

CHAIRMAN D'AMATO: Thank you very much,  
Captain.

Mr. Ducker.

MR. DUCKER: Thank you.

Mr. Chairman, members of the Commission, I  
thank you for the opportunity to --

CHAIRMAN D'AMATO: Put that microphone  
closer to you - okay.

MR. DUCKER: Thank you for the opportunity  
to appear before you today and present the view of FedEx.

As a company that's heavily involved in  
facilitating the movement of goods around the world, I  
intend to focus my remarks on the critical need to open  
markets abroad and to maintain a viable and workable  
world trading system that allows U.S. companies to  
compete on an equal basis with its foreign competitors.

FedEx operates in over 200 countries around  
the world today, generating revenues of over \$16 billion,  
and employs over 100,000 American workers.

Our viability as a company depends on a  
trading system that is open and fair, not only to our  
services, but to the goods that we carry.

While we face many obstacles around the  
world, we've made some significant progress through the  
WTO and a number of bilateral initiatives in reducing  
those barriers. Our biggest fear at this moment is

that opponents of free trade are making headway in convincing policy makers that our trade deficit is an excuse to close markets at home rather than working even harder to reduce foreign barriers to U.S. exports. We just can't let that happen.

We must focus our efforts on making sure that Americans understand how and why free trade works to their benefit. We need to show the country that we're prepared to do whatever it takes to encourage export opportunities for U.S. businesses and international markets.

We need to review our tax and other policies to eliminate barriers to competitive opportunities for U.S. businesses.

We also need to focus on transportation and related services that make those opportunities realistic for U.S. exporters. Those transportation and facilitation services are critical to the competitiveness of U.S. exports.

We made that a goal of our company and are proud to state that we carry nearly three times as many U.S. express export shipments as our nearest competitor. Stated very simply, where FedEx flies, U.S. exports follow.

And recently negotiated liberal aviation agreements are an important step in improving those

services. Nevertheless there's room for some improvement in many markets.

The U.K. for example; our government must continue to aggressively pursue the agreements to enhance the engine of world trade, which is the air transport industry.

As another example, the recently concluded aviation agreement with China was a disappointment for FedEx and its customers and exporters. Notwithstanding the importance of promoting U.S. exports in this market for the U.S. economy, FedEx is still the only carrier that lacks the ability to provide twice daily service to China. Yet we serve more cities in China than any other U.S. carrier.

Our customers and exporters need more outlets. Twenty-four flights versus the ten that we currently fly allows us to provide daily service to each of the four major industrial centers in China: Beijing, Shanghai, Shenzhen, and Dalian.

The reason I point this out is that we're facing a crisis of confidence in our trading system. We need to refocus our efforts on doing everything we can to make it possible for American businesses to compete fairly in these important, new international markets. That includes transportation policies that recognize the importance of air express cargo services

to our efforts to increase U.S. exports. Otherwise the American public will continue to lose confidence in the benefits of a free and open world trading system.

The current debate on China's entrance into the WTO and the provision of permanent, normal trade relations status to China is an excellent example of this. As our Chairman, Fred Smith, testified before the House Ways and Means Committee on this matter, "No single issue is of greater importance to the long term health and viability of the world trading system."

I would further iterate that point having just completed an eight-year stay in Asia where I ran our Asian business unit.

The direct and indirect implications of moving forward on this initiative for American business and the American economy are profound, particularly in the aftermath of the failure to launch a new round of multilateral trade negotiations at the Seattle Ministerial meeting in November.

Protectionist forces are at work to turn back the progress we've made to open foreign markets and maintain a fair and open trading system under the auspices of the WTO. Such forces have now set their sights on stopping China from joining the WTO.

The course of action is clearly wrong, and if successful, will have a tremendously damaging effect

on the U.S. economy, and will result in substantial deteriorations in the U.S. trade deficit.

The bilateral agreement negotiated between the U.S. and China is a good one. It will substantially open China's market to U.S. exporters without requiring the U.S. to take any additional market opening measures to China beyond providing on a permanent basis the PNTR status that we provided to China on an annual renewable basis for a number of years.

Simply put, China's accession to the WTO will move China's economy toward integration with the global economy, and that's good for American business, and that's good for American workers.

I'm particularly encouraged at the liberalization scheduled for the distribution field under the terms of the U.S.-China trade agreement. With China's WTO accession, FedEx and other companies will be able to sell our services directly in the marketplace in four years instead of leaving it to agents there.

And whether we choose to exercise that right or not, of course, depends on market conditions, but that's really the point. With China integrated into the WTO, our decisions on how to operate in China

would be based on commercial considerations and not determined by government fiat.

Even within our own country, many don't realize the rapidly changing nature of world trade and the increasingly critical role of the integrated air express carriers. The reason that's so important is at present 40 percent of the value of all world trade moves by air. Air shipments clearly account for the high value end of the production and point to the direction our economies are heading.

Today's trends in E-commerce and just in time logistics underlie the phenomenal expansion of the integrated air express industry and reinforce growing requirements for fast, time-definite transportation of cargo from door to door.

Air Express is both a cause of, and a response to, the changing nature of competition in international markets. The ability to ship packages to destinations around the world in only hours or days widens the field of competition in all industries and accelerates the pace of commerce.

No country can expect to operate a modern economy or be at the forefront of trade in this century without a strong air express service, and China is no exception.

At present, outside WTO discipline, China is a hodgepodge of regulatory barriers to efficient air express service, and many, if not most, of those barriers would be reduced or eliminated if the U.S. fulfills the terms of its bilateral agreement and provides PNTR status to China.

On the other hand, if we fail to do so, the U.S. will be the only major country that will not benefit from the market opening initiative. The effect on our trade deficit would be severe.

Now, I've spent a good deal of time discussing the China PNTR issue because I believe it most clearly addresses the choices that this country is facing from the trade policy perspective, and I lived there for quite some time.

Now, we can either turn inward and try to preserve the status quo or we can aggressively move forward to open the world trading system to greater opportunities for U.S. companies and its workers. Many of the same issues surface in the debate on providing "fast-track" negotiating authority to the President, launching a new round of multilateral trade negotiations under the WTO, negotiating an expansion in coverage under NAFTA, and leading the charge to liberalize and rationalize customs procedures worldwide.

In each case, we believe that U.S. interests will be better served by moving toward greater trade liberalization. In our judgment, these bold moves will build a stronger U.S. economy, and reduce the size of our trade deficit.

Thank you.

CHAIRMAN D'AMATO: Thank you, Mr. Ducker.  
Commissioner Becker.

COMMISSIONER BECKER: Thank you.

And let me compliment the three of you on your testimony. I listened very intently. I would like to pose a question though to Captain Woerth, two questions as a matter of fact.

You can hardly pick up a newspaper today without reading something about airline safety and factors of public interest. Your testimony didn't touch on those aspects of it. I would like to pose a couple of questions to get your thoughts on the record.

I was in Mexico recently. As I crossed the border from Tijuana I saw a huge building, and I was told that this was a repair shop for I'll say United. I may be wrong on the airline but they fly into Mexico for routine and special repair work - and this is under NAFTA. How you feel about this, being President of the airline union of the pilots.

And second, there's some controversy, or at least suggestion, that has been raised recently in some of the crashes that have taken place, that component parts have been made in other countries that are out of our control, and yet under the trade agreements, we're required to use these and implement these into the

aircraft, not only the design, but the application. I would like to have your thoughts on that.

CAPTAIN WOERTH: Thank you, George.

Actually ALPA feels very strongly about both those subject because one of the things in the huge move in increased globalization of our industry is that the commercial aspects have far outstripped the regulatory ability to keep up, and because they are still established by the national state, very huge differentials in safety standards and oversight exist throughout the world.

ICAO, which is the body at the United Nations who has some international responsibility in this regard, frankly, a lot of times adopts what we would call the lowest common acceptable denominator. That's how it gets voted on as a minimal standard.

But even with those minimal standards, the amount of compliance that nations throughout the world provide, varies dramatically. In fact, the FAA went through the dramatic steps a number of years ago of actually denying access to this country, about 21 to 23 nations who didn't even have an oversight capability in their countries.

So whether it be maintenance practices or pilot training standards or all those things, we're quite concerned that, you know, safety on an

international basis be maintained. It's going to have to be at the highest standards, and the United States needs to take the lead role in this regard and since it does have one of the safest transportation markets and the most oversight by the FAA and through its commercial carriers under voluntary compliance, working with the machinists and the pilots and the Teamsters and TWU and everyone else, Communication Workers.

I think that, you know, the public would not support if they understood all the various differences in what the practices and standards are, whether it be parts, and even in assemblage, you know, all the stuff that goes into an airline's components and in manufacturing and all the things that goes into it. I think everybody wants the highest possible standard.

So we support the machinist position, as you well know, on out-sourcing, basically, FAA's inspecting airplanes outside the country, and we're quite concerned about it.

COMMISSIONER BECKER: Do you go so far as to say that this poses a risk factor that we should be weighing very carefully?

CAPTAIN WOERTH: I would, and I think that's why the FAA, which has I think done the best job -- this country has probably had some of the highest

safety standards, and we hold our Department of Transportation, FAA, and it's in the papers every day.

You cannot pick up, as you said, Mr. Becker, you cannot pick up a paper any day of the week without the close inspection and the huge public interest in aviation safety, and that's simply not enjoyed around the world, and I think if we're going to keep the highest standards our citizens demand, we're going to have to maintain the present system.

Thank you.

COMMISSIONER HILLS: Captain, may I just say something for the record?

CAPTAIN WOERTH: Sure.

COMMISSIONER HILLS: The premise to the question put to you was that the North American Free Trade Agreement requires the use of parts manufactured elsewhere. That is not the case. There is no provision in the NAFTA that requires the use of parts made anywhere. It is a decision by the airline company from whom to buy parts which, of course, must be certified by the FAA.

If they meet specification, they may be purchased. The choice is not a requirement by the NAFTA.

CAPTAIN WOERTH: Thank you.

CHAIRMAN D'AMATO: Commissioner Wessel.

COMMISSIONER WESSEL: Thank you.

Some years ago Federal Express went to Congress as it was having problems with Japan and overnight delivery. As you may recall, a number of members of Congress responded, and the practice that the Japanese were taking action on was stopped, and I think FedEx was fairly pleased with the result at that point.

AIG, as I understand it, and other insurance companies were frustrated enough that an insurance agreement was put in place with the Japanese, and I would like the views of all the panelists of, number one, how is the insurance agreement working today. Is it, in fact, achieving the results that the industry was hoping?

And how do we deal with the question of enforcement? How do we, in fact, try and both keep our markets open, but also use leverage to try and effect change when our exporters, our producers, our farmers and businesses are disadvantaged?

AMBASSADOR WISNER: Perhaps if I could lead off and answer that question, the arrangements made with Japan several years ago have had a mixed record. You won't hear me cheering for them.

The reason is that it is extremely difficult to segment a market and negotiate that segmentation and make sure it holds up.

The case that's been problematic for us is that an American company pursuing its own commercial interest has sold itself to a Japanese company, thereby breaching one of the firewalls that was created in the agreement, but in a normal sort of market driven manner.

Now, I would think that the answer really needs to move in quite a different direction, and that is for genuine competition across all sectors' standard.

So my plea to you today, ladies and gentlemen, Commissioners, is that the United States -- and I respect the views, of course, of my airline colleagues -- but my view is, broadly speaking for the service sector, we really are going to do very well as a nation, and therefore, we should be leaning as far forward and relaxing rules around the world to permit real competitive business practices to begin.

And, therefore, we ought to be up front putting out a framework for the GATTs negotiation that gives American industry the best chance to compete internationally. That's much safer, much sounder than

trying to create bilateral agreements with rather artificial barriers inside of them.

CHAIRMAN D'AMATO: Commissioner Zoellick.

COMMISSIONER ZOELLICK: Captain, I'd like to follow up on this little exchange because I find it particularly very important, given that you run an international business and that I do a lot of flying.

(Laughter.)

COMMISSIONER ZOELLICK: Are you suggesting with your answer that Mexican workers care less about safety or are less capable of safety than American workers, point one?

And point two, I hold the airline that I fly with responsible for safety, including your airline, and I would like to know whether you feel that I should not trust your and other American airlines to insure the safety of the parts and the planes because that is the implication that I have to take from your statement because you seem not to be trusting where they out-source.

And I'd like to hear if that is your view because as a person who flies a lot, I will take that into account when I select my next airline.

CAPTAIN WOERTH: To your first question as to the competency of foreign workers, I do not question the competency. In ALPA, we work through the

International Transportation Workers. There are competent workers everywhere.

If the FAA -- a certificate now is being held by U.S. operator, there's a responsibility to FAA.

I just don't think the amount of supervision that the FAA will be able to provide in this regard is adequate.

Already our FAA supervisors are stretched unbelievably thin just within the United States. I think it's asking a lot to be able to have adequate supervision if we start expanding all over the world and where maintenance inspections can be done. I just don't think the FAA is ready to budget for it or to supervise it adequately.

Obviously there are competent workers across the world.

As to the boards of directors of airlines trusting to buy airplanes that were with manufactured parts, whether that be Boeing or whether that be Airbus or whether that be Bombardier.

COMMISSIONER ZOELLICK: Or repair in this case.

CAPTAIN WOERTH: Or repair, I think it's a very different question, repair versus initial manufacturer because, first of all, there'll be infinitely more repair opportunities than for initial manufacture and requires more supervision.

I think most, whether it's Airbus or Bombardier or Boeing, when an airplane rolls out on the floor and it's being tested and supervised and unbelievably scrutinized by a host of people, both the FAA and manufacturers, and rolls out the door, it's a very different thing in line operation when it's taken apart dozens of times at overnight stations and all their D inspections.

So I just think it's actually more critical on the maintenance oversight on an ongoing basis than the initial manufacturer.

COMMISSIONER ZOELLICK: That really makes sense to me, but I'm afraid you didn't answer the question. I would assume that if I ran an airline, that I would want to make sure for the reason that you said, for my pilots and my passengers, that the parts in repair were operated with as good a safety record as I could have, frankly, regardless of what the FAA did because if my planes go down, people aren't going to fly on them, and presumably I'm going to have problems with pilots.

So I would repeat my question. Are you saying that I should not trust your and other American airlines because of this problem that Commissioner Becker mentioned?

CAPTAIN WOERTH: I'm not suggesting you can't trust American airlines or the boards of their judgments. Actually ALPA is on a lot of boards of directors, as is the Machinist Union, whether it be United or Northwest or Trans World. I think we have responsible boards.

I was trying to narrowly answer Mr. Becker's question about ALPA's support for the foreign repair station question that is in front of the FAA.

COMMISSIONER ZOELLICK: Thank you.

CHAIRMAN D'AMATO: Commissioner Lewis.

COMMISSIONER LEWIS: I have a question for Ambassador Wisner and one for Michael Ducker also.

Ambassador, your letter that you handed us was urging that accountants and lawyers be able to provide services overseas, and I can't quarrel with that.

Would you object to foreign doctors who passed tests certifying that they have the knowledge that the AMA would want them to have, being able to practice medicine here?

AMBASSADOR WISNER: Of course.

COMMISSIONER LEWIS: Good. There should be a free exchange of doctors?

AMBASSADOR WISNER: I believe that.

COMMISSIONER LEWIS: Okay. Good. Thank you.

AMBASSADOR WISNER: And the principle holds true virtually across the board. I think one of the toughest aspects of the next round of GATTs is going to be the movement of business persons in many, many categories, and I think the United States is going to have to show a great deal more flexibility than has been the case in the past.

COMMISSIONER LEWIS: Thank you.

Mr. Ducker, thank you for your presentation also.

How would your company feel if a Japanese or German or Scandinavian air cargo company wanted to locate here under a foreign flag, carry cargo between Toledo and Miami or anyplace intra-United States?

MR. DUCKER: Yes, it's commonly referred to as "Cabotage" in the industry and not commonly allowed under the bilateral agreements.

COMMISSIONER LEWIS: I know, but aside from the fact that we don't now allow it, how would you feel competitive-wise if they were to change the law?

MR. DUCKER: Well, we're free and open traders, and while I wouldn't like it if that became the reality, we would certainly compete with them.

COMMISSIONER LEWIS: Okay.

MR. DUCKER: Does that answer it?

COMMISSIONER LEWIS: Yes, it certainly does. I would expect a lot of lower cost airlines could very well be coming in here and competing pretty heavily.

MR. DUCKER: I think that's possible, but the global system, I think, is what's more important to focus on because we're moving more toward global trading patterns, and I think that the global competition is the bigger issue for companies like FedEx.

COMMISSIONER LEWIS: Thank you.

MR. DUCKER: If I might respond to Commissioner Wessel, too, we are happy with the enforcement after such time that that agreement was achieved, but it took about five years to get the achievement of that agreement between the two countries, which was really the biggest problem.

CHAIRMAN D'AMATO: Commissioner Angell.

COMMISSIONER ANGELL: Yes, I have one question for the three of you. Do you believe that in regard to trade opportunities in the insurance and aviation industry, do you believe that we are moving in at least the right direction in terms of things being improved from five years ago and ten years ago and 20 years ago?

And the follow-up is: what one change could you recommend that would make it even better, if your answer is we're moving in the right direction?

AMBASSADOR WISNER: Mr. Commissioner, in a word, I think we're in the right direction, but what catches my attention is the role that services play in our total export picture, and if it's at a certain level today, it's doubled its contribution over the past ten years. The sky is the limit. We are really on the verge not only of a global economy, but an economy driven by knowledge-based services.

This is so huge that I think what's missing at the moment is a sense of the vital nature of this sector and the need to get rules opened up from our point of view, from the American advantage, there are advantages to the United States. Therefore, yes, we're in the right direction. We've seen some lowering of service barriers in international trade over the past decade, but if you look out into the next decade and the one beyond, we need a much more rapidly opening world market for the United States to be able to draw the full vantage that ought to come to us and also deal with the trade deficit problems that you're correctly wrestling with.

I would, therefore, argue, as I did in my opening remarks, that this Commission would do the

nation a great service if it would underscore the vital importance of coming up with the strongest, toughest negotiating framework, to carry that advocacy directly to USTR, to the White House and others, to accelerate our work to make sure even in the declining months of an Administration, to make sure we have the strongest possible negotiating position on the world market.

CHAIRMAN D'AMATO: Thank you very much.

That will conclude this panel. I appreciate your contributions. Thank you very much.

There are refreshments behind the dais if you'd like to partake.

Do we have that letter from Ambassador Barshefsky?

We'll go right ahead with our third panel on entertainment services and U.S. film production with Mr. Masur, Mr. Clawson, and Ms. Richardson.

(Whereupon, the foregoing matter went off the record at 3:35 p.m. and went back on the record at 3:40 p.m.)

CHAIRMAN D'AMATO: We're pleased to have with us a distinguished panel on the question of entertainment services and U.S. film production today. Jack Valenti, the Motion Picture Association representative in Washington, was scheduled to appear, but his wife is undergoing some serious medical procedure

today in a Washington hospital, so he was unable to come, but Bonnie Richardson is here to testify in his stead.

And we have actor-director Richard Masur, the past President of the Screen Actors Guild, who came from Los Angeles, as well as Tim Clawson, the President and Executive Producer of Shooting Gallery-Gun for Hire Productions in New York.

What we'll do is go from left to right if that's all right. If you can, summarize your testimony in ten minutes, and you'll see a yellow light when there's two minutes to go to wrap up.

So, Ms. Richardson, proceed.