

**Remarks of
Mike Eskew
Chairman and CEO, United Parcel Service
to the International Aviation Club of Washington
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Thank you, Charlene Kennedy (Delta Airlines), for that kind introduction, and good afternoon, everyone. Let me just start by saying that I'm especially honored that so many distinguished public servants took the time to come today. Believe me, having spent a lot of time on the road around the country over the last year, I can tell you that the American people appreciate your dedication and contribution. I also believe the American public has come to better appreciate the challenges of the aviation industry ... and the critical role aviation plays in keeping global commerce moving forward.

We at UPS are still relatively the new kids on the block when it comes to international aviation. Our first Next Day Air delivery took off from our Louisville Air Hub just 14 years ago. That makes us a much "newer" new entrant than the likes of Southwest Airlines. And despite a steep learning curve, the ramp-up of our airline was actually the fastest launch of a major airline in FAA history.

Today, we're the 9th largest airline in North America and the 11th largest in the world ... with over 330 cargo jet aircraft operating more than 2,630 daily flight segments to every corner of the globe. Tonight, if you were at our highly-automated Worldport facility in Louisville, you'd see more than 6,000 UPS employees pull pallets off more than 100 aircraft coming in from all over the world ... sort all of these packages ... and reload the aircraft with packages destined for more than 200 countries and territories.

To the untrained eye ... it might look like barely contained chaos. But nothing there happens by chance. It's as highly scripted as one of Dale Jarrett's pit stops at the Daytona 500.

I remember being at the hub one night with a reporter ... and as we were talking, a jet was taxi-ing over to the North Ramp while another jet was just leaving the South Ramp at the same time ... and the reporter turned to me and said: "Aren't you lucky those two planes left when they did and didn't cause a bottleneck out on the taxiway?" I told him there's nothing here that happens by luck. Everything is carefully planned and orchestrated ... thousands of intricate processes and events ... nothing left for chance.

Our founder, Jim Casey had a saying for what this reporter mistakenly thought was luck. Jim would have called all this precision choreography "the sum of many things done well." The sum of many things done well describes how we sort over three million of our customer's valuable air and international packages each day, as the world's largest express carrier.





Yes, we're proud to be part of this great industry — this great mission — of international aviation. All of us here today in the aviation community can take pride in our role of connecting people and ideas, goods and cultures around the globe. More than ever, international aviation is a critical infrastructure of world commerce and trade. It's also a major conduit of social, cultural, and political interaction.

At UPS, our mission is to connect the globe. To synchronize global commerce. We think it's a noble purpose ... connecting countries, cultures and people. Making those connections requires access to world markets ... and the ability to serve our customers' growing global trade needs. The express delivery business has grown dramatically along with the global economy over the last several decades.

Here in Washington, I think we're seeing a better understanding of the economic importance of the express delivery business. Part of that was reflected nearly two years ago when the DOT issued its historic decision to award UPS the hotly-contested rights to serve China. That decision came down in UPS's favor, despite competing applications of leading passenger airlines.

More and more people are realizing that globalization is a fact of modern life. We're in a world marketplace that demands the efficiencies of just-in-time manufacturing, multi-national, multi-site assembly, and instant communications. In this environment, express delivery services have become the key enabler of world trade and commerce. That demand continues to grow. Last year, 2001, was the second best financial year in our 95-year history. A major reason for that was our strong growth in international markets. We don't think it was an aberration.

Within the next 20 years, Boeing projects that world air cargo traffic will triple. Industry-wide, we're likely to see annual growth rates of over 6 percent, with intra-Asia traffic leading the way at more than 8 percent annual growth. At the same time, it's estimated that the portion of air cargo that is air express as opposed to air freight, will grow from 9.2 percent to 31 percent. Air cargo trade now accounts for a full 40% of the total value of international trade, but only 2% of global trade by weight.

Air cargo demand remains especially strong in Asia. Carriers like Korean, Singapore, and Dragonair are all reporting big jumps in cargo volume and increases in cargo yields over pre-9/11 levels. And that's happening even as passenger traffic has dipped. In a rare occurrence, even Boeing and Airbus agree that air cargo trade within the Asia-Pacific region will grow faster than anywhere else in the world over the next two decades ... and much faster than passenger traffic.

China's a prime example. Since we started direct service there just a year and a half ago, our volume of business has more than doubled. Today, our 747 freighters are typically filled to the brim — nearing 100% load factors. Although mostly freight, we're delighted with the growth of express packages out of China. Chinese carriers are expanding their own service to the U.S and within Asia.





To compete effectively in the dynamic Asian marketplace, we inaugurated a major new hub at the former Clark Air Base in the Philippines this year. With additional access to critical Asian cities, we are determined to build a full express network, second to none, throughout Asia.

Let me give you an example of how market access lets us keep commerce moving. It involves some work we're doing for Nikon. We're helping that world-class camera maker keep its hottest digital cameras on retail shelves by handling the entire distribution for a major product line. We ship Nikon's cameras from manufacturing centers in Korea, Japan, and Indonesia. We manage their air and ocean freight. We take care of their customs brokerage needs. And we repackage the products at our Louisville "Worldport" for subsequent UPS delivery to retailers around the country. This highly synchronized and efficient supply chain network depends on broad and flexible access to Asian markets, and a transparent business environment.

Integrated air express services have a huge impact on the world and U.S. economies. They create new American jobs, stronger American exports, and efficiencies that benefit the world's consumers. For every 40 new daily international packages shipped within UPS to and from the United States, a new UPS job is created. At UPS, that is likely to be a Teamsters job. We are the largest employer of Teamsters in the world.

So, we're enthusiastic about what we do — and optimistic about the future. But before I get completely carried away, let me acknowledge what we all know — that some sectors of international aviation have just come through an extremely difficult year. Our largest passenger airlines had one of the worst years ever. The situation is unlikely to turn around fast. ICAO and Wall Street now project that the major U.S. passenger airlines may not turn a profit for two or three years.

Already, one major airline is in bankruptcy, another is contemplating it, and the rest are rapidly retrenching capacity, laying off workers, and parking airplanes in the desert. None of this is good news for the thousands of workers and other stakeholders in the aviation industry. Nor for the broader U.S. economy. We need to recognize and address those needs. A healthy passenger airline system is critical for our country.

But I'm deeply concerned that these misfortunes could wrongly cause us to "go on the defensive" in pursuing what has long been a key policy goal — opening world aviation markets. Instead, we should be most active and assertive in promoting open markets and building the infrastructure of world trade. Typically, airlines "play defense" when economic conditions sour. When the industry suffered big losses in the early 1990's, there was little progress toward open markets. Instead, each airline tried to protect its share of the static market.

Around the world, airlines that felt commercially or competitively vulnerable asked their governments to protect them. Protect them by holding the line against market liberalization ... by creating cost-prohibitive barriers for competitors ... or, in some cases, by direct subsidization or government ownership. Some airlines petitioned their governments just to defer market-opening negotiations. Others, more subtly, implored their governments to take unrealistic positions that were bound to block bilateral progress. Our government has long been the leading force for open aviation markets around the world. These priorities cannot be allowed





to wane under the influence of an inward-looking passenger airline sector that is — understandably — more interested in financial survival than in international expansion. The fact is that our government's most remarkable market-opening efforts over the last decade coincided with a time of rapid U.S. passenger carrier growth and prosperity.

Today, a healthy air cargo sector — especially the air express delivery sector — needs that same support in obtaining access to important foreign markets. We just cannot afford to put international market-opening “on hold” — waiting for all parts of the aviation industry to recover. Nor can we responsibly turn inward — merely protecting our advantages, securing existing rights, resting on past achievements in liberalization. We've got to keep looking toward the future ... toward achieving big goals. Opening the world aviation markets is an investment in our country's future growth and prosperity.

At the same time, we need to seize the opportunities for progress where they appear, whether or not under the mantle of “open skies.” At stake are significant benefits for international trade ... for U.S. exports and trade balance ... for jobs and overall economic growth. No, this is not a time to “play defense.”

We must also try to keep today's aviation industry setbacks in perspective. While there's a lot of pain right now in some sectors, the impact is neither universal nor uniform. U.S. regional and commuter carriers are doing pretty well. Air cargo is strong. The so-called low-cost carriers — Southwest, JetBlue, and the like — continue to strengthen. In an industry as cyclical as commercial aviation, we need to think in decades, not in financial quarters. Taking the longer view comes naturally to us at UPS, where we're approaching the end of our first century.

I assure you that our foreign competitors are not hesitating to seize the emerging opportunities. For example, as the South China Morning Post reported recently, “DHL and Hong Kong-flag carrier Cathay Pacific are teaming up to develop a dedicated express cargo network with an intra-Asia fleet to be based at the new express cargo terminal at the Hong Kong airport.” This expansion is headquartered in a restrictive aviation market — where we have only limited rights to serve. We can't “play defense” as foreign carriers move ahead in global trade. Nor should we bend to the protective interests of some carriers to block market-opening efforts that promote overall economic growth.

As a matter of principle and purpose, the U.S. has long stood as a beacon for open markets and free trade. It should continue to do so in the highly visible aviation sector. The U.S. has been the driving force in propelling a global shift to “open skies,” and the champion of aviation trade liberalization worldwide.

We at UPS are committed to free and open global markets. That's one reason we were strong supporters of the Administration's successful effort to get fast-track Trade Promotion Authority, and of China's accession to the WTO. It's also why we took the lead in private sector efforts to develop APEC and other multilateral trade mechanisms.

The support of opening markets applies to aviation as well. The U.S. has some immediate opportunities to make some significant aviation market-opening strides. Many of these op-





portunities are in Asia, a region that currently shows the greatest financial growth, and most expansive markets for U.S. goods and services.

Hong Kong presents the most pressing chance. Within two weeks, U.S. negotiators are scheduled to try for a fifth time to reach a new agreement. It's a very important opportunity for air express cargo. There is a large unmet demand for service in Hong Kong. For UPS, the right to serve Hong Kong to and from other points in Europe and Asia is critical to our new Asian cargo network in the Philippines. With a significant liberalization of the existing air cargo agreement, such as the one the US and Hong Kong are discussing, the U.S. cargo industry would generate \$2.4 billion in revenue over three years. This would occur with a liberalization short of open skies. Our service would also provide U.S. and foreign shippers the benefits of needed competition.

The U.S. and Hong Kong governments and industries have already endured several frustrating rounds of discussions. We hope that both sides will take a practical and pragmatic approach this time that will allow a significant opening of this important market for express cargo. We believe the U.S. government should continue its efforts in Hong Kong to secure a liberalized agreement that would bring substantial benefits to American businesses and workers.

Similarly, Hong Kong authorities should recognize that aviation negotiations are not a zero-sum game. A liberalized cargo agreement offers huge benefits for Hong Kong's economy. The time is ripe now to secure those benefits. There may well be similar opportunities to achieve measured, though significant, relaxation of bilateral restrictions in the critical Chinese and Japanese markets. We need to pursue these — from the standpoint of air cargo alone, if necessary. The beneficial economic impact of even moderate new openings with China can be measured in the tens of millions of dollars. With Japan, additional flexibility in our operations would greatly help us better serve our customers.

There are other important Asian cargo market opportunities for the U.S. These include Thailand, the Philippines, and Vietnam. But Asia is by no means the only market that merits U.S. focus. There are a number of issues we must continue to address in Europe — beyond just obtaining bilateral rights. Even where there are formal route rights, there are other regulations that threaten or constrain air cargo access.

One of these involves nighttime noise-related closures of airports in Europe, some in countries where the U.S. has open skies bilateral rights. For example, in Portugal recently authorities simply "closed" the country's major airports to new operations at night. Belgium has threatened to do the same. Because the overnight express cargo business inherently requires late-night activity, such closures in effect could negate the ability to provide express delivery services in those markets.

In Europe and across the world, we need to continue to push for transparent and reasonable regulatory and customs regimes that create a level playing field. We intend to continue to work with our government to address these impediments. And we appreciate the efforts of the U.S. trade negotiators to shape a new category of express delivery in the services' chap-



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ter of the WTO to acknowledge the inadequacies of the current system that gives postal authorities that use their monopolies an unfair competitive advantage.

As I said when I began, we're optimists at UPS — by nature and tradition. Having grown up with American commerce over the last century, we've learned to take a long-term perspective on our business. This has been a major source of our strength and has impelled us to make long-term investments — in our people, in our facilities, in new technology, and in our future growth.

This long-term view has also helped us keep the focus on sustaining customer relationships, on core values of trust and integrity, and on honesty of purpose and belief in the future.

But optimism doesn't mean being Pollyanna-like. The future certainly does pose challenges — big ones for our business, for the industry as a whole, and of course for our country.

Security is one; unfair competition from postal monopolies, and rising costs of fuel and labor are others. Yet, the greatest near-term challenge will be to keep our focus on the future. And in doing so, we not go on the defensive by turning inward and retreating from our responsibility to help keep global commerce moving forward. Moving forward in a healthy and productive manner for all who participate in the world trading community.

Thank you.

