

**BEFORE THE  
SUBCOMMITTEE ON AVIATION  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
UNITED STATES HOUSE OF REPRESENTATIVES  
WASHINGTON, D.C.**

**TESTIMONY OF  
STEPHEN A. ALTERMAN, PRESIDENT  
CARGO AIRLINE ASSOCIATION  
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**ON**

***THE FEDERAL AVIATION ADMINISTRATION'S FINANCING PROPOSAL***

**MARCH 21, 2007**

Good morning. My name is Steve Alterman and I am the President of the Cargo Airline Association, the nationwide organization representing the interests of the all-cargo air carrier industry, as well as other businesses and entities with a stake in the air cargo supply chain. (A list of current members is attached).

**The All-Cargo Industry**

Although an integral part of the air transportation community, the all-cargo segment is unique. In order to serve our worldwide customers, and to provide them with the time-definite services they require, a large percentage of our flights are during nighttime hours, thus enabling us to offer expedited delivery throughout the nation and the world.<sup>1</sup>

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<sup>1</sup> Such nighttime operations are clearly "off-peak" and result in an efficient use of system resources.

The all-cargo industry is also one of the fastest growing segments of our commercial aviation marketplace, with growth rates of 3.1% domestically and 6.3% internationally expected over the next decade.<sup>2</sup> In order to continue to provide the service that our shippers and the world economy demand, we are dependent on a modern air traffic management system that provides the flexibility for growth in the coming years. We simply cannot afford to continue to manage traffic with technology (radar) designed in the first instance to fight World War II. Rather, we must build a system using the technology and procedures necessary to address the shortfalls in capacity that will occur as future demand continues to grow. **The modernization of our current system must therefore be the major priority in the ongoing FAA Reauthorization effort.**

Modernization of the system is critical for reasons other than simply addressing future capacity. Operational procedures using satellite-based technology will yield more efficient operations, resulting in less noise and less fuel burn, thereby reducing aircraft engine emissions. These environmental benefits cannot be overlooked. Nor can the potential safety enhancements that will result with the provision of better and more timely information to both pilots and controllers.

Finally, it is crucially important that the steps necessary to modernize be put in place this year. Changes of the magnitude contemplated do not take place overnight and every year of delay pushes modernization further down the road. Without action in 2007, we run the very real risk of both capacity and environmental constraints inhibiting the industry growth that will be

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<sup>2</sup> U.S. Department of Transportation, Federal Aviation Administration, FAA Aerospace Forecasts, Fiscal Years 2006-2017.

necessary to accommodate both passengers and shippers in the coming years. Unfortunately, since we are operating under a Continuing Resolution for Fiscal Year 2007, we have already lost a critical year for the modernization effort. For example, the House Appropriations Bill for FY 2007 contained \$100 million for ADS-B development and the Senate Bill contained \$80 million. These critical funds cannot now be spent and we are forced to revert to FY 2006 levels that are not adequate to support today's level of activity. A further delay by not reauthorizing the FAA this year will be devastating to the modernization effort.

### **The FAA Financing Proposal**

On February 14, 2007, the FAA released its long-awaited legislative plan for dealing with both the programmatic and financing elements of the Next Generation System. This proposal radically changes the current system of fees and taxes used to fund the air transportation system. Unfortunately, this proposal provides more questions than answers, and the Cargo Airline Association cannot support the FAA proposal in its present form.

While the FAA has, over the past few months, made significant strides toward modernization (especially in the area of making the decision to use ADS-B technology as the next generation surveillance tool), we are concerned that the proposed legislation does not contain a comprehensive Next Generation plan. Until the details of this plan are known, it is difficult to assess the funding required. Yet the FAA proposal focuses almost exclusively on the financing element and not on the details of the system. To some extent, therefore, we are putting the cart before the horse and need to step back to ensure that the right questions are being asked.

Before moving to completely overhaul the system that has provided the basis for FAA financing for decades, it is necessary to more completely analyze the requirements of a modernized system and how those requirements impact the resources necessary. Questions that must be asked and answered include:

1. What is the precise nature and associated costs of the Next Generation system infrastructure?
2. What are the cost savings the FAA will realize from implementing the modernized system?
3. Will the current system provide the funding necessary for modernization?
4. What are the costs and benefits to the user community? And,
5. Should the infrastructure needed for modernization be purchased or perhaps leased to provide maximum flexibility as technology advances?

Even if it is determined, after this analysis, that the current excise tax system must be completely overhauled, we cannot support the plan envisioned by the FAA proposal whereby the FAA Administrator is given virtually unfettered authority to set the level and structure of fees at will, with little or no Congressional oversight and no provisions for judicial review. While the proposed Bill does list use-related factors that the Administrator might take into consideration in setting user fees, all of these elements are discretionary and need not be used. Such authority would clearly eliminate any incentive for the FAA to cut costs<sup>3</sup> or restrain future cost increases since fees could always be raised to cover unnecessary agency spending.

Perhaps even more importantly, it appears that the user fee system envisioned by the FAA proposal will require a complicated and costly bureaucracy simply to assess and collect the fees. In an era of limited resources, care should be taken to ensure that, to the maximum extent possible, the funds generated are spent to improve the system. The added costs of establishing

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<sup>3</sup> Indeed, without any detail in the proposed Bill, we have no idea of what expenses can be eliminated in a modernized system.

and maintaining a multi-million bureaucracy cannot be justified, especially when other, simpler, options may be available. At the least, these other options should be explored before committing to any proposed user fee scheme.

Whatever the eventual structure of FAA financing, we urge that the following principles and considerations should be paramount.

**First**, the U.S. aviation system is a national asset that benefits all citizens and drives the nation's economy. The consequences of a sub-par system are constrained economic growth and diminished U.S. competitiveness in the world marketplace. Congress has historically recognized these facts by providing a General Fund contribution in excess of 20% of the FAA Budget. We are disappointed that the President's Budget and the FAA legislative proposal not only provide a smaller percentage of General Fund contribution for Fiscal 2008, but actually envision a decrease in funding for 2009 and 2010. With the need for significant infrastructure investments in the coming years, this federal contribution should increase, not decrease.

**Second**, whatever funding mechanism is ultimately decided upon, Congress should ensure that industry funding obligations are fairly allocated. As a basic principle, no industry segment should be forced to subsidize any other segment. From the all-cargo perspective, where under the current system cargo industry members pay a 6.25% air waybill tax plus a 4.3 cent per gallon fuel tax, studies indicate that our industry segment pays somewhat more than 100% of our system use.<sup>4</sup> This is before taking into account that much of our use of the system is at off-peak times – meaning that not only do we place a relatively low burden on the system but , by

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<sup>4</sup> See Air Cargo Airlines System Use Analysis, S,H&E, 2006.

spreading operations over 24 hours, we also enhance the system's overall efficiency. While we do not expect any relief for that portion of our system use that exceeds 100%, neither should we be expected to pay any more than our current share in order to make up for the shortfall in contributions from other industry segments. This equitable result can be accomplished by simply retaining the current funding mechanism for the air transportation of cargo or by ensuring that any new system applicable to us does not unfairly impact our industry segment.

**Third**, we strongly believe that Congress should support the funding necessary for Research and Development in an amount adequate to develop the necessary "out-year" modernization products. As a practical matter, today's R&D provides tomorrow's Facilities and Equipment, and any funding gaps in this area will seriously impede the modernization effort. This issue is of special concern in light of the re-prioritization of NASA R&D funding to concentrate on future space travel and "de-prioritize" short and mid-term aeronautics research. A specific area of R&D concern is the research necessary to address growing environmental concerns.

In summary, we strongly believe that modernization of the current air traffic system is absolutely essential and the Cargo Airline Association and its member companies are committed to working with Congress, the FAA and colleagues in the aviation community to arrive at an equitable system that meets the needs of all aviation interests.

Thank you very much.



**THE CARGO AIRLINE ASSOCIATION**  
*The Voice of the Air Cargo Industry*

## MEMBERSHIP LIST

### ALL-CARGO AIR CARRIERS

* ABX Air, Inc.	Wilmington, OH
* Atlas Air, Inc.	Purchase, NY
* FedEx Express	Memphis, TN
* United Parcel Service	Louisville, KY
* Air Transport International	Little Rock AR
Capital Cargo International	Orlando, FL
DHL Express	Miami, FL
First Air	Gloucester, Canada
Kalitta Air	Ypsilanti, MI
Kitty Hawk Inc.	Dallas, TX
USA Jet Airlines, Inc.	Belleville, MI

### AIRPORT ASSOCIATE MEMBERS

Ft. Wayne International Airport	Ft. Wayne, IN
Louisville International Airport	Louisville, KY
Memphis-Shelby County Airport Authority	Memphis, TN
New Orleans International Airport	New Orleans, LA

### OTHER ASSOCIATE MEMBERS

Aviation Facilities Company, Inc.	McLean, VA
Bristol Associates, Inc.	Washington, DC
Campbell-Hill Aviation Group	Alexandria, VA
Keiser & Associates	Oakland, CA

\* Member, Board of Directors