

FedEx, UPS Push for Tax Cuts as Documents Show Them Sinking Millions into Automation

First in a series on FedEx, UPS, and their positions on tax cuts and jobs

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Global Research, October 13, 2017
[TYT Network](#) 9 October 2017

Region: [USA](#)

Theme: [Law and Justice](#), [Poverty & Social Inequality](#)

Featured image: Above: Left: UPS CEO David Abney (Photo via UPS.com); Right: FedEx CEO Fred Smith (Photo by Drew Angerer/Getty Images)

FedEx and UPS—two of America’s biggest employers—have been publicly pushing tax cuts as job creators even as they plan to spend hundreds of millions of dollars for a coming wave of automation at their distribution centers and along their delivery lines, corporate documents show.

Neither company has said what effect their automation plans may have on their job numbers, but both FedEx and UPS are also actively developing new technology designed to expand automation, according to patent applications reviewed by TYT. One UPS executive told Wall Street analysts new automation initiatives currently being planned will be coming online as late as 2020.

Pushing for Tax Cuts

Following last month’s tax-cut proposals put forward by congressional Republicans and President Trump, both FedEx and UPS have made statements in support of dramatically lowered corporate tax rates.

At a [September 21 event](#) promoting the tax cuts, UPS CEO David Abney said,

“It’s not about, ‘Okay, corporations would like to pay less taxes.’ It’s about growing the American economy, creating jobs and giving us all a chance to be competitive.”

The event was hosted by the Business Roundtable, a group of executives that is [pushing](#) for lower corporate tax rates.

FedEx CEO Fred Smith discussed corporate taxes on September 27, [telling CNBC](#),

“It’s got to be changed for U.S. competitiveness and to incent investment in the United States because that’s the only way you get blue-collar wages up.”

On August 14, Smith and Abney had joined forces to co-author an [op-ed](#) on economic growth, writing in the *Wall Street Journal*,

“If you lower rates, eliminate loopholes, and otherwise simplify the tax code, you create opportunity for growth.”

That same month, congressional Republicans rolled out a [national campaign](#) to promote tax cuts as a job-creation tool. Abney hosted and attended [one such event](#), featuring two [congressional Republicans](#), at the UPS Worldport facility in Louisville, KY.

In addition to membership in Business Roundtable, both companies also belong to a number of organizations actively pushing for corporate tax cuts. These include the RATE (Reforming America’s Taxes Equitably) Coalition, a constellation of corporations that have banded together to promote the Republican tax plan through [lobbying efforts](#); [ad buys](#); [writing reports](#), [editorials](#), and [letters to Congress](#); and [testifying before Congress](#).

UPS is also a [member](#) of the [Alliance for Competitive Taxation](#), while David Short, senior counsel for legal, trade, and international affairs for FedEx Express, serves on the Advisory Board for the U.S. Chamber of Commerce. Both groups maintain that federal tax cuts will generate job creation.

In addition to public-relations efforts by UPS, FedEx, and their affiliated advocacy groups, both companies also employ lobbyists to push for their preferred policies in Washington. Including in-house lobbying and work done by outside firms, FedEx has spent [over \\$5.2 million](#) on federal governmental lobbying in 2017, while UPS has spent nearly [\\$4.3 million](#). [Sixteen](#) of the [31](#) federal lobbying disclosure forms filed by FedEx this year list tax reform, while [12](#) out of [19](#) UPS forms disclose lobbying on tax reform, according to data compiled by the Center for Responsive Politics.

In February, Smith [met](#) with Vice President Mike Pence. FedEx President and COO David Bronczek met with President Donald Trump.

Neither company has said it will use its windfall from a tax cut to hire more workers. In his appearance last month on CNBC, Smith [said](#),

“We put a lot of money into the business ... to invest for the future. We bought a lot of shares back. We steadily increased our dividends ... We’ve been able to increase our wages every year. So a tax decrease would allow us to do all of those things at greater scale.”

Abney does not appear to have suggested wages will go up at UPS. He told the Business Roundtable,

“We’re in a reinvestment cycle here at UPS in the U.S., and [as] part of this tax reform, we’d like to bring some of those foreign earnings back and invest them into our network here.”

One investment both companies are making is in increased automation.

Investing in Automation

In the June FedEx [earnings call](#), CFO and Executive Vice President Alan Graf Jr. said FedEx Ground has made “significant investments in capacity and automation and will continue to invest” in the next fiscal year. He said the company expects to spend \$5.9 billion next year on capital expenditures, including new planes and “continued investments in FedEx Ground automation and capacity expansion.”

Asked about transitioning from manual to automated loading and unloading of its trucks, FedEx Ground CEO and President Henry Maier, on the same call, said,

“We are making investments in material handling and lifting technologies to address that. We review hub designs over the normal course of business that account for package size. So that would divert packages, for instance, that we would have to handle manually today to a more automated mode.”

Last November, UPS outlined plans to invest more than half a billion dollars in automating processing at three major hubs.

UPS is “mid-process of a multiyear approach to our automation process, but they are giving us 20 percent to 25 percent greater productivity,” UPS Senior Vice President and President of U.S. Operations Myron Gray said during a January earnings call. “That helps us to improve flexibilities, reduce the handles in our network, which obviously continue to help us reduce or bend the cost curve. So we’re about midway through the process, with most of the capacity and automation coming online in 2018, 2019, and 2020.”

Plans include a \$400 million, 1.2 million-square-foot processing facility in Atlanta. UPS also announced a \$196 million investment to increase processing capacity in Jacksonville, Florida, by 33 percent, and \$175 million to double processing capacity at its hub in Columbus, Ohio, which will [reportedly](#) add 75 new jobs as a result by next fall.

All three projects [reportedly](#) received local tax breaks as incentives for job creation.

In its [2016 annual report](#), filed with the SEC in February 2017, UPS wrote,

“In order to meet demand, we are increasing capital expenditures to expand network capacity and increase productivity by automating existing facilities. We are making strategic investments in our top 30 processing hubs, as well as adding new facilities to our network.”

A UPS representative told industry publication *Logistics Management* in November 2016 that the equipment used at the Atlanta hub will [serve](#) as a “showpiece for us with new automation systems.”

At its Worldport facility in Kentucky, UPS [has told reporters](#) it defines automation as meaning that workers do not touch actual packages at any point except two times: before the package enters the high-speed, computerized, assembly-line distribution system, and once it’s done.

Neither company appears to be relying solely on existing technology for automating package scanning, processing, distribution, and delivery. Both UPS and FedEx are actively

researching and creating new methods of automation, based on patent applications reviewed by TYT.

On August 24, for example, the World Intellectual Property Organization granted UPS a patent for "[Assembly Including an Imaging System, and Methods of Using the Same.](#)"

A year before that, UPS received a patent in August 2016 titled, "[Automated Loading and Unloading Items,](#)" from the U.S. Patent and Trademark Office for the automated unloading and retrieval of goods being prepared for shipment.

"In various embodiments, items are received at a loading station where identification data may be captured for each item and handling instructions may be generated. In some embodiments, a label having indicia associated with the item may be generated and affixed to the item," according to the patent. "The items may then be deposited through an access door into the vehicle identified in the handling instructions. Once the items are loaded into the access door, an automated load/unload device may deposit the item in the appropriate storage location. The automated load/unload device may also retrieve and rearrange items as desired."

In 2014 the U.S. Patent and Trademark Office granted UPS a patent titled, "[Methods, Apparatuses and Computer Program Products For Automating Arrivals and Departures.](#)" The patent's background description explains how it will reduce hours of manual work related to trucks coming in and out of UPS shipping centers.

"Hours of valuable time are consumed every day as transportation personnel contact dispatchers or others regarding their arrival and departure to areas such as hubs," according to the description. "Such processes may cause reduced productivity, as the vehicles may need to come to a complete stop and be turned off to allow the transportation employee to use a telephone to speak with appropriate personnel such as a dispatcher to determine where loads should be placed in a hub."

The description anticipates reducing staffing, saying, "Currently, dispatch operations typically require excessive time as well as staffing resources to manage the activities surrounding the arrivals, departures, and pre-dispatch of loads at hubs. As such, a need may exist for automating arrival and departure dispatch activities."

TYT identified at least 21 patent applications geared toward automated scanning, processing, or delivery.

Jobs

It's not clear what effect automation will have on the number of jobs at FedEx and UPS, the ninth and tenth biggest employers in the world, respectively, according to the *Fortune* 500 list. Nor is it clear that current tax rates have impeded hiring.

FedEx does not list its U.S. employee numbers in its SEC filings. But in its report for fiscal year 2016, it reported [353,000](#) employees globally, up from [213,500](#) in fiscal year 2008. UPS went from reporting [340,000](#) U.S. employees in fiscal year 2008 to reporting [355,000](#) in fiscal year 2016.

Neither company has claimed a lack of resources to hire new employees. At UPS, last year's dividend payments amounted to [\\$2.8 billion](#). It had [\\$3.546 billion](#) in cash on hand and paid Abney [\\$13.7 million](#), according to a UPS proxy statement filed in March, up more than [20 percent](#) from the previous year.

FedEx paid Smith [\\$15.6 million in compensation](#) in fiscal year 2017, according to a proxy filing submitted to the SEC this September. The company ended 2016 with \$3.53 billion in cash on hand. It gave its shareholders \$227 million in dividends both last year and in 2015. As Smith indicated to CNBC, he expects to use his company's tax windfall to expand those payments.

FedEx did not respond to multiple questions about its plans for its tax windfall or how its spending would affect hiring. UPS spokeswoman [Kara Gerhardt Ross](#), formerly an assistant press secretary for then-President Bill Clinton, said the company could not answer TYT's questions because they involved "proprietary information." Ross referred *The Young Turks* to [UPS' statement](#) released after President Trump released the contours of his proposed tax plan in September.

"[UPS] commends the Administration and Congressional leaders on the release of a unified framework which details a plan for tax reform that will stimulate the economy, create jobs and develop a globally competitive tax structure," reads the statement. "UPS strongly supports the tax reform outlined in this proposal."

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