

STATEMENT OF
WILLIAM J. FLYNN
PRESIDENT AND CHIEF EXECUTIVE OFFICER
ATLAS AIR WORLDWIDE HOLDINGS, INC.
BEFORE THE
SUBCOMMITTEE ON AVIATION
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
UNITED STATES HOUSE OF REPRESENTATIVES
WASHINGTON, DC
May 13, 2009

**THE ECONOMIC VIABILITY OF THE CIVIL RESERVE AIR FLEET (CRAF)
PROGRAM**

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Good Morning Chairman Costello, Congressman Petri and Members of the Committee.

I am Bill Flynn, President and Chief Executive Officer of Atlas Air Worldwide Holdings (AAWW), Inc., parent company for Atlas Air and Polar Air Cargo. On behalf of the 1,500 men and women of Atlas, I want to thank you and the committee for the opportunity to participate in this hearing and share the Atlas perspective on the present value and future economic viability of the CRAF Program.

Introduction

The strength of our company begins with our people. Of the 1,500 employees of Atlas, 900 of those are pilots and aircrew...of those, 324 have prior military aviation experience, and 34 currently serve as members of the Air National Guard and Air Force Reserve. Atlas (or AAWW) operates the world's largest fleet of Boeing 747 freighter aircraft and is a proud and committed participant in our nation's Civil Reserve Air Fleet (CRAF) Program. Our fleet consists of 29 Boeing 747 freighter aircraft. 21 of these aircraft are modern purpose-built Boeing 747-400Fs, the most technologically advanced and efficient nose-loading freighter flying today. We are a launch customer for Boeing's newest 747-8F freighter and

expect first deliveries in the fourth quarter of 2010. We currently have 12 Boeing 747-8Fs on order (approximately \$2.0B value) and options for an additional 14 aircraft. These aircraft will replace the balance of our retiring 747-200 Classic fleet and represent a significant modernization effort to support our commercial business base. We intend to commit these modern 21st century freighters to the CRAF, consistent with the direction given by the Congress in the 2009 National Defense Authorization Act. The 747-8F will be a game-changer for the air freight industry and will meet or exceed the requirements of our major commercial customer base. The 747-8F offers our customers even lower unit cost than the B747-400F with more volume, more payload, more range...and uses less fuel. Both of these variants are equipped with nose and side-loading doors which provide significant outsized cargo loading capabilities while reducing ground time.

I would like to point out to the committee that Atlas conducts its own in-house training for our pilots and crew. The excellent quality of this training resulted in the award of training contracts from the U.S. Air Force for the pilots and crew of Air Force One and the E-4B Airborne Command and Control Wing at Omaha, Nebraska.

Atlas provides the global airfreight industry with unmatched technology and innovative solutions that enable our customers to drive profitable growth. Atlas is one of the few American-flagged carriers that other foreign airlines contract for outsized and heavy airlift requirements. These customers include British Airways, Emirates, Qantas and DHL Express, to name a few. We have extensive global experience and our business model supports the global trade routes on six of the seven continents. In 2008, AAWW operated over 19,000 flights, serving 316 destinations in 110 countries.

We are a publicly traded company and are listed on the NASDAQ (AAWW). Our annual revenues in FY 2008 were \$1.6B. CRAF represents 25 percent of our annual revenues. Commercially, we provide high end express service in the movement of technology and consumer goods, construction and infrastructure equipment, high-end fashion goods, perishable foods, fruits and vegetables, livestock, and pharmaceuticals.

For the past decade, Atlas has provided the Department of Defense through the United States Transportation Command (TRANSCOM) and the Air Mobility Command (AMC) wide-body international long haul cargo aircraft. Atlas has and is today, flying logistic resupply and sustainment missions in support of our troops in Iraq and Afghanistan. We consistently exceed the stringent departure and service reliability standards set by AMC (92% on time and 99.8% completion vs the AMC standards of 85% and 85% respectively), a testament to the quality and commitment of our people coupled with our agile global support network. Atlas also has a reputation for responding to short-notice AMC mission tasking. In 2008, we supported over 60% of AMC's short-notice add-on CRAF missions and received AMC's highest performance ratings.

Background

The CRAF program was established in 1951 by President Harry Truman as a voluntary contractual program implemented through Presidential Directive. It was later supported through enactment of the Fly America Act, 49 USC Sec 40118. Since 1951, the CRAF carriers have played an integral and supporting role in every major contingency, crisis and war. And the DoD has formally incorporated CRAF capabilities into its war plans. As you know, 93% of the nation's ability to move its troops long distances in support of our national interests resides in the CRAF and approximately 40% of the long range air cargo movement

depends on the CRAF cargo carriers. I commend this committee for their support of CRAF and your recognition of the vital role it plays in our national defense strategy.

The CRAF Program is the benchmark for how government and industry can work effectively together to support U.S. national security interests around the globe. The Civil Reserve Air Fleet augments, supports and enhances the organic mobility airlift and aeromedical evacuation capabilities of DoD. Because the program is voluntary, it comes at great savings to the taxpayer. Both Atlas and Polar Air are Part 121 certificated airlines, and with FAA oversight we operate at the highest levels of safety and compliance. The United States Transportation Command and the Air Mobility Command do an excellent job managing the CRAF Program. They also oversee and inspect the carrier's operational, maintenance, safety and security programs guaranteeing the highest quality safety and support for our men and women in uniform.

State of the Industry

Since 9-11, the commercial aviation industry has faced difficult and challenging times and has undergone significant realignment. The record setting fuel prices last year and global recession permanently changed our industry and resulted in a number of carriers going out of business. Others permanently grounded or mothballed all or portions of their fleets due to the economic non-viability of the assets. The 747-Classic aircraft and the DC-10 are reaching their economic sunset. To illustrate this point, in 2003 Atlas had over 30 747-Classic aircraft--today we have returned from lease, sold or grounded all but 7 of those aircraft. The decline of global trade has exacerbated the industry's decline. Today, barriers to new airline entrants have risen. Credit markets have realigned and, as expected, a company must have a viable commercial business model and strong balance

sheet to access credit. Realigned operating economics will cause more carriers with aged fleet dependency to reduce their fleets or go out of business. The global recession has resulted in reduced commercial requirements; this has created extremely difficult conditions for carriers with older equipment and those overly dependent on government business. The CRAF foundation and past way of doing business may not stand the global economic stress test.

For 58 years CRAF has served our nation well. During that time, Congress has provided judicious oversight of the program, directing DoD to conduct studies and reports on the effectiveness and continuing value of the program. Last year the Congress directed the Institute for Defense Analysis (IDA) to assess CRAF's future viability in a post Iraq-Afghanistan world. In addition, the U.S. Air Force and the Air Mobility Command requested the Center for Logistics Research to report on CRAF commercial practices and assess the value it has provided. I am pleased to see that both studies reaffirmed CRAF's continued importance and its integral value to our national defense. I would also like to note that IDA conducted a more exhaustive CRAF study, published in 2003, that made several outstanding recommendations that should be adopted to improve CRAF efficiency and effectiveness.

Future Viability of CRAF Recommendations:

I have the following comments and recommendations that relate to the future economic viability of the CRAF Program that I would like to share with the committee today.

1. Assured Business. Atlas applauds the Congress for enacting legislation that approves assured business and peacetime incentives for U.S.-flagged CRAF carriers that appeared in the 2009 National Defense Authorization Act (NDAA). Assured peacetime business attracts and incentivizes CRAF volunteer participation. Peacetime business is the carriers' greatest

incentive to participate in CRAF. This assured business improves CRAF revenue base and incentivizes modernization. Allocating business to CRAF carriers is prudent management whereby the most efficient and cost effective assets are properly allocated for the right mission. While we commend the “assured business” language and commitment, we note that it specifically mentions CRAF passenger carriers. I believe the intent was to include both CRAF cargo and passenger carriers and suggest the language be amended to reflect both groups. As I stated earlier, DoD currently counts on CRAF for approximately 40% of its cargo lift requirements.

2. Organic-Commercial Readiness. Commercial fleets have been effectively and efficiently integrated into DoD and Combatant Commander plans, concepts of operations and employment, producing unmatched mobility capability for U.S. forces responding to crisis and contingencies around the globe. The organic fleets of cargo aircraft, C-5, C-17 and C-130, are trained and equipped to go into harm’s way and perform combat related missions when tasked allowing the CRAF carriers to augment the organic fleet and support many other critical missions. We have all heard the concerns of Commanders, to include General McNabb, that the organic fleets are experiencing unprecedented wear and tear resulting from the additional flying hours required to prosecute two wars. This is taking a toll on our organic fleets’ readiness today and ability to surge in the future. It has also generated additional cost to conduct maintenance and repair on these aircraft.

President Ronald Reagan realized the importance of maintaining balanced readiness between our military organic fleet and our commercial CRAF carriers when he signed the 1987 National Airlift Policy. Today would be an ideal time to reaffirm this policy.

During peacetime, DoD requirements for passenger and/or cargo airlift augmentation shall be satisfied by the procurement of airlift from commercial air carriers participating in the CRAF program, to the extent that the DoD determines that such airlift is suitable and responsive to the military requirement. Consistent with the requirement to maintain the proficiency and operational readiness of organic military airlift, the DoD shall establish appropriate levels for peacetime cargo airlift augmentation in order to promote the effectiveness of the CRAF and provide training within the military airlift system.
NSDD 280 National Airlift Policy, June 1987

Lower organic fleet utilization will help maintain and extend the life of our organic fleets and preserve its surge capability. Commanders' concerns for aircrew readiness and wear and tear on our organic aircraft can be mitigated through greater investment in flight simulation for initial and recurring training. Modern high-fidelity aircraft and system simulators have saved millions of dollars in the commercial world. DoD should commit and invest in advanced simulation for all of their weapon systems and aircrew training, thereby reducing flying hours which will save millions of dollars in fuel costs alone. Today, AMC scheduling philosophy still reflects a cold war "business as usual" approach. If better business processes were adopted, DoD would forecast, plan and schedule the most efficient and effective aircraft for the task and be able to better utilize and incentivize its CRAF commercial operations at lower cost. In addition, organic aircraft can then be scheduled to replace foreign-flagged carriers who are performing a significant share of our outsized logistics airlift requirements.

Today, AMC schedules commercial aircraft through a "fixed buy" and "expansion buy" system. The 2003 IDA study recommended DoD commit to better forecasting and scheduling and develop a concept of employment that utilizes the most efficient aircraft for the long distance high-density cargo requirements for which they are best suited. The current "business as usual" approach and scheduling process must be reengineered consistent with the 2009 NDAA "assured business" language allocating a greater number of hours to CRAF

carriers. Untold savings can be achieved by adopting best commercial practices. The Commander, US Transportation Command, has the authority to commit greater volumes of cargo to carriers who commit to the CRAF. A greater commitment by US Transportation Command would also result in CRAF carriers' ability to seek and get financing to modernize their fleets based on an assured business commitment.

3. CRAF Imperative - Call To Action

It is critical, in my view, that we preserve the CRAF capability and ensure its future viability. Success in this endeavor is essential to supporting our national security interests and also helping our aviation industry remain competitive globally while preserving and creating jobs aiding the national economic recovery. For the good of our economy and our national defense, we must continue to leverage this outstanding and proven government-industry partnership and ensure DoD's aging organic fleet of aircraft is ready to support future crisis, contingencies and even war. The harsh reality is that our existing CRAF fleets are aging and reaching their economic sunsets. Modern aircraft, like the B747-400F and the new 747-8F offer significant operating cost reductions and efficiencies. Those savings are passed along directly to the American taxpayer. America's aviation industry, one of the hallmarks of a strong U.S. national economy, produces modern aircraft that possess the following attributes:

- Lower Unit Costs
- Fuel Savings and Conservation
- Greater Payload and Range
- Cost Effectiveness...fewer stops
- Better Reliability
- Ready Global Access -- Minimum Navigation Performance
- Greater Diplomatic Flexibility – Ability to Overfly or Circumnavigate

- Green Values...Reduced Environmental Impacts (noise and carbon footprint)

Today companies with the most viable business models generally use their newest aircraft to support their commercial operations. USTRANSCOM and AMC will need to undertake significant business process changes to attract modern aircraft into CRAF. AMC needs to reengineer its system to achieve higher utilization of CRAF. Millions of dollars are being wasted because of planning and scheduling inefficiencies.

Conclusion:

Atlas is extremely proud of our relationship with DOD, and remains fully committed to working with United States Transportation Command, the Air Mobility Command and the other carriers to continue to provide unrivaled commercial capability to support our national security interests whenever called. We are committed to improving the current CRAF capabilities and will work with USTRANSCOM to improve their forecasting and scheduling practices consistent with industry best practices. By aligning our best in class supply chain practices we can achieve greater efficiency and effectiveness while reducing total cost to operate and save taxpayers millions of dollars.

Mr. Chairman, I appreciate the Committee's willingness to address this important issue and raise the level of awareness across the government. We are committed to modern aircraft solutions that drive commercial economic growth and development while standing ready to support the DoD through US Transportation Command should the nation call.

This concludes my remarks, and I will be happy to answer any questions the committee may have.