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Kris Taylor
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Kris,

At your suggestion, and in the interest of further demonstrating the Company's commitment to growing our business to provide job opportunities and protections to your members and our employees, I am writing this letter to further clarify the parties' intent related to the newly-negotiated language in Article 44 – Subcontracting in the National Master UPS Freight Agreement. I have attached a copy of that TOK for your reference and convenience.

First, and foremost, the Company acknowledges that the preservation of bargaining unit work is of central importance to your team, as you have repeated this throughout our negotiations. We are in complete agreement on this principle. Consequently, we have not only agreed to all the various protections and limitations outlined in the newly-proposed Article 44, but we have also restated (and repeated) this basic premise at the beginning of, and throughout the Article to further highlight its importance.

Article 44, Section (c)

The intent and impact of this Section is that the Company's practice related to contracted freight is now subject to the newly-agreed language in Section (e), which establishes both an overall cap, as well as a reduction of the total amount of subcontracted miles over the life of the new Agreement. The amended Section (c) also references the job protections and guarantees in Section (d) that will be provided to the Red Circled Road Drivers in those facilities where a certain level of subcontracting currently exists now, or in the future.

Article 44, Section (d)

This Section was added to the contract to create the new category of Red Circled Road Driver for those facilities where a certain level of subcontracting currently exists now, or in the future. The initial measure will be the level of subcontracting in each facility over the 12-month period ending July 31, 2018. If a facility averages one or more subcontracted loads a day during the 262 work days in that 12-month period, then the Road Drivers in that facility will become Red Circled Road Drivers, and will be entitled to the guarantees described in Section (d).

The level of individual facility subcontracting for this Section will be measured each contract year (August 1 through July 31) during the life of this five-year Agreement. Consequently, if a facility has 262 or more subcontracted loads/runs in a contract year, then the Road Drivers in that facility will become Red Circled Road Drivers for the following contract year. Conversely, if the level of subcontracted loads/runs falls below 262 in a facility in any contract year, then the Road Drivers in that facility will cease to be Red Circled Road Drivers for that following contract year. The data upon which this determination will be based will of course be provided to the Union as part of the agreed language in Article 44, Section (g).

For those Road Drivers impacted by subcontracting, and therefore designated as Red Circled Road Drivers at their facility, these drivers will be guaranteed driver work (8 hours daily and 40 hours weekly) at their Road Driver (progression) rate of pay under Article 26. There are however exceptions to this guarantee that are outlined in the language. Most of these exceptions involve events that are beyond the Company's control – driver absences during the week, a driver declining driving work, weather events, etc.

If a Red Circled Road Driver is not provided with their daily or weekly driving guarantees, then any non-driving work assigned to them, up to their guarantee, will be paid at a rate of \$ 37.61 (as defined in Article 47, Section 3). The stated purpose of this top rate/premium is to encourage the Company to keep Red Circled Road Drivers on the road up to their guarantees, and to discourage working them out of their classification to meet their guarantees while subcontractors are being used to run one-way freight in that facility. Please note that driving related time (e.g., drop and hooks, fueling), as well as non-driving work (i.e., dock work) that is part of the driver's bid (e.g., mini-hub road run bids) will be included/count toward in the Red Circled Road Driver's guarantee, and paid at the applicable rate under Article 26 for the work being performed.

Lastly, once a Red Circled Road Driver's daily/weekly guarantee has been met, then any non-driving work to which he/she is assigned, or for which they volunteer, will be paid at the applicable rate for the work being performed, and not at their Road Driver rate or at the premium rate described in Article 47, Section 3.

Article 44, Section (e)

The intent of Section (e) is to reduce the current level of contracted miles over the life of the Agreement. Contracted miles are defined as those miles performed by subcontractors; this does not include miles involved in drayage or loads on the railroads. The current level (starting point) of subcontracted miles for purposes of this Section is the average annual total percentage for the calendar year 2017, which is 21.9 percent. The Company has agreed to reduce this amount by a total of four (4) percentage points over the life of the Agreement, in the contract year stages and percentages outlined in Section (e). Failure to accomplish the reduction according to this schedule will result in the penalties described in Section (g).

Article 44, Section (f)

The Company has also agreed to add a minimum of 100 Road Driver jobs over the first three years of this Agreement. While we have identified contractual year deadlines and minimums for 2019, 2020, and 2021, we currently anticipate that we will add all of these jobs sooner, and that this will satisfy our

obligation under this Section. Put another way, it is understood that if we add this total number before the minimums are due in subsequent years, that will satisfy our obligation overall, and we will not be obligated to create a minimum number in each of the three years thereafter.

Article 44, Section (g)

In this Section, the Company has agreed that we have an added obligation to provide the Union with the percentage of contractor miles in order to monitor the Company's compliance with the obligations in Section (e) related to percentage reductions in contractor miles in each contract year. If the Company fails to meet the reductions in the percentage of contractor miles in any of the contract year reviews, even if it is a fractional percentage (e.g., .97 percent versus 1 percent), then the Company will be obligated to create twenty-five (25) Red Circled Road Driver positions in the following contract year.

Additionally, in order to further reassure the Union that the Company was fully committed to achieving the reductions in Section (e), and would not simply "take the penalty" and do little else to reduce the percentage of contracted miles, the Company agreed to add the next to last sentence in Section (g). Specifically, the Company would be obligated to create an additional twenty-five (25) Red Circled Road Driver positions for every full percentage point above the scheduled contract year reduction. For example, assume that after the first contract year ending July 31, 2019, the percentage of contracted miles is 22.9 percent. This would be an increase of 1.0 percentage point over the base percentage (21.9 percent), and 2.0 full percentage points over the agreed-to reduction (20.9 percent) for the first contract year. Consequently, the Company would be obligated to create total of seventy-five (75) Red Circled Road Drivers in the following contract year. This is broken down as follows: twenty-five (25) RCRDs for not meeting the agreed upon reduction (1.0 percent) in the first contract year, as well as fifty (50) additional RCRD positions for the additional two (2) full percentage points over the agreed-to reduction. Furthermore, the Company agrees and acknowledges that the Union can utilize the grievance procedure, including arbitration, if the Company fails to fulfill these contractual limitations and obligations.

The Company hopes and expects that these additional protections, benefits, incentives, and obligations will convince the Teamster leadership and your members that UPS Freight is committed to our agreement. UPS Freight fully expects that the changes that we made to the language in Article 44 will grow the bargaining unit. Hopefully the Union acknowledges and understands that these changes come at a significant cost to UPS Freight in terms of guaranteed jobs, hours, and other protections. The Company believes that these changes to the language will lead to reduced subcontracting.

I look forward to our next meeting, and working with you and your team on the new Agreement.

Sincerely,



Chuck Schmidbauer
Vice President - Labor Relations
UPS Freight