

STATEMENT OF

BURT WALLACE, PRESIDENT OF CORPORATE TRANSPORTATION, UPS

BEFORE THE COMMITTEE ON THE JUDICIARY

U.S. HOUSE OF REPRESENTATIVES

SEPTEMBER 9, 2008, 2:00 PM

“COMPETITION IN THE PACKAGE DELIVERY INDUSTRY”

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Chairman Conyers, Ranking Member Smith and members of the committee, UPS welcomes the opportunity to appear before you today to clarify the nature of our anticipated agreement with DHL and to explain how the agreement, if completed, will work in practice.

My goal today is to present to you as clearly as possible the facts regarding this transaction.

On May 28, 2008, UPS and DHL announced that the companies were working toward an agreement for UPS to provide airlift of DHL’s express, deferred and international package volume within the United States and to and from Canada and Mexico. We are still negotiating this agreement.

The proposed agreement is part of a larger restructuring by DHL designed to reduce its costs and to help the company to remain competitive in the U.S. It has been widely reported that this restructuring has several elements, including engaging the U.S. Postal Service to provide “last-mile” delivery of some DHL packages.

DHL has stated very publicly and clearly that it will not be able to compete effectively – or perhaps remain in the U.S. – without restructuring its operations and costs. DHL, for reasons it can best explain, determined that it could not even cover its costs in the United States using the business model it adopted in 2003. The company has reported that it expects to lose \$1.3 billion in the U.S. this year.

Mr. Chairman and members of the Committee, let me state as clearly as I can: The anticipated agreement between UPS and DHL is **not a merger or joint venture**; it is **not an acquisition**; it is **not a consolidation**. UPS and DHL continue to compete independently – we will each price and market our own brands and services. We will not share profits, costs or information about pricing of services to each other’s customers.

Under the proposed agreement, UPS will act as a **vendor** to DHL, providing contractual services in the same way that carriers in our industry – including UPS and Federal Express – provide services to the U.S. Postal Service. This type of arrangement – where one company provides service to a competitor – is found throughout the transportation industry, including in trucking, rail and ocean carriage. It is also found in other industries such as natural gas and telecommunications.

UPS will **not** provide pick-up or delivery of packages to DHL customers. DHL will deliver packages to UPS's airport locations for movement through UPS's air network to destination airports. DHL will then pick up the packages from the destination airports for final delivery to its customers. This is the same service currently being provided to DHL by two vendors – ABX and ASTAR.

Under the proposed agreement, UPS will also provide airlift to and from the U.S. for DHL international packages moving between the U.S., Canada and Mexico. For international locations beyond Canada and Mexico, DHL will rely on other carriers to provide airlift to and from UPS's U.S. air hubs.

The anticipated agreement, in short, is simply an airlift contract; one part of a restructuring that DHL has concluded will significantly reduce its costs in the United States.

There has been a great deal of discussion about the impact of DHL's restructuring on the job market in the Wilmington, Ohio region. UPS is a company that has a long history of providing good jobs and benefits for employees. We understand the importance communities place on attracting and retaining employment opportunities for their residents.

It is very important to note, in this regard, that the expected result of DHL's restructuring will be to **preserve** approximately 40,000 DHL-related jobs in the U.S. that would otherwise be at risk.

Further, the agreement with DHL will help to bring additional job security to more than 14,000 UPS employees in Ohio, and the 358,000 UPS employees in the U.S.

I should note that in 2003, UPS employed 317,000 people in the U.S. Since then, we've added more than 41,000 employees to our payroll, which is 14,300 more people than the average total number of employees among the Fortune 500.

It is our hope that growing our business will allow UPS to continue to increase the number of UPS jobs and careers throughout Ohio, the country and the world.

Some have expressed concerns about the effect of this proposed agreement on service, costs and consumer choice, and have suggested that it might in some way reduce competition between UPS and DHL in providing package delivery services.

Any suggestion that UPS could somehow manipulate the way in which DHL packages move through our system to gain a competitive advantage is simply untrue, and gives DHL far too little credit for being able to protect itself. Let me assure you that DHL is a tough negotiator, fully able to protect its own interests.

UPS will continue to compete vigorously with DHL and others in the U.S. and around the world, and we fully expect DHL to compete vigorously as well. DHL's restructuring – including its agreement with UPS – actually **preserves** competition in the package delivery business in the U.S.

Now, you might ask, why would UPS want to do something that helps a competitor remain in the market?

For UPS, our goal is to find profitable opportunities such as this to better utilize our existing capacity, make us a more efficient competitor, and allow us to create and provide career stability for our employees.

When it became clear to us that DHL had decided to stay in the U.S. package delivery business by restructuring its operations, we were left with two options:

- Do nothing and allow a profitable business opportunity to go to a competitor, or
- Pursue an agreement with DHL that is similar to what we currently have with the U.S. Postal Service.

The potential gain for UPS is a contract that strengthens our company in an increasingly competitive global marketplace.

In short, this proposed agreement represents a wise and efficient use of our assets, provides a new and profitable revenue stream, and helps to protect the jobs and careers of 358,000 UPS employees in the U.S.

Mr. Chairman, thank you again for the opportunity to share UPS's perspective on an agreement that helps to strengthen a U.S. company that provides jobs and career opportunities to hundreds of thousands of people.

I hope the facts I've outlined today addressed the questions and concerns of the Committee.

I stand ready to answer any further questions that you and the Committee may have.

Thank you.

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