

Fred Smith Speaks to Pilot Issues

Mike Kolasinski: Hello, I'm Mike Kolasinski and welcome to FlightLine. We've had a number of questions from crew members recently; there are a number of very important issues underlying those questions; we thought you'd like to hear the answers to them from Fred Smith.

Fred, we've really gotten an awful lot of questions from crew members lately. What I've done here is write them down so that I'm careful to get them in the same in the same context that they're asking them--a lot of them have come to us in writing. And I'm just going to go through the list one at a time and read them to you.

Fred Smith: Sure, that will be fine.

Mike: Before we get started, our last FlightLine had Jim Barksdale talking about company strategy and the state of the company. I was just wondering if you wanted to give us an update on any developments in that area.

Smith: Well I watched the tape and I thought Jim did an excellent job of presenting the strategy, Mike. I would only say, in amplification of Jim's remarks on the last *FlightLine*, that we're a little more concerned right at the moment about the economy. Clearly, the automotive, retailing, computer sectors, have gotten very weak. A lot of that traffic goes across the Pacific. With that one exception, I think the *FlightLine* last time did a very good job of explaining what we're trying to do, and our global plans.

Mike: So we're still in good shape with that strategy?

Smith: Yeah, I think we're tracking along. Obviously, we've had some disappointments here in the last couple of quarters, but it's important to recognize that we're not in this thing for six months or two quarters. We're talking about something that goes into the 21st century here, and has to do with the next 30 to 50 years. So, I believe that our strategy remains correct over the long term.

Mike: Let me get to some of the specific pilot questions. Most of the news that they're hearing right now is bad. Profits down; money is tight. With the benefit of 20-20 hindsight and the merger behind us, would you do it again and how is it going?

Smith: Well, certainly the acquisition and the merger have been difficult. We knew it would be difficult; we knew it would be particularly difficult for our pilots. After all, an awful lot of the burden of this integration has fallen on them and our other operating groups. And, by the way, they've done a marvelous job and a lot of home lives have been disrupted and we appreciate the extraordinary efforts.

But having said that, I guess it's like when they asked Winston Churchill what he thought about democracy and he said, "well it's the worst system of government ever conceived--except for all the others." And I've gone back and tried to re-evaluate whether we did the right thing and would we have done it differently, and I come to the inescapable conclusion that, given the courses of action that were available to us, it was the right decision to make.

I think you've got to remember a few important facts. At the end of World War II, the United States economy was about 50 percent of all the economic activity in the world. Today, it's about 22 percent and it's going south. It's getting less. It's obviously because these other countries are growing faster than the U.S. economy.

Most importantly, the types of things that we carry--the electronics, computers, precision equipment, high-priority documents, you name it--those high-value-added things that we carry are increasingly globally sourced and sold. In those sectors, the rate of growth in international transportation is 2-1/2 times greater than what it is in the domestic trades. So it is inconceivable to me, that Federal Express going into the 21st century could have remained essentially a domestic player or a domestic company with a small international presence.

Our tremendous strengths in that area, when combined with the route authorities and the facilities and slots and all the things we've mentioned the Tigers had, I think will create an unbeatable combination as we go into the 1990's. But, there's no question about it, it's been difficult, particularly in the pilot area where you have the seniority integration issues. And we didn't do as good a job as we could have in certain areas in the planning.

But let's just say all of what I just said was wrong. Let's just say I made an enormous mistake--and after all, there are a lot of us that have heavy stakes in this particular decision. But let's just say that it was totally wrong. Whether it was or whether it wasn't, the fat's in the fire now. And we are one company and we've got to get

Smith: Well, certainly the acquisition and the merger have been difficult. We knew it would be difficult; we knew it would be particularly difficult for our pilots. After all, an awful lot of the burden of this integration has fallen on them and our other operating groups. And, by the way, they've done a marvelous job and a lot of home lives have been disrupted and we appreciate the extraordinary efforts.

But having said that, I guess it's like when they asked Winston Churchill what he thought about democracy and he said, "well it's the worst system of government ever conceived--except for all the others." And I've gone back and tried to re-evaluate whether we did the right thing and would we have done it differently, and I come to the inescapable conclusion that, given the courses of action that were available to us, it was the right decision to make.

I think you've got to remember a few important facts. At the end of World War II, the United States economy was about 50 percent of all the economic activity in the world. Today, it's about 22 percent and it's going south. It's getting less. It's obviously because these other countries are growing faster than the U.S. economy.

Most importantly, the types of things that we carry--the electronics, computers, precision equipment, high-priority documents, you name it--those high-value-added things that we carry are increasingly globally sourced and sold. In those sectors, the rate of growth in international transportation is 2-1/2 times greater than what it is in the domestic trades. So it is inconceivable to me, that Federal Express going into the 21st century could have remained essentially a domestic player or a domestic company with a small international presence.

Our tremendous strengths in that area, when combined with the route authorities and the facilities and slots and all the things we've mentioned the Tigers had, I think will create an unbeatable combination as we go into the 1990's. But, there's no question about it, it's been difficult, particularly in the pilot area where you have the seniority integration issues. And we didn't do as good a job as we could have in certain areas in the planning.

But let's just say all of what I just said was wrong. Let's just say I made an enormous mistake--and after all, there are a lot of us that have heavy stakes in this particular decision. But let's just say that it was totally wrong. Whether it was or whether it wasn't, the fat's in the fire now. And we are one company and we've got to get

on with it and worry about how to take care of our customers rather than keeping our focus on some of the peripheral issues.

Mike: When do you think that we will start to see some of the positive results from the merger that we've anticipated?

Smith: Well I think we're starting to see a lot of the positive results already. A lot of the trauma that we went through in the first few months and few quarters were made even worse, as everyone knows, by the volcanic eruption in Anchorage and the computer malfunction we had in the superhub at Memphis over the Christmas heavy-shipping season.

But those aberrations notwithstanding, a lot of the glitches that many of our crew members were communicating back have begun to be solved. The operation is running much smoother. Our service levels are outstanding in most sectors today. We have a number of programs--for instance standardizing our unit-load devices so they'll go in DC-10's and 747's interchangeably. All kinds of things have been done in the short term, and a lot of things have been done which are somewhat longer term, like the U.L.D. program.

And I think we're going to get better and better, so that within the next year or two, we'll have an unprecedented system that allows us to pick up, transport, and deliver virtually any place in the world through the Federal Express organic system. And nobody can compete with that. And I think that means that the prospects are still very bright.

Mike: On a personal level, you hear this sentiment from a lot of crew members: They've put a lot on the line, more so than the other employee groups because of the seniority issue. They've worked harder with all of the reverse seniority and draft and made more sacrifices than any other employee group because of the merger. How would you respond to that?

Smith: Well the crew members, of course, have taken the brunt of this integration in many ways. As I mentioned a few moments ago, it has been very disruptive of some of our pilot's home lives. I want to make sure that they know I appreciate that, and I particularly want that expressed to their families.

But there have been other people too that have taken some hits in this thing. It's been very hard on our Central Support Services

division people--that's our hubs--and the dislocations there. Some of the former Tigers employees like the folks who were at Rickenbacker have necessarily been moved when we consolidated that hub over to Indianapolis. Since we didn't meet our plan, our management compensation this year, depending on what level of management, will result in a pay decrease of between 15 to 50 percent. That's as it should be. The management compensation is based on corporate results. The pilot's compensation is based differently. All of that's discussed, by the way, in our Manager's Guide. If any pilot would like to have a copy of it you should make them available to the crew force. At any rate, a lot of people have had some short-run disruptions.

But as I mentioned a few moments ago, it's my belief, and I hope that it'll be vindicated in the years to come, that the prospects for everyone at Federal Express, particularly the pilots, are better as a result of this integration than would have been the case without. And I think that is true for both Federal Express originating pilots and people that came into the system by virtue of the Tigers acquisition. I believe that there will be many more career opportunities, more flying, more varieties of flying.

For instance, a lot of the Tigers pilots have come up to me and said, "Well this is great because if I really wanted to make the big dollars with Tiger I had to go out and run these long trips in the Pacific and it wasn't conducive to the type of personal life I want. Now with a much bigger domestic system I can bid here, there, and the other."

The same thing is true on the other side of the coin with the Federal Express pilots. A lot more wide-body seats will be available in the years to come. Now, there are a lot of what we used to call "sea lawyers" in the Marine Corps--experts that are sort of focused in on the next 90 days and 6 months--that can't see that. But all I can do is express my opinion and hope I'm vindicated over the longer haul.

Mike: The press continues to report and the financial community continues to dwell on the fact that the split-seniority list is an expensive proposition for us. A lot of crew members feel like we're picking on them in laying all of our financial problems on that issue. How do you feel about that?

Smith: Well I don't think the company has laid all of our financial problems on the pilot's seniority list. The press has focused on it a lot more than the company has. All of that got started last summer when several of our pilots went to *The Wall Street Journal* and started a soap opera in the newspapers. So it became a matter of interest to the press.

Now, we have noted in our financial disclosures, our quarterly reports, that the split seniority list is costing the company some money which it wouldn't spend once we have those lists integrated. It's our responsibility to list those abnormal type of expenses. But at the same time, we noted in the quarter that ended over the Christmas holidays that we'd had the Mt. Redoubt volcanic eruption in Anchorage which had been a one-time expense, that we'd had the SuperHub computer problem which had been a one-time expense, the San Francisco/Oakland earthquake which had been a one-time expense.

In the scheme of things, the cost of a split seniority list, while it's a lot of money, is not the root cause of Federal Express' failure to meet the financial goals that we've set for ourselves. The primary reason, as Jim mentioned on *FlightLine* last week, has been that our ATA product--which is the general commodity--type air freight product--and the international distribution service, the IDS which Tigers had introduced and we have expanded greatly, the premium time definite international air freight services--have both been below planned levels.

Now, it's important also to recognize that, in most cases, until recently, they were above last year's levels. So the new combined Federal Express system was carrying more air freight than the former Tigers system.

Now, recently, because of the tremendous slow-down in retailing--you've had the Federated-Campeau bankruptcy--a lot of the fashion goods that we carry out of the mid-Pacific have gone down. The computer industry has gone way down. A lot of the IBM traffic, digital equipment traffic has been soft. Automotive--we don't carry a lot of automotive but it is an important sector--it's the worst automotive selling period in, I think, a decade. So all of these things have had an effect on our ability to reach our profit goals.

But bear in mind, that Federal Express is still an enormously strong company with a strong balance sheet. We're on a running rate now in excess of 7-1/2 billion dollars a year which makes us like

the 6th largest transportation company in the world. And most of those other companies that are larger than us have been in business 40 or 50 years. So you have to again look at this thing in the perspective of the much longer term. And I believe in the coming months you'll see things starting to get better in terms of our financial performance. But the pilot's seniority integration, while it's costing us money, is not nearly as significant as some of those major traffic trends that I just described.

Mike: When would you see us being able to get the advantage of a merged seniority list?

Smith: Well I hope that we will be able to come out with a bid on the narrow bodies sometime this summer. Now all of that, of course, depends on when the arbitrator's decision is handed down. That, in the last analysis, is up to him. The wide-body picture should be clear shortly thereafter. The main issue here is that we've got some pilots, particularly on the Purple side, who have been severely over-utilized, if you will--volunteer, drafts, what-have-you--to man the system. And on the Silver side, as it's called, we've had people which have been under-utilized.

And we made some mistakes, too. We thought we were going to have an integrated list last summer, and that there would be a pilot overage. We've had a tremendous problem spooling up and meeting the needs of our reserve lines and what-have-you.

So it's going to be so much easier on us to meet our business demands once we're dealing with one seniority list, that a lot of the friction and problems that we've had here in the flight department over the last few months are going to go away, I think, within the next 12 months.

Mike: This next issue--I know we hate to keep segmenting the crew force into two groups--but this next issue is a particular Purple issue. Some pilots believe that Federal Express has bent over backwards to support the former Flying Tiger pilots at the expense of the crew members who built the company. How would you respond to that?

Smith: Well obviously people are entitled to their own opinions. I'll just read you a line from two letters that I read yesterday. One of them from a former Flying Tigers pilot. I'm not going to mention his

name because it's really irrelevant. This letter was addressing the company's filing in the arbitration hearing. According to him, "The action of management with your highly biased submission borders on fraudulent if not outright criminal." That's from a former Tigers pilot.

Now here on the same day I got this letter from a Purple pilot, Federal Express pilot, who's been here I think about 2-1/2 years, who says that "You tried to sell us down the river last summer."

It certainly hasn't been the intention of the company to side with anyone. What we've done is to try to present the facts as best we can see them. Now, that means that since the earliest days of talks between the two merger committees, the "company,"--and I hesitate to use that word because it makes it sound like it's some amorphous entity *over here* and our employees are *over there* and in actual fact the "company" *is* the employees--believes that the methodology used by the Federal Express merger committee was correct. The ratio of seats into the future was the correct way to go.

We didn't think that the Tigers merger committee, which was a strict date-of-hire type thing, or close to it, was an appropriate solution. And we've said that right along. Now, on the other side of the coin, we did not support the Federal Express committee's fleet projections because they didn't jibe with what we felt was the reality of the situation.

So I think you can see just by those two letters that I received on the same day, yesterday, that both sides have a perception that there's a tilt one way or the other. There certainly has not been any attempt to do that. All we attempted to do was present the facts as we saw them.

Mike: The former Flying Tigers pilots are taking a issue with the fact that the company has submitted a proposal to the arbitrator that favors the methodology of the Purple side.

Smith: Well, here's the important point again to note. The company's position in that matter has been publicly expressed for months and months. So there should be no surprise as to our position. Now, obviously, some people don't like it; they don't agree with it. But we certainly cannot be accused of being disingenuous. And I certainly hope there's no criminal sanctions to our doing so, as was suggested in that letter.

Mike: Commuter issues have gotten a lot of attention. We've had a lot more commuters join the system since the merger and we've done some things that, in the perception of a lot of Memphis-based pilots, have been to advantage commuters. How do you feel about commuting in general?

Smith: Well I think a part of the reason for that, again, is this lack of an integrated seniority list. For instance, one of the areas that has been a bone of contention, the way I understand it--and I tried to go over some of these issues yesterday with Jim McKinney and Captain Wolfe and Captain Cheever so I understood them better--but I think one of the issues, for instance, has been the new Indianapolis hub. We put mostly "Silver" airplanes into the Indianapolis hub because they're not as reliable as the Purple airplanes and we wanted to put them on an "easier" schedule, if you will. That meant that a number of the lines going into Indianapolis were, in essence, commuter lines, and very nice runs. You know, back and forth, and on-a-week/off-a-week, whatever the case may be.

So there's this perception that something was done to favor commuters and there were more commuters from the Tigers system than there were from the Fed Ex system. Once the seniority lists are integrated, I think a lot of that's going to go by the wayside because there's so many lines of time out there that a lot people are going to be accommodated.

Now, as to commuter life styles in general. Years ago we crossed the bridge of not requiring people to live in a particular domicile. At one time, if memory serves me correctly--and my memory seems to be going a little bit these days--but if memory serves me correctly we either had or we contemplated having a policy which required people to physically live within 50 miles of the domicile. The pilots did not want that. We always try to do what the pilots want within reason, so we did away with that requirement or never put it in place, whatever the case may be. We became a commuter airline when we made that decision a decade ago.

Now what has brought it even more to the front is not just the Tigers integration--although that probably has been the sauce on the cake--it's the fact that Federal Express is a multi-hub company. So we have commuter pilots, and with the International flying at such levels we will have a lot of them. We have to try accommodate that type of life style to the best extent that we can. And it's in the company's best interest to have some level of commuters because

the system changes. Pacific may be strong this year. Atlantic may be strong next year. South America the next year. New England was strong two years ago, now it's down. So it is, I think, a reasonable situation, given the realities of our business, to have a good percentage of commuters.

Mike: I've heard it said a great deal lately that flight managers don't have any real power, that to get anything done they (pilots) either have to go to you or to Mr. Barksdale.

Smith: Well that's a misconception. The facts of the matter are that Jim and I are not involved too much in the operations of the Flight Department on a daily basis. There's a System meeting that goes on early each morning in between our two offices. We obviously get the reports. Jim goes in quite often; I go in sometimes to see how the System's going. The vast majority of things within the Flight Department that have to do with pilots are handled by Flight management: Jim McKinney, Jerry Wolfe, and all the other people that are there. They have lots of authority.

Now I will say this much, that a lot of people that are in Flight Management or have been in Flight Management are sometimes uncomfortable making decisions because the pilot group is sort of a society unto itself and part of being a member of management is sometimes having to say "no" or disagreeing with someone. I know some pilots that have had GFT's over two and three hundred dollars or something that had, in the scheme of things, not very much merit ten years ago that have never gotten over it.

Now, most people in management just sort of take that as part of what goes with the responsibilities. But in the piloting area I think it's very difficult for some of our Flight Managers, or has been in the past. There's been a reluctance for them to make a decision. Sometimes, God forbid, they've passed it right up hill and said, "Well I'd like to be able to help you but you know the people up there in the head shed have got to make this decision."

The facts of the matter are the vast majority of things that have to deal with pilots are handled by the air operations division, and the flight department management in particular and they have the authority to do that.

Now when it comes to wages and benefits, obviously I have a responsibility, Jim has a responsibility, our board of directors have a legal responsibility to our shareholders. We can't delegate the

authority to set wages and benefits and working conditions to folks that don't have any legal responsibilities to the owners of the company, some of which are our pilots. Now those issues, obviously, come up to quarterly wage-review board. But the day-to-day issues and most of the things that have to do with the Flight Crew Handbook are handled by the Flight Management and they have lots of authority.

Mike: Flight Management takes an awful lot of heat from the crew force. In fact, lately, they go so far as to say there's a leadership vacuum over there. How would you respond to that?

Smith: Well I guess the more things change, the more they remain the same. As long as I can remember, the complaint of our air crews has been there's lack of leadership or this management group is not responsive, or whatever the case may be. First of all, it is an incredibly difficult job managing our crews. You've got hundreds of people that are all over hell's half acre. They're hard to communicate with. All of them are highly educated and intelligent people with very strong opinions. Sometimes they're a little unrealistic about the world, I think, because they deal in such an objective profession where everything is very finite. Most of the things I deal with are very gray and abstract. And so they have a level of expectations I'm not sure can be met by anyone.

But I can tell you this much: I think that the flight management folks and the Air Operations Division Management, specifically Alan McArtor and Jim McKinney, are two of the finest leaders that I've ever seen. I think Jim Barksdale is one of the best executives in the world. And we've got the management there. But we're not going to make everybody happy all the time, and I think a lot of the hits that management's taking over there right now have been because of this trauma of the two lists and the integration. So let's talk about this in six months, nine months, and see if the report card is still along those lines or not. I doubt that it will be.

Mike: Well it's been six months since the ballots were counted in the election. Do you still feel as strongly as you did then that non-union is the way to go for the Federal Express crew force?

Smith: Sure, I think Federal Express has got the best pilot management system any place in the world. To me, it's almost like what's going on in Eastern Europe. I mean, you've got a system that's

totally discredited that is falling by the wayside. The same thing's true of these traditional, inflexible, adversarial, internecine family-type wars that go on in a lot of these transportation companies. The most notable example is Eastern; United is not far off of that.

The facts of the matter are that the only thing that's constant in the modern business world is change. And people who don't want things to change are in essence signing a corporate death warrant. Our system allows us to address the realities of today, and to change things as appropriate through our Flight Advisory Board and the flight revision process.

We've got the best grievance procedure of any industrial company in the country. *The New York Times* just wrote an article about it and in essence said that. We've got enormous job protection. Our pilots are extremely well compensated. Some of them don't like the methodology we use, but the facts of the matter are that they're among the top-paid commercial aviators in the world. So obviously it's not a perfect system. But to me, as opposed to that traditional type of we/they type attitude, it's enormously superior. But in the last analysis, if we can't sell that point of view, the pilots have the last say on it.

Mike: A huge issue with the crew force right now: They say that we won the union election in large part by pointing out the tremendous advantages of our work rules. Now we're changing those work rules. How do you feel about that?

Smith: Well first of all, I don't look at it as "we" won the union election. The pilots decided the type of environment they want to work within. I think one of the strongest points about the environment is the process that led up to having the *Flight Crew Handbook* in the first place. And it is a process which has the input of the elected representatives of our pilots--the Flight Advisory Board. One of the things which we did recently was to put even more teeth in that process by giving the Flight Advisory Board itself the ability to convene revision committees. And I would point out, I think I'm correct in this, there are three revision committees underway at the current time, and two of the three were initiated by the Flight Advisory Board.

There's some general perception out there now that being able to change things is somehow bad. As I said a few moments ago, it's the exact opposite. The ability to change things appropriately to

meet new business realities is what has made Federal Express a success and I think led up to the *Flight Crew Handbook* that we have today. The failure to be able to effect those changes in essence is a sure prescription for disaster, particularly for pilots.

Mike: There's been a lot of speculation, including a very specific rumor, that the work rules are being whittled away, the value of them decreased, in order to put us in a better negotiating position if we ever did get a union.

Smith: Oh, hell no. That's ridiculous. There's not a scintilla's worth of truth to that. What's your next question?

Mike: Vacation gets the most attention--a huge issue with the crew force. Some pilots believe that it shouldn't be tampered with. Why are we doing it and what are your feelings about it?

Smith: Well, the vacation policy which we have today, particularly the vacation slide, I remember very well when the policy was put in place. There were two important objectives. The first objective was to make sure that all of our crew members got an appropriate vacation. And we have, of course, very generous vacation benefits in the scheme of things. The second thing, which was equally important, was that we have a vacation policy which was focused on the very different physiological effects that our type of flying has on different people, so that a person who had a desire for more time between trips or whatever the case may be, could bid and open up some of those vacation days.

Note when I say those two objectives that there was never an objective there for people to have near unlimited vacations or the ability to make us totally noncompetitive. I mean, that would be ridiculous. Now, what's happened, here of late, as we've gotten more and more international flying, is the current policy, when applied to these extraordinarily long trips, and people bid into them and use the vacation policy to beat the system, it gets to the point of being absurd.

So there are a lot of different ways to address that issue. One is to appropriately amend the *Flight Crew Handbook* to achieve the original objectives, and there is an effort underway to do that I understand. The second of which is to change domiciles or establish supplementary domiciles. And the third, one of which I am a strong

advocate, is to reduce the lines of time so that we don't get many trips that go over a week. I think that's an appropriate length of time. Now, we've got some pilots that like the very long trips and as best I can tell we'll have some number of those for those type of people for some period of time in the future.

All three of those things will have a big effect on solving some of the anomalies that are currently going on with vacations. But there's no effort underway to try to take away people's vacations or to get more out them. There *is* an effort to keep Federal Express competitive and our manning within reasonable levels and have a fair system so somebody's not on vacation for five months and somebody's pulling their slack.

Mike: There have been an awful lot of revisions and bulletins to the FCH since T-Day. Some crew members say that that just devalues the book as a contract and its viability as a contract. How do you feel about that, does the FCH still, in your mind, serve as a contract and work in the new Federal Express system?

Smith: Well sure, but the point as I made twice before and I'll make it again, the *Flight Crew Handbook's* revision process is the greatest strength that our pilots have. It's not a negative. Now, you get some of the politicians and Sea Lawyers that say that once something's in the book it should never change and we'll go down on the Titanic together. Maybe that's a point of view. I've never seen the wisdom in it.

Mike: A lot of pilots seem to be afraid that the work rules will be tremendously devalued over the next six months to a year as we adapt to the international system.

Smith: Well I don't see how that can be the case. I mean, again, there's no effort or plan to devalue the work rules. There is a requirement to solve some of the aberations that are in the *Flight Crew Handbook* which have occurred when the company went from being basically a single-hub, single-domicile system to, first a multiple-hub, reasonably sized international system, to now one which is a multi-hub, global operation. Now those things have to be addressed and taken care of. But I can't imagine how there be any major devaluation of those workrules.

Quite the contrary, I think what's going to happen is that a lot of people, whether they're a commuter, or Memphis-based, or JFK-based, or international, or a 747 devoté, or whatever the case may be, are going to have lots more choices and opportunities. Now we're still going to have some long trips. The airplanes are scheduled in large measure because of the curfews around the world. If we had our druthers we'd schedule a line of time somewhat differently.

I think one of the things that a lot of emphasis Jim McKinney has put on here lately--and Bruce Cheever and the Flight Advisory Board--is to get the FAB's scheduling committee back going. The lines of time and the schedules, which in the last analysis govern the quality of work life, are subject to this process with the input from line pilots and the Flight Advisory Board. But other than that, there certainly is no belief on my part that our pilots lives are going to get worse rather than better. I think when the seniority list gets integrated we do some catch-up. And no question we're behind on reserves and our schoolhouse is full. When those things get solidified I think a lot of these issues are going to go away.

Mike: You mentioned the long trips earlier and your preference, if it's possible, to shorten as many of those as we can. A number of crew members have brought that up as a safety issue. How do you feel about that being a safety issue?

Smith: Well, I think that, everybody is entitled to their own opinions. The reality of the world we live in is we're governed by the FAR's and by some reasonable accommodation of what we think is appropriate to the average pilot. Now, of all these efforts we've put underway over the years, and there's a continuing one underway at NASA--they're crunching away numbers even as we speak as I understand it--have found that the type of flying which we do is tough physiologically. The night-time domestic flying, the going through the time zones, international flying, 14-day trips, the 24-hour stop-and-go type of trips. We'd prefer to have 18 to 36 hours on one of those stops when you cross time zones and on down the line.

But the reality of the situation is that we're going to have some number of those long International trips and the people that that affects a great deal I don't think should bid them. And to the extent that we can address those issues that's why we have the FAB scheduling committee that works with the people who build the lines of time. So we certainly want to do that and under no

circumstances do we want to be unsafe. But what one person thinks is unsafe may not be either what the FAR's call for, or what somebody else who has a different physiology finds unsafe at all.

Now again, because the company is so big, with so many lines of time, I think we're going to be able to accomodate most people's druthers. Not always, but when things stabilize, I believe they'll be able to pick out what they want. That's particularly true as we transition the old Tiger system more and more into a true express system.

Now what do I mean by that? We want to have daily service to as many points as we possibly can. Today that's not the way we operate. We go to Kuala Lumpur a couple of days a week, we go to Singapore three days a week, we go to Australia a few days a week, on and on down the line. We want to go to more points with more frequencies and smaller airplanes. And when I'm talking about smaller airplanes I'm talking about DC-10's and MD-11's. Appropriately size them to the market, so that we can pick up, transport, and deliver within two days any place in the world. That's our strategy. That's how we can beat the Lufthansa's and the JAL's. Tigers couldn't do that. Fed Ex couldn't do it without the old Tigers system.

Now when that system gets full blown what you'll find is the ability to make lines of time which are shorter and hopefully which accommodate better crew rest periods and our pilots will have an improvement in their quality of life. I know one thing, shortly after T-Day, or maybe after the acquisition, I heard from a number of former Tigers pilots wives and husbands (depending on whether of course they were male or female) talking about the tremendous volatility in the old Tigers system. I mean, they'd go out and the schedule they'd actually fly would have no bearing on what the bid line said and things like that.

I think you've seen the system start to stabilize here recently. I think it will get more and more stable in the future. There will always be aberations due to weather and mechanicals and things of that nature. But when that system gets fully fleshed, and when we have really gotten the thing done I think a lot of these problems are going to go away.

Mike: How far off do you see that in the future?

Smith: Well I think over the next 12 to 24 months you're going to see a lot of things of that nature. We've got a new program we're working on for Europe called E-Day, which is a transition day to improve our service levels over there. We've got a new program we're working on for the South Pacific to increase frequencies into Australia and Singapore. We put the round-the-world flight back in, which will be from Southeast Asia up through the Middle East and back to Europe. Initially we'll just fly it one way, around the world going west bound. But I think over the next 12 months, 24 months, maybe it'd be more realistic to say 36 months, you're going to see the system shift over to that mode a lot.

Mike: Shifting gears a little bit here--I know you realized you couldn't get through a tape to the crew force without talking a little bit about pay. It's always an issue. Do you see any changes in that area or any developments in the near future?

Smith: Yeah, the Personnel Department each quarter, of course, has a compensation review, where we look at every category of our employees. We submit it first to our executive management: Jim, myself, Jim Perkins, Dave Anderson. It's overseen by our outside board of directors and of course Jim Barksdale and I both sit on that as well. We have in the business plan for FY 91, which starts on June 1, money in there for wage increases based on Personnel's recommendation, and that includes the crew force. The exact date of that and when they'll be implemented may be determined when we meet in two weeks on it. But assuming the creek don't rise, as they say down in this part of the country, it's our intention to put wage increases in for a number of categories of employees, based on the competitive situation.

Mike: On the pay front, one big issue is the justification behind having a wide-body rate and a narrow-body rate. You touched a little bit on the strategy of going into the smaller airports with the "smaller" aircraft. Beyond that, what is the justification for having the wide-body and narrow-body pay rates?

Smith: Well, there are a bunch of reasons, but I guess they could all be sort of broken down into three: efficiency, competitiveness, and fairness. In terms of efficiency, it now takes us 14 months from the time we get an aviator in the front door until we can have a finished,

trained pilot in the front seat of one of our wide bodies. Now, once we put the list together maybe that will vary a little bit, but that's basically our time frame right now. Each one of those seats, on average, requires 27 seat moves. If we were to have not two rates of pay, but if we were to have three rates of pay, or perhaps even four rates of pay (which is a very big probability in the future because we're going to have to do something about replacing the 727 as we get on into the 90's) that would go up into 40 or 50 seat moves and 32 months. We simply would have no option but to scale back our operations and plans so the career expectations (of pilots) would be enormously diminished.

Now the way other people do that is they just bring all the pilots they want in the front door and if they miss, they just lay them off. Also, most of the other carriers, the combination carriers, are transitioning over to virtually complete two-pilot cockpits. That's not going to happen in our system for a long time because the cargo business, particularly the domestic cargo business, likes used airplanes which have three pilots. And, I think, in our operation three pilots quite frankly is not bad with the times we fly and what-have-you. So it's a much bigger problem in terms of efficiency to us than it is to some other people given the realities of the world we operate in.

Second, in terms of competitiveness, the people we compete with don't spend this enormous amount of nonproductive effort training 27 people to man-up to fight us. The best example, the largest transportation company in the world, and one everybody who watches this tape better be very focused on, is United Parcel Service. Twelve billion dollars in revenues, 3 billion dollars in net worth. Now that's a competitor. They have one rate of pay. 727, DC-8, 747, 757, same rate of pay. We pay more than UPS does for our pilots today 60 to 80 percent--that's before you get to the inefficiencies of these seat moves. Most of our smaller competitors, the Evergreens, the Worlds, people like that, they have the ability to fly right along side of us in Hong Kong, which is happening now with Evergreen and Emery, CF and World and some of those people. So, in the realities of the situation, we can't do that.

Fairness. As I mentioned a few moments ago, one of the things I think that our pilots will like in the future is they will have lots of different life styles and lots of different lines of time they can choose from. In the old Tigers system, you want to go for the gold, you got to go out in the Pacific and be gone for 14 days or what-

have-you. In our system, with a single rate of pay (within the wide body and narrow body groupings), if your physiology or family life and seniority considerations will let you do it, you can bid primarily domestic and bid South America or whatever the case may be. So I don't think it's right to have a system that forces people into a particular life style.

Mike: Manning. You've mentioned a little bit about that already. It's a continuing problem. Everyone knows that we're short of pilots and it's going to take a long time to gear up. How did we let this happen?

Smith: Well I think we made a very bad mistake last summer as I mentioned earlier in the tape. We assumed, rightly or wrongly, that we were going to be able to get the folks together on seniority. We stopped hiring. We shouldn't have done it. We made some mathematical calculations that were wrong in terms of the number of productive days and hours that the former Tigers wide-bodies crews could or would give under the FCH rules as they existed at the time. We gave some early retirement incentives to people thinking we were going to be over and we were just wrong. We just flat missed the mark. We're hiring as fast as we can. We're essentially limited by the training cycle and, of course, until we get the integrated list there is a great amount of inefficiency in not being able to logically run the railroad. So; all I can say is that Jim Barksdale and Allan McArtor and Jim McKinney have as their number one mandate to get manned up appropriately to run the Federal Express system and we're working hard to do that.

Mike: It'll take quite a bit of effort even beyond the integrated list though, won't it?

Smith: Oh I think so. Sure, we're going to have to bring a lot of additional pilots into the barn. But look, that's the point I've been trying to make to both the Federal Express pilots and the former Flying Tigers pilots. It is a result of putting these two entities together, where $2 + 2 = 7$, that creates the opportunities. So, one of the pilots that wrote one of those tough letters was very angry about the fact that we're behind the power curve on reserves. I mean, he called me every name you could think of almost--implicitly or one way or another, as if there was some great breach of faith.

Well, it might be incompetence, but it certainly was not a breach of faith. I mean, we're hiring as fast as we can, and the pilots are being sucked up into those additional billets that are going to fulfill these career expectations and provide these lines of time I think that are going to make Federal Express the best commercial air carrier in the world to work for for our pilots. Now, again, the proof of the pudding is in the eating. We're going look and see how we're doing on this every few months, but we're working very hard to solve the problem.

Mike: Shifting gears once again: retirement--also always a very big issue with the pilots. Is there any news on that front?

Smith: I would point out to you and to the people that are watching the tape that this year alone, Fed Ex will spend over 40 million dollars, closer to 50 million dollars, funding the improved pension benefits that we provided for our employees over the last couple of years. Now about 12 to 15 percent of that is increased compensation that goes to our crew force. That's before the considerations of the Tigers pilots coming in. So it's an even greater dollar amount.

If you look at our pension plan, it is very, very competitive with anything for anyone any place in the world. Now you can cherry pick it and there are some things that are better in this plan and that plan. Also, we made a very large contribution to our profit-sharing plan in the first half of the year which we said we were going to do. There'll be another contribution to our profit-sharing plan shortly after the close of the fiscal year this May. Remember, our profit-sharing plan contributions are based on domestic profitability, while corporate profits are adversely impacted by our poor international results at the moment. Sometimes people forget that. So that is coming in there funded at a very high percentage of payroll.

And then finally, effective June 1--commensurate with what the Flight Advisory Board asked us to do, and what was more in line with what the former Tigers pilots had--we will implement vastly improved investment options for the pilots. They could move it, (their funds) between plans to a fair-thee-well. The last thing we're working on is to improve our survivor's benefits. We've had some studies underway and when we have this compensation meeting in the next couple weeks, one of the issues that's on the agenda is an

improved survivor's benefits program which we hope to be able to put in place within the next six months or so. So we've done a lot of work in that area.

Mike: Looking into the future a little bit, what do you see as changes in system form or fleet plans or just anything you would want to share with us in those areas?

Smith: Well we have every month a long-range planning committee which looks out five years and a system planning committee which looks out two years. The long-range planning committee met last week so I can give you the benefit of our latest thinking about fleets. They currently project by the year 1995 approximately 230 727's in the fleet or their equivalent, meaning a narrow body, and probably around 60 wide bodies of one sort or another, either 747's, DC-10's, MD-11's.

We looked very carefully at the 747-400. We had some options and we decided not to exercise them. The reason we decided not to exercise them is because we can produce more cost-effective lists (prices) compared to what Boeing wants for the airplane by buying used 747's if we wanted and converting them into freighters. The only thing the 747-400 will do over the 747-200 is that it will go a little bit further. It has a couple of minor variations; but for our system we just can't see paying an additional 50, or 60 million dollars for the 400. Now it's fancy--two-crew and digitals--but that doesn't really mean that much to us and we also have the 8 MD-11's on order and 11 under option. We'll have to make up our mind on three of those next Fall.

I am reasonably confident we'll go forward with those and we've set up a DC-10 passenger to freighter line in Italy, by Aerotalia which has done a lot of cargo conversions. We've got two airplanes in the pipeline now and were actively talking to some other people about putting some other ones in there. So we're going to have lots of airplanes again assuming we can meet our business plan and execute on these things.

As I've said repeatedly on this show, had we not believed we could produce a better environment for our pilots, we wouldn't have done this thing. That's why when we first did the deal, the first people we really consulted outside of the small group were people who were familiar with our pilots. And it has hit them in many ways the hardest, not financially to the extent that it has the management

or something like that, but certainly there have been disruptions and they work damn hard and, boy, I'll tell you we know that and appreciate it.

Mike: How about system form developments, anything in that area?

Smith: Well, I think, I mentioned a few minutes ago we intend to increase our flying to Southeast Asia. That's a hot spot. Lots of money going from North Asia down there. We want to put an around the world flight back in, increase our frequencies to Australia; we've applied to the Taiwan government to expand our facilities there to make it like a mini-hub; we'll either be opening up a hub in Preswick, Scotland or we'll be expanding our Brussels hub, one of the two.

In the domestic system, I think through 1995, we'll essentially have the four major hubs that we do now: Oakland, Memphis, Indianapolis, and Newark with major operations in LA, and Chicago and then big metroplexes in Dallas and Houston and Atlanta. But that's pretty much the system that will operate over the next five years as we can see it today. Very competitive environment out there, particularly in the International area. So, all of these grand plans assume that we can go out there and sell the product and execute the way we planned it.

Mike: I have spent the last several minutes throwing crew force issues at you. Why don't we give you an opportunity to throw some back at them?

Smith: I don't have too many issues for our crews. I am very proud of them. I talk about them all the time. I think it's the best group of commercial aviators in the world. We are very happy to have the former Tigers pilots here. Again, I hope this seniority list gets integrated soon and we get on down the road. I would say if there was anything at all it would be on the issues of communciations and rumor control. We put a lot of effort in trying to communicate with the crews. This tape is a good example of it. The FlightLine program comes out each month. We have the Late Breaking News and I hope our pilots will take the time to read these things and to view them because it answers a lot of the questions. In the area of rumor control, it's always distressing to me when somebody either thinks that we've got another agenda, or we're not telling something

accurately. For example, like I said, the company's position on the arbitration. You might not like it, you may hate our guts about it, but we're not going to tell you any lies about it. I mean we are going to tell the crew force exactly how we feel about an issue and unfortunately that's not always going to be popular. There's not any hidden agenda and it always distresses me to find out that somebody over there, who's never run a Dairy Queen, much less has any credibility in running a global express operation of this size and scope, is talking about, well, this is going to happen or that was going to happen. They're focused on three months, six months, the year. I get paid for thinking about their retirement or about Federal Express being competitive fifteen or twenty years from now. If they just give us a little time so we can focus on some of the major issues, then I think a lot of these other things are going to solve themselves.

So, those are my only two issues but I again, want to express my personal appreciation and that of the senior management team to our pilots. You've done a great job. We thank your family for putting up with, maybe, our lack of management ability. Whatever you want to say, we believe we are on the track. But even if we are not, even if we made a mistake, we're moving down a road and we need their support.

And in the last analysis, Federal Express is not in business to employ pilots. It's not in the business to employ mechanics, not in the business to employ CEO's or whatever the case may be. We're in the business to solve people's high priority shipping needs. So as long as our pilots go out there and fly on time and fly safely and hopefully with a good attitude we can beat any of the competitors we're up against and I'm confident that they'll do so as we get these little rocks in the road out of our path.