

Capt. Prater Oral Testimony
September 16, 2008

Good afternoon. It is always an honor to appear before this committee. Congressman Oberstar, you have been a particularly strong voice for our industry and I thank you for your support on all the issues that matter to the 53,000 airline pilots of ALPA. Today, I am here to represent a dedicated group of 500 pilots who fly for ASTAR Air Cargo. For more than 30 years these men and women have worked to make their company one of the most reliable cargo airlines in the world. Sadly, it appears that corporate decisions made in an office building in Germany could shut down ASTAR forever.

What Deutsche Post, the owner of DHL, is saying is that your job does not depend on your performance. It depends on the whims of corporate bean counters who treat workers as just another expense to be cut in the name of "restructuring." What is even more outrageous is that their plan is already failing and will inevitably lead to more industry concentration, higher costs for consumers, and more good jobs lost. I would like to take a moment to thank the bipartisan group of legislators from Ohio, as well as the governor, lieutenant governor, and mayor of Wilmington for demanding a careful examination of this deal.

The proposal announced in May by DHL and UPS is One Bad Deal, and it is built on a weak foundation – a mixture of secrecy and closed thinking. Make no mistake: DHL did not reach out to any of its current partners to put a plan in place to keep it competitive. They didn't reach out to public officials in Ohio, who have a fine track record of making resources available to support DHL operations. They didn't include ASTAR, a company in which they have a 49-percent stake and a seat on the board of directors. And they certainly didn't reach out to the workers who will subsidize DHL's restructuring with their jobs.

It's hard to figure out what Deutsche Post is thinking. Just last week, the corporation assured the Judiciary Committee that it would remain a viable competitor with UPS, and both DHL and UPS promised that there would be firewalls to protect information on DHL's pricing and customers. That assurance was dubious even at the time. Now the *German Financial Times* has reported that, due to the deterioration in DHL's revenue situation since the deal was announced, it is negotiating to have UPS provide ground transportation for as much as one third of its service. This leads to two points.

First, DHL is clearly prepared to rely on UPS for the entire sorting and transportation functions for much of its volume. If that is not a de facto merger, I don't know what is. In any event, the idea that DHL can protect this information when it has outsourced its

entire air transportation and sorting functions, as well as a substantial portion of its delivery function, to a major competitor is absurd on its face. This Committee and the Justice Department should insist on reviewing these “firewalls” before any transaction is consummated in order to analyze whether these safeguards are real or, as we suspect, mere cover for giving the bulk of DHL’s North American business to UPS. Second, while DHL has lost market share since Deutsche Post took control of it and Airborne several years ago, the *Financial Times* has made it clear that the deterioration in DHL’s situation has accelerated since May.

As for the failure of DHL to think constructively and deal above board, the facts are clear. DHL fashioned the “solution” to its problems in North America unilaterally, bypassing the companies and employees who have supplied its lift for many years, as well as the state of Ohio. This process denied the parties most affected any opportunity to construct alternatives or protect themselves. Instead, DHL’s “solution” ensures that two companies – both of which were viable competitors when purchased by DHL – will be summarily put out of business, with their employees on the street during one of the worst job markets in our lifetimes. Deutsche Post says that this approach is its “only alternative,” but it concluded that without even consulting the very people who built its North American business and care most about what happens to it.

Mr. Chairman, there has to be more to this than meets the eye. After all, both ASTAR and ABX have met all performance targets set by DHL and provide 99 percent on-time performance. The pilots at both carriers, while reasonably compensated, earn less than pilots at UPS or FedEx. The bottom line is that DHL’s problem in North America is not the cost or effectiveness of its air operations. Its problem is that it cannot compete with UPS and FedEx on the ground. They can’t restructure their way out of that and they can’t solve it by switching to another provider of lift, much less by handing their operations to the competition. What they need to do is work with their current suppliers and their employees to prevent customer flight and restructure operations in ways that make sense.

For all these reasons, Mr. Chairman, the transfer of DHL’s lift to UPS requires, at the very least, careful scrutiny by this Committee, the Judiciary Committee, and the Department of Justice. Further, as suggested by Chairman Conyers last week, this deal should be delayed pending such scrutiny. And, given the stakes for workers and competition, any confidentiality restrictions entered into by the parties should be voided. If DHL and UPS won’t operate in the open, we ask you to step in and “restructure” their thinking. Thank you for your interest in this important matter.