Statement of Scott Haas
Vice President of Transportation, UPS

Before the Committee on Transportation and Infrastructure
Subcommittee on Highways and Transit
"Freight Movement from Origin to Destination"

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U.S. House of Representatives
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Chairman DeFazio, Ranking Member Duncan and members of the subcommittee:

Thank you for your focus in this hearing on freight and for the opportunity for UPS to present its views.

UPS frequently has an opportunity to share its experience with our nation's leaders as they tackle critical issues of the day, but today's subject surely ranks well into the top tier in both importance and timeliness.

In my role as vice president of transportation at UPS, I live every day, and all too many nights, in close proximity to the transportation challenges and opportunities that face UPS, our customers, and the nation as a whole. At times this is particularly frustrating work, but day after day I also witness how obstacles can be overcome through planning, ingenuity and perseverance.

The U.S. and global economies depend on the movement of freight, and increasingly on movement that is time-definite and expedited. It is well-documented that the U.S. transportation infrastructure is not maintained and improved at the level needed to sustain current activity at optimal levels, let alone the growth in freight that is inevitable in the future.

During the past 50 years, the United States has had a national vision regarding surface transportation policy – the Interstate Highway System. That system has served the nation extremely well. A broader vision – one that includes all modes of transportation and an investment in technology – is now needed. It should focus on the movement of freight, and it must take a coordinated approach that crosses the traditional barriers between modes of transportation.

This vision requires the establishment of national priorities. It requires national and regional planning. Freight movements go well beyond state and local boundaries; any particular shipment may move through hundreds, if not thousands, of jurisdictions. An effective national freight policy requires a strong federal role, in conjunction with state and local planning, to ensure the development of an infrastructure that best serves national and global commerce.

UPS understands this and is reminded of it every single day. Each day, the UPS network handles six percent of U.S. Gross Domestic Product and two percent of the global Gross Domestic Product. UPS is the nation's third –largest private employer, and its workforce of 425,000 people delivers nearly 16 million packages and documents to almost 8 million customers around the world every day, with the vast majority of the deliveries being within, to or from the United States.

To accomplish this, UPS puts 94,000 vehicles – from package delivery vehicles to tractor-trailers – on U.S. roadways every day. As one of the largest customers of Class I railroads for the past 25 years, many UPS trailers are put on rail cars – approximately 3,000 rail cars every day – many of them moving to and from U.S. ports. In addition, UPS airplanes fly 1,130 daily segments in the U.S., which connect its national transportation network.

But to UPS, these are not separate numbers but part of one, seamless system – and that is how public policy should view it as well.

Let me give you a few real world examples of how all of this fits together.

UPS has customers in Los Angeles that export products to China – and yes, we handle a lot of exports to China. In some instances, for smaller urgent shipments of parts for example, a package delivery vehicle will leave a customer's facility and use local roads and highways – namely the 710 Freeway – to go to our regional distribution center in the Los Angeles suburbs. From there, the packages go to the Ontario, CA, regional airport for a flight to our Anchorage air gateway in Alaska, where they will be put on a plane for delivery in Shanghai the next day. Any major congestion on those roads or highways en route to the airport, and the packages may not arrive on-time to their destination.

The congestion on the 710 causes UPS and its customers delays which adversely impact the movement of critical goods. These delays ultimately have a negative impact on the nation's economy.

Unfortunately, surface transportation congestion isn't solely the domain of the U.S. highway system. America's Class I railroads are a key service partner in the UPS transportation network. Railroad congestion, bottlenecks, and lack of fluidity – much of which can be attributed to inadequate railroad investment – creates a ripple effect that impacts other modal movements within the UPS system. Additional rail infrastructure investment will relieve congestion in the network, benefit the environment, and alleviate commercial highway traffic.

Another example involves larger shipments, where a UPS tractor-trailer may pick-up a container at a customer's facility and take it over local roads and major highways to a railhead in Chicago, where it is put on a railcar for a cross-country trip to Portland, OR, where it is off-loaded, placed on another tractor-trailer and taken to the port of Portland for shipment to Shanghai. Any congestion on those roads, in the rail system, or at the port will again affect efficiency of delivery.

Congestion is very costly to UPS and its customers. While the company has not determined the exact cost of congestion, we do know that if each of our package delivery and over-the-road drivers is delayed five minutes each day, the cost to UPS is $100 million per year.

Multiply this problem nationally and the numbers are staggering, costing our economy $78 billion annually, as well as 4.2 billion hours of travel delay and 2.9 billion gallons of wasted fuel each year, according to the American Road and Transportation Builders Association.

Now there is a tax that would be a good target for cutting. It may be a hidden tax, but it is a tax nonetheless.

UPS firmly believes that the magnitude of this challenge is an opportunity for our nation to set an example for the world regarding the establishment and maintenance of an efficient transportation system – with the emphasis on the system as a whole and not just one or the other of its parts.

And while time does not permit me to go into detail regarding some of UPS's suggestions, a copy of an article by former UPS Chairman and CEO Mike Eskew is attached to my submitted testimony. The article outlines UPS's eight-point plan to address the infrastructure issues impacting the company, its customers, and the nation.

Thank you again for the opportunity today to share UPS's views on this important matter. I look forward to the opportunity to answer any questions you may have.

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Getting America Moving Again

Outgoing UPS Chairman Mike Eskew posits an action agenda to break through the infrastructure gridlock before it's too late.

The sheer volume of unsettling statistics about our country's overwhelmed transportation infrastructure might actually numb Americans to the magnitude of the problem—just flip through any issue of *World Trade Magazine*. For example, the U.S. Department of Transportation reports that congestion on our nation's highways, seaports, airports and railways costs the country $200 billion a year. But it's not until a vacation flight turns into an airport sleepover, or assembly lines grind to a halt waiting on critical parts, or a late medical device postpones needed surgery that abstract numbers really hit home.

While commuters can feel the personal assault of traffic jams and flight delays, many don't appreciate how congestion affects the movement of the nation's freight—and how an over-stressed infrastructure slows delivery times, creates unpredictability in supply chains and ultimately makes U.S. businesses less competitive and consumer goods more expensive.

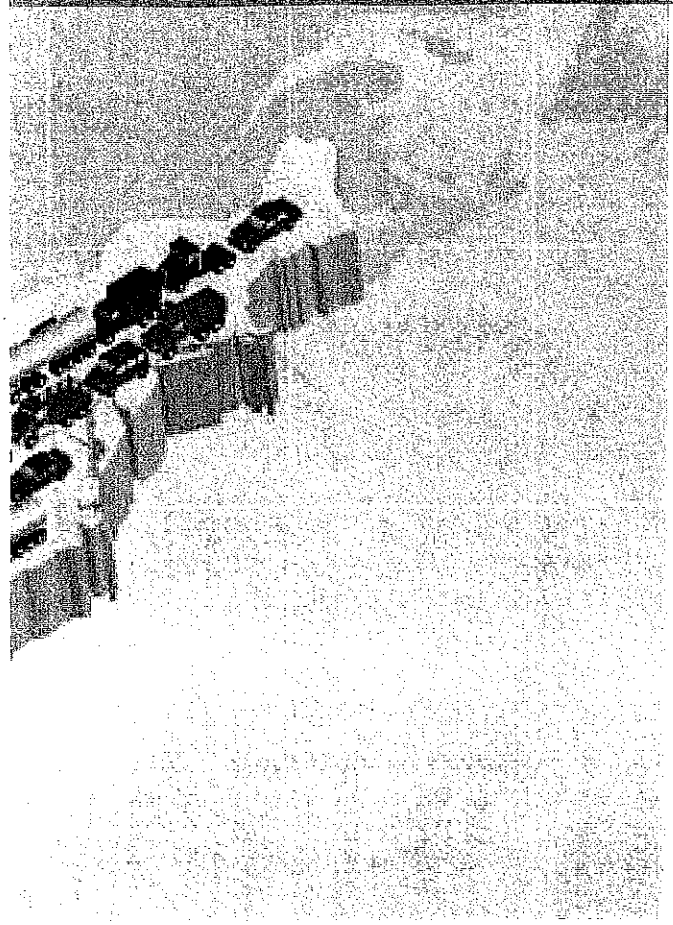
At UPS, we don't need statistics to tell us that our nation's infrastructure is in trouble. Every hour of every day, we depend on our national transportation infrastructure to deliver millions of packages and freight shipments—representing about 6 percent of the nation's GDP—to their destination. When we're not using our own 94,000 domestic vehicles or 603 airplanes to move goods, we rely on multi-modal transportation partners. For example, UPS is the nation's largest corporate customer of Class 1 Railroads, and we contract for significant space on ocean cargo carriers.

Bottlenecks and delays are a regular part of our day-to-day contingency planning. But this isn't just a concern for UPS, of course. By 2025, imports and exports will represent about 37 percent of our country's GDP, up from about 25 percent today.

Is our nation really prepared to accommodate the increased transportation demand? Only if we take action now.

Avoiding devastating gridlock will take a concerted, integrated effort by the public and private sectors. Later this year, the National Surface Transportation Policy & Revenue Study Commission is expected to make its comprehensive recommendations to Congress, and the Bush Administration has already unveiled its National Strategy to Reduce Congestion on America's Transportation Networks. Many of these proposals will take years—even decades—to implement. There are, however, things we can do in the shorter term to keep the transportation infrastructure from strangling commerce.

I'd like to propose an Agenda for Action for getting America moving.



Mike Eskew: A Tireless Proponent of Trade

On December 31, Mike Eskew will step down as chairman and CEO of UPS following a 35-year career with the company. As head of the world's largest parcel delivery company, Eskew was instrumental in charting UPS's strategic shift from a focus on small package to enabling global commerce.

He was a tireless proponent of free trade and the benefits of globalization and sought to improve the regulatory climate for companies doing business across borders. During his tenure, Eskew authorized the development of a number of UPS services to reduce the complexities of global trade and speed the flow of goods, information and funds.

In addition to his UPS responsibilities, Eskew served on the President's Export Council and was chairman of the Business Strengthening America's Steering Committee. Earlier, he led the U.S. China Business Council.

Eskew's career revolved around the expansion of global transportation capabilities while knocking down barriers to free trade.

1. Elevate the Issue.

In order to build a national urgency for action, leaders in the public and private sectors must sound the alarm about our transportation infrastructure. The general public has little notion of the challenges we face, save news reports on airport delays or traffic jams. Elected officials and candidates—including the '08 presidential candidates—must elevate the issue and debate solutions. Business and academic leaders should leverage high-profile forums to educate the public on the business impact of worsening congestion and the threat to our economy. The U.S. Chamber of Commerce—with its "Let's Rebuild America" campaign—is off to a good start.

Interestingly, some of the parties most affected by congestion—such as the big corporate shippers—seem to be relatively silent on the problem. A survey of 500 shippers by MIT's Center for Transportation and Logistics found that the majority of shippers never talk or meet with government agencies concerning transportation issues.

What's true for addicts is true for our transportation infrastructure: The first step is admitting we have a big problem. Our economic health depends on it.

2. Create a Comprehensive National Transportation Strategy.

One of the primary weaknesses with the approach to our transportation infrastructure thus far has been its piecemeal nature. We traditionally address bottlenecks on the highways, at the ports, across the railways and in the air as separate problems.

Unless we manage our transportation infrastructure as a national, integrated system, we won't really eliminate capacity constraints. We'll just move them to another part of the network. After all, some of the biggest bottlenecks occur where different transport modes—like highways and ports—connect.

We need a strategy that recognizes how these different modal networks connect—one that directs investments precisely where they are needed to balance the demands on the infrastructure. Yes, we need to spend more to add capacity. But we also need to spend that money wisely, in the right places, according to a careful blueprint.

In Atlanta, a fifth runway was recently added to the world's busiest airport. Before it's time to add a sixth runway, we need to consider alternatives to keeping aircraft out of the skies and further choking an already clogged system. For example, a light rail system could connect nearby cities and eliminate the need for short commuter-type flights.

What's more, we have lost a national perspective. Congressional appropriations are directed to states to fund locally popular projects rather than nationally significant priorities. To clear up bottlenecks in the national system, we need to cross-subsidize projects across regions.

We must settle soon on a national strategy that incorporates the best ideas from the federal government, the Surface Transportation Policy Commission and the private sector.

3. Support Some User-Based Taxes & Fees—But Dedicate Them to Infrastructure Investment.

Most experts agree that we need to invest more in infrastructure capacity. But they disagree on how we should

fund that capacity. UPS believes that a fair way to pay for capacity expansion is to charge users of the infrastructure—with the caveat that all proceeds are solely dedicated to new projects that add net new capacity.

While not a perfect measure of highway usage, the gas tax hasn't been raised since 1993 and has been eroded by inflation. Like many other business leaders, UPS supports raising—or at least indexing to inflation—the federal gas tax, as long as all related monies from the Highway Trust Fund are dedicated to highway improvements and not used as a general-fund checking account.

To fund modernization of our aviation system, users should pay their fair share of the costs of the system. One reasonable proposal before Congress combines a $25 modernization surcharge on all flights in controlled airspace with an elimination of the fuel tax for commercial aviation and an increase in the general aviation jet-fuel tax.

Our **transportation infrastructure** challenges should be addressed in **a holistic approach.**

4. Make More Efficient Use of Existing Capacity.

It will take years to add significant capacity to our transportation infrastructure, so the best thing business users of that infrastructure can do is to manage our supply chains better. Effective management of the flow of goods is the key to more efficient use of the infrastructure, particularly the way we manage and stage inventory. Companies need to focus on ways to disaggregate inventory and move products only once, avoiding the into-warehouse, out-of-warehouse, multiple hand-off approach.

5.Leverage Technology.

Information technology also can help us use existing infrastructure more efficiently. On our nation's highways, federal and state authorities should accelerate the adoption of real-time traffic monitoring systems. "Loop detectors" buried under streets and freeways can collect data on traffic density and display estimated travel times between points. New techniques designed to merge historical data with real-time traffic-flow information can alert drivers of impending congestion and suggest alternate routes. The alerts can be sent to their cell phones, car radios or dashboard display screens.

Wireless and digital-signal systems on railways are replacing analog systems and helping make the most of existing capacity. Wider adoption of real-time telematics systems and Positive Train Control should enable railroads to track shipments, monitor cargo conditions and even reroute freight around railway bottlenecks.

Technology also can help us make better use of crowded airspace. Absolutely critical to this effort is the transition of air-traffic control from a ground-based system of radars to a satellite-based system as part of the FAA's multi-year modernization plan known as the Next Generation Air Transportation System (NextGen). The backbone of NextGen is a satellite-based in-flight technology called ADS-B (Automatic Dependent Surveillance-Broadcast), which lets aircraft continually broadcast position and speed. UPS has already outfitted more than 100 of its airplanes with ADS-B, and we're already seeing tangible benefits in terms of route and fuel efficiency, noise and emissions reduction.

6. Enhance the Virtual Infrastructure as well as the Physical Infrastructure

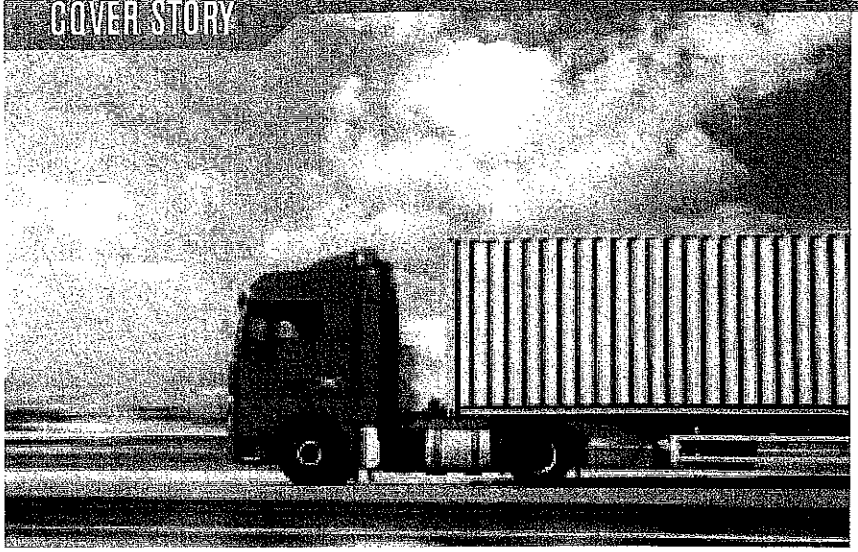
Information is the key to moving from just-in-case to just-in-time. When you wrap goods with information, you have the recipe not only for leaner supply chains, but also for balancing the flow of trade with the need for security. Goods moving swiftly cannot afford to be stopped in their tracks because of inefficient customs processes.

Our nation's borders are natural chokepoints. Post-9/11 security measures and a huge surge in imports have left U. S. Customs with more shipments to process. Here, too, there are steps the public and private sectors can take to speed clearances without threatening national security.

Harmonizing tariffs across North America would be one step to simplify customs paperwork and compliance, as would raising the minimum value at which imported goods must receive clearance.

More companies that ship globally should take the security steps necessary to qualify as trusted shippers by U. S. Customs. Public-private programs like C-TPAT (Customs-Trade Partnership Against Terrorism) create "fast lanes" through Customs and yield tangible speed and security benefits. A recent survey of C-TPAT participants found that 35 percent have reduced their rate of Customs inspections by at least half. Some 24 percent said they had improved supply-chain visibility, and 29 percent reported fewer supply-chain disruptions.

Information technology can strengthen security, as well. At our main air U.S. air hub in Louisville, UPS—working cooperatively with Customs officials—developed a proprietary online targeting tool. Customs



officials can leverage UPS's targeting system to query electronic shipping manifests and entry information using any search filter they choose. This automation allows Customs to target suspicious or high-risk air shipments while expediting processing of low-risk shipments.

7. Encourage More Public-Private Partnerships.

The incredible price tag of updating and expanding our infrastructure—the American Society of Civil Engineers estimates it will cost a staggering $1.6 trillion to improve our nation's roads, bridges, dams, water systems and airports—means that public and private sectors must work together.

The Alameda Corridor—a public-private initiative that created high-speed, dedicated intermodal connections between California's biggest port and railroads—is one successful example. Another example: Burlington Northern Santa Fe Railroad, in conjunction with private developers, has built intermodal logistics parks in places like Fort Worth. The concept of placing distribution facilities and truck terminals near rail hubs to alleviate intermodal choke points is one that deserves wider consideration.

We need more collaborative thinking between the public and private sectors.

8. Increase Modal Capacity.

There's no getting around the fact that a lot more capacity is needed across the modal networks. It's important to note that priority should be given to investment opportunities that increase our capacity to move freight. The movement of goods, after all, is the engine of our nation's commerce.

The U.S. depends on trucks to transport 90 percent of the products made or shipped in the U. S. But trucks are increasingly stuck in traffic, going nowhere fast. To keep freight moving, we need to consider adding truck-freight-only lanes.

The nation's railroads—all privately owned—had been reducing capacity in the years after deregulation in the 1980s, but a recent upsurge in business has led to shortages in capacity, equipment and crews. One estimate says that railroads must invest $175 to $195 billion in the next 20 years to keep up.

To help railroads shoulder the burden, a user-fee-based Railroad Trust Fund would be a good step. Federal and state agencies should also make available tax credits and low-cost loans for railroads to invest in infrastructure. The railroads have made investments in technology; however, it is not enough. Much more is needed. Other strategic initiatives could include expanding creating regional fast rail lines, intermodal connections, adding back the rail sidings that were eliminated after deregulation and creating high-speed corridors that bypass commuter traffic. Double-stack trains and double and triple tracking at key bottlenecks of the freight-rail system, particularly in the western U.S., are long overdue.

> We must **settle on a long-term national transportation strategy** and be **creative in the short term** about how we make the most efficient use of existing capacity

The FAA Reauthorization Bill before Congress includes billions in funding for the NextGen air-traffic-control system. We urge Congress to appropriate the estimated $15 to $22 billion needed over the next 18 years to build a system that must handle three times the current traffic. We certainly need it. Air cargo traffic in the United States alone is expected to increase 5.1 percent each year in the next decade.

At our nation's ports, experts predict that growth in global trade will create capacity problems at three-quarters of major U. S. ports by 2010. We need not only more capacity but also more efficiency at our ports. Asian ports, for example, handle 18,500 containers annually per acre of facility. American ports average just 3,900 containers.

Several port initiatives have either been proposed or are being implemented, including reducing container free time and relaxing labor-union work-rules. Tax incentives for building intermodal connections (with railroads and trucks) could help relieve chokepoints at the ports, as could expanding capacity at alternate ports on the Gulf and the lower East Coast.

Is gridlock inevitable? Not if we recognize the threat our aging infrastructure poses to America's success in the global economy. We must settle on a long-term national transportation strategy and be creative in the short term about how we make the most efficient use of existing capacity. It's time to get America moving again. WT

Michael Eskew is outgoing chairman and CEO of UPS, the world's largest package delivery company and a global leader in supply chain services.

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