

Testimony of Frederick W. Smith
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Before the House Subcommittee on Aviation on
“The Economic Viability of the Civil Reserve Air Fleet (CRAF) Program”
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Thank you Chairman Costello, Ranking Member Petri and members of this Subcommittee. I appreciate the opportunity to testify today about this important program. It is my honor to be before you, representing the more than 290,000 men and women working for FedEx companies. With a fleet of 670 aircraft, FedEx Express is the world’s largest express transportation company, connecting customers in over 220 countries and territories around the world.

I. Background on CRAF program

At FedEx, we take our commitment to the Civilian Reserve Aircraft Fleet (CRAF) program as seriously as the one we make to our customers. While FedEx receives economic benefit from CRAF participation, our principal motive for participation is a deeply felt desire to provide support to our Armed Forces and a sense of obligation to our country. FedEx has a decades-long commitment to CRAF which has been evidenced in times of crisis or war. When the need for airlift has exceeded military resources, FedEx has answered the call and provided aircraft and crews. We believe the CRAF program and the many participating civilian air carriers serve our country well. We continue to support CRAF, and we believe the current structure will continue to best serve the country’s needs for many years to come.

Working in concert with the U.S. Military, civilian air carriers are critical partners in the national defense. Twenty eight air carriers participate in CRAF by committing to provide more than 1000 civilian aircraft to various stages of conflict. These aircraft augment 288 Air Force aircraft and provide the country a broad array of aircraft during times of national emergencies. To illustrate the importance of the civilian airfleet during times of war, the Department of Defense (DoD) anticipates that the CRAF program will move more than 90% of passengers and almost 40% of cargo in a conflict.

The CRAF program participants also provide aircraft to meet peacetime requirements and surge capacity. This voluntary commitment of aircraft provides needed airlift without requiring the government to purchase and maintain additional aircraft. As an Institute for Defense Analysis (IDA) study concludes, this is a cost-effective complement to DoD's organic capacity. That being said, I believe that too little focus is placed on the benefits that CRAF provides in helping match military needs with civilian aircraft supply. As I will discuss later in my testimony, CRAF can provide even greater benefits by enhancing incentives for carriers to provide aircraft during peacetime and surge periods.

It is important the CRAF program remain strong and economically sound. In support of this desire to see CRAF succeed, allow me to provide some background on FedEx's history and experience with CRAF and then follow up with comments as to what we believe works in the CRAF program, and what we believe can be improved.

II. FedEx participation in CRAF

FedEx has been participating in the CRAF program since 1985. We commit more aircraft to the International Long-Range Cargo segment of the CRAF program than any other carrier. For the U.S. Government's Fiscal Year 2009, FedEx committed 78 wide-body freighter aircraft, or 100% of the eligible aircraft in our fleet, to the CRAF program. If you evaluate at which stage FedEx aircraft would be called-up, this commitment represents 19% of the total aircraft allocated to Stage I, 30% of Stage II and 34% of Stage III. During the first activation of the CRAF in Operations Desert Shield and Desert Storm, FedEx moved over a third of the immense amount of cargo that was transported on commercial aircraft. History shows FedEx plays a significant role in moving cargo for our nation in times of conflict.

As a CRAF participant, in return for pledging aircraft to meet DoD requirements, FedEx has the opportunity to fly military cargo during peacetime and surge periods. The opportunity for peacetime business is awarded to FedEx and other participants in proportion to the amount of airlift capacity the carriers commit to the CRAF program. In other words, carriers that commit more and larger aircraft in times of a call up receive more and greater peacetime opportunities for business.

While FedEx does not perform missions on the same scale as some of the smaller charter carriers, FedEx does provide a significant amount of peacetime and surge support to the DoD. As an example, during this fiscal year, FedEx has flown approximately 13 to 14 missions per month, delivering vital materials for our military operations around the world. These operations

represent a small percentage of our teams' CRAF entitlement flying. The rest of the missions awarded to the FedEx team are performed by our team members.

FedEx also participates significantly in the Worldwide Express cargo program. The Worldwide Express cargo program is designed to move the most sensitive, high value, and time definite military cargo. While CRAF participation is required for this program (a team must have 15% or more of freighter fleet committed in order to qualify for express traffic), the CRAF entitlement points are not used in assigning this business.

The benefits that air carriers receive through participating in CRAF come in the form of "points" awarded to teams of CRAF participants, a concept that has been in place since 1992. FedEx currently leads one of the three Contractor Team Arrangements (CTA). Charter airlines such as Omni, Gemini, North American, Evergreen, Polar, Astar and Atlas are aligned with major scheduled airlines and integrated cargo carriers such as United, American, USAir, Delta, Northwest, Alaska, UPS and FedEx.

The team concept works well. Charter carriers traditionally have fewer aircraft than are needed by the military in case of a call-up. But during peacetime, their business model is focused and dependant upon military and commercial charter missions. The larger scheduled airlines find themselves in the opposite position. The mainline carriers have more aircraft to commit to be called-up in times of war, but it can be difficult for them to take advantage of the peacetime flying because their aircraft are committed to scheduled routes. Consequently, the charter airlines benefit from the team because they receive more peacetime flying than they would

otherwise be entitled based on the number of planes they commit to the CRAF program. The scheduled airlines receive commissions paid by the charter members which help offset the risk the large carriers take by pledging their aircraft in CRAF. The DoD benefits because the team concept encourages more carriers and more aircraft into the program. Without teams, the larger mainline carriers would have less incentive to participate in the program and the DoD would have a shortage of aircraft committed to the program.

Teaming arrangements have both efficiency and administrative advantages for the AMC. It provides the AMC a broad range of aircraft from which to choose. It allows the Air Mobility Command (AMC) to coordinate missions through a single point of contact, the respective team leader. Team leaders, such as FedEx, bear the primary administrative responsibility for coordinating between the AMC and the team members. Team leaders also coordinate among the team members, handle the teams' administrative tasks (such as processing invoices), and provide managerial responsibilities.

Teaming arrangements provide economic benefits to all carriers, including the larger, network carriers. For example, FedEx as a team leader receives administrative fees for leading the team. In addition, FedEx, as well as the other team members, collects a percentage of mission revenue paid into each team pool. In return, a team leader like FedEx may commit the largest number of aircraft and assumes the risk that goes with committing aircraft and managing a team.

While the team concept is not perfect, FedEx continues to support it. We believe the team system is flexible, is dynamic and provides flexibility for both the military and the carriers. The

points earned from committing aircraft to the CRAF program can be sold to members of other teams. Carriers are at liberty to switch teams or form new ones. Team compositions have changed over the years, and the vitality of the team concept has never negatively impacted the long-term viability of the CRAF program. Even when carriers have entered bankruptcy and/or ceased operation, there has not been a negative impact on the viability of the CRAF program.

The durability of this team concept is particularly important in these difficult, economic times. As we continue to face the toughest economic times in recent history, the bankruptcy or unfortunate demise of a weaker carrier is a possibility. As in the past, the CRAF teams and their individual carriers will work together to minimize the impact and will continue to meet the airlift demands of the military.

In summary, FedEx is proud of the contributions it has made to the CRAF program. The DoD receives high quality, cost effective airlift. Because of CRAF, the military is not forced to maintain excess aircraft during peacetime. We also believe the team concept plays an important part in CRAF. We and our team members take pride that CRAF has always accomplished its goal of having sufficient aircraft available in the program to meet military needs in times of crisis.

III. Suggestions for the future of CRAF

While the CRAF program continues to work well, I believe that there are aspects of the program that can be improved. I would like to touch on three important aspects of the CRAF program under scrutiny by experts and commentators. One area, the team concept, we believe should be

preserved. The second area, additional mandatory requirements on carrier participants, should be avoided. And the final area, increased flexibility in the size and use of cargo aircraft, we believe can be improved.

First, FedEx remains committed to the team concept. Some commentators recommend discontinuing the teaming concept in the CRAF program or requiring that the teams be required to specialize in all cargo or passenger operations. We disagree. Wholesale rejection of the team concept is not warranted and would be detrimental to fundamental CRAF goals. Teaming arrangements promote flexibility in utilizing mobilization points, and allow the carriers to complement each other's unique capabilities. Teams provide the DoD a large and flexible pool of aircraft. Without teams, the larger carriers would have less economic incentive to commit their aircraft to the program. The smaller charter operators would lose out on valuable peacetime and surge flying opportunities and the loss of that revenue could severely threaten the continued viability of those carriers. Finally, the DoD would lose the valuable administrative and managerial benefits that come from dealing with only three teams rather than the alternative; dealing with dozens of individual carriers.

Second, FedEx opposes a system where team members must commit to certain levels of peacetime and surge flying. IDA has recommended that CRAF adopt an "Assured Supply Model". Under this Model, team members must contractually commit to a certain amount of peacetime business. In return, the DoD provides a guaranteed annual minimum level of business. The Assured Supply Model seeks a commitment from the team members that they must fly peacetime missions. I believe this suggestion will force many mainline carriers to

reconsider the costs of participating in CRAF. It will reduce the flexibility of the teams, hinder teams from identifying the best and most appropriate aircraft for peacetime missions, and negatively impact the economics of the program to carriers. The current, voluntary model of awarding peacetime flying works. If it isn't broken, it doesn't need to be fixed.

Third, FedEx believes the DoD has historically over-relied on 747 freighter aircraft when awarding peacetime flying. Less than half of all the cargo aircraft in CRAF are 747's. While a recent policy change has improved allocations to smaller wide-body aircraft, the 747s still get at least 80% of the cargo traffic. Using smaller, wide-body aircraft will provide more peacetime business to a greater share of program participants while providing considerable cost savings for the DoD. It is our understanding that currently 747 aircraft often have less than full payloads. To further compound the problem, the DoD pays the same rate for all 747 versions, from -100s to -400s. So, carriers are incented to use their least efficient 747's for CRAF missions and save their more fuel-efficient models for commercial assignments. This makes it difficult for the DoD to match payload levels with the costs it is paying.

There are few operational problems with using smaller aircraft in appropriate situations. If the DoD implemented best practices in stacking and loading patterns many of the payloads being transported could be carried on smaller more fuel efficient MD-11s/10s. We believe the DoD should use a wider range of cargo aircraft. This will result in greater flying opportunities for carriers and more efficient movement of DoD freight.

I would like to raise two final points before I take questions. A concern frequently raised is whether a particular carrier can meet its commitment to provide their dedicated lift to the DoD. In other words, are some airlines operationally or financially unable to meet their obligations? And, can we enhance the team concept to provide additional, cost effective flying opportunities for teams, which in turn will create greater incentives for individual carriers to seek and accept peacetime flying?

ATA Airlines is the example often cited as a single air carrier that was unable to meet its CRAF obligations. As everyone knows, ATA, a former member of the FedEx team abruptly ceased operations last year. As a result, a short term void in available passenger lift caused some limited delays in the transportation of some troops. In that situation, the problem was not caused by an over reliance on one carrier, or even the team concept, but, instead, it was symptomatic of the decreasing availability of charter passenger capacity. To the extent capacity is available in the market, the team concept actually cushions the impact of situations like this, since it has ready and available other team members prepared to take the place of the exiting carrier. The teams also work with one another in covering routes. Neither the elimination of the team concept nor the creation of specialized all cargo or all passenger teams would have solved the short term problem of inadequate lift in the market that existed at the time.

And, regarding the enhancement of the team concept to provide additional, cost effective flying opportunities for teams, I do believe we can improve the opportunities for carriers to fly peacetime business, which will encourage more commitment to the CRAF program. This can be done by finding ways to better use the military/civilian air fleet mix during peacetime. This

requires focusing each sector on operational changes that will encourage increased use of simulator training in the military and more use of civilian lift. Allow me to explain.

The DoD is challenged to maintain the correct balance between commercial and organic military flying for cargo operations during peacetime. On one hand, the DoD needs to take advantage of the cost effectiveness of the commercial aircraft which also provides the necessary incentives for carriers to pledge those aircraft. On the other hand, it must fly its organic fleet enough to keep the military crews at an acceptable state of readiness for its military fleet.

Commercial cargo aircraft are significantly more cost effective than military cargo aircraft in many respects. Military aircraft must be outfitted to meet a variety of missions under a variety of circumstances. They weigh significantly more than a commercial equivalent would weigh, making their cost per pound transported significantly higher. They are also equipped with military features not required in commercial aircraft, and then cost commensurately more. The C-17 is the most obvious example with its ability to utilize short, austere airfields, perform tactical airlift in combat environments, conduct equipment and paratrooper airdrop missions, move outsized cargo and transport troops. It is a marvelous aircraft that meets demanding mission requirements, but it is a lot more aircraft than is required to simply move cargo from point A to point B, which is what is needed during peacetime. Crew costs are also higher. Because of the nature of its operations, the military must dedicate significantly more manpower to aircraft operations, as personnel rotate out of the squadron to other duties approximately every three years, resulting in significantly higher costs than a commercial entity would experience or tolerate.

The most significant manpower cost is associated with pilots. Whereas a commercial entity matches the number of pilots to the number of aircraft that are physically operated, the military matches pilots to wartime requirements given the number of aircraft available for wartime scenarios. During peacetime, these pilots must be trained and kept current, even if there are not missions required of the aircraft. Worse yet, as opposed to pilots with a commercial entity, military pilots rotate to other duties and are numerically replaced by other pilots. And still worse, as opposed to commercial airlines, the military absorbs the entire cost of taking young men and women and giving them the extensive initial training that turns them into aviators. Much the same argument applies to maintenance technicians.

Obviously, the military needs to maintain crew readiness for these planes; however the Institute for Defense Analyses recently found that military organic aircraft are being used well beyond the minimum levels required to meet flying hour requirements. The military could benefit by placing as much emphasis as possible on training in simulators in the same vein as is done in commercial airlines. This would save fuel, money, maintenance and ultimately aircraft life.

IV. Summary

FedEx continues to participate in an effective, efficient CRAF program because it benefits our citizens and our country. The program has proven to be resilient and to work in times of crisis. We continue to support the team concept, but we would like to see more flexibility from the CRAF in the types of aircraft requested in peacetime for cargo movements. We do not believe additional requirements imposed on carriers will improve the program, but we do see

opportunities to improve efficiency by utilizing more commercial airlift, by not using military aircraft in unproductive ways, and by an increased use of simulators for military flight training.

Thank you for allowing me to speak to you today, and I look forward to your questions.