

Written Statement of David F. Rebholz
Executive Vice President, FedEx Express

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I am David F. Rebholz, Executive Vice President, FedEx Express. I am responsible for our worldwide air operations as well as ground operations in the United States. I am very happy to have this opportunity to be with you today to share some insights from our perspective on the importance of USPS cooperation with private firms, and the tremendous advantages available to the public through such cooperation.

As most people here today know, in 2001, the USPS and FedEx Express entered into a pair of innovative agreements. The first agreement allowed the Postal Service to take advantage of the capabilities of the FedEx Express transportation network to lower their costs and improve service to their customers. The second agreement permitted FedEx Express to place drop boxes at thousands of Post Office locations nationwide.

People not familiar with the actual management of the Postal Service might be inclined to think that the USPS is not particularly well suited to negotiating advantageous private

sector partnerships. I am here today to say, that I once held such views myself. But having lived through literally months of arduous and detailed negotiations with Postal Service professionals, I now know better.

Not only are USPS managers competent in their areas of specialization; we have also learned that they are very open to new and innovative arrangements and ideas.

Unfortunately, I can also testify from personal experience that USPS management are often hindered by unnecessary and arcane regulatory and procedural restrictions. Let me give you a few examples:

- “Sole Source Justification.” The transportation network FedEx Express provides to the USPS is a large operation. And even though we were already the world’s largest all-cargo airline, making the changes to our transportation network necessary to accommodate the world’s largest postal service took months of planning and preparation. Unfortunately, the USPS and FedEx did not have the luxury of “simply” negotiating the largest air services agreement in history and the related operations plan: we also had to negotiate complex provisions and “out clauses” to provide for the virtual certainty of a legal challenge to the contract. On top of everything else FedEx and the USPS had to do to get this new operation up-and-running, we had devote months to defending a challenge to the contract brought by a party that could not have come close to providing the services encompassed in the agreement. That’s not logical. FedEx doesn’t have to defend that sort of lawsuit when we to serve other large customers.

- “Standard Contractual Provisions.” In our earliest discussions with the Postal Service, we were faced with the prospect of the "standard contractual provisions" that had little gems like: “these terms may be modified at any time unilaterally by the USPS without notice.” Well. If you take a look at the magnitude of the cooperation between FedEx Express and USPS, I think you can understand how that could pose a problem for a potential private sector party. Fortunately, the Postal Service was bold enough to seek innovative solutions that worked for both sides.
- The “Office of the Inspector General.”. After months of contractual negotiations, and months more of litigation brought by a company that could never have provided the contracted services, the Office of the Inspector General essentially asserted that FedEx Express, as a mail carrier, should have signed on to the same unaltered, standard form mail contractor security program, that is used for thousands of other contractors providing completely different types of services to the Postal Service. Apparently, the Inspector General’s office did not care that FedEx Express has been an industry leader in advanced technology security procedures virtually from its inception. Nor that FedEx Express was utilizing security screening processes before most companies could spell “magnetometer,” much less use one. I think you get my point. Again, with excellent cooperation from the Postal Service, we’ve worked through the issues successfully, but in order to innovate and continue to set a world-class standard for postal providers, the USPS is going to need new flexibility to act more like a modern business.

Before I close these short remarks, let me give you an example of how the U.S. Postal Service does an amazing job, especially under the constraints I've described above. Many of you will know that FedEx Express has long been known as a technology innovator. We spend hundreds of millions of dollars each year on information technology resources. But most people don't necessarily think of the Postal Service as a technology innovator. Well, I can tell you that when it came time to have our respective IT groups work together on how to link our respective systems to provide each of us the critical information necessary to move the mail through our airline network, the IT professionals of the USPS were able to work with our people to quickly hook up very effective data exchange systems.

Thank you very much for this opportunity to speak with you today. I look forward to answering any questions that you might have.