

**BEFORE THE  
COMMITTEE ON FINANCE  
ENERGY AND INFRASTRUCTURE SUBCOMMITTEE  
UNITED STATES SENATE  
WASHINGTON, D.C.**

**TESTIMONY OF  
FREDERICK W. SMITH  
CHAIRMAN, CEO AND PRESIDENT, FEDEX CORPORATION  
CHAIRMAN, FEDEX EXPRESS**

**ON**

***FUNDING THE FEDERAL AVIATION ADMINISTRATION***

**JULY 19, 2007**

Good afternoon. My name is Frederick W. Smith and I am the chairman, CEO and president of FedEx Corporation and the chairman of its FedEx Express subsidiary. It is my honor to be before you, representing the more than 143,000 men and women working for FedEx Express, the nation's largest express transportation company. Through our integrated air and ground network, we provide our customers with express services for documents and goods to every address in the United States and we connect those customers to over 220 countries and territories around the world.

The challenge before you is to secure the future of air transportation in the United States. Will our airlines be able to provide world-class services to passengers and shippers both within and beyond the U.S, or will our air transportation system grind to a halt, with growing demand by users chasing limited services provided by an outdated technology?

The Federal Aviation Administration has proposed a new system of air traffic control which they call the Next Generation Air Transportation System (“NextGen”). This system would end the decades-old dependence on ground-based radar and take advantage of new satellite technology to provide a more effective and efficient system. This system would increase airspace capacity, provide U.S. passengers and shippers with more reliable service, and promote environmental goals by eliminating inefficient routings and traffic holds – all goals that, in this summer of travel delays, high fuel charges and climate change concerns, are vital to our nation’s future.

The debate so far has centered on how to finance such a new system. My company does not favor one method over the others. But we do believe that there are some basic policy goals that should guide your choice of financing. First, all users of the system should pay their fair share. Second, the financial arrangements should recognize that the nation’s airspace is a critical asset: it protects our national security and it is an economic pillar for all types of consumers and businesses. Third, the system should raise sufficient funds not just to sustain our national air traffic control system as the safest in the world but to modernize it, allowing it to carry forward that level of safety into the coming decades while expanding in size and improving in efficiency.

In developing a financing plan to fund the system, this Committee should be aware of the vital role that air cargo and express industries play in our national economy. We deliver the high-value, time-sensitive cargo on which this economy depends, and we connect U.S. businesses to the world. We operate the transportation system on which the U.S.

Postal Service relies. We operate at large and small airports throughout the U.S, ranging from Kalispell's Glacier Park Airport in Montana to New York City (where we fly to both New York's JFK and Newark's Liberty). Mom-and-pop shops, multinational conglomerates – in big cities and in rural locations – we serve America's businesses. And those businesses must run efficiently and on-time. That's why we think the work this Committee will do to reauthorize the taxes that fund the FAA, coupled with the work of the Commerce Committee to reauthorize the programs of the FAA, including its air traffic control functions, is important not just to the airline industry or to the air cargo industry, but to the entire U.S. economy

Our shippers expect their packages to be delivered on time. We guarantee on-time service to our customers or we will give them their money back. That's a powerful reason for FedEx to operate an on-time system – not only do our customers depend on our timely service, but our business model does as well.

But in order for us to be able to offer U.S. companies our hallmark “just-in time” service, we need an air traffic control network that works well and consistently. Our customers don't really care that a delay was “outside of our control” – that we had ATC delays or whatever. They just want – and expect and deserve – their air shipments to reach the destination on time. We want to operate an on-time aviation machine, making airline schedules “just-in time” rather than “just-in-case.”

A modernized air traffic control system is not just an option anymore, but an absolute necessity. We agree with the Administrator who told a Senate gathering last week: “If we wait for tomorrow, we’re toast.”<sup>1</sup> The air cargo segment is growing faster than the passenger portion, with growth rates averaging 3.3% domestically and 6.3% internationally per year expected until 2020.<sup>2</sup> We cannot sustain this expansion, and offer the services needed by a growing U.S. economy, if the ATC system continues to be overwhelmed. Airlines cannot be asked to spend each day merely trying to catch up to the schedule. That’s why we think the issues facing you here today are important not just to the airline industry or to the air cargo industry, but to the entire U.S. economy.

S. 1300, sponsored by Senators Rockefeller and Lott, sets forth a reasonable approach and a blueprint for success in the development of a modernized air traffic control system. It provides for a future NextGen system that will address the crying needs for air traffic modernization and includes elements that provide linkage between financing and usage. We worked closely with Senators Rockefeller and Lott and all recognize and support the hard work that they did to move that bill forward. But as I said before, that is only one piece of the puzzle. This Committee has the responsibility of providing the overall funding stream for the FAA. It is a challenging and daunting task, and as you are well aware there are extremely divergent and strong opinions about the best way to address the overall funding stream for the FAA. At FedEx, we are not wedded to any one financing system. What we want is to continue to pay our fair share into the system. Right now,

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<sup>1</sup> Marion C. Blakey, speech, "Action Now", Senate JPDO Day on the Hill, July 11, Washington, D.C.

<sup>2</sup> U.S. Department of Transportation, Federal Aviation Administration, FAA Aerospace Forecasts, Fiscal Years 2007-2020.

all-cargo air carriers pay an amount in excess of 100% of their burden on the ATC network, through a combination of the cargo waybill excise tax and the fuel tax.<sup>3</sup>

Whether the new funding system is tied to actual usage or the waybill and fuel taxes are maintained, we don't have a strong preference provided the all-cargo industry is not shouldering a disproportionate cost burden. We should not be asked to accept a more unequal burden on all-cargo operators than the status quo – where we now pay more than 100% of our fair share.

Furthermore, just because we are avid supporters of an updated ATC system, we should not be viewed as a “deep pocket” which might make up system shortfalls created by the unwillingness or alleged inability of other users to pay the costs of much-needed modernization. This would be particularly unfair since the all-cargo industry, which operates at off-peak hours, actually imposes less of a burden on the ATC system than a straight time-in-system or per-flight calculation would reflect.

The FAA has historically received a significant portion of its funding from the general fund. Past FAA bills, and the current one, S. 1300, continues a contribution to the funding of the national ATC network from the general fund. We believe that it is critical for an FAA bill to support necessary growth in infrastructure costs. To that end, we want to ensure that S. 1300 especially in the later years, reflects the necessary funding to continue to address system needs. Funding for Fiscal 2009 and 2010 would actually be decreased from Fiscal 2008, which is in turn below historic amounts. The general fund

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<sup>3</sup> See, Testimony of Stephen A. Alterman, Cargo Airline Association, submitted for today's hearing, for more data on all-cargo contributions to the present ATC funding scheme and the use of the ATC system by the industry. Appendix B describes the tax payments made by the all-cargo carrier segment.

contribution should recognize the value of a well-run air transportation system to the U.S. economy, as well as reflecting public use of that system. We would strongly suggest that this Committee include financing sufficient to increase the general fund contribution, rather than decreasing it, at this critical juncture.

In looking at needed changes in the ATC system, there is more than just a funding system that should be considered. Controls are also critical: it is also important that users become more involved in the decisions going forward. In the run-up to the announcement of the Administration's bill, the FAA told the industry that under its user fee system, it would be "user pays, user says." However, the advisory board format put forward in their proposal consigned users to merely making suggestions rather than decisions, while the Administrator and Secretary of Transportation would have ended up with unparalleled power over the system design, funding and performance. Listening to users (or other stakeholders, including Congress) would be at best an optional event. The FAA proposal would have even eliminated the "nuclear" option of judicial review, making airlines totally captive payers, just writing checks. We have to maintain some accountability outside of the FAA, so that the resultant NextGen system meets the present and future needs of users.

Finally, although the bill is not before this committee, we commend the drafters of S. 1300 for limiting the bill to addressing the critical priorities of the FAA going forward. A modernized air traffic control system, increased research and development funds for aeronautical innovations (particularly in the environmental area), and mechanisms for

continued development of America's airports – these are and should be the focal points for this reauthorization legislation. We hope this committee will also embrace that view. It is unfortunate that others in Congress have used this critical legislative moment as an opportunity to introduce unrelated labor and ancillary concerns into the process, which could defeat an important initiative required today by the shipping and traveling public.

In summary, I appreciate the invitation to testify on this important subject. The U.S. air traffic control system must be modernized and such an initiative should not be delayed. Payment for such modernization should be through a fair and equitable system, balanced to reflect the burdens placed on it by the users, along with a general revenue contribution that reflects the high value of the national airspace as an economic and security asset. Time is of the essence. Thank you for giving me a portion of your valuable time.