PACKAGE COALITION

DELIVERING AMERICA'S ECONOMY

PACKAGE DELIVERY IN THE UNITED STATES

The basis for package delivery:

- Affordable mail and package delivery service, in rural areas, suburbs and cities, is critical to businesses and consumers in the US
- The package delivery market, which consists of private carriers and the US Postal Service (USPS), is a network; the USPS is often the main (sometimes sole) package carrier for rural counties given its universal service obligation for mail

Summary of the approach:

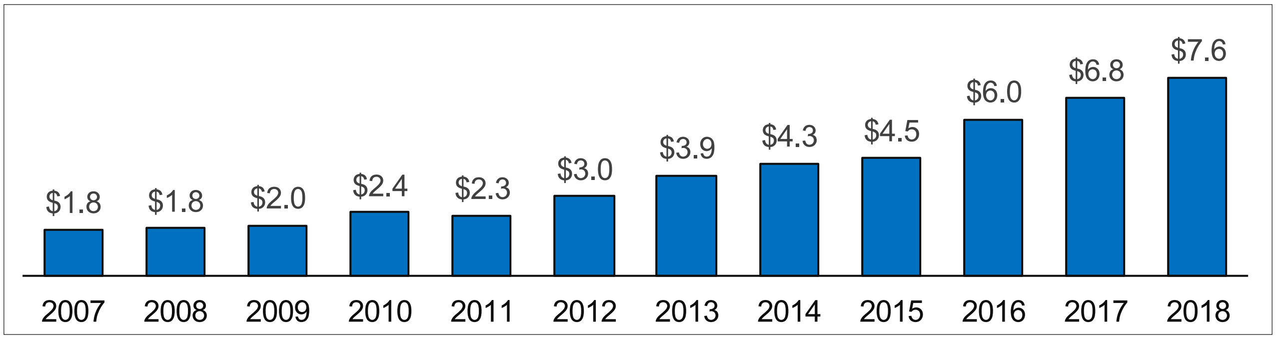
- Congress rightly established fair competition laws for the package delivery market because of the USPS's participation in the market
- Implementation of fair competition has been led by the post's regulator, the Postal Regulatory Commission (PRC), and the Federal Trade Commission (FTC)
- The current statutes and regulations on package pricing help protect fair competition
- Respecting competitive restrictions, the USPS should exercise pricing flexibility to serve changing consumer demands, ensure innovation, support mail and stabilize its finances

Congress has ensured fair competition in the package delivery market:

1. Each competitive product offered by the USPS must cover its costs
2. Collectively, USPS's competitive products must cover an "appropriate share" of institutional, or overhead, costs of the USPS
3. These mandates preclude the USPS from subsidizing its package products with revenue from mail
4. The USPS must also comply with standard antitrust laws, meaning it cannot price in a "predatory" way (no one has ever alleged that USPS has done so)

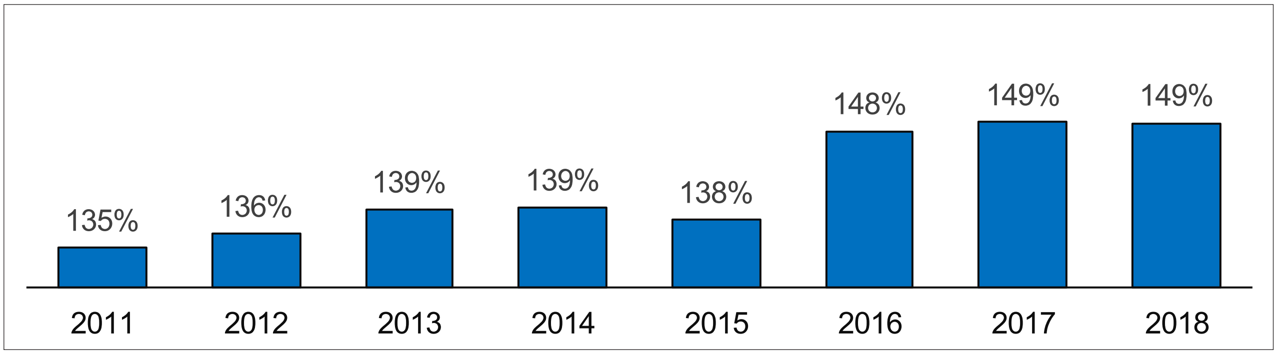
The Postal Regulatory Commission (PRC) plays an important role in regulating the USPS:

The USPS does not subsidize package products with revenues from mail. The USPS's revenues from packages outpace the cost of providing those products. In 2018, competitive package products revenues were $23.1 B compared to total competitive package product costs of $15.5 B. Package products provide an additional $7.6 B to USPS institutional costs, supporting mail delivery.



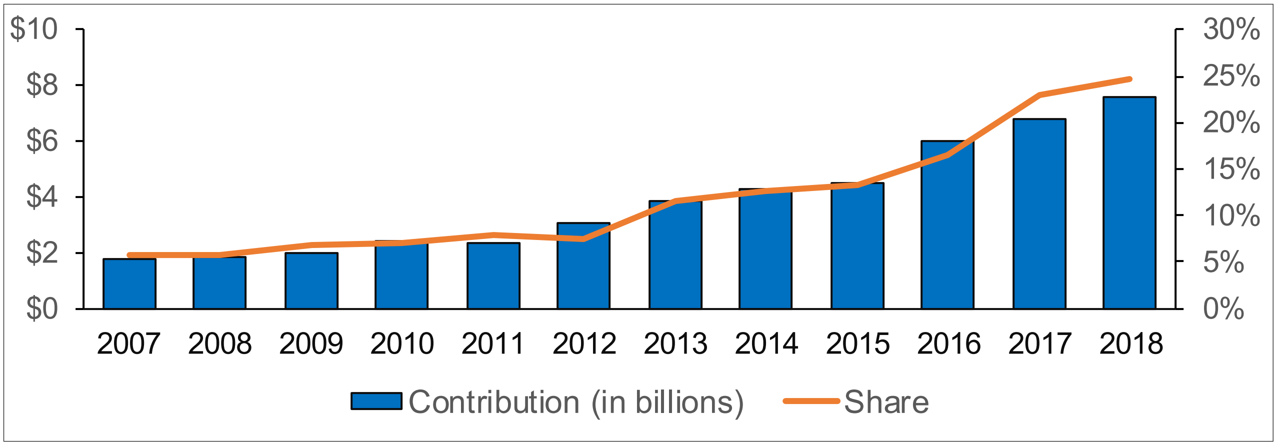
USPS data showing competitive product contribution (in billions) to USPS institutional costs

The PRC reviews and validates the pricing of each USPS competitive 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 USPS 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.

The PRC also ensures that USPS's competitive products cover an appropriate share of institutional costs (overhead) of the USPS through regular reviews created by the Postal Accountability and Enhancement Act (PAEA). In 2007 and 2012, the PRC established 5.5% as the minimum contribution requirement for competitive products. In its 2017 review, the PRC approved a formula that adjusts annually and substantially increases the minimum contribution requirement from the current 5.5% level. In recent years, USPS's package products have been covering an increasing percentage of the USPS's institutional costs:



USPS data showing competitive products' share of institutional costs (from 7.8% in 2011 to 25% in 2018).

Finally, the PRC must make an annual finding that the USPS is complying with statutory requirements for fair competition in the package market.

Implementation of fair competition has been fostered in other ways:

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

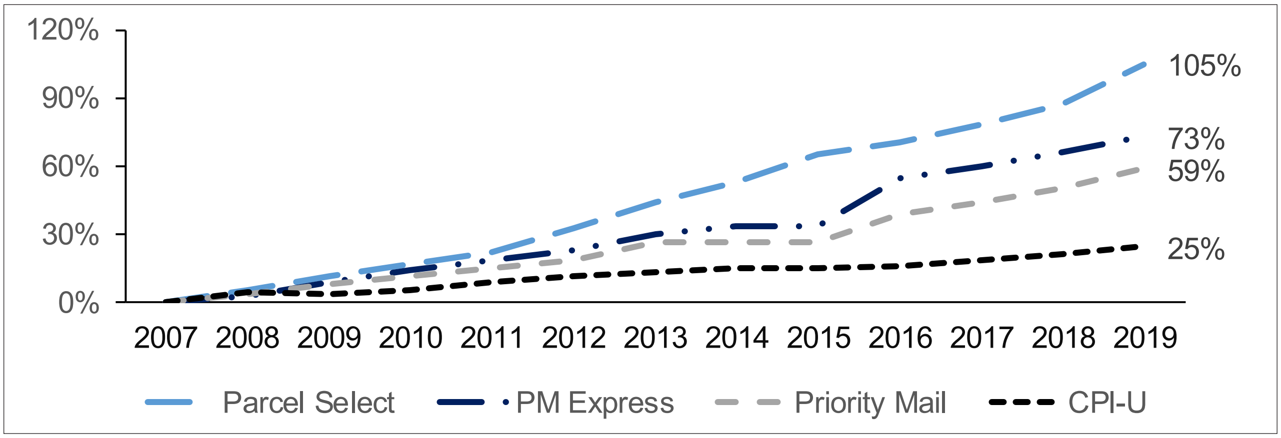
- No violations have been alleged
- No evidence the USPS has a dominant market share, nor abused the market

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 USPS has a net economic disadvantage of up to $1B annually
- The PRC recently reexamined the FTC's findings (2017), updated the estimate and still finds a similar if not larger disadvantage to the USPS compared to private carriers

Within limitations established by statute of by rule, the USPS should exercise pricing flexibility to serve consumers' changing demands, ensure innovation, support mail and stabilize finances:

The USPS has been raising rates on packages and is incentivized to do so. Growing USPS package revenues, while only 33% of USPS revenues, help to stabilize USPS finances and protects its ability to meet its universal service obligation (letter mail delivery 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.