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**BEFORE THE
SURFACE TRANSPORTATION BOARD**

EX PARTE NO. 582

**PUBLIC VIEWS ON MAJOR
RAIL CONSOLIDATIONS**

**STATEMENT ON BEHALF OF
UNITED PARCEL SERVICE, INC.**



I. INTRODUCTION

UNITED PARCEL SERVICE, INC. ("UPS") welcomes the opportunity to participate in this important public hearing on major rail consolidations. UPS commends the Board for convening this nationwide forum.

UPS has a vital interest in the present operations, and future direction, of the North American rail industry. UPS is the largest corporate customer of intermodal rail services in the United States. Since the 1960s, railroads have moved UPS packages over long distances (more than 500 miles) as an alternative to highway movement by truck. In 1999, we spent approximately \$680 million on intermodal rail services and, over the years, have invested heavily in UPS property and equipment to facilitate the movement of our packages by rail. UPS actively develops logistics and global supply chain management solutions for its customers. The role of railroads, and their expanded investment in infrastructure, technology and other service improvements, is critically important.

Due to the extent of our use of rail transportation, UPS experienced the considerable difficulties, and shouldered the enormous costs, caused by prior major rail consolidations. We also have learned a few lessons.

II ANY BENEFITS ARE COSTLY, DISRUPTIVE AND DELAYED

Rail carriers historically justify mergers on two bases: (i) lower rates; and (ii) better service. Our experience has been: (i) no lower rates result; and (ii) rail service is seriously problematic for an extended two to three year post-merger period. Incompatible rail systems, equipment shortages and confused personnel all contributed to the congestion. Unfortunately, the congestion did not remain isolated among the individual merging railroads, but spread across the entire rail network. UPS has found that -- only after this prolonged post-merger period -- service does return to, or slightly exceeds, pre-merger service levels. For what is ultimately achieved, the cost to UPS of rail consolidations is extremely high.

UPS's system relies on hundreds of trucks and trains arriving at a sorting center as scheduled. Disruptions and delays in train arrivals caused by rail consolidations required UPS to take every possible measure to ensure its service commitments to its shippers. Due to rail mergers over the past four years, UPS has diverted trailers from the rails to the roads to address rail network inefficiencies, poor performance, and the unavailability and/or improper positioning of equipment. UPS, for example, was forced at times to divert up to 50% of the traffic, previously handled on the rails by Conrail, to trucks due to the delays and disruptions caused by the integration of Conrail into the Norfolk Southern/CSX operations. During that period, after exhausting all possibilities of having eligible union employees drive these unanticipated truck loads, over 700 union employees were turned into tractor trailer drivers. Additionally, UPS was

forced into short term use of subcontractors on an emergency basis. Such disruptions caused a strain in labor relations. Absent such subcontracting, UPS would not have met its service commitments during the merger consolidation period.

Late trains also caused UPS to extend the duration of sorting operations, to add Saturday sorts, and to pay substantial overtime and other expenses, including refunds to shippers.

UPS has tried to reschedule on a daily basis placement of trailers on trains to ensure as much as possible early departures and the avoidance of congestion. For all these reasons, the cost to UPS of providing service during previous rail mergers soars dramatically. As just one example, the unanticipated cost to UPS during the Conrail carve-up exceeded \$20 million during the June - December 1999 time frame.

Due to UPS's relationship with the railroads, they made significant efforts to accommodate UPS's service needs. In fact, UPS would like to acknowledge the efforts BNSF has taken to improve its service levels. However, in post-merger situations, UPS still lost customers due to the substantial rail service disruptions caused by the mergers.

III. LESSONS LEARNED FROM THE PAST

1. The nationwide rail system undergoes severe and costly disruptions when major rail consolidations occur. Unanticipated problems have included time consuming integration of systems, networks, facilities and trackage.

2. Significant costs are imposed on shippers like UPS to address these disruptions so that service commitments are maintained and our relationships with our customers are not irrevocably jeopardized.

3. Substantial capital investments necessary for the restoration and improvement of

fast, reliable services -- such as double tracking -- are deferred.

4. Rail carriers need a minimum two-to-three year period to digest a merger before service returns to the pre-merger level.

IV. GUIDANCE FOR THE FUTURE

1. Consistent with the Board's notice, UPS takes no position on the proposed BNSF/CN merger.

2. UPS's fundamental concern is that if the proposed BNSF/CN merger is consummated, it will trigger mega-rail mergers of an unprecedented size and scope. These mergers will distract senior railroad management from the more immediate task of restoring and improving service, running the network more efficiently, reducing transit times and improving equipment utilization.

3. Disruptions across the entire rail system from any such mega-mergers will be innumerable worse than anything yet experienced. Digestion will take substantially longer, and at a much greater cost, than previous mergers.

4. Mega-rail mergers will seriously erode the ability of railroads to undertake the large capital investments necessary to upgrade rail facilities and services and to maintain and improve time-in-transit and reliability. Significant investment is also required to improve rail carrier technology, including shipper access to real-time information and visibility of movements across the entire rail network.

5. Additionally, if the mega-mergers are pursued, UPS has profound concerns with the appropriateness of just two rail carriers controlling, in effect, the entire nationwide rail supply chain from the manufacturing source to the consumer. Potential outcomes include a

dramatic decrease in competition, leaving shippers with “single source” restrictions and little or no options as to rates and services. Alternatives other than those currently in place may be needed to ensure that real, hard competition is not a casualty of any such mergers.

V. RECOMMENDATION

The integrated nationwide rail system is still digesting the June 1999 Norfolk Southern/CSX carve up of Conrail. Clearly, any additional consolidation of the industry appears premature and problematic. Based on past experience, and without commenting on the merits of any such merger, no further rail consolidation should be contemplated until June 2002 at the earliest.