Hearing on

Fair Competition in International Shipping

Before the

Subcommittee on Government Operations
Committee on Oversight and Government Reform
United States House of Representatives

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Testimony of

Paul Misener
Vice President for Global Public Policy
Amazon.com

Thank you, Chairman Meadows and Ranking Member Connolly. My name is Paul Misener, and I am Amazon's Vice President for Global Public Policy. Under international postal agreements, the U.S. Postal Service charges much lower rates for delivering foreign shipments from transfer points in the United States to recipients in the United States, than the USPS charges for handling comparable wholly domestic shipments between the same U.S. points. This disparity discriminates against American businesses shipping domestically. To allow fair competition in shipping to U.S. consumers and equitable treatment of American businesses, the international agreements must be reformed. Thank you for your attention to this important topic; for calling this hearing; and for inviting me to testify.

I. Amazon.com and Shipping

Amazon operates a global ecommerce business and we strive to be Earth's most customer-centric company. We have four primary customer sets. For our developer/enterprise customers, Amazon Web Services provides a rapidly growing suite of cloud computing functionalities. For our content creator customers, we provide publishing tools through Kindle Direct Publishing, CreateSpace, and Amazon Studios.

In the context of shipping, our key customer sets are consumers (*i.e.*, buyers) and sellers. For our consumer customers, we offer low prices, vast selection, and convenience. And for our seller customers, our Marketplace ecommerce platform allows millions of sellers (mostly small businesses and individuals) to sell through Amazon's websites. Today, more than 40% of Amazon's total unit sales are by these third party sellers.

One of the conveniences we offer our consumer customers is a choice of shipping method. We recognize that for some customers at some times, speed of delivery is essential. We offer extensive next-day delivery; growing availability of same-day delivery; and soon, we hope to receive permission from aviation authorities to make deliveries in 30 minutes or less via Amazon Prime Air drones. Yet, for other customers and at other times, shipping speed is relatively unimportant. If a delivery is made within a week or two, the customer is happy. With this in mind, we recently began offering the "FREE No-Rush Shipping" option, which provides collateral customer benefits, such as discounted digital downloads, in exchange for longer delivery windows.

In any case, delivery is a very important part of the customer experience at Amazon, and accordingly we maintain strong ties to postal operators around the world, including the U.S. Postal Service and China Post. We have concerns about international postal agreements and their indirect effects on American businesses of all sizes, but we are not criticizing either the American or Chinese postal operator. Rather, we believe that two problematic compensation arrangements between them need to be reformed to promote fair competition in shipping to American consumers. One of these arrangements was established by the Universal Postal Union ("UPU"); the other in a bilateral agreement.

Many sellers who sell through Amazon's U.S.-based website platform are located in other countries. We are grateful for all of our seller customers, whether these sellers are located in the United

States, China, or elsewhere around the world, for they help provide the vast selection that is so important to our consumer customers.

We also believe that all sellers, whether on the Amazon platform or not, should be treated fairly by shipping rules and, in particular, that international shipping agreements should not create or maintain artificial distinctions among sellers. Unfortunately, this parity does not exist among sellers who sell to American consumers.

II. Terminal Dues

As the Committee is aware, “terminal dues” are fees that an originating postal operator, say, China Post, pays a terminating postal operator, say, the USPS, for delivery within the latter’s home country – in this example, the United States. When the terminal dues system was adopted in the UPU decades ago, a policy choice was made: Developing countries with less efficient postal operations could charge higher terminating fees than developed countries with more efficient posts. In UPU parlance, these are referred to as “Transition Countries” and “Target Countries,” respectively. The result of this policy choice is that two countries often will have inequivalent terminal dues rates with each other. That is, the postal operator in a Transition Country pays less for delivery within a Target Country than the Target Country’s postal operator pays for delivery in the Transition Country. This is the current situation for China and the United States: Under the UPU terminal dues system, China Post pays much less for delivery in the United States than the USPS pays China Post for delivery in China. China Post and the USPS have a bilateral agreement that slightly bridges the divide between rates. But even under that agreement, China Post pays USPS far less than the other way around.

There has been considerable discussion about whether these arrangements adversely affect the financial health of the USPS, as its Office of Inspector General concluded in a 2014 white paper. And it is not difficult to see that, as a result of the compensation imbalance, businesses in China end up paying less for delivery in the United States than American businesses end up paying for delivery in China.

But another serious problem caused by these arrangements is less well known and may be less obvious: As an indirect result of the arrangements between China Post and the USPS, under which China Post underpays the USPS for lightweight deliveries within the United States, American businesses of all sizes end up paying more than Chinese companies for deliveries to American consumers. In other words, because U.S. domestic delivery rates exceed international termination rates here, Chinese companies end up getting a better deal from the USPS than American businesses.

Amazingly, when combined with extremely low bulk shipping rates from China to U.S. transfer points, shipments *from China* to points throughout the United States are often cheaper than shipments *entirely within the United States*. The resulting competitive disadvantage to American businesses of all sizes is as unfair as it is illogical. For example, at today's rates, shipping a 100g parcel to Fairfax, VA would cost a small business in Marion, NC at least $1.94, at a distance of 340 miles, but would cost a company in Shanghai only $1.12, at a distance of over 7000 miles. Similarly, shipping a one pound parcel to New York City would cost nearly six dollars from Greenville, SC, but only $3.66 from Beijing. At high volumes, especially for low-priced items, such dramatic shipping cost differences can make or break a small ecommerce business.

III. Reforming the International Agreements

The current international agreements that ultimately discriminate against American domestic shippers of all sizes should be reformed. Ideally, international terminal compensation rates would rise, approaching the domestic rates of postage for comparable pieces with comparable mailing characteristics (*e.g.*, presorting) mailed from the same points where foreign postal operators hand off their pieces to the USPS and, at least in theory, then both rates could meet at a point of parity lower than the current domestic rate. That is, increases in terminal rates could potentially allow a revenue-neutral reduction in domestic delivery rates, which would benefit even more Americans. This reformation would not give an *advantage* to American sellers over foreign-based sellers; rather, it merely would level the playing field on which they compete.

The reforms adopted by the UPU in recent years unfortunately have not begun to remedy the anticompetitive and discriminatory nature of the current terminal dues regime. In 2016, for example, China and some other UPU Transition Countries are scheduled to be reclassified as lower-tier Target Countries. This reclassification at least will acknowledge that global economic changes – particularly in formerly underdeveloped countries – have been dramatic since the UPU first assigned countries to groups. However, the change is largely symbolic; the actual terminating delivery rates in the United States will not change as a result of the reclassification. Even if China were reclassified as a top-tier Target Country (in Group 1.1, the UPU group for the wealthiest and most advanced large economies, including the United States) the problem would not be eliminated. UPU terminal dues are well below the comparable domestic USPS rates for similar service, even between countries in the top-tier Target Country group.

With or without reclassification of China and other countries, rates for U.S. deliveries of international parcels should – as a matter of fair competition in shipping to U.S. consumers and equitable treatment of American businesses – be set no lower than domestic shipping rates which, again, potentially could decrease as a result of reforming the international agreements. And if the terminal dues rates in these still-developing countries need to increase to match delivery costs there, such adjustments could be considered as part of the reform.

There are, however, two serious problems with a UPU-based solution designed to raise the baseline terminal dues rates. First, it would take a long time. The Union only considers significant actions every three or four years, and the UPU is unlikely to move at speeds relevant to the growth and development of global ecommerce. Second, and relatedly, the Union makes decisions based on one-vote-per-country majorities, and because the majority of countries' postal operators benefit from the current terminal dues system, the UPU is unlikely to be in any hurry to meaningfully reform the current problems, especially since some (albeit minor) changes were adopted only a few years ago. Nonetheless, the United States should reinvigorate its UPU reform efforts and demand that the gap between USPS rates for international termination and domestic delivery be closed. Negotiations should stress the fundamental unfairness of the current system, and emphasize that the terminal fees being paid to these countries' postal operators need not be as aggressively reformed, if changed at all. That is, foreign postal operators could remain handsomely compensated for deliveries within their countries, so long as sellers in those countries do not receive an unfair advantage when delivering through the USPS in the United States.

Rather than merely await and rely upon global, majority-vote solutions from the UPU, the United States also should immediately begin pursuing bilateral agreements with key foreign postal operators. The prices established by the bilateral agreements should not merely be somewhat higher than the default UPU terminal dues, however: Parity with domestic rates must be the objective.

In particular, the United States has a special relationship with China. Surely, with all the strong and growing ties between our nations, we can resolve the anachronistic imbalance which, if it ever made sense for China-based sellers to have a shipping price advantage within the United States over U.S.-based sellers, it makes no sense now, given the strong trading position that China already enjoys. There is precedent for negotiation. In 2010, the USPS negotiated an agreement establishing rates for the "ePacket" service that are marginally higher than the UPU terminal dues rates, but still far below domestic delivery rates for small parcels, especially considering the additional tracking and tracing services provided under the agreement. Much more progress could be made with further negotiations.

In conclusion, existing international agreements offer foreign-based companies much cheaper mail service in the United States than the USPS offers to American seller businesses for domestic shipments. For the sake of both effective competition in shipping and fairness to American seller businesses, the UPU terminal delivery compensation system and current bilateral agreements between the USPS and key foreign postal operators such as China Post must be reformed.

Thank you again for inviting me to testify, I look forward to your questions.

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Paul E. Misener
Vice President, Global Public Policy
Amazon

Paul Misener is Amazon.com's Vice President for Global Public Policy, and has served in this position for 15 years.

Both an engineer (B.S., Electrical Engineering and Computer Science, Princeton University, 1985) and lawyer (J.D., George Mason University, 1993; Distinguished Alumni Award, 2001), he is responsible for formulating and representing the company's public policy positions worldwide, as well as for managing public policy specialists in Asia, Europe, and the Americas.

Formerly a partner in the law firm of Wiley, Rein & Fielding, Paul also served as Senior Legal Advisor to a Commissioner of the U.S. Federal Communications Commission (FCC). Prior to this government service, he was Intel Corporation's Manager of Telecommunications and Computer Technology Policy, and leader of the computer industry's Internet Access Coalition.

In the late 1980s, Paul was a policy specialist for the U.S. Department of Commerce's National Telecommunications and Information Administration, where he was a U.S. delegate to several conferences of the ITU. Prior to that, he designed radio communications systems. In 2013, he chaired the technical subcommittee of the FAA's advisory committee on airplane passenger use of portable electronics. He currently serves on the FCC's technological advisory council and the FAA's beyond visual line of sight UAS (drones) working group.

Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name:
Paul E. Misener

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1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2012. Include the source and amount of each grant or contract.

None

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2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

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Vice President, Global Public Policy

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3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2012, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

None

I certify that the above information is true and correct.
Signature: Paul E. Misener Date: June 12, 2015
