E-Business And Its Challenges On Postal Logistics

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3.12.2018.Abstract. Globalized e-business is changing the retail markets fundamentally all over the world. The growth of Amazon, Alibaba, ebay and other platforms has affected both competition and logistics. Local retail companies may experience severe competition difficulties against this kind of logistically highly efficient competition. In the Finnish postal service logistics the number of traditional letters have declined dramatically, but a significant increase has also happened simultaneously on parcel deliveries. Of course the parcels have generated much welcome revenues to postal services, but especially numerous small pouches shipped from China have clogged the postal logistics systems and caused lots of additional costs, work and problems.

As the small plastic pouches having Chinese postal barcodes on them are not machine handleable, must the Finnish postal service handle them manually and also re-input the address data etc. to their systems manually. All this cost time, work and money and the question is, who should pay for it. Another problem is the fact that in many cases remain all the customs fees and VAT unpaid because of the mainly low declaration (either realistic or manipulated) value and the vast volume of these small shipments. How could a VAT-paying local retailer with fixed business costs compete against this? Also are the postage cost paid by Chinese e-business companies to China Post realistic or just a form of unacceptable support for export business?

1 Finnish people are e-shopping more and more from China

The total value of Chinese e-shopping was in 2017 about 1 000 billion USD. According to an international e-shopping survey interviewing 29 000 consumers in 31 countries international e-shopping is growing. According to the 1 034 interviewed Finnish consumers the share of items delivered from China increased from 21 % at 2016 to 37 % at 2017.

Figure 1. Postal deliveries from China to Finland 2010 – 2017

At 2017 78% of answered Finns bought items from European e-shops and 52 % from Asian e-shops. The share of European e-shops was declining 10 % from previous year and the share of Asians was equally

increased.

Figure 2. Where Finnish e-shoppers placed their purchases?

According to the survey the five most popular e-shops were Wish (18 %), eBay (17 %), Zalando (8 %), Amazon (7 %) and AliExpress (7 %). 67 % of the answerers were very or extremely satisfied with the e-shopping experiences. The Finns bought from foreign e-shops mostly clothes and shoes (32 %), electronics (14 %) and health and beauty products (11 %).

Figure 3. Most popular e-shops

Currently the quantity of traditional letter mail in decreasing drastically and therefore a traditional business of postal services is declining. Simultaneously the volume and business of parcel deliveries – mainly caused by rapidly growing e-shopping – is providing much welcome business to postal services. How much this income from parcel business is eliminated by additional handling costs of China-pouches is of course an important question. No business can tolerate continuous additional costs without additional fees.

2 ”This way the China pouches are going through the Helsinki Post Hub – ”Obscure formed, dubious markings”

In order to cut the costs to the minimal the Chinese e-shops prefer to send their shipments instead of traditional cardboard boxes as goods letters, because it is the most cost effective way. The ”free” or very cheap delivery costs usually equals to long delivery times and non-traceability. The delivery time from China to Europe can be 15 to 30 days, in high season even more.

Before the goods ordered from a Chinese e-shop arrive to their destination in Finland they have travelled through several hands at the Helsinki Post Hub. The goods bought from a Chinese e-shop would not come directly from China to Finland. Usually the Chinese goods are coming to Finland via Singapore or Netherlands. In Finland the goods are sorted at the airport into two categories: shipments to customs declaration or shipments pass the customs.

Figure 4. China Pouches

The typical China shipment is an obscure pouch, which is not possible to put into the sorting machine. Also the address markings can be dubious. The China pouches have usually one or more bar codes, which could not be utilised in Finland or any other European country. The Chinese shippers have no uniform way of how and where to mark the recover information with postal codes. The China pouches are usually light, less than 2 kg, plastic or paper wrapped lumpy letters, which may also contain some rigid styrofoam fillings. As the goods in them are of low value, the packing and postage costs are also minimized.

From the airport the shipments are channelled to the sorting process of the Finnish Post. Depending on the destination postal code the shipment is manually sorted up to five times. An additional work phase may come to the mail carrier, if the shipment does not fit through the mail slot or into the mailbox. Shipments from China cannot be sorted automatically in the Post, because they do not have digital tracking ability as in parcels. Therefore several human handler's work is required before the shipment can go forward from the Helsinki Post Hub.

 **Figure 5.** China Pouches in postal handling boxes at the Helsinki Post Hub.

The first handling phase is the sorting between customs declared and non customs declared shipments. After this is size sorting according to the thickness of the shipment: under or over 30 mm. The shipments outside Helsinki region are sorted at the regional Post Centers at bigger cities and after this they are dispatched to local Post offices and recipient homes.

When the normally packed cardboard box shipment with standardized address information requires machine time of one second to read the information the reading of the post code of a China pouch may require in the first sorting phase one minute or more, if the information is printed or written with easily wearable ink or other ways unclear way. After this the shipments are sorted into their respective boxes depending on to which Post Centre area they are going. The China-shipments destined to Helsinki region are sorted to their own post code boxes.

In the fourth phase the China shipment boxes of Helsinki region are sorted to rollers according to their destination post code. In the fifth phase the boxes are taken off the roller and registered into the Post information system and the stacks of boxes enter the automatic process to wait truck transportation to regional sorting centres or Helsinki region service points. The international e-shopping parcels and pouches are delivered to the receiver if the fit through post slot of into the post box. Shipments with a thickness more than 3 cm are delivered to post offices for pick up, which creates additional work for the service personnel, whose must check the documentation of the shipment and identification of the receiver and fill all kinds of documentation. All this adds more and more costs. Post is also testing a system, that with the customer agreement the unfit pouches are left hanging on the door handle or at the porch floor.

3 ”China-junk” is causing million-costs to Post; should recipient pay for it?

Because of the fact that e-shopping volumes from outside EU grew radically and only a fraction of VAT was paid by the e-shoppers (it was estimated that because of this Sweden loses about 50 million € per year as avoided VAT) the Swedish minister of finance took action and the Swedish government decided that from 1st of March 2018 a VAT of 25 % must be paid from all outside EU purchases without any lower limits. Additionally Swedish Postnord introduced 1st of March 2018 a additional declaration fee (as Postnord is declaring and collecting the VAT from the customers) collected from the consignee of a parcel ordered from Chinese e-shop. The fee is 75 SEK (about 7 €) for shipments valued less than 1 500 SEK (about 150 €) and 125 SEK (about 12 €) for shipments valued more than 1 500 SEK.

To Arlanda airport at Stockholm, Sweden came before the new rules 150 000 pouches from China every day, which equals to about 55 million per year. After the introduction of the new fees 400 000 China pouches were left uncollected and later sent back to China. Since that the flow of China pouches has been declined substantially, so all in all ”mission accomplished”.

In Finland the Swedish development has been followed keenly, because also to Finland arrived at 2017 from China about 15 million shipments. The total volume of small parcels at 2017 was about 35 millions. According to the letter service manager of Finnish Post those are obscure shaped pouches, which contain goods bought from Chinese e-shops like Wish and AliExpress.

The volumes of China pouches in Finland are of course much smaller in Finland than in Sweden, but the China e-shoppers have created for example social media groups, which have attracted tens of thousands of members. People are amusing themselves by ordering some trinkets worth a couple of euros and are considering it as a funny hobby.

Figure 6. A China trinket.

The Finnish Post has not yet introduced any extra fees for China pouches, but the development has definitely not amused the people in charge. According to the letter service manager of Finnish Post the China pouches are bad business. We are talking about losses of millions of euros. The Finnish post is waiting what kind of changes will the changes of EU regulation bring to the consumer behaviour.

The new regulation will cancel the exception that allows the outside EU shipment worth less than 22 € be VAT free. According to the EU council annually about 150 million small shipments arrive to EU without VAT and there is also open possibility for abuses. This makes the e-shopping cheap for the customer, because VAT is avoided. The new regulation lower the limit to 0 €, so an e-purchase is then VAT-worth more expensive for the e-shopper. This small value VAT legislation directive must be a part of national legislation by the end of year 2020.

Figure 7. Manual sorting of China pouches.

The cancellation of the 22 € value limit in near future might curb the enthusiasm of the Finnish consumers for e-shopping from China, but this does not meat that the Finnish Post would not introduce some fees before that. As the customs the declaration and VAT collecting is currently done by the Finnish Customs in a cooperation with the buyer, the China pouches will only cause handling costs to the Finnish Post. If the customer wants to Finnish Post take care of the customs and VAT declaration, a service fee of about 25 € is charged in addition to all customs and VAT fees. When the 22 € value limit will be cancelled this will add significantly the customer activities required and of course the total costs will increase.

4 International postal pricing

The pricing of international letters is based mainly on the Universal Postal Union (UPU) agreements. UPU has 192 member countries. The UPU rules apply all the member countries and the member countries decide together on the changes. UPU agreements are state agreements and the Finnish Post is according to the general agreement named operator and obligated according to this status to take care of international postal traffic in Finland.

 **Figure 8**. The UPU logo.

The distribution compensation for Finnish (or any European) Post is based on UPU agreements and it is relatively small and does not cover the actual transportation and sorting costs. The UPU agreements define prices (so called terminal fees), product portfolio, standards and general procedures to international postal traffic. The structure of UPU payment system and terminal fees were created 1969. This was before internet, e-shopping and especially before Chinese e-shopping.

The highest decisive body of UPU is the congress, where all the member countries assemble in every four years to vote on hundreds of rule change proposals. The decision making is very bureaucratic, multileveled, slow and political. Each member country has one vote independent on the size and postal volume of the country. In the 2016 conference in Istanbul so called price and product change package was accepted. This package will increase the prices of for example goods letters are slowly increasing. The first change take place this year, when for example the tariffs of China Post are increasing.

The next actual congress of UPU will be at 2020 in Ivory Coast and it will define the future price levels. Receiving countries are strongly promoting for price increasing and the sending countries are forming alliances in order to keep the price level low. The developing countries have different advantages and subventions like lower cost level and lighter rules compared to developed countries. The operators can agree bilateral agreements diverging UPU rules. The price negotiating position of Finnish Post against the big sending countries is not always the best possible.

5 The Finnish Customs warns e-shoppers: a 200 € bicycle can eventually cost 460 €

Bicycles and bicycle parts sent from China, Sri Lanka or Tunisia could be expansive for e-shoppers. E-shoppers buying bicycles or bicycle parts outside EU may have to pay in addition to general customs duty and VAT a dumping customs fee. According to the Finnish Customs the production country is more significant than the retail country. If the goods are sent to EU territory undeclared the dumping customs duty must be paid. Usually the buyer is responsible for the customs declaration and import duties. The dumping customs duties of a bicycle can be up to 48,5 % of the declaration value of the goods. Declaration value is the price and transportation costs of the goods.

An example illustrates the situation: Chinese bike manufactured by Ideal (Dongguan) Bike Co., Ltd may have

a price of 200 € and postage costs of 30 €. The general customs duty is 14 % which must be paid, because the value of the order is more than 150 €. Customs duties are therefore 32,20 €. If the buyer do not have an undersigned trade invoice declaration by the seller, a dumping customs duty of 48,5 % (in this case 111,55 €) must be paid. On top of these a VAT of 24 % (in this case 89,70 €) must be paid. So the total cost of 200 € bicycle with postage and import fees is 463,45 €.

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