

**Testimony of
Thomas F. Jensen, Vice President, UPS
Before the
Surface Transportation Board
STB Ex Parte No. 671
Rail Capacity and Infrastructure Requirements
April 11, 2007**

Thank you, Chairman Nottingham and members of the Board for allowing UPS the opportunity to share our views on the current state of the railroads and the capacity and infrastructure challenges facing multimodal service providers.

UPS has a vital and vested interest in a vibrant, efficient, and competitive rail industry. UPS remains one of the largest corporate customers of the Class I Railroads today, utilizing extensive rail intermodal services to transport small and large shipments throughout the U.S.

UPS operates one of the world's largest, most sophisticated, intermodal transportation service networks. On a daily basis, UPS delivers more than 15.6 million packages and documents to 7.9 million customers in more than 200 countries and territories around the globe.

It has been estimated that UPS delivers more than 6% of U.S.'s Gross Domestic Product (GDP) and 2% of the world's GDP every day. Founded in Seattle, Washington in 1907, this year UPS is proud to celebrate its 100th year of service excellence.

In order to move the sheer volume of commerce within the UPS system, we have increasingly relied upon a highly integrated, multimodal worldwide operations network, which, most relevant to today's hearing, includes significant rail intermodal movements. On average, we tender more than 3,100 trailers or containers to the railroads daily, which represents almost 3.4 million packages moved via rail, as well as various other containerized commodities through our logistics solutions group. More importantly, these rail operations allow UPS to avoid moving these trailers via the nation's congested highway system, avoiding additional traffic, air pollution, fuel consumption, and highway wear and tear. The combined 2006 railroad spend for UPS small package and Supply Chain logistics exceeded \$1.5 billion.

From our perspective, the lack of new rail capacity investment and network efficiency initiatives pose a significant threat to our ability to service our customers and to our nation's international competitiveness.

In the quarter century since the passage of the Staggers Act, a "perfect storm" has created a rail renaissance for the country's Class I Railroads. Throughout the past twenty-five years, the railroads have been successful in shrinking the rail network from 380,000 miles to 172,000 miles. Class I Railroads have cut back on rolling stock and reduced skilled employees. They have consolidated ownership and reduced service options on most key rail corridors. UPS is opposed to any future Class I Railroad mergers until we can realize the service levels we enjoyed before the "urge to merge" of the 90s. The promise we all heard from the railroads of improved service, more competitive rates and greater investment has not occurred – the opposite has.

In recent years, we have seen some improvements and several railroads have made a concerted effort to increase infrastructure capital expenditures, but it has been slow and woefully inadequate. The notion of an investment tax credit, while theoretically a sound principle, will not solely alleviate the rail capacity crisis. Additional public funding mechanisms for freight rail infrastructure, including taxing rail fuel use, need to be considered, as the scope of the problem is simply too great.

As the Board is well aware, the railroads have proposed a 25% Investment Tax Credit to promote investment in rail infrastructure and to expand capacity. Offering federal tax incentives so the railroads can purchase locomotives does little to improve consistency and reliability of rail service. Any Investment Tax Credit should be focused on improving fluidity of the franchise. The industry should support alternative capacity initiatives, including public-private partnerships, to meet these challenges.

One concept that needs to be considered, along the lines of a public-private solution to the capacity crunch, is the establishment of a Railroad Trust Fund. A Rail Trust Fund, financed

by the very users of the system, could be used to increase capacity, maintain infrastructure, and enhance rail improvement projects. Modal trust funds currently exist to support, maintain and enhance infrastructure on America's highways, airports, and even inland waterways. If the existence of these funds is deemed to be in the public interest, why not a Railroad Trust Fund? The railroads refusal to consider this option is disappointing.

During the past 15 years, rail velocity has not been up to par with other improvements in transportation. All other transportation modes have seen significant time-in-transit enhancements during this period, with the exception of rail. Our intermodal freight movements move at slower speeds today than they did in the mid-90s, while service has declined. The Board should consider an intriguing question: What mode of transportation moves slower today than it did 15 years ago? UPS continues to experience significant rail service issues in the Western U.S., with an improved service picture in the East.

On a positive note, UPS received excellent service from several railroads in 2006. Throughout last year, and particularly in November and December when UPS was in its critical peak shipping season (i.e. holidays), Norfolk Southern and Florida East Coast Railway performed almost flawlessly. They have set an extremely high bar for other intermodal service providers to match in 2007, and UPS is concerned that if the railroads do not get serious about capacity and fluidity challenges, we will not enjoy this level of service in the future.

The railroad industry also needs to continue to focus on technological platforms to enhance rail fluidity, decrease time-in-transit, and improve service metrics. Positive Train Control Systems add capacity, bring legitimate value to both the rail customer and the network, and are long overdue. During the past decade, our customers demanded new service enhancements to reduce their costs. As a result, UPS has spent billions of dollars in technological enhancements to our operating and customer service platforms, in essence wrapping key customer and security data around individual packages and container loads of freight alike. Why have many railroads been allowed to ignore their customers' demands for

the same technological improvements? The National Transportation Safety Board has listed Positive Train Control Systems on its annual “Most Wanted” list of Transportation Safety Improvements every year since 1990; regrettably, the Class I Railroads have been slow to invest in this technology.

The railroads are a critical partner in the nation’s surface transportation network. Given the growth of intermodal traffic and the challenges facing all modes of transportation, the highway and rail networks need to operate interdependently. Rail congestion and lack of reliable service has forced some shippers to move freight off the rails and back onto the road, only exacerbating congestion and stress on the highways. Given the daunting challenges facing the entire system, there is room for both modes to not only coexist, but to thrive. From our perspective, the rails need to focus on restoring service, increasing efficiency in the network, improving service metrics, improving equipment utilization, investing in technology, and accepting a public-private funding mechanism to finance additional rail capacity and investment. Only then, will the railroads claim their appropriate place of significance in our national and international transportation mosaic.