

Trump Opens New Front in His Battle With China: International Shipping

By Glenn Thrush

Oct. 17, 2018

WASHINGTON — President Trump plans to withdraw from a 144-year-old postal treaty that has allowed Chinese companies to ship small packages to the United States at a steeply discounted rate, undercutting American competitors and flooding the market with cheap consumer goods.

The withdrawal, announced by the White House on Wednesday, is part of a concerted push by Mr. Trump to counter China's dominance and punish it for what the administration says is a pattern of unfair trade practices. The White House, in a statement, said "sufficient progress has not been made on reforming terms" of the postal treaty and that it would begin the withdrawal process while seeking to "negotiate bilateral and multilateral agreements that resolve the problems."

The Universal Postal Union treaty, first drafted in 1874, sets fees that national postal services charge to deliver mail and small parcels to countries around the world. Since 1969, poor and developing countries — including China — have been assessed lower rates than wealthier countries in Europe and North America.

While the lower rates were intended to foster development in Asia and Africa, Chinese companies now make up about 60 percent of packages shipped into the country, taking advantage of the lower rates to ship clothing, household gadgets and consumer electronics. Many websites now offer free shipping from China, in part because of the cheap postal rates, administration officials say.

The decision to withdraw was made at the urging of Peter Navarro, Mr. Trump's hard-line trade adviser, who sees the move as a way to thwart China and an opportunity to challenge the authority of international groups, like the World Trade Organization, that, in his view, fail to give the United States voting powers commensurate with the country's economic stature.

Mr. Trump, who told "60 Minutes" last weekend that his biggest regret as president wasn't quickly "terminating" the North American Free Trade Agreement after he took office, has also been eager to emphasize that he is tough on trade by pulling out of a treaty, even a relatively obscure one, according to people familiar with his thinking on the matter.

State Department officials were expected on Wednesday to inform officials at the Universal Postal Union in Bern, Switzerland, a branch of the United Nations that administers the treaty, of their intention to pull out of the system and "self-declare" new, higher rates on China, a United States official said.

According to the union's rules, members will have a year to renegotiate new terms before the withdrawal becomes permanent. "If negotiations are successful, the administration is prepared to rescind the notice of withdrawal and remain" in the treaty, the White House statement said.

The move will most likely inflame tensions with China, which the administration has accused of unfair trade practices and punished with tariffs on \$250 billion worth of Chinese goods, investment restrictions and other measures. Administration officials are still weighing whether Mr. Trump will meet with China's president, Xi Jinping, in Argentina next month.

It is not clear whether China will retaliate if the United States pulls out of the treaty. Administration officials said they were assessing rates for other countries and had not made any decisions about whether the policy would extend beyond China.



Mail handlers sorting packages in December in Opa-Locka, Fla. Chinese companies now account for about 60 percent of packages shipped into the the United States.
Joe Raedle/Getty Images

Mr. Trump does not need congressional approval to withdraw because the last version of the treaty was never put up to a vote, administration officials said.

The pact has been long been a source of frustration for presidents of both parties, and prompted complaints from small businesses, big retailers like Amazon and shipping giants like UPS. The treaty was last modified in 2016 to raise some shipping costs on Chinese exports. But Mr. Navarro and Mr. Trump dismissed those changes as insufficient to deal with the explosion of online free shipping offers of goods from China.

“These disparities have introduced a massive distortion in the eCommerce market,” Mr. Navarro wrote in a Financial Times op-ed last month. “It is often possible for a Chinese company to sell ‘knockoff’ products through online vendors, such as Amazon or Alibaba, to U.S. consumers for less than it costs for American mailers to ship authentic goods. Moreover, while USPS loses an estimated \$1 on every small package that arrives from China, outbound mail of American exporters is charged at well above cost.”

A 2015 report from the Inspector General of the United States Postal Service found that the treaty, which was created to ease the flow of mail and small parcels between 192 countries, had not been overhauled to reflect the new realities of eCommerce and China’s aggressive undercutting of international competitors.

The price of shipping a 4.4 pound package, the largest parcel covered by the treaty, from China to the United States is about \$5, according to United States estimates. American companies can pay two to four times that amount to ship a similar package from Los Angeles to New York, and much more for packages sent to China.

The “system creates winners and losers,” the report’s author’s concluded, especially China’s national postal service and “Chinese online retailers in the lightweight, low-value package segment at the expense of the U.S. Postal Service and American retailers.”

It is not clear how much the disparity costs American taxpayers and retailers, in part because the Postal Service does not release detailed country-by-country shipping breakdowns. A 2014 study, cited in a Postal Service analysis of the issue, estimated that discounted shipping cost industrialized nations as much as \$2.1 billion a year in aggregate.

The losses to retailers and manufacturers could be much more, as online commerce expands further.

Industry groups, even ones that have questioned the president's tariffs on Chinese imports, applauded the move as proportional and targeted.

"This outdated arrangement contributes significantly to the flood of counterfeit goods and dangerous drugs that enter the country from China," said Jay Timmons, chief executive of the National Association of Manufacturers, a trade group. "Manufacturers and manufacturing workers in the United States will greatly benefit from a modernized and far more fair arrangement with China."

But the changes could have an even bigger impact on small retailers who have found themselves outgunned and undercut by Chinese competitors.

Jayme Smaldone, who runs a 12-employee housewares company in Rahway, N.J., first became aware of the problem when he noticed websites selling Chinese knockoffs of his Mighty Mug, a desktop coffee cup he designed with an anti-topple base.

"Something has to be done," he said. "How can my government be subsidizing China and driving me out of business?"

A version of this article appears in print on Oct. 18, 2018, on Page B1 of the New York edition with the headline: Trump Wants To Overturn Postal Treaty To Hurt China