



**Joint Hearing of the Senate Finance and House State
Government Committees Concerning the DHL Announcement
and the Air Park**

When: August 19, 2008 at 1:00 p.m.

Location: Wilmington Air Park, Building 2, Classroom 1 & 2

Testimony: Joe Hete; CEO of ABX Air (CEO & President of ATSG)

Summary:

I have prepared information about how this proposed plan by DHL will affect ABX Air and how the loss of 6,000, and potentially as high as 8,000 jobs due to business restructuring, will be detrimental to our community, and potentially hundreds more jobs will be lost nationwide as a result of closing our line stations.

- I will walk you through the ABX Air and DHL relationship and its unfortunate possible demise.
- I will discuss the impact that it will have on various stakeholders and our surrounding communities and how we have been aggressively pursuing alternatives.
- I also will contend why the Air Park is an invaluable asset to this community, the state, and the Nation; and why it needs to remain available and open for commerce.
- And finally, I will propose several proactive measures that the Committee can take to help assist in mitigating the economic devastation.

Thank you.

TESTIMONY OUTLINE

I. Introduction

- a. Joe Hete—CEO for ABX Air (ASTG—President & CEO)
- b. History of the ABX Air and DHL relationship

II. ABX Air since the DHL Announcement

- a. Maintaining stellar service
- b. Given revised proposals to DHL that are comparable to UPS
- c. Working on Retention, Severance and Productivity incentives
- d. Looking at alternatives if the agreement between DHL and UPS is signed

III. The Impact of the Announcement to ABX Air & its Stakeholders

- a. Workforce
- b. Community Impact
- c. State Impact
- d. Economic Impact

IV. The Future of ABX Air

- a. MRO, ACMI or Leasing Company (or Combination of 2 or all 3)
- b. Access to the Air Park is key. We must have access to the Air Park and not restrict its use to keep jobs in the area

V. Conclusion

- a. Working toward solutions
- b. Need continued government support at all levels

THANK YOU ... OPEN FOR QUESTIONS

Mr. Chairman and members of the Committee, thank you for taking the time to meet with me and other concerned community members today regarding the recent DHL announcement to replace services provided by ABX Air, ASTAR, and other vendors with UPS. My name is Joe Hete, CEO of ABX Air; I am also the CEO and President of Air Transport Services Group, the parent company of ABX Air.

Your interest in ABX Air and the Air Park sets a precedent for a very delicate and complicated situation that requires action at your level. We greatly appreciate the involvement of all of the government leaders who have taken action, formed committees, called for hearings and raised attention to this issue. Let me assure you I respect your efforts and it is appreciated by all of us here at ABX Air, as well as the Wilmington Community and our surrounding areas. Your veteran wisdom, fresh ideas and steady engagement is paramount to resolving this situation. This hearing is an instrumental step toward developing complete and sound solutions that will benefit the community and the state of Ohio.

I have prepared information about how this proposed plan by DHL will affect ABX Air and how the loss of 6,000, and potentially as high as 8,000 jobs due to business restructuring, will be detrimental to our community, and potentially hundreds more jobs will be lost nationwide as a result of closing our line stations.

- I will walk you through the ABX Air and DHL relationship and its unfortunate possible demise.
- I will discuss the impact that it will have on various stakeholders and our surrounding communities and how we have been aggressively pursuing alternatives.
- I also will contend why the Air Park is an invaluable asset to this community, the state, and the Nation; and why it needs to remain available and open for commerce.
- And finally, I will propose several proactive measures that the Committee can take to help assist in mitigating the economic devastation.

Make no mistake—if DHL contracts with UPS to provide its airlift and sort its express freight, it will dramatically change our company, community and the state. It is my hope that I will convey to you a sobering sense of the enormous scope of the DHL plan and the future of the Air Park, and the immediate economic implications to crippling long-term devastation.

- The magnitude of this announcement has the potential to destroy much of Wilmington and Clinton County's economic base and potentially discourage eventual population return and community rebuilding.
- Coupled with the potential job losses from ASTAR, DHL and local vendors, the overall affect will result in a substantial erosion of the tax base.
- Based upon 2006 data, the Air Park is the largest employer in a six-county southwestern Ohio area that includes Clinton, Fayette, Highland, Brown, Ross and Adams counties. Air Park employees come from 45 of Ohio's 88 counties.
- Keep in mind, this comes to an already economically disadvantaged portion of the state given the recent events of Emery/Menlo closing, which was a result of them being acquired by UPS, and General Motors announcing job reductions in the greater-Dayton area.

- And, the Ohio Department of Jobs and Family services announced last week that Ohio's unemployment rate hit a 15-year record high of 7.2 percent.

It is important to emphasize the awful truth that the ramifications of the DHL Announcement are almost certain to get worse before they get better.

The stakes are high.

Early in the new millennium, Airborne Express was one of five (FedEx, UPS, Emery & DHL) major airfreight express choices to anyone shipping a package. It built its reputation not on show, or commercialism, but on personal contact, efficient use of assets and top-notch service. In 2003, DHL announced its intention to purchase the book of business of Airborne Express for a little over \$1 billion. UPS acquired Emery in 2004, closing its operation and laid off its Ohio workforce. Within two years the competition would be down to three.

There were those concerned at the time that the DHL purchase not a good course of action, and it is easy now to look back with the benefit of hindsight and realize those concerns were valid. That aside, DHL had the same focus on customer service that had been a hallmark of Airborne Express. DHL had a strong international market presence, while Airborne had a solid stronghold on the domestic market. The combination of the two companies had a lot of promise for shareholders, customers, employees, the community and the State.

ABX Air was spun off as an independent company when DHL purchased Airborne Express and initiated two commercial agreements with DHL. Both of them allowed ABX Air to continue to do what it had been doing for Airborne Express—fly well-maintained aircraft on time, and sort packages with attention to detail and customer needs.

In a Herculean effort, ABX Air orchestrated a successful integration in 2005, completely moving the DHL operations from Cincinnati to Wilmington in less than 48 hours—a move that should have saved DHL millions of dollars. To date, the state of Ohio, city of Wilmington, and Clinton County have invested over \$400 million into the Wilmington area in support of the hub. Additionally, the state fast-tracked the state route 73 relocation when DHL agreed to move its operation.

We continued to ask our employees to work harder and smarter, and be open to the new ideas—working to accommodate our customer, DHL.

To this day, we continue to work to make DHL successful in the U.S. market. We have built up an incredible knowledge base on sort processes and fly fuel-efficient and well-maintained fleet of aircraft. We put our need to identify and brand our newly independent ABX Air aside and painted our greatest asset—aircraft—in DHL livery. ABX Air, the community, county, and state, has done everything possible to set DHL up for success.

Since the DHL Announcement on May 28, ABX Air has provided a 99% on-time performance to our number 1 customer—DHL. Despite the obstacles and an increasingly difficult environment, ABX Air employees have and will continue to fulfill our

commitment. The reason—because we said we would. These principles of doing what we say we will do are the foundation and values that make ABX Air what it is today.

World-class service does not happen by chance. The performance of this organization is a direct result of more than a quarter of a century of accumulated experience and hard work that has paid dividends over the years and service dividends to DHL over the past five years. Our employees' talents are the driving force for sustaining our Company and DHL's domestic presence.

We have gone back to DHL with revised proposals that we believe are comparable in cost to UPS', unfortunately DHL's parent company, Deutsche Post refused to meet with us. DHL reports it will pay UPS \$1 billion a year to handle its freight. Our current plan comes in at less than \$100 million above that, except our plan offers a fleet of efficient aircraft dedicated solely to the DHL operation and eliminates the transitional and competitive risks. For that \$100 million, DHL maintains more flexibility, reliability and control. Further, it maintains DHL's independent footprint on the market. In recent weeks, we have been informed that DHL cannot entertain other proposals while in negotiations with UPS.

In the interim, our employees have to endure the uncertainty of how they will provide food and shelter for their families. We need to strike a suitable balance and alleviate some of the concerns for the ABX Air employees.

I have a duty to ensure that ABX Air meets its obligations. Since the announcement, executive management has been holding frequent strategic planning meetings to look for viable alternatives if the agreement between DHL and UPS is signed. Our front line managers are doing the impossible in managing employee morale and expectations during this purgatory of uncertainty, and our employees continue to amaze us with their incredible work ethic and integrity.

It is reported that money rolls over in a community six times. The city of Wilmington and Clinton County will suffer a direct hit.

Recently the Mayor of Wilmington reported that one out of three households in the city has an ABX Air employee. ABX Air total wages per pay period are estimated around \$13.8 million, and nearly \$2.1 million annually are paid in Wilmington City taxes. In the last six months, over \$3.2 million was spent by ABX Air with local businesses.

There will be an adverse impact on the state of Ohio. ABX Air draws its employees from more than half of the counties in the state.

- ABX Air Ohio wages are approximately \$8.2 million per pay, or over \$214 million annually, and;
- Our employees pay roughly quarter of a million dollars every two weeks in Ohio state income taxes, totaling over \$7.1 million annually and;
- Ohio school district taxes over \$27,000 per pay.
- ABX Air conducted business with companies in Ohio, including Clinton County, spending \$19.4 million from the first of Oct. in 2007 to the end of March this year.

When you combine the total jobs potentially lost at the Air Park of them:

- ABX Air—6,000 to 8,000;
- ASTAR—1,050;
- DHL—1,000; and
- the GM Moraine plant less than 35 miles away—2,000; the numbers are staggering when realized they are confined to one geographic area.

It will be difficult for the state of Ohio to cope with the large numbers of people seeking employment if the total number of jobs lost rises over 12,000.

Maintaining DHL operations at the Air Park is vital. It could keep thousands employed. It keeps DHL operating as an independent delivery choice in the U.S. market. It maintains DHL's flexibility and control allowing it to stand by its customer-focused service standard.

Challenges can be opportunities, and we have taken measures to stabilize continued success. Though we are faced with a devastating blow here at ABX Air we have forged ahead to create a new business model should DHL and UPS sign a contract. In hopes of curtailing the worst effects of the inevitable devastation, we are looking at three options or a combination: Maintenance, Repair and Overhaul (MRO), Aircraft, Crew, Maintenance & Insurance (ACMI), or Leasing Company.

- The first option: with access to the hangars and Air Park, ABX Air could operate a maintenance repair organization. It is already an FAA authorized 145 Repair station. This option would allow ABX Air to employ a number of aircraft maintenance technicians and support personnel and to repair customer aircraft and components. The tooling is here. The technicians have the skills. We have the reputation to bring in customers.
- Our second option is to modify a portion of to build our fleet of 767 freighters so we can be a strong standalone ACMI carrier. We've already invested over \$1 million in the engineering work required to modify the Passenger Configurations aircraft to Special Freighter configurations and will invest over \$150 million in modifications. The Supplemental Type Certificate proof of concept goes into modification in September. We plan to have a significant portion of the fleet converted by August 2010. We feel we can have a solid future as an ACMI carrier, but frankly this isn't as attractive to us as retaining DHL as a core Customer, because as just an ACMI carrier, we would have a much smaller Employee base. Where operating for DHL keeps thousands of ABX Air People working here, flying as an ACMI carrier retains only hundreds.
- In our third option we revert from operating an airline at all. In this business configuration—the least attractive—we would secure a revenue stream by leasing our 767s to other operators. The aircraft are in demand in the marketplace. Leasing aircraft means we get a solid income stream and avoid the risks associated with having to go to the marketplace and place aircraft with Customers—someone else would do that. But in this version, ABX Air pretty much ceases to exist. We'd have less than one hundred Employees supporting the

aircraft themselves, although we could still run a Maintenance, Repair and Overhaul (MRO) that would employ considerably more People.

As you can see, we could go from over a 10,000 strong employee base to possibly fewer than 100 due to the loss of DHL and the need to restructure our business. Again—the stakes are high.

The future of the Air Park remains a matter of highest priority to ABX Air.

In 1972, Clinton County Air Force Base closed its doors, eliminating 300 jobs and a loss of \$9 million a year in payroll. The closure of the base was a blow to Clinton, Highland and Fayette counties. Fast-forward to today—DHL is looking to leave. Taking with it more than 6,000 jobs, over \$338 million a year in payroll, and it will have a direct economic affect on six different counties.

When DHL bought Airborne Express in 2003, the purchase included the largest privately owned airport in the U.S. The Air Park is over 2,200 acres, 310 of which are surfaced, has over 50 buildings and facilities on and remote to the airport, houses nearly 8,000 pieces of Ground Support Equipment, navigational aids and lighting for the runways and non-aircraft radio equipment. In 2000, ABX Air spent over \$12 million implementing a state-of-the-art subsurface storm water treatment facility, the first of its kind at an airport in the U.S. The Air Park also serves as our home to the largest Boeing 767-200 fleet in the world.

In conclusion, Mr. Chairman, I would like to emphasize that providing assistance during this crisis is crucial to southwestern Ohio with a direct correlation to the state and the Nation.

We have taken proactive steps to secure continued success. We are evaluating alternative options to maximize ABX Air's reputation in the industry and stabilize as many jobs as we can. There are other steps that ABX Air respectfully suggests the government take to help protect our company and community, other businesses, and the State of Ohio, against severe repercussions:

- First, we need support from the government entities to investigate possible violations of anti-trust issues from the impending DHL and UPS agreement. There is a possibility of problems rising at various stages from when the contract is signed to the final transition.
- Second, we need access to the Air Park. This is a vital element to our new business structure. I have explained how ABX Air is looking at alternatives if DHL and UPS reach an agreement. Achieving security regarding the future of the Air Park is an essential prerequisite that is missing up to this point for mounting an effective plan to preserve ABX Air's current state. Those proposed business models are contingent upon access to the Air Park and not restricting its use.
- Finally, and most important, we need your continued due diligence to this matter. As I mentioned before, all of us here at ABX Air are very grateful for your

support. I encourage you to continue your pursuit in a collective non-partisan effort to mitigate the impending economic devastation.

The announcement has sent shockwaves but its repercussions are long lasting. The legacy of more than 25 years of hard work and innovation will not fill the void of losing 6,000, or possibly up to 8,000 jobs.

When I came to this community 28 years ago, we were a small operation with approximately 300 employees. Over the years, we have built ABX Air to be an industry leader with over 10,000 employees. I promise, we will rebuild.

The magnitude of DHL's plan will transform a community that once flourished around ABX Air, into a quiet, rundown, decaying town. Yes, this community has closed this base before and survived. But today the stakes are much higher and the losses will be astronomical, claiming its livelihood.

We have endured much over the years, yet we have always persevered. Now, we need your help. ABX Air pledges to remain an industry leader in aviation innovation. Our employees, the industry, and consumers will continue to receive stellar service despite the growing challenges.

We are in an accelerating race against time, and both the Government and ABX Air need to continuously strive to save jobs. Collectively, we must start now. We are committed to an aggressive response to the needs of the employees of ABX Air, and we are committed to supporting the difficult process of rebuilding. Sadly, it is possible to conceive chilling scenarios that could see an astounding 6,000 families or more without employment in an already depressed economy.

The road that lies ahead to reverse the effects of the DHL plan will be long, tedious, and plagued with uncertainty.

Mr. Chairman, Committee Members, and Ladies and Gentlemen, I can assure you that you have the full support of ABX Air. We will continue to do our jobs. We are weary, but will be persistent. We are counting on you.

Again, I would like to thank you for the opportunity to speak today. I hope that I have been able to clarify without a doubt the importance of these jobs to this community and to the state, and answer key questions that have been raised in recent weeks. I look forward to what the Committee can do to help ABX Air on this delicate issue and offer my services to participate in any future hearings where I can further our cause.

Thank you.