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Chairman Stevens, Ranking Member Rockefeller and members of this Subcommittee, I appreciate the opportunity to testify today on this important matter. Aviation liberalization has been critical to our company, FedEx, since it was founded in 1973. Opening up the air transport market has allowed U.S. air carriers to innovate and develop new products such as our overnight express service. The DOT's proposed rule will move U.S. aviation policy in a positive direction, for shippers, passengers, and our national economy.

Today, I would like to briefly address the merits of the DOT's proposed rule. Then, I would like to expound on the benefits to all Americans of trade liberalization in general, and aviation liberalization in particular.

I. Department of Transportation's Proposed Rule

The DOT has crafted a Rule with at least four salient and attractive benefits. First, the DOT's proposal is straightforward. It would allow foreign investors to take part in certain commercial management tasks at a U.S. airline and thereby protect their investment, without fear that DOT will decide that they are in "actual control" of that airline. Since the existing statute limits foreigners to a minority equity position in a U.S. airline, overall "actual control" will at all times remain in the hands of U.S. citizens.

Second, the DOT's proposal is a modest one; it does not change current law. Instead, DOT is encouraging foreign investment by adding more certainty to what "actual control" means. This interpretation is the normal exercise of discretion that administrative agencies such as the DOT have. The NPRM provides for areas in which foreign participation will be allowed--the commercial arena--and reserves others for U.S. citizens—matters of safety and security. By bifurcating the management responsibilities – a technique used in other security-sensitive businesses – the proposal would work well for U.S. carriers, U.S. airline employees and management, as well as the foreign investment that it seeks to encourage, without harming U.S. governmental interests.

Third, the DOT's proposal encourages foreign direct investment in U.S. airlines. Direct investment benefits our economy in several ways. By increasing the number of bidders for U.S. businesses, foreign investment increases the prices the U.S. owners can hope to realize. New investors often introduce efficiencies or new technologies. A foreign investor can enhance competition, leading to better service at lower prices. Finally, since a foreign investor will invest only if it thinks it can make a profit, the investment should make jobs more secure and increase tax revenues.

Finally, adoption of the Rule protects U.S. companies by assuring "equal opportunities" between trading partners. Only those investors from like-minded countries can claim its benefits. By requiring reciprocal investment opportunities, it will assure that U.S. investors will be able to participate in other countries' air markets. This is good news for our airlines that want to spread their business models beyond our domestic market. Further, the rule offers a new incentive for countries to enter into Open Skies agreements – supporting what is, without a doubt, the most successful policy initiative of the DOT in the last quarter century. For airlines like FedEx, which need the foreign access provided by Open Skies to participate in new markets, this is the best news. How these incentives work are laid out in our DOT comments, which I ask be incorporated into the record as part of my written testimony.

II. Benefits of Trade and Aviation Market Liberalization

While the proposed DOT rule is clearly beneficial to the United State, I believe the central question to this debate is more fundamental. Does removing trade barriers and liberalizing aviation markets benefit the United States? The short answer to this question is “yes”. Trade liberalization is beneficial, necessary and rational –America should be enhancing opportunities for foreign investment and foreign commercial participation in a critical infrastructure industry such as aviation. Several important points must be made in support of aviation liberalization.

International air transportation is now a global industry, not merely a bilateral one. Connecting the U.S. to foreign points is an important function, but as services expand, carriers can make such connections more efficient and effective if they can develop networks that include third country market opportunities. FedEx is among the best at building networks – our international hub and spoke air network is without peer – but we could not have accomplished this without the system of aviation agreements spawned by the Open Skies policy of the DOT. Today, the DOT is trying to move beyond these bilateral agreements to multilateral ones, which can create even more efficient networking opportunities.

The multilateral agreement with the most immediate possibility and enormous potential impact is the U.S.-EU agreement. Under the provisions of this new agreement, FedEx would be able to continue building its network with the completion of a system of intra-European Fifth Freedom rights – the rights to operate in international markets beyond our shores – and we very much support that proposed agreement. With this proposed agreement, market barriers such as the antiquated Bermuda II agreement would end. Our services would be made more efficient and our network stronger, which would benefit both our U.S. and our global customers. We would expand our airline's reach, creating more jobs for our pilots on the much-desired international flying legs. The negotiated terms of this agreement are available at this time, but this window will not remain open indefinitely. To extend what has already been a long and difficult negotiation puts this carefully crafted agreement in jeopardy.

However, while FedEx is seeking access to international markets beyond the United States, foreign airlines, competitors, and investors are eyeing the U.S. market. Some may want to link their international network more closely with a U.S. carrier, while others see possibility in bringing new business models, which would add new dimensions to the U.S. marketplace. Market liberalization will benefit the U.S. consumer. Domestic deregulation has been, at times, a difficult and controversial, but the biggest beneficiary has been the U.S. consumer. Expanding market participation internationally, in the measured, controlled manner DOT has proposed, can only improve the services available to U.S. shippers and travelers.

No discussion of trade liberalization is complete until we address the impact that market liberalization has on American jobs. Despite what you hear, trade liberalization benefits

U.S. workers. We've heard a lot about the risk of job migration off shore – in fact, I have no doubt that you will hear more about it as this debate continues. But throwing up trade barriers and stopping the internationalization of aviation does not create jobs, it merely fences them off inefficiently. Ultimately, healthy, competitive companies create jobs, regardless of their homeland. We need to provide U.S. businesses with the best possible tools to reach new markets, to obtain the best capital and management, and thus to create the very best jobs right here in our home market.

Some opponents have claimed that liberalizing aviation markets would undercut the U.S. CRAF program. The DOD is not saying that. The DOT supplemental notice reflects that the DOD has reviewed the proposal and agrees with it. As long-time participants, we believe that the CRAF program, an important part of U.S. defense logistics, will not be harmed by this proposal. CRAF participation today provides profitable government contracting incentives for U.S. companies, and we believe that foreign investors would support pursuing those profitable opportunities as well.

Globalization cannot be one way. If the U.S. wants to expand opportunities for its businesses abroad, it must provide opportunities for others here at home. America has benefited tremendously from foreign investment. There is nothing novel or theoretical about the proposition that greater foreign investment can benefit U.S. airlines and their U.S. employees. It is an incontestable fact that past foreign investment in U.S. airlines has saved and created U.S. jobs. British Airways' investment in US Airways, Scandinavian Airlines' investment in Continental and KLM Royal Dutch Airways' investment in Northwest all protected U.S. jobs, and none of these investments spurred an off-shore exodus of U.S. jobs. In fact, the exact opposite was true -- they stimulated new American jobs.

At the same time, U.S. companies have become world players through reciprocal foreign investment. FedEx has invested in major facilities abroad to open up new markets to U.S. shippers and exporters, including our hub in Paris and the planned hub in Guangzhou, China. With these hubs, we are able to offer U.S. businesses more efficient worldwide express services, creating American jobs as we grow. So, foreign investment can be good for U.S. businesses, workers, and consumers. But it is, and must be, a two-way street.

Congress has expressed its concern about the security aspects of foreign investment, and I agree that is important. Clearly, we must manage the security risks carefully, but we must be careful not to block foreign investment altogether. For aviation, the United States must continue to require strict compliance with U.S. aviation safety and security regulations. The DOT’s proposal as supplemented, with its safeguards for U.S.-citizen control over functions such as safety and security, is a wise and measured way to address that concern.

I hear some argue that this is the wrong time to be promoting trade liberalization, and the concept of open markets is the wrong message to send to the rest of the world. They say the United States should be protecting, not liberalizing, access to world markets. I disagree: this is exactly the right time and the right message for the future of our industry. To reject this opportunity would be to send a message that the U.S. is no longer interested in new international opportunities for its airline industry, at a time when its future – and the future of the jobs its supports—hinge on expanding these opportunities.

Look closely at those opponents of liberalizing aviation markets. While they claim important government regulatory concerns motivate their arguments, instead their primary concerns are narrow, protectionist interests. Their interests have almost nothing to do with concerns over "ownership and control"; in most cases, they simply oppose the U.S.-EU bilateral agreement, which the proposal would advance. Some airlines want to slow down competitive forces, hoping to retain their privileged market positions, and to benefit from the indirect government subsidies that protectionism provides. Others have been vitriolic, raising false concerns ranging from cockpit security to a mass migration of jobs offshore. These arguments are not new, and they hold little merit under close scrutiny.

III. Conclusion

The DOT proposal is another step in a long history of opening up opportunities in aviation, in creating value and jobs for our economy, and in expanding a dynamic, growing global marketplace. Global trade—both in goods and in services--presents important opportunities for U.S. business and U.S. workers. The DOT proposal encourages global trade, starting with the creation of new opportunities for more effective foreign participation in U.S. carriers. It opens the door for investment by our citizens in aviation abroad. Alone, the proposal is good for U.S. airlines, workers, and consumers. Combined with a U.S./EU Open Skies Agreement, it could be a tremendous boost for the

U.S. aviation industry. We at FedEx support the DOT proposal and hope that this Committee will do the same.

On behalf of the 260,000 employees and contractors of FedEx Corporation, and especially those at FedEx Express, our express transportation company, I want to thank you for inviting me here today.

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