COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

Subcommittee on Aviation
Hearing: FAA Reauthorization Act of 2009
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Written Statement of Roger Cohen, President
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Good morning Mr. Chairman and Members of the Subcommittee. My name is Roger Cohen and I am President of the Regional Airline Association. I thank you for the opportunity to appear before this panel today.

In recent years, regional airlines have played a critical role in our nation's air transportation system, providing safe, efficient, cost-effective and convenient air service to every corner of this country. Today's regional airlines carry approximately 160 million passengers annually, with nearly one in five U.S. domestic passengers traveling on a regional airline. Regional aircraft constitute approximately 40 percent of the nation's commercial passenger airline fleet and regional airlines operate nearly 50 percent of all scheduled flights. Most importantly, regional airlines serve more than 600 airports across the nation and provide the only source of scheduled airline service at 476 of these airports. This means just about 75 percent of our nation's commercial airports receive scheduled air service *exclusively* by regional airlines. While regional airlines provide valuable air service to communities of all sizes, regional airlines are often the only airlines capable of serving small and mid-sized markets efficiently.

When we last testified before this Committee, regional airlines were, like the rest of us, operating under different economic conditions. Last year's drastic fuel cost incline, alongside the severe downturn in our nation's economy, created a very challenging operating environment for regional airlines. Consider that between December 2006 and December 2007, regional airlines added 77 new nonstop markets; however, in just one year these numbers were turned upside down. As major airlines were forced to make extensive capacity cuts in order to remain viable, regional airline growth has tapered off and the industry is currently contracting. In 2008, regional airlines suffered a net loss of 243 non-stop routes. To put this into proper perspective, compare this to a net loss of 101 mainline routes. Capacity is down across all segments of the commercial airline industry, yet regional airlines are experiencing the deepest cuts, with dozens of regional airports losing all scheduled air service last year. While other carriers have stepped in to restore service as quickly as possible, programs like the Essential Air Service program, designed to provide continued air service to rural communities, are already severely under-funded. Several regional airlines have gone out of business altogether, with Air Midwest, Big Sky, and Skyway being notable losses. Another regional airline, ExpressJet, ended its independently branded service last year although it continues to operate as Continental Express.

While these challenges have brought many changes to the regional airline industry since this time last year, the principals for FAA Reauthorization laid out by RAA's Board of Directors remain largely unchanged. In fact, they have become even more critical today. H.R. 915, in great measure, reflects many of our shared objectives and we intend to support this Committee in advancing the measure. As we move forward, RAA will continue to provide input and feedback on individual provisions of the bill as we seek to find common ground.

New taxes and fees jeopardize regional airline service.

As the FAA Reauthorization bill moves through the legislative process and amendments are considered, we urge this Committee to consider the unique role regional airlines play in providing the only source of scheduled air service to three quarters of our nation's commercial airports. These communities have already suffered tremendous air service losses in recent years. Moreover, it is not just the smallest communities at risk for losing air service. While cities like Appleton, Hartford, Abilene, Billings, Bemidji, Bellingham, Boise, Butte, Casper, Cincinnati, Cheyenne, Daytona Beach, Eugene, Evansville, Farmington; Gainesville, Green Bay, Lewistown, Milwaukee, Wichita Falls, Sarasota, Sioux City, Tallahassee, Toledo and Tucson are neither the largest nor smallest in the country, the link between reliable air service and a sound economy is no less evident there than anywhere else. Each of these communities and many others like them lost at least one quarter of their scheduled departures last year.

While our government partners cannot single-handedly bring about a return to capacity across all industry sectors, you may nonetheless help our industry by rejecting new taxes and fees on our industry at a time when it can least afford new costs. As our nation tightens its collective purse strings, our passengers will almost certainly react to increased fees and charges by taking fewer trips. Should the number of passengers traveling decrease in sufficient numbers, airlines will find it increasingly difficult to serve the small and mid-sized markets already at risk. We specifically ask that this Committee reconsider its proposed increase to the Passenger Facility Charge included as part of H.R. 915 and also ask that Congress help to restore the balance of the 1990 ANCA law, under which airport fees would be spent primarily on expanding and improving the airport and airways infrastructure.

While fuel costs have abated in recent months, we believe energy speculation played a large role in the recent fuel cost crisis that curtailed regional airline growth and damaged the entire airline industry. Leading energy experts across the country agree that unprecedented jumps in crude oil prices in years past were due, in large measure, to rampant speculation in the energy commodities markets. We urge Congress to continue to monitor oil speculation and to ensure a transparent and balanced energy commodities market, not one that is skewed to benefit institutional investors.

Now is the time to modernize our ATC System.

Today's temporary capacity cutbacks, painful to airlines, airports, and passengers alike, have but one silver lining: this downturn provides a golden opportunity to act on the transition to the Next Generation Air Transportation System (NextGen).

This time last year, RAA was defending regional airline service against proposals to limit aircraft access at popular airports in order to artificially limit demand according to airport and ATC constraints. During those times when our Air Traffic System has been at or near peak capacity, severe delays have plagued the system, causing costly delays for airlines and our passengers. For example, systemic deficiencies have allowed isolated weather at a single airport to impact traffic flow across the nation. Satellite-based technologies will greatly improve safety and expand capacity while reducing fuel burn, carbon emissions, and noise. Completion of a comprehensive, multi-year FAA Reauthorization will help provide the direction and funding necessary to move forward with this critical transformation of our nation's Air Traffic System.

Regional airlines have embraced NextGen and are committing substantial resources to the transition. In fact, four RAA members (Skywest, Shuttle America, Piedmont, and Commutair) have installed Electronic Flight Bags on aircraft as part of the Capstone 3 program in order to prevent runway incursions. Another RAA member, Horizon Air, was the second airline in the nation to be approved for RNP approaches. If we miss this opportunity to modernize, it will not be long before stories of costly flight delays and unhappy passengers once again dominate the airwaves, despite our best efforts to the contrary.

As part of our attention to ATC modernization, it is important to discuss ATC funding. RAA agrees with many of our industry partners that funding for Air Traffic Control should be more fairly divided among user groups. We agree that commercial aviation – both mainline and regional carriers alike – should not be asked to carry a disproportionate share of the cost burden. As we continue to do our part to move forward towards ATC modernization, RAA greatly appreciates the efforts of this Committee to protect regional airlines from unworkable new costs that could imperil regional air service.

Uphold the Essential Air Service Promise

In recent years, airlines, communities and other stakeholders have cited problems with the Essential Air Service Program, a program set up by Congress and administered by the DOT to preserve air service to rural communities in a deregulated airline market. Through the years, the skyrocketing costs of operating smaller aircraft and a tremendous spike in fuel costs have greatly increased costs associated with the EAS program. RAA believes this worthy program would benefit from thoughtful reform.

Under the current EAS program, DOT enters into contracts with carriers (typically two years in length) where carriers agree to provide air service at a predetermined subsidy rate. Carriers are allowed a slim, five percent profit margin after taking into account projected costs and revenues and are not currently able to seek real-time adjustments to that subsidy rate even when costs increase dramatically. Instead, carriers must file 90-day service termination notices in order to renegotiate rates, at which point DOT reopens the competitive bidding process while holding the incumbent carrier in the market at loss rates for 180 additional days.

RAA first raised this issue many years ago and, with the help of this Committee, secured a voluntary tool where DOT could adjust subsidy rates in instances of increased carrier costs. Unfortunately, DOT declined to use this tool when it would have been truly helpful and the window of opportunity for such a simple fix has come and gone. Facing enormous cost challenges, three EAS carriers went out of business in the years since RAA began asking for real-time rate adjustments. The few remaining EAS carriers have tried to backfill air service losses resulting from failing carriers but surviving EAS carriers nonetheless face limitations on how quickly they can restore service. Moreover, the slim profit margins allowed by the program make this niche service less attractive to non-EAS specialty carriers who might otherwise play a valuable role restoring or maintaining air service to abandoned markets were they not afraid to enter EAS markets. After years of proposed cuts and inflexible rate structures under the previous Administration, some carriers and communities alike question DOT's commitment to program. In other words, hold-in policies remain constant yet funding and program continuity seem constantly at risk.

Despite these challenges, the EAS specialty carriers among RAA's membership remain firmly committed to the program. We recognize and appreciate this Committee's commitment to the program, as well. Your continued efforts to secure adequate funding for the program have not gone unnoticed. If this program is truly to succeed, Congress must authorize and appropriate at least $200 million annually for basic program continuity. RAA greatly appreciates your authorization of that amount in H.R. 915. $200 million represents the absolute minimum funding level necessary to continue service to even those EAS communities currently receiving service. As we have discussed previously, funding EAS at this level does not account for new communities that may potentially qualify for EAS subsidy and does not allow for expenditures on marketing or other programs. It does, however, allow carriers to continue providing EAS service to communities currently eligible for subsidy.

While all EAS stakeholders agree on the need for reform, RAA urges Congress to make only those changes to the program that would truly improve air service and restore health to the program. RAA does not believe it is appropriate or even feasible, for instance, to ask air carriers to establish joint fares beyond the hub airport. Aside from the regulatory issues in play under joint fares, EAS carriers simply do not have the ability to set through-fares. On the other hand, we applaud the provision in this HR 915 repealing the troublesome community cost-sharing program that, if implemented, could have dismantled the program. With respect to broad EAS reform, we appreciate your consideration of the following recommendations:

1. Increase overall program funding by retaining current standing appropriation of $50 million and authorizing an additional $150 million for FY2010, bringing total program funding to $200 million. (RAA applauds this Committee's effort to provide full and appropriate funding for this program).
2. Amend the carrier profit margin allowance from five to 15 percent. This modest upward adjustment would not be a windfall to carriers but rather, would provide needed insulation against cost fluctuations, which can erase profitability and lead to great losses over the lifespan of a contract.
3. Encourage DOT to engage in five-year EAS service contracts with carriers. Longer contracts help airlines access capital when seeking to finance aircraft and would also serve to stabilize air service from both the carrier and community perspective. (RAA appreciates the guidance included in H.R. 915 towards that end and recommends more explicit direction to DOT in setting 5 year contracts).
4. Increase the per-passenger subsidy cap for inflation. (RAA appreciates the Committee's support for this objective in H.R. 915).

Conclusion

As we work together to navigate these challenging times, we applaud this Committee's efforts to bring aviation to the forefront of our national attention span. We hope this Committee will continue to view RAA as a true partner as we advance our shared goal of safe, reliable, and cost effective air service for communities large and small across the nation. In introducing HR 915, this Committee has taken a great first step toward accomplishing these common objectives. I want to thank you and your staff for your tireless work. Mr. Chairman, this concludes my formal statement. I look forward to answering your questions at the conclusion of the panel.