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America's Infrastructure Challenge: Build It or They Won't Come

By Michael L. Eskew

Mike Eskew, chairman and CEO of United Parcel Service (UPS), spoke to a group of business leaders and executives at the World Affairs Council of Philadelphia, a public policy forum, on April 6, 2006. A condensed version of his speech appears below. Eskew talked about the status of the nation's roads, ports, railroads, and airports as the backbone of global trade and warned that America's economic future is at risk if its transportation infrastructure continues to be neglected.

Benjamin Franklin reminded us 250 years ago that, “No nation has ever been ruined by trade.” His thoughts on this subject have never been more important.

Over the past few years, I've probably given a hundred speeches on the merits of globalization. You could say I'm an unabashed advocate of free and fair trade. And at every one of those speeches, I try to remind audiences that we have dual responsibilities when it comes to ensuring that global trade benefits everyone it touches.

On the one hand, we must ensure that our present and future generations of workers have the education and training needed to compete in a global economy. Part of this entails making sure those whose jobs have been displaced by global trade have other opportunities available to them. At the same time, we must ensure that the backbone of trade--our nation's trans-

portation infrastructure--is prepared to meet the demands of 21st-century global commerce.

An Interconnected World

Let's begin by taking a quick journey to the year 2050. Imagine, if you will, a world where trade has never been healthier. A world that's never been more interconnected. In 2050, the world economy accounts for US\$300 trillion--six times what it is today. The U.S. remains the world's largest economy. The international trade lanes that have fueled our economic development have expanded in the past four decades.

We must ensure that the backbone of trade--our nation's transportation infrastructure--is prepared to meet the demands of 21st-century global commerce.

In 2050, our largest trading partners and economic rivals are China, India, Brazil, and Russia. Their booming, urban middle-class populations make up the world's largest market for consumer goods and services. Here in America, where our population has grown to 400 million, the affluent sons and daughters of Generations X, Y, and Z are now in their peak earning years. They've enjoyed a bull-market economy through most of their careers--fueled by expanding global trade.

They live in revitalized urban neighborhoods, redesigned to mitigate sprawl and shorten commute times. On any given day, half of them telecommute to work. Of those who do show up at an office, most commute by energy-efficient rapid transit. The companies they work for and the businesses they run

have prospered from a masterfully planned and fully integrated national transportation infrastructure. One that moves goods and information.

Investments in technology, materials research, alternative fuels, and physical infrastructure have produced a highly coordinated, efficient, secure, and expedited



network of seaports and airports, regional and cross-country rail lines, interstate highways and byways.

Improvements in transportation have also led to environmental protection and enhancements in 2050. Air quality in our nation's largest cities is now better than it was at the turn of the 21st century. Our children and grandchildren enjoy the same trips to the Poconos and to the Jersey and Delmarva shores as we did, only they can get there faster now because of new rail links and less traffic on the highways. Life is good in 2050. Thanks, in no small part, to a highly functional transportation system.



More Than Wishful Thinking

Now, you may be asking yourself, is this all wishful thinking? I contend it's not. Not if we do it right. In fact, I would say we have to get to this vision if we're going to compete in a global economy and sustain the quality of life we so enjoy in this great nation.

But the reality today paints a less rosy picture. Our highways, waterways, railroads, and aviation networks are simply not keeping up with ordinary demands.

Five years ago, the U.S. House of Representatives held hearings on our transportation challenges. Congressman Don Young from Alaska didn't mince words. "Congestion is a national crisis," he said. "Anyone who drives, flies, or takes the train...and every business that ships freight over the highways, railroads, airways, or waters knows that our transportation system is overburdened. ...We have reached national gridlock."

I don't think we've reached gridlock yet, but if we don't do something about it, it's only a matter of time. It's just a simple matter of supply and demand. On the supply side, we have four million miles of public roads and bridges. More than 5,200 airports; 163,000 miles of railroad; 9,000 commercial docks, wharves, and piers. But even all these assets aren't enough. Because of the growth in global trade, demand is rapidly outpacing supply.

Road congestion costs the U.S. economy more than \$63 billion every year—and the price tag is going to go up, with road use expected to increase by nearly two-thirds in just the next 20 years. The story is similar on the railways, where rail freight tonnage is expected to increase by at least 50 percent by 2020. Problem is, since 1980, railroads have been cutting costs and shutting down capacity and lines.

At UPS, we've experienced this problem firsthand, which is a big issue when you offer guaranteed package delivery times.

Why We Can't Wait

Every few years, the American Society of Civil Engineers assigns grades to our nation's transportation systems. In 2005, here's what our infrastructure report card looked like: Our aviation system got a D+, navigable waterways a D-, roads a D, and rails a C-.



Now, before we get too depressed, let me just add that none of these problems is insurmountable. American resolve and ingenuity can tackle anything, including our nation's troubled transportation infrastructure. But here's the deal: We can't wait on this. We need to move forward now.

I have a personal sense of urgency, and it is probably self-evident. Yes, UPS has a huge stake in the health of our transportation system. But that health is not just a UPS concern. An inefficient transportation network results in higher prices at the check-out line, out-of-stock products, more inventory...sliding customer service, and weaker financial results, just to list a few.

And then, of course, there's the bigger issue of ensuring that our future generations have everything available they'll need to work and compete in a global economy...to live in that 2050 world.

Achieving Integrated Transportation

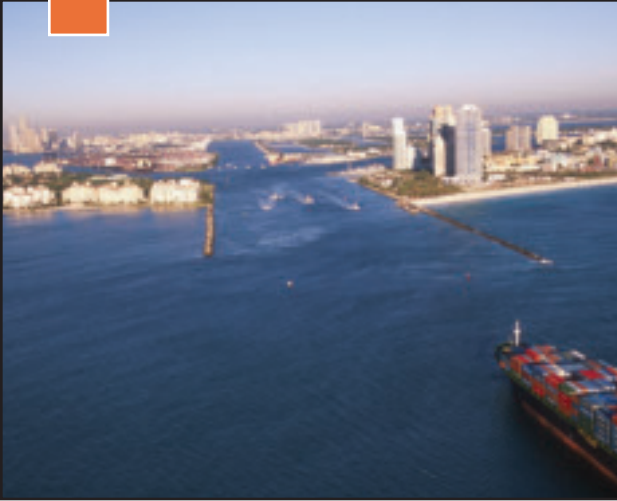
Hopefully, by now, I've given you enough evidence to suggest that it's rush hour on our nation's transportation systems. Now, we've got to ask ourselves, how do we avoid sliding into gridlock?

Ultimately, I think we need to look out to the year 2050 and develop a comprehensive national transportation infrastructure vision. That's going to require government and business working closer together, identifying what our world is going to look like, and creating a vision of where we want to be.

In the meantime, there are a number of immediate steps we can start taking action on. The first is to sound the alarm. Organizations like the American Society of Civil Engineers are highlighting the problems and issuing report cards, and that's good. What we need now is more business and government leaders to step forward and publicize the need for upgrades to our transportation infrastructure. After all, we're the ones who benefit most from smooth-flowing transportation systems. And there's not a university, a local chamber, an economic development agency, or any type of business club that wouldn't be receptive to hearing your thoughts on trade and transportation.

Second, we need to view our transportation network holistically and develop a long-term plan that both optimizes financial resources and provides sustainable transportation solutions for future generations. In 2004, the federal government spent about \$91 billion on transportation construction. But spending money isn't the only solution. We need to target that money strategically, using a holistic strategy. By holistic, I mean taking into account how all the air-, ground-, and water-based systems work together and increasing the integration of all these different modes of transport. After all, the trend toward intermodal supply chains means that bottlenecks on one type of system can lead to bottlenecks on others.

Here's the deal: We can't wait on this. We need to move forward now. An inefficient transportation network results in higher prices at the check-out line, out-of-stock products, more inventory...sliding customer service, and weaker financial results.



In 2001, the Federal Transportation Advisory Group put together a very thoughtful white paper calling for an integrated national transportation system. In the paper, the group urged the president to appoint a bipartisan committee to develop a national plan. I couldn't agree more... which gets to another way we can avoid gridlock. And that is for private and public entities to work together to more efficiently use existing infrastructure to advance goods and build security into the process.

One example of such a partnership can be found at our main UPS air hub in Louisville. Here, we provide customs officials with an online tool we developed called Target Search. Target Search allows inspectors to query electronic shipping manifests using any search filter they choose, including type of good or shipper name, country of origin, etcetera. The overall objective is to make the most efficient use of existing infrastructure and to build checking, verification, and security into the process of advancing goods.

Finally, there's something else we in the private sector can do to avoid gridlock on our nation's transportation infrastructure: We can be smarter about how we manage our supply chains. Yes, our transportation infrastructure is having a hard time keeping up with demand. But that doesn't mean we can't streamline our logistics so our goods keep flowing, even in crowded trade lanes.

Information helps avoid waste by allowing inventory to become more just-in-time and lean. Synchronized commerce will result in even larger savings and improved business results across the board in years to come.

Strong Infrastructure = Strong Trade

I mentioned at the start that I am an unabashed advocate of free and fair trade. As such, I'm concerned about obstacles that impede fair trade. Few obstacles are more daunting than an antiquated transportation system. A failing transportation system will impose far more physical quotas than any political quotas. And not only between the U.S. and the rest of the world, but domestically, as well. Indeed, I can't think of anything that goes more against the grain of Benjamin Franklin.

If we're going to take our rightful place as a nation in the world of trade, we must have the best infrastructure. We need to ask ourselves, whether we're in the public or private sector, are we willing to stand by and watch as we slide into gridlock? Or are we willing to take the necessary steps today to ensure a vibrant economy today, tomorrow, and in decades to come?

Do we really have a choice?

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