

As Politicians Turn Up the Heat on Planned DHL Hub Closing, Deutsche Post CEO Says There Were Simply No Other Options

Losing \$5 Million a Day Can't Go On Forever; State of Ohio Offers Vague Partnership Possibility to Save Wilmington Hub

SCDigest Editorial Staff

The drama continues in DHL's announced change in its North American strategy, which includes outsourcing its airlift operations to UPS and closure of its large sortation hub in Wilmington, OH. That operation employs more than 6000 workers directly and several thousand more that work in other companies that use or support the hub. The outsourcing to UPS would move the air operations of DHL from Ohio to UPS' massive Louisville, KY hub.

Supported by politicians on both sides of the aisle and presidential candidate John McCain, the US Congress plans hearings in September on the proposed deal and how it might impact parcel shipping markets here. The stated concern revolves around the potential to reduce competition in the express shipping industry and other anti-trust concerns. However, DHL says it plans to sell and market its services in competition with UPS under the deal, dismissing charges it will reduce market competition. Regardless, it seems clear the closure of the Wilmington hub and related job losses are the real drivers of political concern.

"This deal, if allowed to be completed, would have consequences beyond its devastating impact on our local, state and national economy," said **Mike Turner**, an Ohio congressman in Dayton whose district includes Wilmington.

The planned hearings in fact come before DHL and UPS have even worked out a deal on the outsourcing relationship. At one point, DHL had said it hoped to have an agreement with UPS by the end of July, but now entering the third week of August the deal has still not been completed. Some observers have ques-

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tioned the strategy of announcing the outsourcing plans before the UPS deal was done, which may give UPS an advantage in the negotiations.

"Can't Afford to Take \$1.3 Billion Losses Forever"

Meanwhile, **Frank Appel**, CEO of DHL parent Deutsche Post, finally commented about the DHL controversy, after having been largely silent until now. He defended the move to outsource to UPS (and other announced changes) as necessary to enable DHL to remain in the US market and save tens of thousands of other jobs there.

He also wonders what the US Congressional actions can really achieve – given the alternative for DHL is to shut down its North American operations completely. Appel said the company was losing \$5 million per day in North America.

"I can't afford to take losses of \$1.3 billion [annually] forever," he stated.

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According to a Wall Street Journal story, Appel said he has resisted calls for him to visit the Wilmington area, as he had nothing new he could tell the workers and community there.

"Nevertheless, I think it's important to tell the people that I understand that it's a hardship for them," Appel said.

To further add to the drama, Ohio Lieutenant Governor **Lee Fisher** said last week that the state was interested in potentially jumping in to save the Wilmington hub and jobs.

Fisher said the state of Ohio might be willing to craft "a risk-sharing, collaborative financial partnership" with DHL to eliminate the need for it to outsource to UPS. Details of this idea, however, were very limited.

Finally, Ohio Senator **Sherrod Brown** wrote a letter this week to the Bush administration asking it to consider what has happened with DHL as it negotiates with the Europe Union on the so-called Open Skies agreement that would ease restrictions on a variety of international air transportation operations. Stage II of the Open Skies agreement is currently under discussion.

In the letter, Brown noted what DHL said when it received approval to acquire US-based Airborne Express in 2003: "DHL said the transaction would: 1) increase profitability and market share for both companies; and 2) enhance free



market competition by creating a new entrant into an express delivery market dominated by two major carriers: UPS and FedEx," Brown wrote. "Unfortunately, that has not been the experience of DHL in the U.S. market."

Said SCDigest editor Dan Gilmore: "Unfortunately, no matter what management mistakes got the company into this position, nothing anyone does can change the fact that DHL is losing huge amounts of money in the US market. No law or ruling can force them to continue to do that indefinitely."

He added, "The only real, albeit remote, possibility would be for some very large group of private equity investors to buy back the operations and try to reconstitute the old Airborne Express in some fashion, but the financial and market realities of that idea are very forbidding."