

*Remarks given by Bailey Leopard¹
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State of the Industry and Future Trends in Asia
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FedEx, Access and Japan

Konnichiwa. First, I want to thank President Washizu, Kaneko-san, Bowman-san and the Japan International Transport Institute for giving FedEx and me this opportunity to participate in today's seminar. *Domo arigato.* Second, I want to assure you that I understand I am the final speaker on today's agenda – that, as such, I realize I am all that stands between you and the opportunity to stretch your legs and renew your caffeine supply at the coffee break before our panel discussion. With that in mind, I will endeavor to make my remarks brief and to the point.

The previous speakers have done an excellent job of giving you their perspectives. From their presentations, we can all probably agree on many “big picture” points:

- Skies are looking bluer for the air cargo market after a rough 2008 and a rougher 2009.
- Asia will continue to be the leading region for growth in the air cargo market.

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FedEx Express is one of the world's largest express transportation companies, providing fast and reliable delivery to every U.S. address and to more than 220 countries and territories. FedEx Express uses a global air-and-ground network to speed delivery of time-sensitive shipments, by a definite time and date with a money-back guarantee.

FedEx Corporation (NYSE: FDX) provides customers and businesses worldwide with a broad portfolio of transportation, e-commerce and business services. With annual revenues of \$37 billion, the company offers integrated business applications through operating companies like FedEx Express, competing collectively and managed collaboratively under the respected FedEx brand. Consistently ranked among the world's most admired and trusted employers, FedEx inspires its more than 285,000 team members to remain "absolutely, positively" focused on safety, the highest ethical and professional standards and the needs of their customers and communities. For more information, visit <http://about.fedex.com>.

- Within the region, China will continue to be the most substantial source for that growth, especially from existing major markets in the Pearl River Delta – such as Guangzhou, where FedEx’s Asia hub is located – and in the Yangtze River Delta – dominated by Shanghai. India’s air cargo growth will also be substantial.
- Japan will continue its role as a significant air cargo market in the region, with the bulk of volume centered in Tokyo.
- And major drivers of air cargo growth will continue to include:
 1. Globalization of trade across a broad range of sectors
 2. Continued trade and aviation liberalization
 3. “Just in time” management and high-value, low-volume products
 4. Both of which demand the fully integrated logistics services FedEx provides.

With those “big picture” points in mind, my goal is to give you a perspective from the U.S. cargo industry – more specifically, from the express delivery industry.

First, I want to give you a brief history of our operations in Japan and then a broader overview of what it is FedEx Express does day in and day out. Next I want to talk about a single word – Access. Access is a unique way in which FedEx frames our ever-flattening, ever-shrinking world, the services FedEx provides and the drivers of air cargo growth I and other speakers have mentioned. Finally, I want to consider challenges and opportunities Japan and other countries must face – including the U.S. – as they attempt to improve access and thereby improve their own performance and competitive position in the global economy.

FedEx has a long history in Japan. We started operations there in 1984 with an international document delivery service. Groundbreaking at the time, it provided pick ups until noon in five Tokyo wards with delivery in the U.S. by 10:30 a.m. the next day. By 1986, service began in Osaka, and cut off times for our next-day service from Tokyo were extended by four hours.

1989 was a pivotal year in FedEx's international history, especially in Asia and Japan. That year, we acquired Flying Tigers and, with it, significant, historical slot assets at Narita. Cut off times were further extended that year in Tokyo and Osaka, and service began in Nagoya.

Next we fast forward to 1995 when FedEx launched its first Asia hub at Subic Bay in the Philippines. Combine that hub with:

1. FedEx's unlimited fifth-freedom rights in the 1998 U.S.-Japan air services agreement;
2. FedEx's slot assets at Narita; and
3. Asia's rapid growth in the global marketplace ...

and FedEx and its customers had a solid foundation for success in Japan, in Asia, and in the global economy.

Since 1998, over a decade of rapid, exponential change has occurred in that increasingly global economy. While FedEx continued to expand and improve its portfolio of services to Japanese customers and elsewhere within the confines of the 1998 air services agreement and regulatory policies regarding Tokyo slots and customs procedures and requirements, the world's attention expanded to include developing markets in Asia – most notably China.

FedEx also focused efforts on China, perhaps most dramatically seen in its establishment of a domestic express delivery service in the Mainland in 2007, and, in 2009, the relocation of FedEx's Asia hub to Guangzhou's new, state-of-the-art airport in southern China.

Both of these developments were enabled by China's pivot to a policy of opening up using market-based principles (admittedly, with Chinese characteristics). More specifically, China's 2002 WTO commitments to open up the courier services market enabled FedEx's domestic express delivery services in the Mainland, and China's 2004 agreement to what then Secretary of Transportation Norman Mineta described as "near Open Skies" for U.S. cargo hub

carriers – as well as a progressive Chinese civil aviation administration – enabled FedEx’s Guangzhou hub.

Turning to a broad overview of what FedEx Express does day in and day out, as John mentioned, the best way I know to demonstrate what we do to you is by taking you on a tour of our SuperHub in Memphis. While FedEx is a technologically savvy company, our R&D team does not include Star Fleet Lieutenant Commander Montgomery Scott – best known simply as “Scotty” – and they have not developed a “beam me up” transporter that can take all of us to the Memphis airport ... not yet at least.

Since I can’t beam you all to our Memphis SuperHub, the next best thing I know of is this brief video, “A Day in the Life of a FedEx Package.” It will give you a sense of the daily controlled chaos choreographed to connect global commerce through FedEx’s unsurpassed air and ground network. I encourage you to pay special attention to the central portion of the video, entitled “The Midnight Dance.”

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Some of the key themes and words apparent in this clip are:

- Speed
- Reliability
- Time critical
- Orchestrated
- Choreographed

And as I said earlier, over the last several years, FedEx has framed those themes and others in a one-word concept – Access.

Nearly 40 years ago, on its first night of continuous operation, FedEx delivered 186 packages to 25 U.S. cities. Today, we give people and businesses in 220 countries and territories

access to each other, connecting over ninety percent of the world's GDP in 1 to 3 business days, changing what is possible for billions of people.

One does not have to look far to see Access at work. Most recently, it has been apparent in Egypt as regular, day-to-day people used the Internet, smart phones, Twitter and Facebook to change their government and society. Access is at work when someone like me orders an iPad from Apple.com and it travels through the FedEx air and ground network in three business days off the assembly line in China to my doorstep in Memphis. Access allows a small business owner in Indianapolis or Osaka to tap into the global marketplace over the Internet and via FedEx's global network. Access also allows Apple, the small business owner and their customers to track and monitor their products through the supply chain via FedEx.com. And Access is FedEx's new fleet of Boeing 777's, providing increased payload and range with direct flights between markets such as China and the U.S. with greater fuel efficiency and improved service for FedEx customers.²

Access is many things, but one way to think about it is in terms of the orchestration and choreography seen in the video earlier. Visualize a turntable needle moving smoothly across the record of a well-orchestrated waltz and "the stars," like these, gliding smoothly, seemingly effortlessly across the dance floor. Obstacles and delays in the supply chain are like scratches in the record, at their worst sending the needle screeching across the turntable of global commerce and "the stars" awkwardly standing still on the dance floor.

So what are some of the things that bump the turntable; that limit Access? A few examples are:

1. Restrictions on access to aviation markets;
2. anti-competitive practices of government-owned or authorized monopolies; and
3. inefficient customs procedures.

² To learn more about FedEx and Access, see <http://www.about.fedex.com/access>.

Examples of these challenges and opportunities can be found in countries and regions throughout the world, including the U.S., but since this seminar is focused on Japan, I will focus my discussion there.

As we all know, the U.S. and Japan signed an Open Skies agreement last year after the previous agreement had essentially stood still for about twelve years. While that is clearly a major step forward in terms of Access, opportunities remain.

The Japanese government still places tight constraints on slots at Narita and on international access to Haneda, both of which, of course, are in Japan's most lucrative, in-demand market, Tokyo. Rather than allowing market forces and IATA's industry-standard Worldwide Scheduling Guidelines to collaboratively handle the global demand for Narita slots, the Japanese government applies an additional layer of special rules, often opaque in implementation, to the allocation of slots, skewing the distribution of these valuable assets.

At Haneda, constraints such as limits on fifth-freedoms and relatively narrow, late night operating windows prevent the economies of scale necessary for viable express carrier access. Admittedly, Tokyo – like Shanghai, New York and other high-demand air markets – presents a unique set of challenges, but the government should explore similarly unique, market-based solutions to those challenges with its global partners and industry to increase access to and from Japan's best, most important market. And as John mentioned earlier, the new U.S.-Japan agreement does not include all-cargo seventh freedoms, an enabler of cargo hubs.³

³ Coincidentally, on February 23rd, the day of this seminar, the International Air Transportation Association (IATA) issued a press release summarizing similar comments made by its Director General and CEO Giovanni Bisignani in an address to the Foreign Correspondents' Club of Japan. See <http://www.iata.org/pressroom/pr/pages/2011-02-23-02.aspx>. Among other things, Bisignani said: “A national aviation policy [in Japan] focused on competitiveness could play a big role in recovering lost economic ground...” “He urged Japan to develop a more effective airport policy in Tokyo, a level playing field with more open markets for airlines to compete...” “High productivity, high value-added international industries dependant on a competitive and healthy air transport sector has been the answer [to enormous competitive challenges for Japan with China]. Economic success means that Japan must squeeze every iota of competitiveness and innovation possible out

Investment of resources in infrastructure should similarly follow demand. Whether it is a “bridge to nowhere” or a mismatch between the demand for an airport’s services and the resources invested in it, too often it seems governments hear the whisper of Shoeless Joe Jackson in the 1989 film “Field of Dreams” – “If you build it, they will come.” In Japan, this has led to inefficiencies in airport development and artificially high user costs.⁴ In China, there is the same potential for over-investment in the wrong markets, while demand continues to increase at major airports in Shanghai and Beijing where there is already too little supply for ever-increasing demand.

Turning to postal and express delivery regulation, Japan’s 2005 Postal Privatization Law requires the Japanese government to “ensure equivalent conditions of competition” between Japan Post and other companies engaged in similar business operations. For a time, Japan made major strides toward privatizing and reforming the banking, real estate and insurance divisions of Japan Post. However, even after a ten-year “privatization” transition period under the law, the Japanese government would still own essentially one-third of the resulting Postal Services Company, the delivery arm of Japan Post. Simultaneously, Japan Post would continue to enjoy various advantages in the express delivery market, typically a competitive, non-monopoly market space. While Japan’s postal reform efforts have lost momentum in the wake of the 2008 global recession and in the midst of dramatic internal political changes, I hope that the Japanese

of its economy – including aviation...” “He also encouraged the progressive liberalization of Haneda’s international operating hours to promote its efficiency as a hub...”

⁴ In Bisignani’s remarks referenced *supra*, “[h]e noted that Tokyo’s airports remain 75% more expensive than Seoul (Incheon) and more than double the cost of Singapore (Changi).” See also Peter Harbison’s discussion of these and related issues in his article, *The Importance of the Japan Airlines Bankruptcy and Restructuring in Modernizing the Asia Pacific Airline Industry*, 9 ISSUES IN AVIATION LAW AND POLICY 227-241, DePaul International Aviation Law Institute (Spring 2010). Harbison is an aviation consultant and commentator on industry issues, serving as the Executive Chairman of the Centre for Asia Pacific Aviation (CAPA), which he established in 1990, as well as Chairman of CAPA AeroPark, an affiliate of CAPA, and CAPA India, the company's consulting arm for the sub-continent. Mr. Harbison's career in aviation comprises more than 40 years, both in government and in industry, including two years with the Australian mission to the International Civil Aviation Organization (ICAO) and 10 years at a senior level in IATA.

government works with Japan Post, FedEx and other market participants to consider the following when it again turns its attention to postal reform.

First, Japan Post's Express Mail Service (EMS) should not be categorized as a universal postal service. Similar domestic parcel services, including Japan Post's "Yu-Pack," were removed from that category to ensure that they did not enjoy undue competitive advantages over equivalent Japanese private sector services. EMS should be treated likewise, as it competes directly with private sector services.

Second, Japan's Postal Services Company should be supervised by the same regulatory agencies as private delivery companies. For example, the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) should regulate the Postal Services Company for transportation and security matters, and the Ministry of Finance (MOF) should regulate it for customs clearance matters and customs-related security matters. Similarly, the Postal Services Company should also be subject to the same regulations as similar private service providers, particularly in areas such as customs clearance, transportation and security.

Finally, Japan Post's financial reports should be sufficiently transparent to allow independent observers to verify that revenues from monopoly protected universal service products are not being used to subsidize competitive services such as express delivery.⁵

Ending with customs, it is probably self-evident how inefficient customs procedures and policies can send the needle of global commerce screeching across the turntable. FedEx and its customers measure our performance in seconds, so packages sitting in customs quarantine cages

⁵ For a broader discussion of the need for a level playing field for private and public competitors in the express delivery market, see the American Chamber of Commerce in Japan's (ACCJ) Viewpoint paper, "Ensure a Level Playing Field between International Express Mail Service and their Private Sector Express Competitors" at http://www.accj.or.jp/document_library/Viewpoints/VP_IntExp_Priv.pdf. See also Robert B. Cohen, Ph.D., *Policy Challenges and the Privatization of Japan Post* (Economic Strategy Institute 2006) at http://www.econstrat.org/images/ESI_Research_Reports_PDF/policy_challenges_and_the_privatization_of_japan_post.pdf.

for hours – or, worse, days – is obviously a significant concern. Customs and related security regulations are too technical and weedy for detailed consideration here, but I will highlight a couple of opportunities for simple but significant improvement.

One opportunity negotiators, regulators and industry have is to consider more fully how bargained-for air cargo rights dovetail with existing customs regulations and whether modifications to customs policies are necessary to ensure the parties and their airlines receive the benefit of the air-rights bargain.

Shifting from air rights, a simpler, straightforward solution for streamlining customs clearance would be to raise the *de minimis* clearance values for relatively low-value goods. Current *de minimis* levels in the U.S. are at 200 USD; in Japan, they are approximately 120 USD. Other extremes are Australia at about 1,000 USD, China at about 6 USD and the Philippines at about 20 ... cents. In today's high-value economy, a *de minimis* in the 1,000 USD range makes much more sense and that simple change would drastically improve the flow of commerce across borders and around the globe. Moreover, it would enable governments to shift resources to more important areas by alleviating the need to clear low-value, low-risk shipments.

With that, I will embrace the Access concept, step aside, and facilitate your access to the coffee break.

Domo arigato.

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