Statement of Mr. Joseph C. Hete
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Before the Committee on Transportation and Infrastructure

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Chairman Oberstar, Ranking Member Mica, and Members of the Committee,

I am privileged to serve as the CEO of ABX Air and President and CEO of Air Transport Services Group, the parent company of ABX Air. Thank you for the opportunity to tell you about the May 28, 2008 announcement by Deutsche Post World Net, the German parent company of DHL Express (DHL), that DHL plans to replace services provided by ABX Air and ASTAR Air Cargo with services provided by DHL's competitor, United Parcel Service. This written testimony complements my oral testimony before the committee.

The deal contemplated by DHL and UPS creates a crisis unprecedented in the rural United States, much less in rural Ohio. Never have so many jobs left such a rural region in so short a period of time. If the DHL UPS deal goes through, it is predicted that 10,000 jobs will be eliminated in the region by the middle of next year. Given the public information about the costs DHL is willing to pay for the services it is asking UPS to provide, it is also clear that ABX Air can provide DHL a better economic, strategic and competitive value. In so doing, we can save the economic viability of an entire region of Ohio. We need your help to get that done.

To provide better understanding of the situation we face, my testimony outlines the following:

1. The history of ABX Air's relationship with DHL in the context of overall consolidation within the overnight express delivery market.

2. The likely and foreseeable affects of an agreement between UPS and DHL, respectively the number two and three players in this market, on customer choice and price.

3. ABX Air's efforts to help DHL cut its costs and create a new domestic business model.
4. The devastating impact DHL's plan will have on ABX Air, its employees and the community of Wilmington, Ohio.
5. Our pursuit of strategies to restructure our business and preserve jobs, should DHL and UPS reach an agreement.
6. Why the Wilmington Air Park is an invaluable asset to Ohio and the nation and why it needs to remain open for commerce.

History and Trends in U.S. Overnight Express Delivery Market

To understand the significance of the potential agreement between DHL and UPS, we must first examine the history of the domestic overnight express delivery industry, ABX Air and its partnership with DHL.

In 2003, a consumer shipping a package in the United States could choose the United States Postal Service (USPS) or one of five major airfreight express delivery services: Federal Express (FedEx), United Parcel Service (UPS), Airborne Express, Emery Worldwide, or DHL Express. According to the Air Cargo Management Group, in 2003, the major carriers in the domestic air express business had the following market shares:

- FedEx, 42.5%
- UPS, 35.1%
- Airborne Express (including DHL), 17.4%
- U.S. Postal Service, 3.3%
- DHL, 0.9%
- Emery and other vendors, 0.8%.

Although FedEx and UPS dominated the market, consumers had lower-cost options, primarily Airborne Express. Operating since 1980 from its hub in Wilmington, Ohio, Airborne Express had built a strong business based on

personal contact, efficient use of assets, strict cost controls and top-notch service.

Within two years, two of these choices were eliminated. In 2003, DHL announced its intention to purchase the book of business of Airborne Express for a little over $1 billion. Late in 2004, UPS acquired Emery/Menlo Worldwide, closing its operating base in 2005 and laying off its Ohio workforce. According to the Air Cargo Management Group, in 2007, the domestic air express market share looked like this:

- FedEx, 42.0%
- UPS, 38.5%
- DHL, 15.5%
- U.S. Postal Service, 3.2%
- All others, 0.8%.

When it announced the Airborne Express merger, DHL said that the transaction would increase market share and profitability for both partners, creating a sound company to compete in the U.S. market against dominating players FedEx and UPS. DHL had a strong international market presence, while Airborne Express had a solid foothold in the domestic market. The combination of the two companies offered great promise for consumers, shareholders, employees, the Wilmington community and the State of Ohio.

DHL had good reason to believe in the value of its new venture. When it bought Airborne Express, it bought a profitable and successful company. At the time, Airborne Express held about an 18% market share and had grown its ground delivery business to about two percent of the market. DHL's purchase included all of Airborne's strengths; its book of business, the pickup and delivery system, and the Wilmington Air Park, the largest privately owned airport in the U.S., including Airborne Express's sort facility.

ABX Air, which was at that time a wholly owned subsidiary of, and the airline for, Airborne Express, was spun off as an independent publicly traded company owned by Airborne Express's existing stockholders due to U.S. laws prohibiting foreign control of a U.S. air carrier. Please also see the attached exhibit which

respect to DHL's acquisition of Airborne Express and the spin off of ABX Air as an independent, publicly traded company.

As a condition of DHL's acquisition of Airborne Express, ABX Air was required to consummate two commercial agreements with DHL to perform DHL's national cargo sorting and airfreight operations – an Aircraft, Crew, Maintenance and Insurance (ACMI) agreement and a hub services agreement. ABX Air performs air cargo flights and associated operations for DHL under the ACMI agreement and package-sorting operations at Wilmington and in 15 hubs around the country for DHL under the hub services agreement.

The contracts allowed ABX Air to continue what it had been doing for Airborne Express – fly well-maintained aircraft on time and sort packages with attention to detail and customer needs.

Since DHL's acquisition of Airborne Express in 2003, ABX Air, the Wilmington community, county and state have done everything possible to support DHL's success. ABX Air has built an incredible knowledge base of package sort processes and, contrary to what has been claimed, flies a fuel-efficient and well-maintained fleet of aircraft. ABX Air put aside its need to brand the newly independent company and painted its aircraft in DHL livery. To date, the State of Ohio, City of Wilmington and Clinton County have committed more than $400 million into the Wilmington area in support of the DHL Hub. In addition, the state fast-tracked construction of a $99 million Wilmington bypass highway project to accommodate DHL's hub operations.

Effects on Consumer Choice and Price

To compete with FedEx and UPS, the industry's dominant players, DHL has offered a cost competitive and flexible menu of services. Many legacy and new customers have chosen DHL based on its ability to provide a customized level of service at a lower cost. In the world of package delivery, the combination of price and service are a valuable commodity. Many businesses have built their supply chains around DHL and its customized services.

For example, ABX Air has flown a number of Boeing 767 and Douglas DC-9 aircraft with a "C" container configuration. C containers are shipping containers that are about one-sixth the size of industry-standard "A" containers. Airborne Express and ABX had patented its C containers, and built a strong market

around the innovative, smaller container and the new capabilities it brought to the marketplace. ABX used its C container fleet to support customized services for DHL's large shippers, including medical testing labs that required early-morning deliveries. ABX had several designated "red dog" flights dispatched as early as 3 a.m. to support deliveries for DHL's customers at dawn or even earlier. This allowed medical labs to rapidly return test results to physicians and their patients so they were available by the time they opened their offices the next day. The C container configuration allows DHL to load containers with freight directly on the docks of DHL's high-volume customers, providing these shippers with the flexibility to have the very latest pickups. C containers allow DHL's high-volume customers' freight to go to the head of the line, directly onto a departing aircraft, at the very last moment. Companies such as Dell, IBM and Kodak have built their parts distribution strategy on this level of service. They are likely to experience major disruptions in their parts distribution if they are forced to adjust to UPS's standard pickup and delivery schedules.

In addition, a number of businesses store inventory at the Wilmington Air Park and the DHL Commerce Park in nearby Columbus, Ohio. These DHL Customers maintain those expensive inventories at the locations because it provides quick response times for their customers. They can get their freight onto DHL's aircraft at the last possible moment; allowing late night sales. If DHL's sort and airfreight operations no longer fly out of Wilmington, these companies will have to either relocate their warehouses or truck their goods hours away to the UPS hub in Louisville, Kentucky. In either case, these DHL customers face expensive disruptions in their businesses.

Industry analysts have noted that DHL's presence has exerted a cost-control effect on the U.S. markets. If DHL contracts with UPS for its U.S. sort and airfreight operations, then it must be assumed that UPS will dictate both DHL's costs and service delivery capability within the U.S., for the air transport and sort elements of DHL's business. These two components are typically 40% of the costs in providing express delivery service. Since DHL will no longer be able to affect pricing in the overall market, it follows logically that consumer prices will go up. Given the dependence of many businesses on express delivery services, it must be assumed that these businesses will pass these costs on to their customers, exacerbating overall inflationary pressures as many consumers pay more.

Customer information is closely guarded by package delivery companies because customers demand confidentiality and because access to customer data provides an edge in this highly competitive industry. As each DHL package transits the UPS sort, UPS will necessarily have access to key elements of DHL's customer data, including;

- Name of the shipper
- Name of the addressee
- Parcel origin
- Parcel destination
- Parcel weight
- Parcel size
- Whether the parcel requires special handling
- Whether the parcel contains hazardous material
- Whether the parcel contains certain high-value contents
- Class of service paid for by the DHL customer

We believe that consumer expectations with respect to the protection of proprietary information will not be met under the DHL arrangement with UPS, and that this will most certainly have an impact on DHL's ability to retain its customer base in the U.S.

Run this scenario forward a year or two, and it is not hard to understand the growing concerns of United States' legislators that the U.S. market will ultimately be dominated by a duopoly of FedEx and UPS.

DHL has tried to allay those concerns by defining this deal as a capacity sharing arrangement similar to a passenger airline's codeshare agreement, or as a shipping company's sharing of transport capacity. We would respectfully offer a different perspective. In a codeshare between airlines, both entities share their services and excess capacity *with each other*. Should conditions change, should a relationship sour, or the competitive landscape change, either

carrier's withdrawal doesn't keep the other from functioning in the marketplace. That is not the case with DHL and UPS. While there is much we do not know regarding the proposed structure of the deal, we do know that DHL will not share airlift or sort capacity domestically with UPS. DHL won't have a domestic airline, and it won't have a domestic sort. And if at some point in the future, UPS no longer provides those services to DHL, DHL will no longer be able to provide those services to the U.S. consumer. Similarly, DHL isn't sharing shipping capacity. Of UPS and DHL, UPS is the only domestic provider of airlift or sort capacity in this arrangement. Now it may be that, as part of this deal, UPS and DHL intend to share services outside of the U.S. It may be that they intend to combine parts of their respective systems elsewhere as part of the deal they are working on in the United States. Were that true, perhaps this could be called a codeshare arrangement, a sharing of capacity. However, were that true, it would also signal another step in this industry's global consolidation – a step neither company has made public.

ABX Air's Efforts to Provide DHL with Quality Service at a Competitive Price

ABX Air leadership became concerned about DHL's situation in the U.S. over a year ago. In this regard, DHL reported that its U.S. business operations lost about $900 million in 2007. Seeing their losses, a softening economy and rising fuel prices, it was clear to us that something had to change for DHL, and quickly. Because DHL is our largest customer, providing 92% of our business, and because we are their largest vendor, we thought it important to bring our concerns to their attention, and to offer them our help. In August 2007, we had our first discussions with senior DHL Express management about DHL's losses. We asked DHL how ABX Air could help it cut costs. We asked DHL for specific concerns they wanted us to address, and we offered to change every element of those long-term agreements if we could help DHL stem its losses. Senior DHL leaders offered us no information on what changes we might make to help them save money. They indicated that they were studying their situation, that it was very complex, and that it would be some time before they formed a plan of action.

By November of 2007, we had conducted several conversations with senior DHL leaders about our concerns, each time offering to help DHL lower its domestic costs, each time asking for specific ways we could help, each time

asking about their plans for the future. Each time, DHL leaders thanked us for our willingness to help, and told us they were still studying the situation.
Though DHL has never shared its internal concerns or plans with us, when we saw their 2007 losses in the U.S., we again put together our own plan to dramatically cut DHL's domestic costs. Airborne Express had run a business similar to DHL's domestic one for over 23 years, and with the exception of the impact of September 11, 2001, Airborne Express had never sustained an annual loss. We felt we understood something of DHL's issues. On March 31, well in advance of the May 28 announcement, I presented to John Mullen, DHL's CEO, in Bonn, Germany, a proposal that would have provided their air network with over $250 million in annual savings. Our plan was based on the DHL domestic network then in place. We believe our plan would save DHL even more money when we account for DHL's revised domestic network.

With DHL's May 28, 2008 announcement, we saw for the first time how much DHL intended to cut from its domestic network. Given that information, ABX Air went back to DHL with a revised proposal. That proposal was very close in cost to what DHL intended to spend with UPS – but provided DHL considerably higher value. DHL reported that it will pay UPS $1 billion a year to handle its freight. Our plan came in less than $100 million above that, but provided DHL the flexibility of maintaining its own sort and airline capacity in the U.S. Since making that proposal, DHL's parent company, Deutsche Post World Net, has declined to meet with us.

The deal we have presented DHL is so close in costs to the DHL-UPS agreement, so superior in value, and so far less damaging to Ohio, that it invites discussion. Before DHL and UPS take steps that will have an unprecedented job-loss impact, we continue to respectfully request that ABX Air be allowed to negotiate to support DHL's worldwide success story.

With more information about DHL's needs, and cooperation from our organized employees, ABX AIR may still be able to provide an alternative to a DHL-UPS agreement that sustains DHL as a legitimate proprietary-network competitor. We remain convinced that DHL, its customers and the American consumer, would all be better served by our dedicated, efficient and customized air network in the U.S.

Maintaining DHL's operations at the Wilmington Air Park would keep thousands

employed. It would keep DHL operating as an independent delivery choice in the U.S. market. It would maintain DHL's flexibility and control, allowing it to stand by its customer-focused service standard. And it would maintain a true alternative to UPS and FedEx for customers in the express delivery market.

Economic Impact of DHL's Plan

If DHL contracts with UPS to provide DHL's airlift and sort capability in the U.S., it will dramatically alter ABX Air, the Wilmington community and Ohio. The plan would eliminate the jobs of at least 6,000 of ABX Air's 8,000 Ohio-based employees and may affect ABX Air's other employees across the country. Nearly 20 percent of these ABX Air people have been with the company more than 15 years.

The proposed deal also eliminates 1,200 jobs with ASTAR Air Cargo, 1,000 with DHL itself, and at least 1,800 in the surrounding community, ultimately costing 10,000 Ohioans their jobs and benefits.

ABX Air alone has an Ohio payroll of over $250 million a year. Because ABX Air provides healthcare benefits to all of its full-time and part-time employees, we spend over $44 million in annual healthcare benefits. The effects of losing this base of pay and benefits would begin in Clinton County, and then ripple throughout southwest Ohio and the entire state. Based upon 2006 data, ABX Air is the largest employer in each of six southwestern Ohio counties: Clinton, Fayette, Highland, Brown, Ross and Adams. However, ABX Air draws employees from more than half of Ohio's 88 counties.

DHL indicated in its earlier congressional testimony that its transition to UPS would be complete by mid 2009. Given the magnitude of these jobs losses and the short time frame in which they would occur, we believe it is of paramount importance that DHL assume responsibility for severance packages and other employee and community costs if DHL chooses to abandon Wilmington and Ohio.

ABX Air Business Restructuring Strategies

Serving as its CEO, I have a duty to ensure that ABX Air meets its obligations to its shareholders, employees, customers, and the communities in which we operate. Since the announcement, our executive management team has been holding frequent strategic planning meetings to look for viable alternatives to

DHL. This is a sizeable undertaking, as DHL currently accounts for 92% of ABX Air's revenues and 73% of its parent ATSG's revenues. While ABX Air's margins under its agreements with DHL are quite small, approximating 2.5% of revenues, the loss of the cash flows generated from DHL's business will be significant.

We have forged ahead to create a new business model should DHL and UPS sign a contract. We believe ABX Air has three primary options to consider in rebuilding our company: rapidly expanding our Aircraft, Crew, Maintenance & Insurance (ACMI) charter operations, establishing an aircraft Maintenance, Repair and Overhaul (MRO) business, and becoming an aircraft lessor. Our first option is to modify a portion of our fleet of 767 freighters so that we can be a strong standalone charter airline – an ACMI carrier. We've already invested more than $1 million in the engineering work to modify our non-standard freighter aircraft with a standard cargo door, and will invest over $150 million in modifications. We will have a significant portion of our fleet converted by August 2010. Our 767 fleet and our excellent reputation in the industry position us for a solid future as an ACMI carrier. That is good news for our shareholders and for our employees who would retain their jobs. But the fact of the matter is that ABX Air, as an ACMI charter airline without DHL, would not employee 500 people. Operating for DHL allows us to employ 8,000.

As we work to establish our ACMI charter airline, we are concurrently analyzing expanding our Maintenance, Repair and Overhaul (MRO) business. If we have continued access to the aircraft hangars at the DHL Air Park in Wilmington, ABX Air could operate a maintenance and repair organization for outside customer's aircraft and aircraft parts. ABX Air has FAA authorization to do this work, and has a good reputation in the industry. We may be able to lever our capabilities to create a solid business in this very competitive field. Establishing an MRO business allows ABX Air to employ many of the skilled aircraft maintenance technicians and support personnel who live in southwestern Ohio. The tooling is here. Our technicians have the skills. ABX Air has the reputation to bring in customers.

In our third option, we would not operate an airline at all. In this business configuration, we would secure a revenue stream by leasing our 767 aircraft to other operators. Our aircraft are in demand in the marketplace. Leasing them provides us with a reliable income stream while avoiding the risks associated

with having to go to the marketplace ourselves and placing aircraft with customers. Though leasing companies typically generate higher returns for lower risks, in this option, ABX Air essentially ceases to exist. We would have fewer than 100 employees supporting the aircraft themselves, although we could still run a MRO that would employ considerably more people.

As an aside, both ABX Air and ASTAR Air Cargo participate in the Department of Defense Civil Reserve Air Fleet (CRAF) program. In the event DHL implements its U.S. restructuring plan and ABX Air is not successful in restructuring itself as an ACMI carrier, this would result in the loss of two carriers under the program, constituting two of the four carriers operating 45-ton lift capacity for CRAF.

Though some of these options are better than others, it is clear to see that in any non-DHL option, ABX Air shrinks from a southwestern Ohio business 10,000-strong, to one with an employee base of no more than a few 100.

Future of the Wilmington Air Park

When DHL bought Airborne Express in 2003, the purchase included the largest privately owned airport in the U.S.; the Air Park that Airborne Express and ABX Air built on the site of the former Clinton County Air Force Base.

The Air Park has two all-weather runways with the capability to handle simultaneous arrivals and departures, making it ideal for air cargo operations. The facility covers more than 2,200 acres, 310 of which are surfaced. It contains more than 50 buildings and facilities. The Air Park serves as home to the ABX Air fleet, the largest fleet of Boeing 767-200 freighter aircraft in the world.

The Wilmington Air Park is a strategic asset for ABX Air. We require unrestricted access to the Air Park if we are to continue operating out of Wilmington and to establish a MRO business. Like our Ohio state officials, we have asked DHL about its plans for the Air Park, but have yet to hear their intentions.

Conclusion

In conclusion, it is clear to us that this DHL and UPS deal creates a crisis unprecedented in the rural United States, much less in rural Ohio. The impact of this deal on the people of Ohio will be felt for generations. Given the public information about the costs DHL is willing to pay for the services it is asking UPS to provide, it is also clear that ABX Air can provide DHL better economic, strategic and competitive value.

What is not clear, is why DHL and its parent company, Deutsche Post, cannot, in spite of repeated requests, evaluate the alternative ABX Air provides. Given the immediacy of the crisis and our inability to have meaningful discussions with DHL, we believe that Congressional action and review are the only ways to an outcome that provides long-term stability to southwest Ohio, the state and the nation.

We are in an accelerating race against time, and both the government and ABX Air need to continuously strive to save jobs. We are committed to an aggressive response to both the needs of DHL, and the needs of ABX Air. But if we do not act quickly, it is entirely likely we will see thousands of families without employment in an already depressed economy. Senator George Voinovich has

publicly called this job loss "unprecedented". Even when we examine large plant or base closures, no situation equals Wilmington's in terms of the concentrated impact on such a rural region.

Should ABX Air ultimately prove unsuccessful in reaching an alternative arrangement with DHL, we are committed to the difficult process of rebuilding our company. We have taken proactive steps to build on earlier successes. We can continue our success and stabilize some jobs. However, there are other steps that ABX Air respectfully suggests Congress consider to protect our company, employees, community, state and national economy.

We need our federal government to ensure that DHL and UPS do not violate the law with this deal. The express delivery business is a complex, sophisticated one. It is not easy to understand the products valued by the marketplace. Government officials must take the time to completely understand the nuances of our business. We believe it is entirely possible that it will become clear, when the complexities of the deal are understood, that DHL can no longer compete in the marketplace once it gives UPS control over pricing and sensitive consumer information.

On the surface, DHL's elimination of 10,000 Ohio jobs, while saving little if any money, makes no sense to us. Regardless of whether there is a violation of the law in this matter, given the magnitude of the economic impact on Ohio, Wilmington, and ABX Air, we ask that the United States government induce if possible, or compel if necessary, DHL to fully evaluate in good faith all alternatives to abandoning the people of Ohio, Wilmington, and ABX Air. The economics DHL needs are available in Ohio. ABX Air can provide them. And finally, should the DHL UPS deal come to pass, ABX Air requests federal help in assuring the Wilmington Air Park pass from DHL back to the people of Ohio. And we ask that our federal government provide the broadest possible support to the people of our state, communities and our company. We will need that help, and we will need it for years to come.

On behalf of the employees and shareholders of ABX Air, please accept our sincere appreciation for the opportunity to testify before the committee. Our collective desire is to clarify the importance of continued consumer choice in the express delivery market and the security of American jobs in support of global delivery networks.

I stand ready to answer any questions of the committee at any time and can be reached at my office in Wilmington, Ohio at (937) 366-2320.

Pre-Separation

Shareholders

Airborne, Inc.

Post-Separation

ABX Air, Inc. Shareholders

DHL Holdings (USA), Inc.

Airborne, Inc.

Hub Services Agreement

ACMI Agreement

August 2003