

Center for Strategic and International Studies

TRANSCRIPT

Event

Betting on America

**“Innovating Global Logistics in Uncertain Times
featuring Carol Tomé”**

DATE

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FEATURING

Carol Tomé

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CSIS EXPERTS

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Navin
Girishankar:

We all recognize the brown trucks and doorstep deliveries, but few of us realize that UPS moves nearly 2 percent of global GDP every single day, across markets and continents. With that kind of global reach, UPS is more than logistics. It's a front-row seat to the global economy, one that's shaped by new markets as well as shocks, like the pandemic shock. One that's shaped by multiple technology revolutions, as well as trade wars. What can global logistics teach us about innovating, not in spite of global uncertainty but because of it? What does it say about the role of AI, robotics, data, and workers in changing how goods move and how opportunities are created? To understand these questions and more, I'm talking to UPS CEO Carol Tomé.

I'm Navin Girishankar. Welcome to Betting on America.

(Music plays.)

Mr. Girishankar:

Carol Tomé, what an honor to have you here on Betting on America. Thank you so much for making the time available.

Carol Tomé:

It's truly my honor. Thank you for inviting me.

Mr. Girishankar:

You know, we're really interested in how companies are navigating this intersection between changing global markets, technology revolutions, geopolitics. And I can't think of an industry that is better to understand what's actually happening in the global markets than logistics, and in particular UPS. If I look back when you took over UPS, I mean, that happened right at the time of the pandemic, if I understand it correctly. And so, navigating these big shifts in the global economy was, like, something that you had to deal with immediately. So, take us back there and take us, you know, through that experience, and what lessons you've learned.

Ms. Tomé:

Well, it was an incredible experience. I onboarded in March of 2020, just as the world was shutting down. And we knew that at UPS we could not shut down. We were essential. And we needed to keep commerce moving. So, the first thing we did was to make sure that our people were safe. And it was a mad dash to get the amount of protective gear to keep our people safe. But we were able to do that, as well as change our operating procedures. For example, we used to require signatures for delivery. And we stopped requiring signatures for delivery. And I'm really proud of our focus on keeping our people safe, because we weren't immune. We had a number of COVID-19 cases, of course. But the incident rate was way under the global average. So, I was really proud of that.

The second thing we had to do was take care of our customers. And we had an incredible surge of volume coming into our network. And we were worried that the network was going to tip over if we didn't manage that volume appropriately. So, we set up control towers to manage the amount of

volume and the timing of the volume flowing into our network, and that worked out pretty well because we were able to keep our on-time delivery best of any carrier around the world.

And then, lastly, we worked with the U.S. government on Operation Warp Speed, which was this public-private partnership to really work towards the delivery of COVID-19 vaccines whenever they were to become available, and when they did become available we were the first carrier to deliver those vaccines and in a year we delivered a billion vaccines at 99.9 percent effectiveness.

So, we were proud to be part of that public-private partnership and proud to help, you know, address the issues associated with COVID, and there were so many lessons learned during this time.

First, for us the need to stay focused on people and customers, of course. It was just reaffirmed by our actions that that was the right area to focus. But from a supply chain perspective there were so many lessons learned. What we found that so many of our customers were sole sourcing in China and they said, we can't have a reliance on one country any longer. So, we saw our customers adopt a China-plus-one strategy, moving some manufacturing to countries like Vietnam and Malaysia, and we followed them and stood up gateways which, fast forward to 2025 was a pretty good idea. But we established new gateways in those countries.

We also saw companies move from just-in-time inventory management to now just-in-case and that's been a change in working capital practices around the world.

And then, finally, for this explosive growth in residential deliveries, all carriers – all carriers have had to rethink residential delivery and what capabilities are necessary to ensure that we can deliver those products and packages on time. Lots of learnings.

Mr. Girishankar: Yeah, what a phenomenal experience.

And just so folks understand, if I understand it correctly you have half a million employees in 200 countries. This is not a small operation, and so when you describe these new opportunities that emerged even out of the crisis but also the risks that you had to manage, this is something that I think really underscores the legacy of the pandemic in terms of business practices and operating around the world.

One thing I wanted to ask you is the role of technology in that. I heard you speak a few months ago and I was struck by the experience that you've had and the leadership you've shown around AI, robotics, and data. Could you

bring us into that and how it connects to the lessons from the pandemic and beyond?

Ms. Tomé: Yeah. So, we operate a global smart integrated network, which is a point of differentiation from other carriers because it's all linked, and it's linked by data. We have 70 petabyte(s) of data, and we use that data to power our network.

Of course, our engineers are involved but we use artificial intelligence and machine learning to power the network, and to put it into perspective, today we're powering about 22 million deliveries around the world and over 2,000 flights around the world.

During the pandemic, well, that was closer to 30 million packages a day, and it's because of the power of technology and the years that we have invested in this global smart integrated network that we've been able to manage through these really interesting, challenging times where volume explodes and when it contracts as well.

Mr. Girishankar: Yeah. Tell me – give us a little bit of color as to what this looks like. I remember hearing you at one point describing you going down and actually seeing what your workers are doing. How has that changed as a result of these technological improvements?

Ms. Tomé: So, for me, I think it's incredibly important to be on the front line to understand how our employees are working and the type of work they do and the environment in which they're working.

If you can imagine, a lot of the inside of our operations are very manual. You know, we're sorting packages. We're bagging packages. We're putting label(s) on packages. We're loading and unloading those big tractor trailers. And of course, then we're delivering them on our brown package cars.

So, when I first started here I was on car delivering packages, which gave me a sense of some of the technology improvements we could deploy to make an even better experience. In fact, they called me a product master because I was thinking of ways to make it a better experience inside of the building. So, it's really interesting. I'm, like, I've got to figure out what this is like.

So, I've been on the preload, I've loaded package cars, and I've also unloaded and loaded those 18-wheelers. Now, that was a pretty eye-opening experience for me. This work is hard. It is really hard and it's hot and it's sometimes at night. So, I'm, like, we've got to figure out a way to automate this activity, because it's not just for the workforce of today. The workforce of tomorrow. (Laughs.) I'm not even sure they're going to be around to want to do this kind of work.

So, we started several years looking at robotics and a way to unload and load tractor trailers. And you may say, well, what's so hard with that? Well, imagine we – our network. It's an integrated network. Which means, inside of any tractor trailer you could have tires as well as a box and a sweater – or a sweater in a box. So, it's a very much of a mixed load. The robotics necessary to unload mixed loads is pretty complicated. A few years ago, though we found some robotics, we thought this could be interesting and perhaps work for us. Our engineers were like, no, no, no. This isn't going to pencil. I'm like, put the technology in. It will get better. And guess what? It's gotten better.

Mr. Girishankar: Yeah. And tell me about what that means for workers and for employees. What does their day-to-day life look like now that you have these technological improvements in place? And what does that mean, you know, really, for the future of workers? Some people fear that, you know, technology will replace workers. But walk us through that.

Ms. Tomé: Yes. So, the technology is being deployed. It's not fully deployed at this point. Which gives us an opportunity to invest in the workforce of the future. And today we're creating what we call "operator of the future." These will be the individuals that are actually running the automated buildings, running the robotics, if you will, running the front end of the building. So, we're creating that role. And then we're going to invest in our people so they can fulfill that role. We think that's critically important, to reimagine the workforce of the future and invest in the learning – if you have an aptitude and a desire – the learning to take those jobs.

You know, it started a few years ago when we launched digital fluency. I looked around the company. I'm like, we've got to up our digital fluency game. So, we worked with a local university and created curricula for digital fluency. Put all the leaders through it. And now we're going to do that again, but from a generative AI perspective. And there'll be four series of classes here – 100, 200, 300, 400 – as we increase everyone's fluency as it relates to generative AI. Couple that with the operator of the future, and I think we're going to end up doing the right thing for our people. Now, the truth is, will we have as many people working for us? No. We won't. But there – if you have a desire, we'll give you that opportunity to learn.

Mr. Girishankar: Yeah. That's tremendous. And, you know, there's a lot of discussion about what AI might do for workers. And I just want to linger on the point that you've made there, which is that, importantly, there are new roles, new opportunities, new possibilities that we haven't fully anticipated. And they will play out as technology evolves and we see new applications. You talked about supply chains and the China-plus-one strategy that companies are employing now. Supply chain intelligence is something that I believe has

been a legacy of your pandemic experience. Can you tell us a little bit about that, because this is hugely important not only for business, but government as well – understanding exactly what’s happening with supply chains in real time?

Ms. Tomé: Yeah. So, because of our end-to-end network and our global reach we, for years, have had a group we call Solutions. And Solutions work with shippers to help them optimize their supply chains. So, we’ll do supply chain mapping for them to help them understand where is the best place to source their materials, what’s the best mode of transportation to use to move their materials, how do they think about the supply chain end-to-end. And there’s never been a more important time to provide this service. In fact, this year, we’ve had over 600 supply chain mapping requests from our customers come in.

So, we work with them and help them optimize. We hope they use us as their carrier across the end-to-end supply chain, but if they don’t, they don’t. We’re going to help them anyway. We’ll help them on one part of it, or all of it, to make their supply chain more efficient. We also have invested in technology, in a tool that we called Symphony. And if you – wherever you use us, you can see visibility. And if you use this all the way from procurement to last mile delivery, you can see your entire supply chain. That’s really important in today’s world.

Mr. Girishankar: Yeah. Yeah. I’d be interested in what lessons can be learned from that for government, because, you know, my experience in the Commerce Department in the last few years was that they were trying to develop that kind of capability. But learning from multiple companies across multiple industries. And I just – I think that we are in a moment where wherever we can learn will be valuable for government and business. So that’s something to watch out for.

Let’s move –

Ms. Tomé: Couldn’t agree with you more.

Mr. Girishankar: Yeah. Let’s move this – and by the way, have you been doing much of that? Do you – do you get calls from people in government saying, help us understand how we could do this and develop this capability ourselves?

Ms. Tomé: Well, we’ve been very close to the current administration as it relates to changing trade policies and trying to help the administration understand the mechanics of many of the policies that they’re implementing. There are a lot of mechanics associated with all of this.

Mr. Girishankar: Yeah.

Ms. Tomé: And I'm not sure people and our U.S. government was quite prepared for all – (laughs) – of the change that was coming our way. So, we've been very, very involved in helping them just understand the mechanics because we want trade to continue to flow.

Mr. Girishankar: Yeah, I'm glad you raised that. I was going to ask you, because you went through the pandemic shock and shepherded UPS through that, and you described that. We now have in the last six months or so a kind of policy-induced trade shock or an upheaval in the trading system. And so regardless of what one feels about that, the reality is many companies are describing uncertainty. Many companies are pricing in what could be an increase in cost of doing business.

I just wanted to get a sense of how you are managing this. I mean, you're all over the world, hundreds of countries. How do you manage something as significant as this? It's almost a once-in-70-year event.

Ms. Tomé: Yeah. Well, it's not easy. But based on our global integrated network, and a smart network, we're able to change our operations to manage where trade is moving.

Mr. Girishankar: Yeah.

Ms. Tomé: Because, generally, tariffs hinder trade. But trade doesn't stop; it moves. And I can make that real for you.

In the second quarter, when the China tariff went in and the elimination of de minimis exceptions went in, we saw volume in our China-U.S. trade lane drop, well, nearly 40 percent.

Mr. Girishankar: Yeah.

Ms. Tomé: But our China-rest of the world trade lane increased. In the second quarter alone, we made over 100 operational changes to follow where trade was moving. It meant changes not only in China to the rest of the world, but change in Europe, changes in India, and – (laughs) – changes in the U.S. Got to be extraordinarily agile to serve your customers as things are moving.

Mr. Girishankar: Yeah.

Ms. Tomé: It wasn't just about moving your flights or your freight; it's also thinking about how to process the goods coming into the United States.

Mr. Girishankar: Yeah.

Ms. Tomé: Though we were fortunate – maybe it’s better to be lucky than good – several years ago we invested in our brokerage capabilities. We’re the largest broker in the world. And we said, you know, we don’t want to have a manual brokerage process; we want to have an automated brokerage process. So, we invested in this technology, and now 90 percent of all the goods that are coming into the U.S. through our network are processed without any human intervention. That’s not true for many carriers nor for our government. So, this is – you know, we have learnings here that we’re happy to share with others, because moving these goods without manual intervention is helpful and important.

But it’s more complicated than just that. Think about the working capital implications of companies like us who collect the tariffs –

Mr. Girishankar: Yeah.

Ms. Tomé: – remit them to the government before we get paid. (Laughs.)

Mr. Girishankar: Right.

Ms. Tomé: So, there are all kinds of interesting dynamics associated with this.

But I’m really blessed – we’re really blessed because we’ve invested in this network that allows us to take care of our customers. And our view is, if you put your customers first everything else is going to take care of itself.

Mr. Girishankar: Yeah. And really underscores the power of a global company because you can manage what are, in effect, policy shocks in any given country, although I must say as an American company it must be quite something that the source of some of this uncertainty is us.

Ms. Tomé: Well, we really don’t have a point of view on policy here.

Mr. Girishankar: Yeah.

Ms. Tomé: We just want to take care of our – (laughs) – customers.

But I will tell you, it’s made it very difficult to forecast. In fact, we don’t really forecast anymore; we just build scenarios.

Mr. Girishankar: Yeah.

Ms. Tomé: We build scenarios and we try to be as agile as possible to turn on a dime depending on which scenario plays out.

Mr. Girishankar: Yeah.

Well, let me highlight another aspect of policy that might be interesting to get your thoughts on. The Trump administration came out with a really ambitious and I would say sweeping AI Action Plan early in the summer. We actually had Director Kratsios come to CSIS and speak about it. And one of the things that I found fascinating, and I wanted to get your reaction to it, is that the administration is really leaning into what they are calling an AI stack export package, meaning exporting AI capabilities, the full stack. I'm assuming that they have in mind chips and datacenters, frontier models, energy, so on, and so forth. But there's another part of it too, which is the applications of frontier models. And I think about UPS and, in a sense, a lot of what you're doing as logistics is services exports that are AI-enabled, in a sense. And would that be correct?

Ms. Tomé: Yeah. I think that's exactly right.

Mr. Girishankar: Yeah. I think it's really interesting to look at how AI is flowing through the economy in different industries. And those constitute really important AI exports, even though we may not necessarily think of it that way. It's –

Ms. Tomé: Yeah, it's not inside a package.

Mr. Girishankar: Yes, exactly.

Ms. Tomé: But it's still an export.

Mr. Girishankar: Yeah. Really quite interesting. I just – I thought that was something to consider.

Now, another thing you've talked about is the role of health logistics, which is a growing part of your business. Could you tell us a little bit about that? And then I want to shift to what's happening in the Global South. But global health logistics.

Ms. Tomé: Yeah. So, our goal is to be the number one provider of complex healthcare logistics in the world. And we're well on our way to reach that goal. With the explosion of biopharmaceuticals there's an opportunity for us to really provide great service to our customers. But it requires expertise. It requires capabilities. And it requires certification. And we are investing in all three. So, if you think about capabilities, you need cold chain. And we've invested in, you know, oh gosh, 17 million square feet of cold chain capabilities. We manufacture our own dry ice. (Laughs.) We are CEIV certified. I mean, we've

got everything we need to provide this service to our customers. And the addressable market is over \$82 billion. So, it's an opportunity for us to grow.

And when I think about our company now, 118 years old this week –

Mr. Girishankar: Wow.

Ms. Tomé: We're leaning into complexity, because we're really good at complexity. We're leaning a little bit away from simplicity and leaning into complexity, because that's where I think we shine best.

Mr. Girishankar: Fascinating. And is this a legacy of the pandemic, or were you doing this anyway?

Ms. Tomé: The pandemic gave us the right to play. We saw the opportunity. We had started to invest, dipping our toe into the waters, if you will. But then we received the right to play because we delivered for our customers.

Mr. Girishankar: Yeah. Let me highlight an example, and I wanted to get your reaction to it. You know, you have done something very, very interesting in Rwanda through the UPS Foundation. And I would love your thoughts on what that initiative is and how it builds on these capabilities. And the reason I'm asking that is the real big question in Washington around the Global South and our engagement with the developing world is what does the United States offer to developing countries going forward? We've gone through also an upheaval not only on the trade side, but on foreign assistance. But you have an example here which I wanted to highlight. And please tell us what's going on in Rwanda.

Ms. Tomé: Well, it goes back to the pandemic. Most of the vaccines that we delivered were under some sort of a commercial agreement. And we were paid for that. But at the same time, we, through our foundation, have humanitarian efforts – one of which is focused on health and humanity. So, in partnership with Gavi, we put together a plan and executed against that plan to deliver vaccines in Rwanda for free, using drones. And this is something we're very proud of and that we continue to leverage across the world.

And we think you got to do some and some, right? It's leveraging the power of our technology, our proven technology, to get goods to where they're needed, under an umbrella of complex healthcare logistics. So that's – it's part of our purpose, actually. Our purpose is moving our world forward by delivering what matters. It's not just about delivering goods. It's about doing good, too.

Mr. Girishankar: Phenomenal. Phenomenal. And do you anticipate doing more of this in other countries as well?

Ms. Tomé: We do.

Mr. Girishankar: I was struck, because there's so much discussion about what does the U.S. offer to the world, and if you – to the developing world. And if you think of that beyond just foreign assistance, but what the U.S. as a whole – private sector, public sector – can do, this is a phenomenal example. I've heard you say UPS delivers not just packages, but opportunities, serving as a catalyst for positive change. And you've said that in different words right now, but that's what struck me when I heard this example.

Tell me, Carol, there are a few corporate leaders that have the size and scope of UPS and what you have to contend with. What are your lessons if you were to pass that on to sort of the next gen of American corporate leaders and CEOs navigating a very, very challenging global environment? Not only technology revolutions but trade wars and hot wars and, potentially, there may be another pandemic, God forbid, but we have to plan for those things. How do you manage that – running a large organization like UPS?

Ms. Tomé: Well, I think it starts with purpose. You know, when I started as CEO now five years ago, we knew what we did. We moved 6 percent of the U.S. GDP every day, 2 percent of the world's GDP. We knew what we did but we hadn't declared our why.

So, we put together a team of UPS-ers who did a masterful job of iterating and iterating and iterating and we landed on our purpose, which I just shared with you, moving our world forward by delivering what matters. And if you stay true to your purpose you can manage through whatever comes your way.

You know, it wasn't too long after I started when Russia invaded Ukraine and we operated in Russia. We operated in Ukraine. We operated in Belarus. And our first job was to keep our people safe, you know, doing what matters, right?

And so, we shut down our business but we kept our people safe. In fact, we paid people. We paid them. They weren't doing any work, but we paid them to make sure that they could figure out a way to survive this horrible war.

So, I think it's really important to not only declare your purpose but then to be true with it and that isn't easy to do sometimes. But if you stay true to your purpose it all works out in the end.

Mr. Girishankar: That's a timeless and universal lesson for people in business and government.

I thank you so much for your time, Carol. This has been truly fascinating. We're going to watch – keep watching what UPS is doing. I appreciate your time on "Betting on America."

Ms. Tomé: Thank you very much.

Mr. Girishankar: Thank you for joining this eye-opening conversation with UPS CEO Carol Tomé. You can find this episode of Betting on America and more at [CSIS.org](https://www.csis.org), YouTube, or wherever you get your podcasts.

This is Navin Girishankar reminding you that everyone has a role to play in the tech race.

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