



Package Delivery in the United States

The U.S. Postal Service's core business is the delivery of mail and packages:

- Affordable mail and package delivery service, in rural areas, suburbs and cities, is critical to businesses and consumers in the U.S. - ecommerce could not exist without it.
- The package delivery market consists of private carriers and the Postal Service. Private carriers compete with the Postal Service in some areas while in others relying on the Postal Service for “final mile delivery.”
- Thus, the Postal Service is often the main (sometimes only) package carrier for rural counties given its universal service obligation for mail. The Postal Service also does not impose surcharges to deliver to rural America.

Congress has ensured fair competition in the package delivery market:

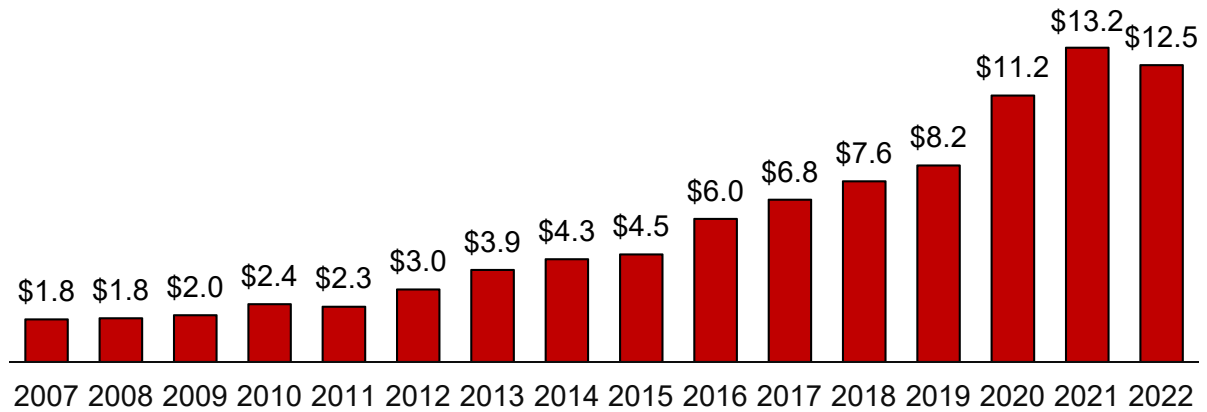
- The Postal Service has delivered mail and parcels since its creation in 1775.
- In the early 1900s Congress directed the Postal Service to offer affordable parcel post package services to combat exploitation of rural Americans by private carriers.
- In 2006 Congress reaffirmed the Postal Service's role as a participant in the package delivery market and established guardrails to ensure fair competition.
- The Postal Regulatory Commission (PRC) and the Federal Trade Commission (FTC) are responsible for implementing and enforcing these rules.
- The current law protects fair competition while allowing the Postal Service to exercise pricing flexibility to serve changing consumer demands, ensure innovation, support mail and stabilize its finances.

Current statutory rules ensure USPS package deliveries cover their costs

- Competitors were concerned the Postal Service might use revenue generated by its letter mail monopoly to subsidize its package delivery business. Accordingly, Congress established rules to ensure fair pricing:
 - Expressly prohibiting the subsidization of package products by market dominant products;
 - Requiring that each competitive product offered cover its costs;
 - Requiring that all competitive package products collectively cover an “appropriate share” of total institutional costs; and
 - Subjecting the Postal Service's competitive package products business to generally applicable antitrust laws (no party has ever filed a complaint alleging a violation).

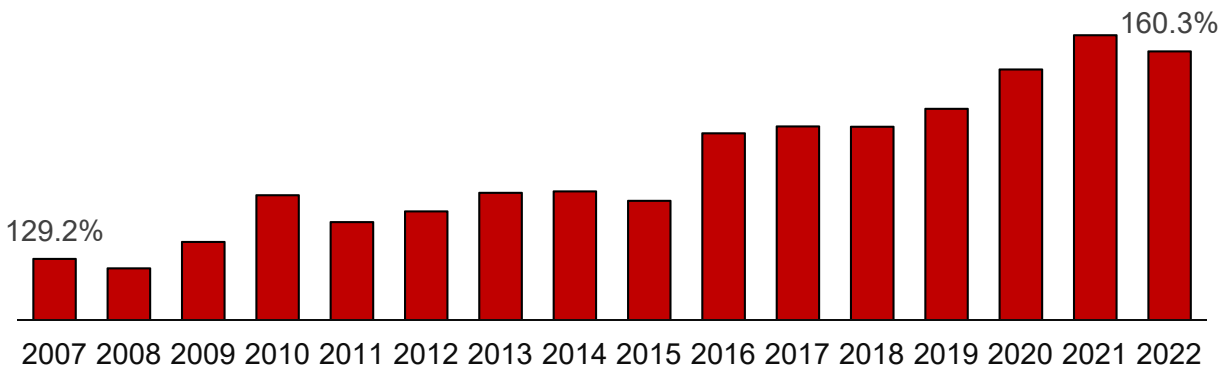
The Postal Regulatory Commission (PRC) plays an important role in regulating the Postal Service:

1. ***Not only does the Postal Service not subsidize package products with revenues from mail, but profitable package deliveries help support mail delivery.*** The USPS's revenues from packages outpace the cost of providing those products. In FY2022, competitive package products revenues were \$33.1B compared to total competitive package product costs of \$20.7B. Accordingly, package products generated a positive financial contribution (profit) of \$12.5B, helping to defray the costs of a nationwide mail delivery network.



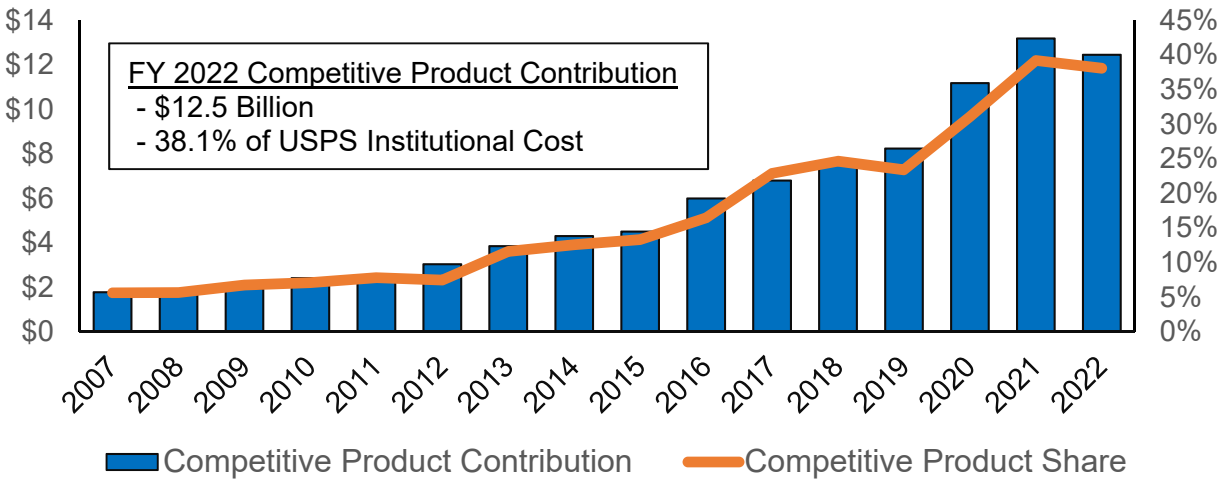
USPS data showing competitive product contribution (in billions) to USPS institutional costs

2. ***The PRC reviews and validates the pricing of each Postal Service competitive package product to ensure it covers its costs. This includes both public pricing and negotiated agreements.*** The PRC uses a methodology endorsed by the U.S. Supreme Court and followed in other regulated industries. The chart shows that how Postal Service package product revenues have covered their costs:



USPS data showing cumulative competitive price coverage (revenue as a percentage of cost). A rate higher than 100% means the products more than cover their costs.

3. ***The PRC also ensures that competitive products cover an appropriate share of institutional costs (overhead) of the Postal Service.*** By law, the PRC is required to establish a minimum contribution requirement for competitive products to cover what the Commission determines to be an “appropriate share” of total institutional costs. The amount varies based on a formula that adjusts annually, but every year since this requirement was adopted by Congress in 2006, the Postal Service’s competitive products business has contributed more than is required. In recent years, the Postal Service’s competitive package products have been covering an increasing percentage of the USPS’s institutional costs:



USPS data showing competitive products’ share of institutional costs (from 5.7% in 2007 to 38.1% in 2022).

4. ***Finally, the PRC must make an annual finding that the Postal Service is complying with statutory requirements for fair competition in the package market.*** The PRC has made an affirmative finding that the Postal Service is operating in compliance with all statutory requirements for the last 15 years.

Implementation of fair competition has been fostered in other ways:

The Postal Service is subject to general antitrust laws administered by the Federal Trade Commission and the Department of Justice:

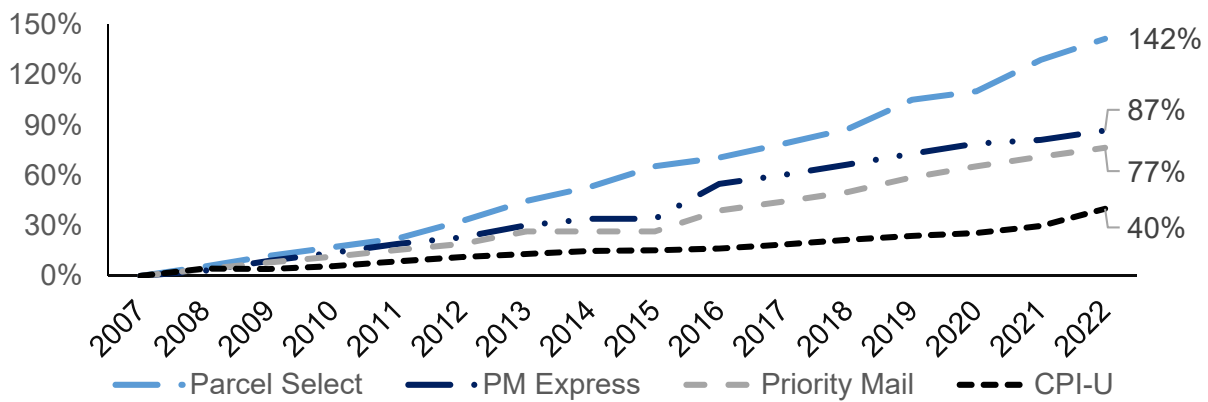
- No violations have been alleged
- No evidence the Postal Service has a dominant market share, nor abused the market

Congress asked and the Federal Trade Commission examined whether the USPS had an unfair competitive advantage in the package delivery market.

- The FTC found (2008) that the Postal Service has a net competitive disadvantage relative to private competitors
- The PRC recently reexamined the FTC’s findings and held that the conclusion is still valid

Within limitations established by law, the Postal Service should exercise pricing flexibility to serve consumers’ changing demands, ensure innovation, support mail and stabilize finances:

The Postal Service has been raising rates on packages and is incentivized to do so. Competitive package products revenues are a growing share of total revenues (approximately 42% in FY2022), these revenues help to stabilize the Postal Service’s finances and protect its ability to meet its universal service obligation (mail and package delivery at least six days per week).



USPS data showing that general competitive product prices are rising at a rate much faster than the Consumer Price Index (CPI-U), consistent with private carrier rates.