

Statement of Thomas F. Jensen, Vice President, UPS

Before the
Surface Transportation Board

Ex Parte No. 658

The 25th Anniversary of the Staggers Rail Act of 1980: A Review and Look Ahead

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Thank you, Chairman Nober and members of the Board for affording UPS the opportunity to share our views on today's important subject.

UPS has a vital interest in the efficient operation, and future direction, of the North American railroad industry. UPS is among the largest corporate customers of the Class I Railroads in the United States today. Since the 1960's, UPS and our customers have depended on rail services as a vital part of our worldwide intermodal transportation network. Each day, UPS delivers more than 14.1 million packages to 7.9 million customers nationwide. It is estimated that UPS delivers more than 6% of U.S. Gross Domestic Product each and every day.

In addition, in recent years UPS has actively developed logistics and global supply chain management solutions for customers around the globe. As UPS service offerings reflect customer demand for international transportation solutions, a healthy and vibrant U.S. railroad industry has become a critical partner in meeting the needs of our customers not just in the United States, but throughout the world.

Since the passage of the Staggers Act, we have seen substantial changes in the railroad industry. In the early years following deregulation, the railroads adapted to a changing environment and UPS and its' customers realized service and performance enhancements.

However, recent trends have diminished performance, disrupted service, and constrained intermodal operations. Moreover, as a result of recent rail mergers we have seen little new rail capacity. Regrettably, the railroads have resisted making adequate capital investments, technological enhancements and innovative solutions in responding to new market conditions.

As a major rail partner, UPS does not believe that future railroad mergers are in the public interest, and that they should not occur until service reliability and performance improve significantly. For what is ultimately achieved, the cost to UPS of rail consolidations is extremely high. A case in point is the division of Conrail in 1998. To date, the Conrail successor railroads have not reached pre-merger service levels. Since virtually all UPS packages tendered to our rail partners are time sensitive in nature, rail transit times and network reliability are imperative if we are going to meet the service commitment to our customers. A future mega-merger, and the current mind-set of an "urge to merge," could effectively leave shippers with just two rail carriers controlling the entire nationwide rail supply chain from the manufacturing source to the consumer. Given these dynamics, and the fact that 4 major railroads carry 95% of all U.S. rail freight, UPS opposes any additional Class I rail mergers.

Time in transit remains a significant issue for railroad customers like UPS. Since the passage of the Staggers Act, the efficiency and speed of our nation's transportation system has increased. The lone exception, however, is railroad velocity. I'd ask you to consider what other mode of transportation in the United States moves slower than it did 30 years ago? UPS has broad experience in aviation, trucking and maritime transportation, and we have seen an increase in speed and a corresponding decrease in transit times across each of these modes. Given today's emphasis on streamlined supply chains and speed to market, the railroad time in transit picture puts at risk our worldwide economic competitiveness.

UPS recognizes the capital intensive nature of the rail industry and has witnessed the equity markets' punishment of railroads that aggressively invest in their infrastructure. The railroad cost of capital dynamics are indeed challenging. While perhaps outside the purview of the Surface Transportation Board, public policy initiatives addressing infrastructure improvements, adding capacity, improving rail service, and enhancing technology should be promoted.

Looking forward, one concept that should be explored is the notion of establishing a public-private partnership to fund railroad infrastructure improvement projects. I would ask the Board to consider the following: the nation's highway system has a Highway Trust Fund to support and maintain a safe and efficient federal highway system; the nation's airports have an Aviation Trust Fund to support, maintain and enhance airport infrastructure and provide necessary capacity. If the existence of these two transportation trust funds are deemed to be in the public interest, why not a Railroad Trust Fund?

A Railroad Trust Fund would represent a public-private investment to address the serious challenges facing the industry. Wouldn't improving railroad capacity, safety, infrastructure and technology be in the public interest? Yet while we believe a trust fund would start to address many of these issues, the railroad industry has consistently resisted this concept, while service levels diminish and rates continue to rise.

Another area of future railroad focus should be a commitment to technological innovation to address railroad service shortcomings. The railroads have foregone developing Positive Train Control technology and have not invested in innovative concepts to provide better service. Public policy programs stimulating development of this technology could produce tremendous benefits to the rail network. In recent years, UPS has invested billions of dollars on technology,

much of which is directly related to imbedding information in each individual package. While we can provide our customers a wealth of information regarding the status and time in transit of a \$6.00 single package or an ocean bound container, the railroads lack the capacity to tell their customers information about trainloads of freight. Why should we accept not knowing many of the most basic details about rail movements on major rail arteries?

A valuable partner in surface transportation, the U.S. railroad industry faces many challenges. Restoring and improving service, running the railroad network more efficiently, reducing transit times, improving equipment utilization, investing in technology and addressing the cost of capital issue are all important to UPS. As we move toward the next 25 years of a deregulated rail industry, the STB and Congress need to consider unique and creative ways to address these shipper concerns, and to maintain and improve our nation's economic competitiveness for this key transportation mode.