

## Pilots Union, Ohio Legislators, Try to Throw Wrench in DHL-UPS Deal

**Groups Asking Justice Dept. to Look at Potential Anti-Trust Issues or Union Contract Violations; Several Recent Mergers have Reduced Overall Express Competition, Congressman Says**

SCDigest Editorial Staff

While troubling news to many parcel shippers, the announcement in June by DHL that it would substantially revamp its money-losing US network and outsource air freight movement and sortation to UPS is even bigger news in Ohio, where the plans include shutting down DHL's hub in Wilmington, costing as many as 8,000 jobs. (See **What is the Real Story Behind Revamped US Plans by DHL?, DHL Responds to Questions about Service, Outsourcing.**)

Is the story over? Perhaps not yet.

First, ASTAR Air Cargo flight crew members, represented by the Air Line Pilots Association (ALPA), have filed a union grievance requesting a full investigation of alleged contract violations that might result from a proposed agreement between DHL and United Parcel Service (UPS).

"We are outraged over the proposed transfer of our work to UPS," Capt. Patrick Walsh, chairman of the ASTAR pilots' union, said in a press release. "The proposed DHL/UPS agreement is a fraud against our pilots, thousands of other hard-working employees, and all the American consumers who use express delivery. It seems the company will stop at nothing to circumvent antitrust laws and scam the consumers."

Meanwhile, several Ohio legislators are also looking at issues that might perhaps scuttle or change the deal.

Mike Turner, a congressman from the Dayton area that includes the Wilmington DHL hub, noted that this latest move is one of a string of transactions over the past few years that in total have dramati-

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cally reduced total competition in the express transportation market.

"Rewind to just five years ago and you will find DHL operating at the Cincinnati-Northern Kentucky airport, Emery Worldwide operating at the Dayton airport, and Airborne Express operating in Wilmington. These three facilities were located in Southwest Ohio to take advantage of our central location and great workforce. Reportedly, Emery and Airborne operated profitably with DHL operating with minimal losses," Turner recently wrote.

"Five years ago, if UPS and DHL had announced the formation of a strategic alliance that would include the acquisition of Emery and Airborne and the consolidation of all four companies' U.S. operations, antitrust alarms would be blaring," he added. "Certainly, this new transaction needs to be viewed in light of the possibility that the acquisitions of Emery and Airborne were steps one and two of a stepped transaction. Perhaps, the UPS-DHL combination is step three."

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Turner, Ohio Senators Sherrod Brown and George Voinovich, and other legislators recently sent a letter to US Attorney General Michael Mukasey, requesting the Justice Dept. look closer look at DHL's planned agreement with United Parcel Systems, citing the potential anti-competitive impact of the deal.

### DHL Was Already Outsourcing Most of Its Network

The situation is complicated in part by the somewhat complex nature of the DHL air and hub operational structure. DHL does not operate the air transport or air sorting hub directly.

Instead, planes and pilots are actually provided to DHL by two companies, ASTAR and ABX Air. Further, ABX Air also runs the Wilmington hub for DHL, which is a division of Germany's Deutsche Post.

However, DHL is a 49 percent owner of ASTAR Air Cargo, formerly known as DHL Airways, and is represented on the ASTAR Air Cargo Board of Directors.

That outsourcing arrangement allows DHL to say it is not subject to any union bargaining issues or grievances.

DHL Americas Corporate Communications Director **Jonathan Baker**, for example, said recently that "DHL has never been a party to any labor contract talks between ALPA and ASTAR. As a separate company, DHL is not involved in pilot labor negotiations or in issues of compensation or contract terms for ASTAR pilots."

Interestingly, DHL has only announced that it has plans to outsource airlift operations – or the movement of freight between local pick-up locations to a sorting hub and then back out again for local delivery – to UPS. No contract has yet



been signed, and it appears negotiations are still in the early stages.

DHL says its decision to hire United Parcel Service to fly DHL's U.S. express cargo is integral to a cost-cutting reorganization, in part because UPS has a modern, fuel-efficient fleet of delivery aircraft.

According to DHL, the UPS fleet will provide savings from reduced fuel consumption and, in the long term, from reduced or eliminated capital expenditures for new airplanes. DHL projects that hiring UPS under a 10-year contract will provide a "platform for growth" as DHL seeks to reduce U.S. operational losses it said were \$900 million last year and would top \$1 billion this year.

Still, it seems unlikely the operation costs of the airlift operations alone would be dramatically different for the current versus outsourced option. Capital expenses would certainly be reduced for DHL under such an arrangement. But it would also allow DHL to shed its Wilmington hub and 6000 employees there, reducing overhead and leading to a more variable cost structure under a UPS arrangement.

**John Graber**, president of ABX Air which operates DHL's Wilmington hub in addition to flying DHL's cargo, said he sees "no business reason" for DHL's selection of UPS. ABX Air's pilots and mechanics have maintained a high availability and reliability rate for DHL, and routinely were willing to accommodate DHL by waiting for late cargo arrivals at pickup points, Graber said.