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## Executive Speeches

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

March 30, 2006 - Mike Eskew, chairman and CEO, spoke to a group of business leaders and executives at the Houston Forum in Houston, Texas. He talked about 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.

It's a real pleasure and honor to address you here at the Houston Forum. The city of Houston and the Lone Star State are wonderful backdrops to talk about my favorite subject – international trade.

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 generation of workers has the education and training needed to compete in a global economy. Part of this is 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 transportation infrastructure – is prepared to meet the demands of 21st century global commerce.

Today in this great port city and transportation hub I want to focus on this latter responsibility – the nation's infrastructure.

The port of Houston now ranks number one in the country in terms of foreign tonnage.

Your transportation infrastructure is world-class, with the world's sixth-largest airport system. 575 miles of interstate highways, extensive rail networks, and, of course, the Port of Houston.

It's only natural that UPS, the world's largest transportation company would want to be where the action is. Nearly 4,500 UPSers call Houston home. Every day here, we handle more than 200,000 packages at two major UPS sorting hubs and 21 delivery centers.

Our air hub at George Bush Inter-Continental Airport is our company's major air link to Mexico and beyond. And we help manage the shipments of major hometown customers like HP, MD Anderson and Cooper Cameron.

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There's no doubt about it: Houston is a critical link in the global supply chain.

But dodging construction cones on the Katy Freeway at Rush Hour makes you appreciate that even this city's advanced transportation infrastructure is having a hard time keeping up with demand. Not to mention the challenges imposed by extraordinary events. In recent times, our nation has faced some truly extraordinary challenges that have impacted our infrastructural preparedness. Events like 9-11, the West Coast port strikes, and most recently, the Gulf Coast hurricanes.

Everyone here has a personal story from the storms. I certainly remember those television images of you and two million other Houstonians being stuck for hours on I-45 ... and 290 ... and 59. As painful as all of those events were, they were, thankfully, the exception and not the rule.

What's more shocking, quite frankly, is the inability of our transportation infrastructure to keep up with the normal day-to-day stresses imposed upon it. Our highways, waterways, railroads and aviation networks are simply not keeping up with ordinary demands. Five years ago, the U.S. House held hearings on our transportation challenges.

Congressman Don Young from Alaska didn't mince words. He said: "Congestion is a national crisis. 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."

Perhaps this conclusion is a bit dramatic, but the Congressman is on to something.

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. Why do I say this? Well, 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.

It's an infrastructure valued at US\$2.2 trillion dollars, representing seven percent of all fixed assets in the U.S. But even all these assets aren't enough. Because of the growth in global trade, demand is rapidly outpacing supply. Consider our waterways. Most of our global imports and exports arrive on cargo ships. I've already talked about delays and congestion on the West Coast.

It's only going to get worse, as ocean cargo volume is expected to double by 2020. And yet few U.S. ports have channels deep enough to accommodate the largest ocean-going container ships.

Our inland waterways that help move goods within the country are also aging and stressed.

Nearly half of all the locks on these inland waterways are functionally obsolete, according to the Army Corps of Engineers.

Back on terra firma, things aren't any better. We depend on trucking to transport 90 percent of the products made or shipped in the U.S. But trucks are increasingly stuck in traffic, going nowhere fast and burning fuel. Between 1970 and 2003, vehicle travel on highways shot up by 161 percent. Yet new road mileage increased by only 6 percent.

In America's 85 largest metro areas in 2003, 54 percent of travel involved heavy to extreme congestion, up from 20 percent in 1982. Road congestion costs the U.S. economy more than US\$63 billion dollars every year – and the price tag is going to go up. Road use is expected to increase by nearly

two-thirds in the 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. The U.S. rail system is experiencing unprecedented volume of international freight. In fact, half of all rail intermodal traffic today is international.

That's four-and-a-half million trailers and containers. To put that into perspective: In 1980, domestic and international traffic combined equaled three million trailers and containers.

Problem is, since 1980, railroads have been cutting costs and shutting down capacity and lines. The American Society of Civil Engineers reports that "for the first time since World War II, limited rail capacity has created significant chokepoints and delays."

At UPS, we've experienced this problem firsthand, which is a big issue when you offer guaranteed package delivery times. That's why we recently redesigned our ground package network to move more package volume off railcars and onto our overcrowded national highways.

Are things any better in the skies? Well, air cargo volume increased almost 17 percent between 2000 and 2004. And it is expected to increase by 5.1 percent each year between now and 2016.

Supply is lagging demand here, too. Even though a new runway can increase airport capacity by 30 to 60 percent. We've only opened nine new runways in the last six years – and only two new public-use airports since 2002.

Now you know the statistics. What does the overall report card on our national transportation infrastructure look like? Well, let's put it this way: If your kids brought home report cards like this, someone would be grounded. 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-.

Here is how ASCE President William Henry summed up the report card: "Our infrastructure is sliding toward failure, and the prospect for any real improvement is grim. If we treated our homes like we treat our infrastructure, we'd all live in shacks."

Before we all 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.

UPS manages one of the largest ground transportation fleets in the world.

We run the world's ninth largest airline.

We're the largest user of rails in the U.S.

We ship containers over the oceans and manage multi-modal transportation and supply chain networks for companies around the world.

On any given day, UPS handles seven percent of the nation's GDP and two

percent of the world's GDP.

I should also mention that apart from my UPS responsibilities, I also serve on the President's Export Council. I can assure you that improving our transportation infrastructure is a requirement for the U.S. to compete in the global economy.

Let's put globalization into perspective. Global trade today accounts for about a quarter of our nation's GDP, up from 13 percent in 1970. As Tom Friedman points out, 30 years ago US\$10 billion dollars in foreign exchange transactions occurred every day. Today, US\$10 billion in forex takes place every second.

With this surge in trade, powered by technology, more and more supply chains are emphasizing lean inventory and on-demand deliveries.

As a result, shipments are becoming more numerous, more frequent, and more customized, or one-to-one, for internet-empowered consumers who are pulling demands through the supply chain.

Shipments today are traveling over greater geographic distances and across more borders.

They're becoming more time-sensitive and time-definite.

More shipping decisions are made on the basis of time and cost rather than on the shipping mode.

In fact, a study by the Colography group found that 40 percent of U.S. businesses are active shippers in three or more modes of transport. Air, truck, ship, rail or a mix: The mode doesn't really matter, as long as shipments get there quickly, affordably and predictably.

At UPS, of course, we think all of this play to our sweet spot. Thirty years ago, three percent of the nation's GDP moved through small package networks. The rest moved as large shipments – truckloads and such.

Today, small package accounts for 12 percent.

And of course the health of our transportation infrastructure is not just a UPS concern.

It should concern everyone in this room, both as a consumer and as a business leader.

An inefficient transportation network results in higher prices at the checkout line, out of stock products, more inventory sitting idly by – or, in other words, cash that's not flowing, costly delays in getting products to market, 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 – your children and grandchildren – have everything available they'll need to work and compete in a global economy.

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.

This 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 leaders to step forward and publicize the need for upgrades to our transportation infrastructure.

After all, we are 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 – especially here in Houston.

A second strategy for avoiding gridlock involves money, and lots of it.

There are organizations lobbying the government for strategic transportation investments.

One is a coalition called Americans for Transportation Mobility. ATM brings together transportation users and providers, chambers of commerce, and state and local governments to build public and political support for better transportation policies and investments.

Not that we aren't already pouring a lot of money into transportation. In 2004, the federal government spent about US\$91 billion dollars on transportation construction.

But we don't just need to spend more money on our infrastructure. 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.

For example, all the port capacity in the world won't prevent bottlenecks if there isn't enough rail freight capacity on which to unload the ocean shipments.

Another example of this is my hometown of Atlanta, where we're building the fifth runway at Hartsfield Jackson International Airport to meet demand.

Before we build a sixth runway, I think Atlanta needs to consider building light rail connections to places like Savannah, Charlotte, Chattanooga, Jacksonville, Nashville, Greenville, Columbus, and other close-in metropolitan areas.

That might keep planes out of the skies and get passengers to their destinations quicker and more dependably, 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 you'll find 135 miles of conveyors that move up to 400 feet per minute. If one wanted to we could stop those conveyors and pinpoint each package.

Here, we also provide customs officials with a UPS-developed online tool 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.

This automation allows customs officials to target suspicious air shipments through complex technologies and algorithms while expediting the processing of non-risky shipments. The overall objective is to make most efficient use of existing infrastructure and to build checking, verification and security into the process of advancing goods.

Finally, there's something else that 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.

At UPS, we've expanded our vision in recent years to help our business customers synchronize commerce.

By "synchronizing commerce," I mean coordinating the movement of goods and information.

When goods and information move together, shipments are speedier, more accurate and more responsive to customer timetables.

Ford came to us a few years ago and said "you guys know where every US\$6 package is in your system."

"We, on the other hand, have no idea where our US\$75,000 dollar Jaguars are once they leave the factory floor."

They take several days to arrive at dealers.

We're now working with Ford and providing complete visibility into their network from the factory floor to the car dealership.

Synchronizing goods and information flows has cut Ford's delivery time almost in half and has reduced inventory carrying costs by US\$1 billion dollars.

Information helps avoid waste by allowing inventory to become more just-in-time and lean.

We believe synchronized commerce will result in even larger savings and improved business results across the board in years to come.

So how can information and goods movements be synchronized to improve the nation's transportation network?

One example might be found in our rail network.

I believe the railroads can apply many of the same methods of synchronizing goods movement and information movement.

In fact, the technologies and planning exist today in the form of the North American Intelligent Railroad Transportation System and another program called Positive Train Control. Both use advanced technologies to improve the operational effectiveness and capacity of the railroads.

Unfortunately, our rail network has fallen behind some of our European and Asian competitors in deploying this technology.

One nation that has elected to make an aggressive investment in rail technologies and infrastructure is China.

China's doing it as we speak.

In fact, this past fall, I had lunch with the mayor of Tianjin and he talked passionately about the promise of new high-speed rail links that were being constructed between his city and Beijing.

These trains, I was told, will clip along at 200 miles per hour and provide direct connections to the airports and downtown districts of Beijing.

The mayor also said the trains would leave every two to three minutes throughout the day.

I told him that seemed too close. He said, "Don't worry ... we'll have 12 lines running."

China, by the way, is also planning to build 44 new airports by 2010. Those airports will complement a series of new north-south rail lines that will crisscross the nation's historical east-west trade routes along the Pearl and Yellow rivers.

If we're going to take our rightful place as a nation in the world of trade, we must have the best infrastructure.

By now, we all know that it's Rush Hour on our nation's transportation systems.

And statistics tell us it's only going to get worse as global commerce expands.

We need to ask ourselves, whether we're in the public or private sectors: 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 tomorrow? Do we really have a choice?

Thank you for your time and attention this afternoon.

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