have plunged by 45 per cent since 2001, and email traffic has surged to 290 billion messages worldwide every day, the USPS is now "bleeding red ink", notes Chris Edwards of the Cato Institute in a journal paper.

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USPS has lost US$69 billion since 2007. It is of no comfort that the parcels and small packages businesses have surged on the back of international e-commerce, because USPS has no monopoly there.

No surprise then that USPS has commandeered the lobbying heft of the Trump administration to seek financial lifelines by getting the 145-year-old Universal Postal Union to change the international rules that set postal rates.

Meeting in a special congress in Geneva in September, and facing US threats to throw the global postal system into turmoil by withdrawing from the union, the union's 192 members bowed to US demands that it be allowed to set its own international postal fees with effect from July next year.

White House trade adviser Peter Navarro, who represented US President Donald Trump at the Universal Postal Union meeting, celebrated this victory for "Trumpian diplomacy", but methinks USPS's powers to levy new fees will bring limited respite, because postal services worldwide face fundamental problems that sit much closer to home.

First, there is no escaping the steep and irreversible decline of traditional postal services. Household-to-household personal letters now account for just 3 per cent of total mail volume in the US.

Most mail today is leaflets and other "junk mail". Even gas, electricity and water bills are nowadays mostly settled online.

China's cheap shipping advantage explained

Nor is there any escaping the remorseless growth of the parcels business, which is nowhere protected by the usual mail monopolies. Driven by the surge in online shopping, the parcels business is growing at around 17 per cent a year, according to the Pitney Bowes Parcel Shopping Index.

Fierce competition from the likes of UPS, Fedex, Amazon, eBay, Alibaba – and in Hong Kong, the likes of SF Express – means that market share is small and hard fought for, and that profit margins are sliver-thin.

Third, postal services like USPS carry burdens that make them chronically less competitive: their universal service obligations require them to operate thousands of post offices, even across thinly-populated rural areas.

They also have strong trade unions that have used their collective bargaining power to ensure high wages and enviable benefits – in contrast with the lean employment terms offered by parcel delivery companies that take full advantage of the “gig” economy.

Because these deep structural problems are so difficult to tackle, Navarro has predictably turned on China as an existential threat to USPS’ future. His bugbear here is the Universal Postal Union’s “terminal dues” that determine charges for international mail and parcels.

Welcome to the arcane world of rules for international postal charging, which have been the responsibility of the union since 1969. The problem “terminal dues” are supposed to solve is that anyone sending a parcel pays fees in his or her home country, but pays nothing to the people overseas who are responsible for getting the parcel delivered to the recipient.

To make sure the overseas postal workers get paid for their role in safe delivery, the postal service in the home country agrees to pay “terminal dues” to the overseas postal services according to a formula agreed by the union almost half a century ago.

How Trump is threatening the global postal order

Poor, developing economies which normally have very-low-cost local mail can under this formula pass on very low “terminal dues” – which means that a parcel sent from a developing economy (like China) costs much less to send to the US than the other way round.

Back in 1969, international parcels services – even international mail – were a tiny part of the overall postal business. But today, in particular because of the explosion of international e-commerce, they are no longer marginal.

For e-commerce companies based in China, this has provided a valuable edge over US e-commerce competitors. USPS parcel charges are significantly higher than charges from distant China.

The new charges the US will introduce in July next year are intended to eliminate this unfair Chinese advantage. “We’ll buy less Chinese stuff, buy more from other countries, we will make more in America,” Navarro said, adding: “China is certainly going to pay more for the privilege of shipping to our market.”

This move might help USPS at the margins, but its core crisis remains untouched. Meanwhile, the main casualties will be in the US, where e-commerce customers will pay significantly more for the “stuff” they nowadays so love to buy online.

What the long-term impact will be on international e-commerce is as yet unclear, but Navarro has reason to beware what he has wished for.