



Statement of the Package Coalition

United States House of Representatives Committee on Oversight and Reform

Hearing on the Financial Condition of the Postal Service April 30, 2019

The Package Coalition appreciates the opportunity to submit this statement for the record for the Committee's hearing on the financial condition of the Postal Service. The Package Coalition commends Chairman Cummings, Ranking Member Jordan and members of the Committee for convening this hearing, and looks forward to working with the Committee to support and sustain affordable and universal postal package delivery services for all Americans.

The Package Coalition represents a diverse group of leading retail, ecommerce, and postal supply chain companies that are committed to preserving fair competition and affordable postal package delivery services. Our members represent millions of small, medium and large businesses that have harnessed the power of ecommerce to create jobs and economic growth in communities nationwide, and include some of the country's best-loved consumer brands (see attached list of our members). Our members rely on affordable postal package delivery services to grow their business, create jobs, and exceed customer expectations.

The Package Coalition believes that the Postal Service is crucial to the success of America's thriving ecommerce economy. The rules Congress put in place are working and ensure all Americans have access to affordable postal delivery services. The Postal Service is often the only affordable package carrier to remote, rural, and underserved areas, serving as a critical economic lifeline for all Americans. Private competitors charge "rural surcharges" in more than 23,000 zip codes. The Postal Service does not.

The Package Coalition opposes legislative or regulatory changes that would limit access to postal package delivery services or force the Postal Service to raise package prices above market rates. Forcing the Postal Service to raise its prices for package delivery services above market rates will harm, not help, Main Street businesses and consumers and significantly diminish, not strengthen, the Postal Service's fiscal position.

The Growth and Profitability of the Postal Service's Package Delivery Business Is Increasingly Necessary to Support Universal Postal Services to All Americans

Like other stakeholders that depend on a strong, well-functioning postal system, the Package Coalition recognizes that there are areas where the Postal Service needs to make changes, but the package delivery business is not one of them. In fact, packages are a bright



spot on the Postal Service's financials. In FY2018, the Postal Service's package delivery business contributed \$7.6 billion (above costs) back to the Postal Service, helping defray the cost of letter mail service. Far from being subsidized by market dominant mail products, packages are helping to keep the Postal Service in business, keep mail costs low, and establish a foundation for long-term financial stability -- all without a taxpayer subsidy. The growth and profitability of the package delivery business is increasingly necessary to support universal postal delivery services to all Americans.

Congress Should Reject Proposals that Would Limit Access to Postal Package Delivery Services or Force USPS to Increase Package Prices above Market Levels

As Congress considers options for improvement and reform, we urge you to preserve the features that have supported the Postal Service's significant contributions to American society and economic growth and urge you to reject proposals that would force the Postal Service to raise prices on package services above competitive levels -- directly or indirectly by changing costing rules or creating a separate package business.

The current costing and pricing rules for the Postal Service's competitive package delivery business were established by Congress in the Postal Accountability and Enhancement Act of 2006 (PAEA). The statutory guardrails put in place minimize interference with the Postal Service's ability to set market based prices for its competitive package products, ensure fair competition, and allow the Postal Service to pass through the benefits of its network efficiencies to consumers and businesses in the form of lower prices. An independent federal regulator, the Postal Regulatory Commission (PRC), approves the Postal Service's costing methods, and federal courts have consistently upheld that the Postal Service's approach to costing is proper. The Postal Service's competitive package business is also fully subject to general antitrust law, and no complaints have ever been alleged.

Proposals to change the costing rules or separate the package delivery business are not new ideas. I was privileged to serve as chairman of the postal subcommittee when PAEA was enacted and can tell you that these ideas were considered and rejected by the Committee and Congress and that these ideas have not gotten better with time. The proposals were rejected because they would be bad for American consumers and businesses and bad for the postal system. Changes to the costing rules or to separate the package business would needlessly reduce efficiency and result in increased costs on businesses and consumers, particularly in remote and rural areas. The only beneficiaries of these changes would be the Postal Service's large private competitors.



Changes that would force the Postal Service to raise prices for its package delivery prices above market levels should likewise be rejected. These recommendations are based on the false premise that the Postal Service's letter mail business subsidizes its package delivery business. Existing law prohibits any subsidy and requires the PRC to make an annual determination that there is no subsidy. The PRC has annually reported to Congress since 2006 that there is no subsidy (and even the President's Task Force Report conceded that there was no explicit subsidy).

The Package Coalition urges Congress to reject legislative or regulatory changes that would force the Postal Service to increase package prices above market levels. Congress could make a different policy choice to change the costing and pricing rules as many of the Postal Service's private competitors have urged, but the result of those changes would be increased shipping costs and more limited access to affordable postal delivery services. Americans who live in remote, rural, or underserved communities would be disproportionately harmed because they have fewer alternatives.

The Package Coalition would like to thank the Committee for the opportunity to provide a statement for the record on this important topic and looks forward to continuing our work with Congress and other policymakers to support and sustain affordable and universal postal package delivery services for all Americans. For more information, please visit www.packagecoalition.org, or contact Carolyn Lowry at carolyn.lowry@klgates.com or 202-778-9389.

Sincerely,

John M. McHugh
Chairman, The Package Coalition
Member of Congress, 1993-2009
Secretary of the Army, 2009-2016



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