United States House of Representatives
Committee on Transportation and Infrastructure

The Panel on 21st Century Freight Transportation

"How Logistics Facilitate an Efficient Freight Transportation System"

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"From Patchwork to Network: Moving Freight Transportation into the 21st Century"

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Chairman Duncan, Ranking Member Nadler, and members of the Panel, thank you for the opportunity to testify about how UPS employs logistics to move freight and the opportunities we see to improve America's productivity.

Chairman Shuster and Ranking Member Rahall should be commended for creating this special working group, and I want to applaud this Panel for its very thorough approach. You have previously heard testimony from representatives of different transportation modes, including air, truck, rail and maritime. At UPS, we have expertise in each of these modes, but today I want to offer a more holistic view of how these different modes work together to move freight efficiently.

I will offer an insider's look at how our system operates by tracing a package as it moves from California to New York and on to Germany. Its journey will include states represented by six members of this panel.

As we track this package, three things will become clear:

1. First, the secret to moving freight efficiently and economically is the ability to shift between different modes. When you – as a customer – order a product, you don't care how it gets to you, as long as it arrives on time, in working order, and at the right price. But for us as a logistics company, the ability to move that package across different modes along the way – from air to truck, truck to rail, or air to ocean – is essential to delivering that package in the most efficient, economical, and environmentally friendly manner possible. In the example I'll share today, you will see three different mode shifts.

2. Second, logistics can give us the most efficient path between two points, but logistics cannot improve the underlying transportation infrastructure. Upgrading our highways, airways, railways and ports is something that only Congress and the Administration can do. Until our infrastructure is modernized, logistics gains will stall.

3. Third, our country's freight transportation system was built in silos and stitched together as a patchwork. If we want America to reach the next level of efficiency and productivity, we must shift our approach and transform our infrastructure from a patchwork to a network.

About UPS

At UPS, we have an intimate understanding of how freight moves. Since our founding 106 years ago, we have grown into the world's largest package delivery company and a leading global provider of specialized transportation and logistics services.

Each day, we deliver 16.3 million packages to 8.8 million customers. We serve every address in North America, and we operate in more than 220 countries and territories.

Our system includes:

- 400,000 UPS employees,
- a delivery fleet of more than 96,000 commercial vehicles,
- one of the largest airlines in the world with more than 560 aircraft,
- and an extensive network of ocean intermodal connections.

We are also one of the largest customers of America's freight railroads.

We appreciate the critical role that freight movement plays in America's economy. It is estimated that at any given time, the economic value of the goods and services moving in the UPS supply chain equates to 6% of our country's gross domestic product, and 2% of global GDP.

We Love Logistics

You may have seen our TV commercials, which say, "We Love Logistics." For us, logistics is the seamless synchronization of transportation modes, technology and data. It's invisible to the customer, but it's critical to the timely and efficient movement of commerce.

Our entire culture is built around rigorous measurement, continuous improvement, and customer service. Every day, our engineers and experts work to shave just a few

seconds off an activity. If there's a greener or more time efficient way to do something, we will find it.

Package Flow Example

To see our logistics in action, let's follow a typical package on its journey through the UPS system.

There is a manufacturer in New York. He orders parts from his supplier in Los Angeles. Those parts will move as a ground package, which is the most economical way to ship a package at UPS. Once the part arrives in New York, the manufacturer will assemble his product and export it to a customer in Germany.

1.Origin to Bay Center

In central Los Angeles, one of our local drivers, in a brown UPS package car, would pick up the package and drive it to our nearest local pick up and delivery facility. In this case, it would be our Bay Center facility located outside Los Angeles.

At the center, the package would be scanned, sorted and loaded onto a trailer with other packages that are destined for the nearest UPS HUB.

2. Olympic HUB

This package is headed to our HUB in downtown Los Angeles, which we call the Olympic HUB.

3. Tandem Trailer (Olympic HUB to CACH HUB)

Next, the trailer would be driven on the highway in a double-trailer configuration from the Olympic HUB in Los Angeles to Chicago, where it would arrive at our Chicago Area Consolidation HUB – known as CACH.

4. CACH HUB

At CACH, the trailers would be unloaded and sorted. The package would be loaded into a rail trailer and brought to a nearby rail yard.

5. Chicago Rail Yard

The trailer is loaded onto a railcar. That's our first mode shift – from road to rail.

6. Rail from Chicago to NJ

Then, it would travel by rail from Chicago to Little Ferry, New Jersey.

7. Little Ferry Rail Yard

The train would arrive in New Jersey at a rail yard. The trailer is removed from the train, put on a chassis, and driven to our Island City HUB in Queens, NY.

That's our second mode shift -- from rail to road.

8. Island City HUB to Foster Avenue Facility (Brooklyn)

From the HUB, it's sorted, broken down, and travels over the road to our destination facility in Brooklyn on Foster Avenue.

9. Foster Avenue to Destination

At our Foster Avenue facility, the parcel is put on a brown package car and delivered to its recipient in Brooklyn. This domestic trip would take 4 business days. As I mentioned, that's our most economical option.

You can see that we use a hub and spoke system. We start with small local facilities. We consolidate packages at larger facilities and move them across the country. Then, we move them through smaller facilities until the destination.

Once the manufacturer in Brooklyn receives the part, he assembles his product and calls UPS to export it to a customer in Cologne, Germany by Next Day Air Express.

10. Philadelphia Airport to Cologne, Germany

UPS would truck the package from New York to the Philadelphia Airport, where it would travel by air to Cologne, Germany in our final mode shift.

Data Drives Unseen Efficiencies

As a package moves, we use data and analysis to become more efficient and create more value for our customers. For example, we scan the shipping label at every step, so our customers can know where their package is. We can even re-route a package while it's underway if a customer decides he'd like it to be sent to his home rather than his office. Much of our analysis is invisible to our customers. To make our package cars as safe and efficient as possible, we track 200 different factors from time spent idling to speed and seat belt use. Every night, we analyze that data to improve our performance and minimize our carbon footprint. We also keep very detailed records of our shipping volumes so we can accurately plan for peak seasons like Christmas.

Freight Obstacles

Despite our best planning and technology, many things can go wrong as that package moves from California to New York and onto Germany. At each leg, there could be

delays due to traffic congestion. The package could also be delayed by bottlenecks in the freight rail system, and let's not forget the unpredictable nature of weather.

When a package is sent via Next Day Air, it would travel by aircraft part of the way and would be vulnerable to air traffic control delays.

The Cost of Congestion

Every obstacle that slows freight has real economic costs to the sender, receiver, shipper, and our economy. We are all familiar with the 2012 report from the Texas Transportation Institute, which found that congestion cost the U.S. economy $121 billion in 2011.

At UPS, we feel that impact every day. If every UPS delivery vehicle is delayed just 5 minutes each day, it would cost UPS an additional $105 million annually.
We regularly have to dispatch redundant trucks on the road, so we can meet our customer commitments despite traffic congestion. Putting additional trucks on the road hurts our efficiency, increases congestion, drives up costs, and hurts air quality.

Causes of Inefficiency

There are many reasons for today's inefficiencies. They include:

- the lack of long-term planning to link intermodal connections,
- an antiquated air traffic control system,
- a lack of commitment to adequately finance the Highway Trust Fund,
- crumbling surface transportation infrastructure,
- too few trade agreements,
- and customs delays for commercial good entries.

As a result, the U.S. capacity to move goods suffers and, in turn, so does U.S. competitiveness.

Solutions

So what will it take to move freight transportation into the 21st century?

Let me suggest a few policies that would make the system more efficient and America more competitive.

First, we must link different transportation modes together, moving from an approach that is silo-ed to one that is seamless. America's transportation system has been built mode-by-mode in silos. It's a patchwork. What we need is a network.

This Panel can help the Committee on Transportation and Infrastructure, and Congress at large, recognize the importance of a truly multi-modal approach to freight transportation.

Some have called for a diminished federal role on transportation and abdicating this traditional federal responsibility to state governments. In UPS's opinion, this would be a grave mistake. We need greater centralized coordination in transportation policy, not a scaled-back federal role. The current transportation law (MAP-21) included a "focus on freight," and we would like to see a greater commitment to this concept in the next Surface Transportation Bill.

We would also encourage a greater commitment for transportation spending on projects of national and regional significance.

There are also ways to improve individual modes.

To improve highway transportation, we endorse increasing the motor fuels tax and indexing it to inflation. We also support using tax revenues exclusively for highway spending programs to bolster the Highway Trust Fund. Further, Congress should explore alternative funding mechanisms, such as:

- mileage-based user fee programs
- and tolling authority for new highway capacity, where the new lanes are optional to users.

To modernize air transport, we endorse increasing funding for the Federal Aviation Administration's NextGen air traffic control system. NextGen will increase air cargo service performance, provide environmental benefits by limiting ground and air holds, enhance direct routing, and add precision to flight paths.

To improve rail "time in transit" and reliability, we must increase fluidity, efficiency and safety in the freight rail network. That will allow us to continue to move freight off the highways and onto the railroads.

International Opportunities

So far, I have focused on freight movement within the U.S., but there are significant opportunities to improve international freight. Ninety-five percent of the world's consumers are outside America's borders. The more we can do to sell to them, the stronger our economy will be. That represents a huge opportunity for America's small and medium sized businesses.

At UPS, we have found that after the U.S. signs a free trade agreement, our U.S. export volume to those countries increase by more than 20 percent. That means more jobs and more growth here at home.

That's why UPS supports:

- the Trans-Pacific Partnership (T.P.P.) negotiations,
- the recently launched Trade and International Services Agreement (T.I.S.A.) negotiation,
- and the expected launch of the Transatlantic Trade and Investment Partnership (TTIP) negotiations.

In addition, Congress should address the barriers that freight faces "at and behind the border," including inefficient and uncoordinated customs clearance, security procedures, and facilitation programs.

Reducing supply chain barriers to trade could increase global GDP by nearly 5% and trade by nearly 15%, according to a recent World Economic Forum study.

According to the Organization for Economic Co-operation and Development, improving trade facilitation could reduce total trade costs for countries by 13.2 to 15.5 percent.

Cutting red tape at the border through trade facilitation reforms could boost the world economy by as much as $1 trillion and generate more than 21 million jobs, according to the Peterson Institute for International Economics.

These gains will be enjoyed by small businesses, who are the real job creators in America's economy.

A Quick Improvement

Many of the solutions I have suggested will take significant resources and many years to implement, but there is one relatively quick and simple step Congress could take:

- Increase the length – but not the overall weight – of each trailer from 28 1/2 to 33 feet in twin trailer configurations.

This would allow freight to move more efficiently, would reduce highway congestion and the number of trucks on the road, and would provide environmental benefits without compromising highway safety. Because we would not increase the weight limit, there is no risk of further damage to highways and bridges.

Conclusion

In closing, 39 years ago as a college student, I joined UPS as a part-time package loader. Back then, I could not have imagined the incredible growth of global commerce or the role my company would play in facilitating America's economy. But I also could not have imagined that nearly four decades later, America's transportation infrastructure would still be stuck in the 20th century.

The challenges are big, but so are the opportunities. This Panel can help modernize our infrastructure, build connections between different modes, and address global barriers to freight movement. It can move our freight transportation system into the 21st century, boosting America's efficiency, growth and competiveness. It is a critical mission, and all of us at UPS stand ready to assist you in this vital effort.

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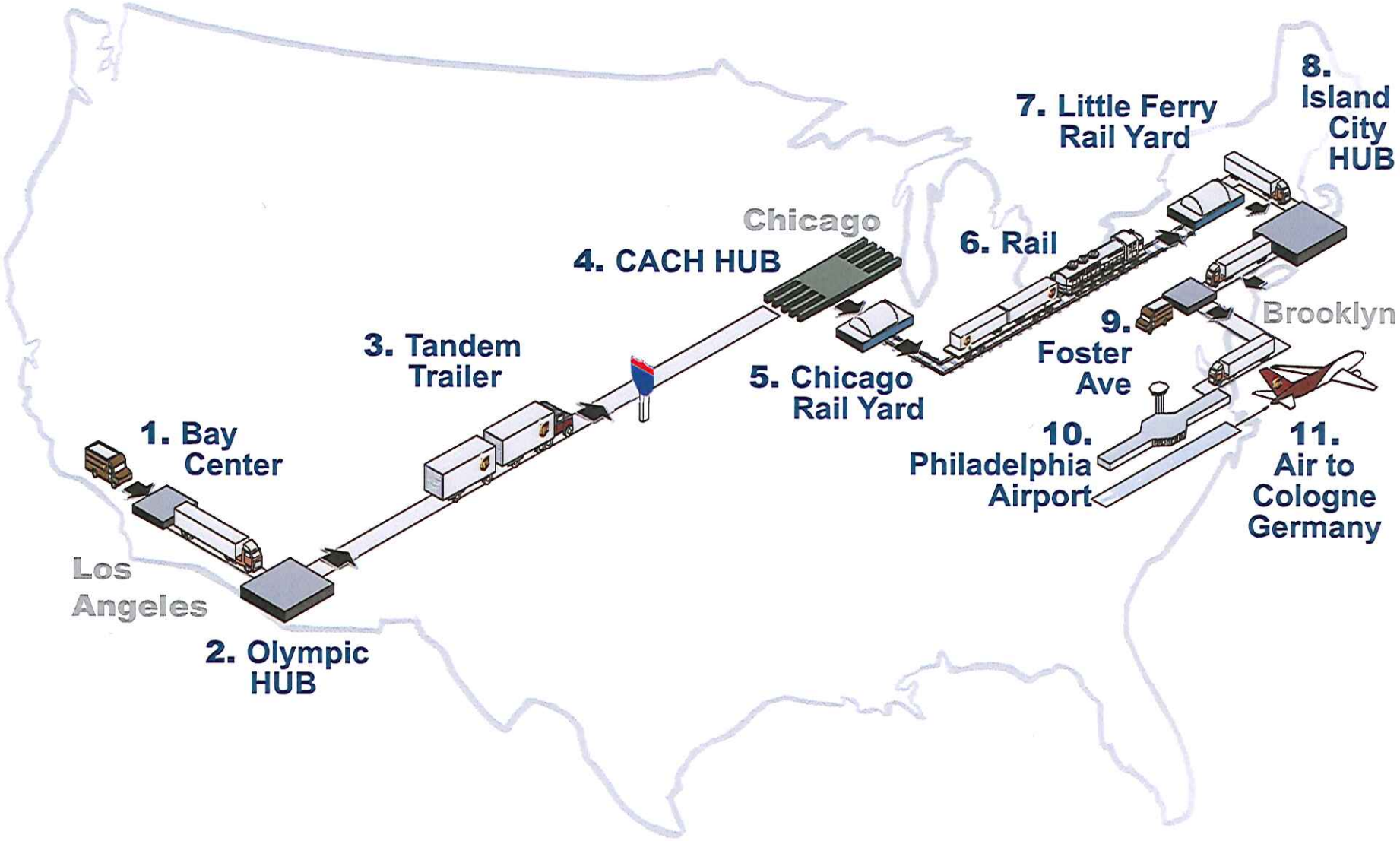
UPS Package Flow Example