

Private Express Carriers’ vs Posts’ Treatment of Packages Inbound to the US: Security Risks and Customs Concerns

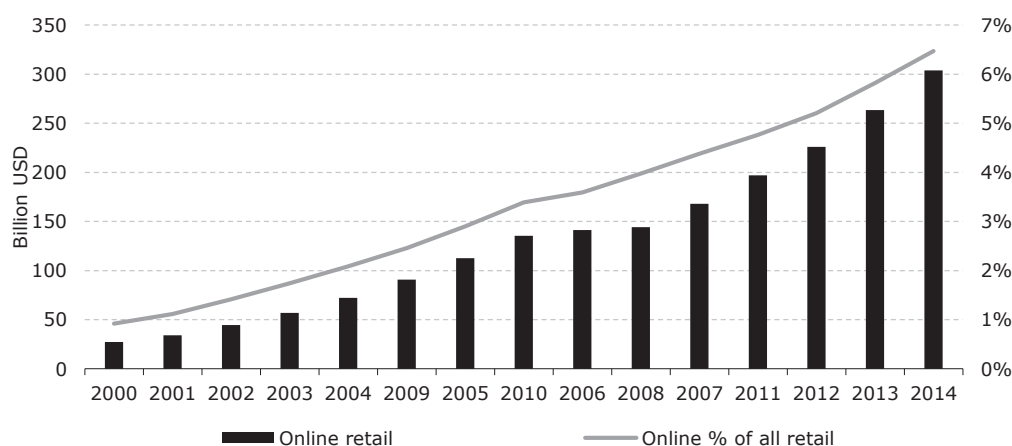
A study prepared for the Coalition of Services Industries – September 2015

Authors: Bruno Basalisco, Ph.D.; Henrik B. Okholm, Ph.D.; Anna Möller; Julia Wahl

1 Background: E-commerce has made Customs’ role even more relevant

The internet revolution makes the US economy further interconnected with its trade partners. The boom of e-commerce is a key driver. The online share of US overall retail spend has grown from less than 1% to more than 6%. Of course, the internet and online shopping do not stop at national boundaries. A Paypal survey finds that in 2013 there were 34 million US citizens shopping online cross-border, spending \$41bn cross-border. This is forecast to grow to 42 million US cross-border e-shoppers, spending \$80bn in 2018. As shown in Figure 1, US online retail has grown cumulatively around 1000% from 2000 to 2014, and we anticipate that exponential growth is likely to continue.

Figure 1 US Online retail, 2000-2014



Source: Retail Indicators Branch, U.S. Census Bureau, Last Revised: February 17, 2015

2 Purpose of this study

This supply chain customs and advance electronic security data submission study was created to understand better how international Posts and the international express carriers (e.g. FedEx, UPS) are submitting customs and advance electronic security data for shipments inbound to the US – termed “Air Cargo Advance Screening” (ACAS) data – supplied to 47 US government agencies to target high risk packages being imported

into the US. To make this assessment, we designed an experiment against two comparable groups: inbound international shipments coming from the same origin countries and with similar merchandise and sent either via Posts or international express carriers.

This study includes tests designed so to:

1. Observe and quantify advance electronic data submission for goods imported into the United States via Posts and the international express carriers.
2. Determine enforcement implications
3. Observe and quantify customs declarations submission for goods imported into the United States via Posts and the Express carriers
4. Evaluate the impact on public finances.

3 Methodology

In the first half of 2015, Copenhagen Economics launched an experiment, involving 200+ shipments into the US from 10 countries, which are key US trade partners representing 68% of international trade into the US. All shipments:

- Contained general consumer goods of a type and value that should be liable to duty under US law
- Were sent by an independent e-seller offering goods on an international e-commerce platform
- Were shipped: half of the sample by Postal operators (e.g. China Post, Canada Post), half by international express carriers (e.g. FedEx, UPS)
 - Goods shipped include clothing, jewellery, shoes and sunglasses.

4 Research findings

1. **International express carriers submit advance electronic security data (e.g. ACAS¹) in all cases;** however, postal shipments are not part of the ACAS system. In fact, 47 US agencies are depending on such data to perform their enforcement duties; including Customs and Border Protection, the Food and Drug Administration, Dept. of Agriculture.² As Posts do not submit ACAS advance data and the international express carriers are required to do so, this difference is likely to create an enforcement gap for packages imported into the U.S. by Posts.
2. **International express carriers submitted 98% customs declarations to Customs and Border Protection;** when contacted, the international

¹ The Air Cargo Advance Screening (ACAS) is based on automated data feeds sent by the express carriers to public agencies.

² CBP and 47 federal agencies are working together to implement the Single Window via the Automated Commercial Environment (ACE), which is "the backbone of U.S. Customs and Border Protection's (CBP) trade processing and risk management activities and the key to implementing many of the agency's trade transformation initiatives". Source: CBP ACEopedia Fact Sheet, June 2015, p.1, p.5.

Posts were unable to verify whether any such customs declaration had been submitted. In addition, Posts collected \$0 in customs fees for the shipments valued over \$200.

3. The absence of duties and fees collected on postal packages inbound into the US translates into a loss estimated at over \$1.06 Billion annually in Public sector income.

Table 1 Summary of Results

	Postal	Express carriers	Total
Packages Shipped into the U.S.	104	91	195
Total packages declared to U.S. Customs	0*	89	89
Percent of packages declared to customs	0%*	98%	-
Part of the Advance Data (ACAS) programme	NO	YES	-

Source: Copenhagen Economics

* When contacted, the international Posts were unable to verify whether any such customs declaration had been submitted

Table 2 Shipment of package, by country

Country	Postal	Express carriers	Total
Argentina	11	9	20
Canada	10	9	19
China	10	9	19
France	11	9	20
Germany	10	9	19
India	10	10	20
Japan	12	9	21
Korea	10	10	20
Mexico	10	7	17
UK	10	10	20
Total	104	91	195

Source: Copenhagen Economics

Note: While the research was designed to include 200 shipments, a number of shipments was not conducted via the delivery firm expected on the basis of the e-seller's listing or did not result in an international journey with the delivery firm in the e-seller's listing.

Table 3 Shipment of packages, by value of merchandise

Shipment	Postal	Express carriers	Total
Standard (\$200-\$300)	76	70	146
High value (\$800-\$900)	28	21	49
Total	104	91	195

Source: Copenhagen Economics

Table 4 Shipment of packages, by type of merchandise

Shipment	Postal	Express carriers	Total
General goods (clothing, shoes, jewellery)	77	72	149
Sunglasses	27	19	46
Total	104	91	195

Source: Copenhagen Economics

5 Volume estimates

Data on the volume of packages imported by the Posts into the US are not publically available. Hence, we were required to estimate volume through publically available data from the US Postal Service and the Universal Postal Union (UPU). Based on the available data, we estimate that at a minimum, 179 million “non-letter” items enter the US annually. “Non-letters” are defined as pieces that are larger than letter mail, and include both “flats” and “packets” as defined by the UPU.³ We believe that including flats as in our volume estimate is appropriate as they are commonly used to transport music/videos/DVD/CDs, medicines and supplements, as well as certain small high value items such as jewellery and high tech items.

Our estimate of postal package volumes is likely conservative as it is based on UPU data surveying samples of the shape of pieces entering 49 countries receiving international Post. This set of 49 countries includes a majority of developing countries; thus we expect that a generally low e-commerce and cross-border e-commerce. In turn, this means that in these countries the average inbound post is likely to contain a low share of e-commerce packages. On the contrary, in the US, e-commerce and cross-border e-commerce are higher than the global average: thus the US Postal Service will likely receive a greater share of non-letter to letter inbound postal items than many countries in the sample surveyed by the UPU.

³ According to the UPU definition, this is the G format and E format.

Table 5 Annual Import volume through Posts into the U.S.

Indicator	Source	Outcome
USPS Market-dominant Inbound Intl. Letter-Post Single-Piece & NSA Mail* volume	USPS FY 2014 RPW report	400.5M pieces
Non-letter volume share	UPU 2014 Items Per Kilogram Study	41%
Estimated non-letter volume of USPS Market-dominant Inbound Intl. Letter-Post Single-Piece & NSA Mail*	CE Calculation	164.2M pieces
USPS Competitive Inbound International mail** (packages) volume	USPS FY 2014 RPW report	13.9M Pieces
USPS Inbound Intl. Surface Parcel Post (at UPU Rates)	USPS FY 2014 RPW report	1.0M Pieces
Total estimated non-letter volume into US	CE Calculation	179.1M pieces

Note: * "mail" as defined by the UPU includes all items weighing up to 2 kilos (4.4 lbs). ** The products reported in this category have an average weight of 6lbs (source: USPS FY 2014 RPW report) and consist mainly of non-letter items and are generally not subject to UPU terminal dues.

Source: Copenhagen Economics, data sources listed in table.

6 Loss of Public sector income

The findings of the shipping experiment show a lack of collection of duties and fees on postal packages inbound into the US. This translates into a loss of Public sector income of approximately \$1.060 B annually

In order to make this assessment we have searched for current and reliable information on what is the average value of contents for shipments to the US via Posts and on what share of items are dutiable. However, no such data is available. This lack of information reflects the different process which posts apply on inbound items, since posts appear not to be collecting and presenting shipment (electronic) data to public agencies in advance of inbound shipments entering the US.

Thus, absent data on average value of content of postal imports, we have used publicly available data on the average value of imports to the US via express carriers. This evidence is based on the share of express carriers' shipments inbound to the US that are dutiable, which was found to be 24% (Hufbauer & Wong, 2011).

It is possible that for postal shipments the distribution of contents value is such that a smaller share than 24% of inbound shipments is dutiable. To test the sensitivity of this parameter we report that yearly loss of Public sector income would be \$795m if the share of inbound dutiable shipments were to be 18%, i.e. three quarters of the value derived from Hufbauer & Wong (2011). Based on the same logic, yearly loss of Public sector income would be \$530m if the share of inbound dutiable shipments were to be 12%, i.e. half of the value derived from Hufbauer & Wong (2011).

Table 6 Loss of Public sector income lost for postal imports

Indicator	Source	Value
Total estimated non-letter inbound postal volume into US	CE calculation	179.1M pieces
Share of inbound items which is dutiable	Hufbauer&Wong (2011)	24%
Dutiable items	CE Calculation	43.0M pieces
Average duty per dutiable item (Express carriers' data, 2011)	CE calculation, based on express carriers' data in Hufbauer&Wong (2011)	\$18.65
USPS customs clearance and delivery fee	USPS (2015) Price list	\$6.00
Average duty liable per dutiable item + USPS clearance and delivery fee	CE calculation, based on Hufbauer&Wong (2011)	\$24.65
Duty levied frequency on postal shipments	CE experiment finding (2015)	0%
Loss of Public sector income (yearly), compared to situation with full duty levy enforcement on postal shipments	CE calculation	\$1.060B USD

Source: Copenhagen Economics, Hufbauer & Wong (2011) Logistics Reform for Low-Value Shipments

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