Testimony

STATE OF AMERICAN AVIATION

Statement of Nicholas E. Calio
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before the
United States House of Representatives
Committee on Transportation and Infrastructure
Subcommittee on Aviation

Dec. 12, 2013

OVERVIEW

The U.S. airline industry is indispensable to our society and economy. It enables our diverse and far-flung nation to be linked domestically and internationally. No other country can match the tightly knit fabric of air commerce that so conspicuously contributes to our nation's well-being. This exceptional accomplishment did not occur by happenstance, nor will it not continue by happenstance.

U.S. airlines, however large or small they may be, are successful because of their diligence, innovation and commitment. They are "in the game" and are prepared to "step it up." Unfortunately, all too often they confront indifferent, disjointed or hostile government policies. We operate in a public-policy setting that veers from the listless to the antagonistic. The current budget negotiations are an abject example of an antagonistic public policy setting impeding the ability of the industry to lead, and compete effectively. The implications of this are serious. The Administration and the Congress act as if they can use the industry and its customers as a bottomless piggy bank to fund whatever comes to mind – in this case, not TSA, just more federal spending. This cannot continue. It is bad for airlines, their employees, our customers, and the airports and communities that we serve.

Those shortcomings can have a broadly harmful, compounding effect. This is precisely what has occurred in the U.S. airline industry because of a tax, regulatory and infrastructure environment that has made realizing profitability far harder than it should be. A healthy U.S. airline industry stimulates the commercial aviation industry as a whole, as well as the broader economy. Commercial aviation supports over 10 million jobs and accounts for 5 percent of total U.S. Gross Domestic Product (GDP). It could be an even bigger, more productive sector of the economy with the right policy framework.

The obvious conclusion is that we need a coherent and comprehensive U.S. airline policy. Government must display its own diligence, innovation and commitment. It cannot simply be along for the ride. The U.S. airline industry is too important to our country to allow the inertia of

[1] A4A is the industry trade organization for the leading U.S. scheduled passenger and cargo airlines. A4A's members are Alaska Airlines, Inc.; American Airlines, Inc.; Atlas Air, Inc.; Delta Air Lines, Inc.; Federal Express Corporation; Hawaiian Airlines; JetBlue Airways Corp.; Southwest Airlines Co.; United Continental Holdings, Inc.; and UPS Airlines; and US Airways, Inc. Air Canada is an associate member.

unexamined or ill-considered government policies to inhibit our industry. This is especially so today. America's economy remains lackluster. Aviation is a key driver of our economy and should be enlisted to spark it.

The U.S. airline industry confronts relentless foreign competition, often fueled by foreign government policies that officially and systematically support their nations' aviation interests and sometimes include significant subsidization. However disquieting some aspects of these policies can be, they manifest a clear-eyed recognition by these governments of the importance of aviation, and particularly of their airlines, to the future of their economies. Many of our international competitors consequently enjoy the benefits of well-thought-out national aviation policies that not only facilitate but purposefully accelerate their expansion. The result is that in many of the areas of the world where the greatest growth is forecast, our foreign-flag competitors are poised to succeed, perhaps stunningly so.

Our government needs to experience a like-minded recognition. We are an historic source of good-paying, often highly technical jobs, which are exactly what the American workforce needs more of today. The U.S. airline industry has also been an extraordinary incubator of new technology. And we have successfully met the vicissitudes of the post-9/11 environment.

In other words, we can do it. But we in the private sector are not entirely masters of our fate. If the airline industry is to remain in the vanguard of expanding and enriching the U.S. economy, it needs reworked government policies that do away with unnecessary, costly and burdensome regulations, reduce taxes and fees that hamstring our competitiveness, improve air traffic control infrastructure to counter efficiency-robbing airspace system delays and recognize the intense, mounting foreign competition that we face daily – including from state-underwritten competitors.

We are not asking for government to put its thumb on the scale on our behalf. Instead, we are asking for no-nonsense policies that will allow the entire industry to fulfill its potential and thereby generate good-paying jobs, benefit the communities that depend on us and present even more formidable competition to our global challengers.

And, to be blunt, for the U.S. airline industry the current task is not to maintain U.S. leadership but to regain it. That task can only be accomplished if government fundamentally changes its policy framework.

Because of government policies, the U.S. airline industry cannot act nearly as freely as other industries can and do. The three federal aviation commissions that both Democratic and Republican Administrations have launched over the last two decades recognized that structural problem.[2] They have recognized the obvious: Like any other industry, when the U.S. airline industry is financially healthy, it reinvests in people, products and services. When the industry is not, aircraft orders tumble, employment drops and service to more economically vulnerable communities falls. These are the realities of the airline business. Yet little improvement has come from the findings of those bipartisan commissions.

In light of that chronic inaction, A4A has for more than a year urged Congress to adopt a National Airline Policy (NAP). Such a comprehensive policy would provide a tax and regulatory environment that enables the U.S. airline industry to grow and prosper. The five pillars of the NAP are:

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[2] National Commission to Ensure a Strong, Competitive Airline Industry, chaired by former Virginia Governor Gerald Baliles (1983); the National Civil Aviation Review Commission, chaired by former Department of Transportation (DOT) Sec. Norman Mineta (1997); and, most recently, The Future of Aviation Advisory Committee, chaired by then-Sec. Ray LaHood (2010).

- Rationalize the industry's tax burden;
- Rationalize the industry's regulatory burden;
- Modernize the air traffic control system;
- Support our efforts to compete globally; and
- Stabilize energy prices.

These core principles and the need for their adoption are described more fully below.

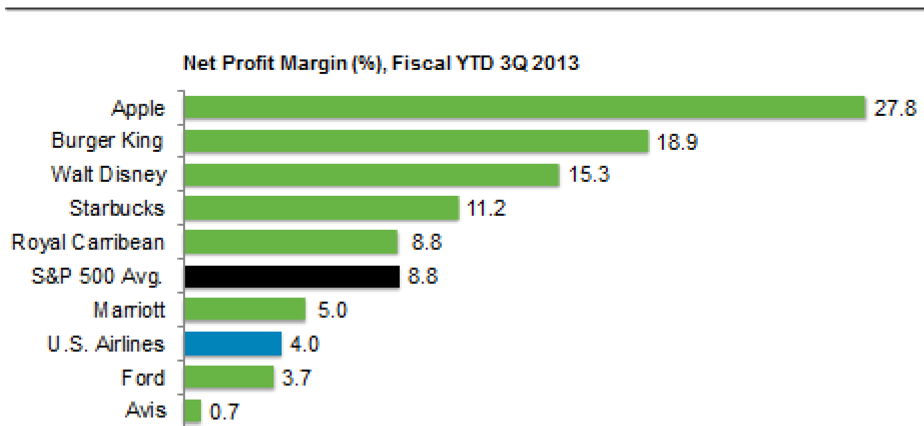
THE FINANCIAL STATE OF THE U.S. AIRLINE INDUSTRY

Despite recent improved financial results, the U.S. airline industry is far from having entered a robust era.

From 2001 through 2012, U.S. passenger airlines collectively lost more than $60 billion, generating an average profit margin of *negative* 4 percent over that period. After years of extensive restructuring and adaptation to soaring fuel prices, U.S. carriers were able to turn red ink into black with razor-thin profitability in 2010, 2011 and 2012. With some very modest relief from last year's all-time-high U.S. jet fuel prices, preliminary results for the first nine months of 2013 have driven the airlines' margin up to 4 percent of revenues, less than half that of the S&P 500 average (**Slide 1**). Only a single U.S. passenger airline enjoys an investment-grade credit rating from Standard & Poor's, and that best-of-the-pack rating merely equals the lowest rating of any U.S. airport (**Slide 2**). U.S. airlines continue to emerge, albeit tenuously, from the massive deficits accumulated over the past decade, during which many carriers failed to survive.

Slide 1

Airline Industry Profitability in 2013 Less Than Half That of S&P 500 Composite



Sources: FactSet and SEC filings for the indicated period; airlines include Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and US Airways

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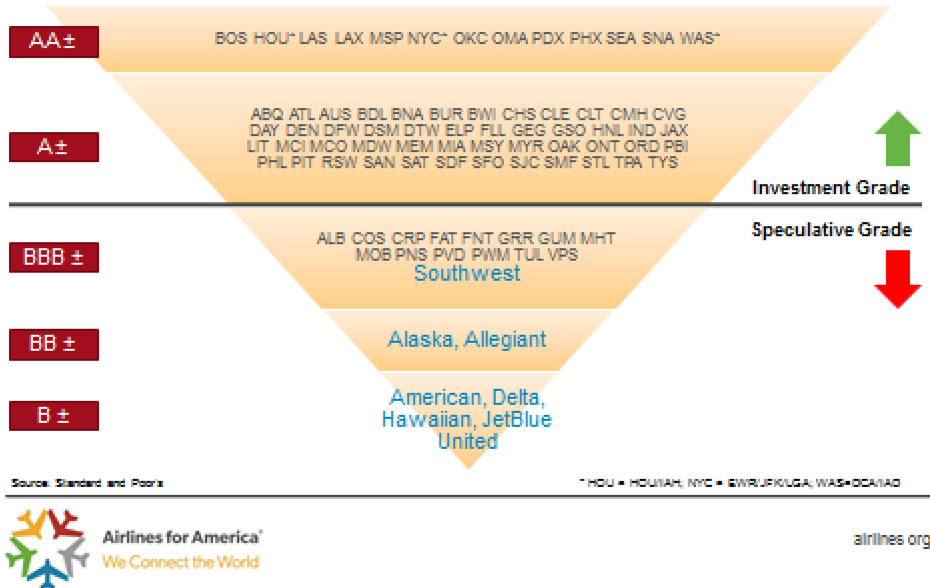
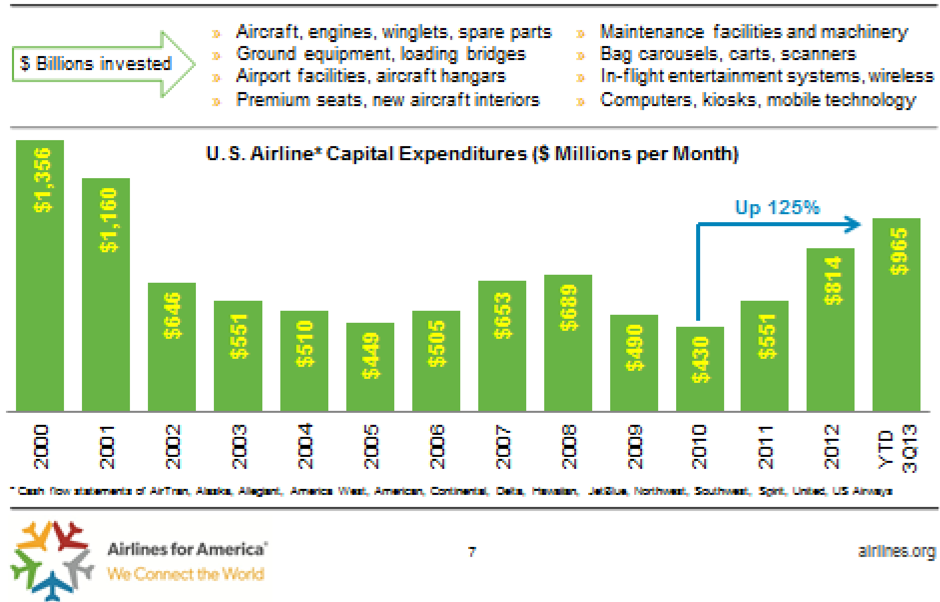
Slide 2



With this newfound modest profitability, which is subject to the vagaries of volatile fuel prices – the largest and now one-third of airline costs – the 10 largest U.S. carriers have been able to reinvest in the product and customer experience at a rate not seen since 2001 (**Slide 3)**. Airline capital expenditures of close to $1 billion per month are up 125 percent from 2010, directly benefiting customers through investment in aircraft, operational spares, premium seating, larger overhead bins, airport terminals, customer lounges, ground equipment, mobile technology, customer kiosks and in-flight entertainment. Further, as airlines begin to generate modest returns on capital, capacity is returning to U.S. airports – as reflected in published schedules for every quarter from 4Q 2012 through 1Q 2014.

Slide 3



But the numerous federal aviation taxes and fees exacerbate industry challenges. Specifically, the aviation industry and its customers are subject to 17 special federal taxes and fees which, as of January 1, 2014, will account for $62 (21 percent) of the cost of a typical $300 domestic roundtrip ticket, up significantly from $38 or 13 percent in 1992 (See slide 7 below).

This is not a wholesome situation – for airlines or their customers.

THE U.S. AIRLINE INDUSTRY: BASIC CONSIDERATIONS

U.S. airlines compete in a global market for passenger and cargo services. Free trade in the airline sector, which we support, has grown to include 111 countries whose airlines have unlimited rights to fly to any market in the United States. Government policy for the U.S. airline industry, however, has not kept pace with the burgeoning market fostered by open-skies agreements. Consequently, U.S. airlines enter the global field of competition at a significant disadvantage compared to their foreign competitors. That disadvantage weighs on profitability and growth for U.S. airlines, and all that goes with it – service to smaller communities, jobs, employee welfare and shareholder value, and it adversely impacts the broader value chain that supports the airline industry and related travel and tourism industries. It could be an even bigger, more productive sector of the economy with the right policy framework.

The U.S. airline industry is a strategic asset. It is an enabler of the broader U.S. economy because it moves the commerce of the country. Simply put, it was the physical internet before the digital internet existed, and it remains the physical internet for American business. U.S. airlines move manufactured goods from small communities across the country to other small communities, to major population centers within the United States and to cities and towns across the globe. The sales and service sectors rely on U.S. airlines to deliver their products and services and to meet their customers face-to-face. In the modern global market, U.S. businesses cannot compete without a healthy U.S. airline industry that provides convenient, safe and reasonably priced connectivity to their domestic and international markets and customers.

The same policies that disadvantage U.S. airlines, however, in turn disadvantage U.S. businesses and the broader economy. A weak U.S. airline industry means fewer flight options to fewer cities, particularly to foreign markets that are on the edge of profitability. Reduced service means greater challenges and fewer opportunities for U.S. businesses in the highly competitive global marketplace.

The solution to these linked problems is simple: adopt a NAP that provides a comprehensive blueprint to normalize the business environment in which U.S. airlines operate – a comprehensive airline policy that treats the industry like other U.S. industries and that enables U.S. airlines to compete effectively in the global marketplace. The U.S. policy must recognize and treat the airline industry as the economic enabler that it inherently is. Failure to do so ultimately may result in U.S. airlines increasingly shifting to feeding foreign flag airlines at U.S. gateways, with significant adverse impact on profitability and on service that connects smaller cities and communities.

POLICY SCHIZOPHRENIA PREVAILS: REGULATION AND TAX POLICIES UNDERMINE DEREGULATION SUCCESS

Congress deregulated the domestic airline industry in 1978 to unlock its value to the American public. Congress recognized that removing the straitjacket of government economic regulation and allowing airlines to operate competitively like other businesses would make air transportation services affordable for consumers as well as business and foster innovation and efficiency.

Congress was right. Passenger and cargo airline services are a tremendous value for American businesses and consumers. They enable the U.S. economy. From 1990 to 2012, real domestic fares fell 30 percent. In contrast, passenger taxes increased 38 percent. (**Slide 4**). Business travel and cargo movements have grown dramatically and air service is the favored method of transporting valuable exports. In 2012, the value of U.S. exports by air was 121 times the value of exports transported by sea.

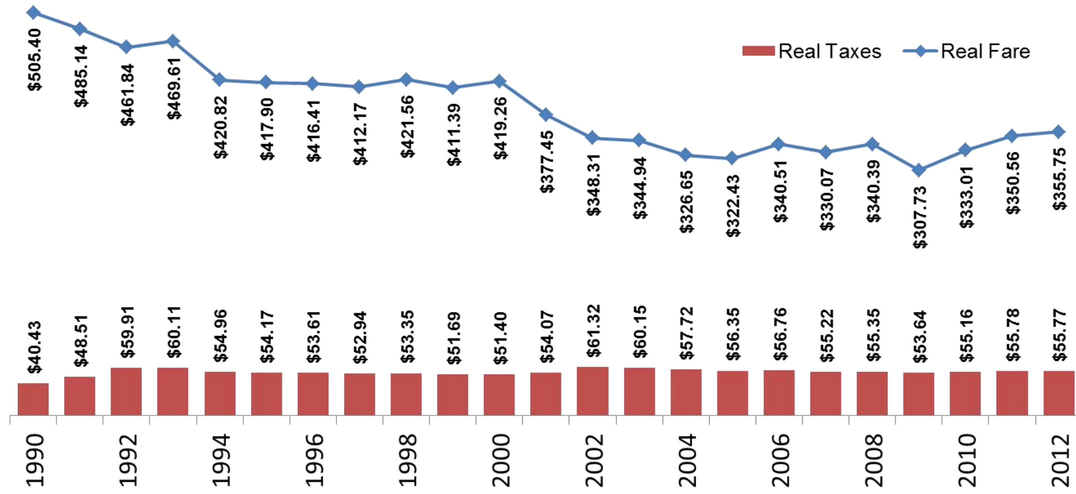
Commercial aviation has grown to become one of the most important elements of U.S. GDP. (**Slide 5**). Today, U.S. airlines carry approximately 2 million passengers and 50,000 tons of cargo daily on approximately 21,700 domestic and international flights.

Slide 4

Real Domestic Fares Down 30 Percent Since 1990

Adjusted for Inflation, Domestic Ticket Taxes Up 38 Percent

Real ($2012) Average Round-Trip Domestic Airfare and Ticket Taxes



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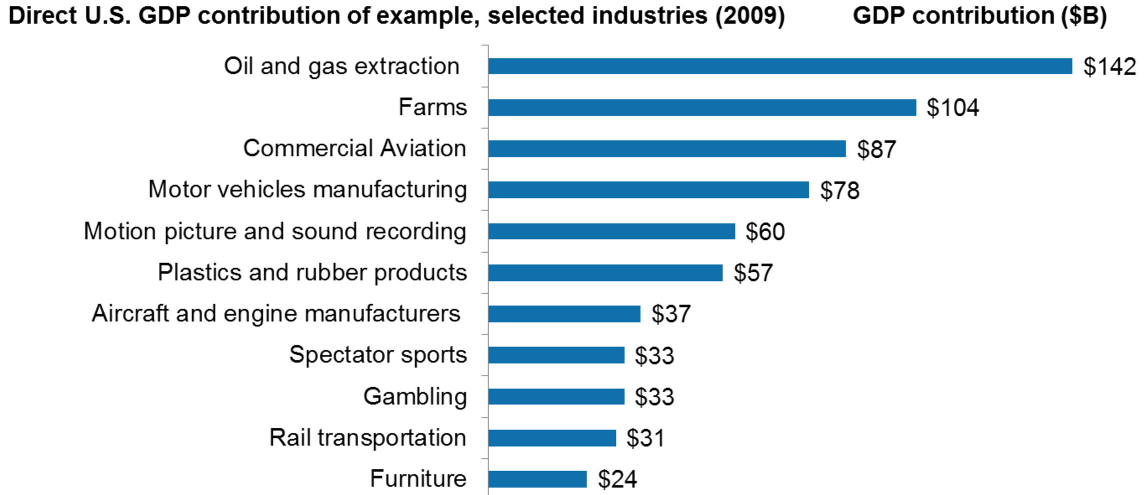
Slide 5



Despite the unparalleled value the U.S. airline industry delivers to the American economy as a result of deregulation, encumbering vestiges of the regulated era remain and new regulatory burdens have been added, particularly in recent years. These regulatory burdens reflect the ingrained view of some that the airline industry is different from other industries and, when controversy arises, regulation is the answer. This parochial view of commercial aviation must end.

Vestiges of economic regulation include mandatory reporting of traffic data ("O&D" data); revenue and expense data; income taxes; maintenance expenses; profit and loss data; performance data such as on-time performance, baggage handling, and involuntarily denied boarding; and on-demand examination of financial data and records. Industries that were never regulated – the rental car and grocery industries, for example – are not saddled with these kinds of reporting burdens. (**Slide 6**). To make matters worse, the DOT has proposed a rule that would require airlines to report new revenue information related to 19 separate items, including how much they collect for meals, drinks and upgrades.

Slide 6

In the United States, Airline Marketing and Customer Service Are Subject to a Greater Degree and Scope of Government Regulation than Other Key Service Industries

	Airlines	Hotels	Rental Cars	Cruises	Amtrak	Buses	Cable	Telecom
Service Delivery Reporting	✓	No	No	No	No	No	No	No
Full-Fare Advertising (incl. taxes)	✓	No	No	No	No	No	No	No
Ancillary Revenue Reporting	✓	No	No	No	No	No	No	No
24-Hour Purchase Refundability	✓	No	No	No	No	No	No	No
Detailed Reporting of Demand	✓	No	No	✓	No	No	No	No
Detailed Reporting of Costs	✓	No	No	No	No	✓	✓	✓
Reporting of Average Prices Paid	✓	No	No	No	No	No	✓	✓
Operational Contingency Plans	✓	✓	No	✓	✓	✓	✓	✓

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Likewise, more recent regulatory initiatives substitute the government's judgment for the working of the marketplace and manifest a philosophy that favors re-regulation over market discipline that reflects consumer decisions. These new regulatory burdens run counter to the Airline Deregulation Act, which specifically stated that market forces should determine and drive consumer options and services. The DOT's "Enhancing Airline Passenger Protections" Rule 2 (April 25, 2011) is such a rule. In it, DOT mandated that airlines, unlike virtually every other U.S. industry, must include taxes and mandatory fees in advertised prices. Even though airline customers purchase other products and services and understand that taxes and fees will be included in the final price, DOT insisted that airlines and travel agencies spend millions of dollars to reprogram their systems to display "full" prices. The rule also goes so far as to specify that any breakout of taxes, which are considerable, must be in smaller font than the total price. In addition, the rule creates an impossible burden by prohibiting an airline from raising the prices of optional on board services for that particular customer after he/she purchases a ticket. That is like saying a ballpark or stadium cannot raise the price of a hot dog for an individual once he/she purchases a ticket. On game day, it is impossible for vendors to know what price to charge which patron if prices have changed. Although DOT has backed off of enforcing this rule, it has stated it will likely be part of its next rulemaking.

Looking forward, DOT is planning a third "passenger protection" rule. Among other things, this rule will likely require airlines to make all of their products available through global distribution systems and other intermediaries. In no other industry is this required. Are the passenger rail or cable industries *required by law* to turn over all of their products and services to a third party duopoly that can then mark-up the products for their own financial gain?

Again, other industries are not subjected to such meddlesome rules. These and other regulatory burdens weigh heavily on the airlines and, with the tax burden discussed below, conspire to hold them back from stability and necessary profitability.

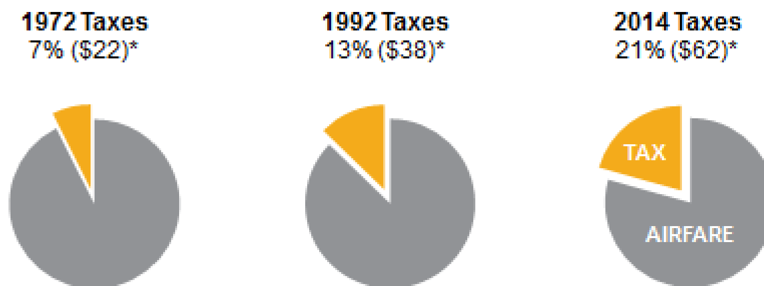
As noted previously, the U.S. aviation industry and its customers are subjected to voracious taxes and fees that, effective Jan. 1, 2014, add up to 21 percent of the total price of a typical domestic

round-trip ticket. (**Slide 7**). No consideration is given to the impact of these government impositions on demand. In fact, commercial air travel is taxed at a greater rate than products – alcoholic beverages and cigarettes – that are taxed in part to discourage consumption. (**Slide 8**). In Fiscal Year 2013, airlines and their customers paid more than $19 billion in special aviation taxes and fees, $12.7 billion of which went to the FAA Airport and Airway Trust Fund, $3.8 billion to the Department of Homeland Security (including $2.3 billion to TSA), and $2.8 billion directly to airports. (**Slide 9**).

Slide 7

U.S. Federal / Federally Approved Tax Bite on $300 One-Stop Domestic Round Trip*

Growing Governmental Take Leaves Less Revenue for Carriers to Maintain Air Service Levels, Reinvest in Product, Purchase New Equipment, Hire/Reward Employees



* Sample itinerary assumes one-stop domestic round trip with maximum passenger facility charge (PFC) per airport; total ticket price includes taxes
Source: A4A analysis of federal tax code, including IRS Revenue Bulletin 2013-47, Rev. Proc. 2013-35.

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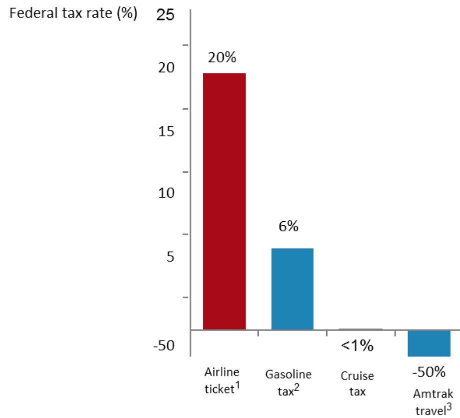
Slide 8

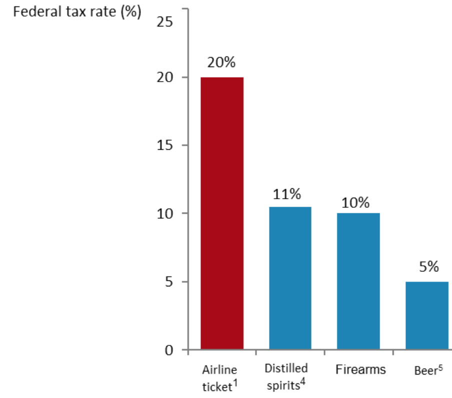
Rationalize Tax Burden

Air Travel is Taxed Higher Than Other Transportation Sectors and "Sin" Products

Air travel is taxed higher than other transportation sectors...



...and higher than many so-called "sin" products that are taxed to discourage use



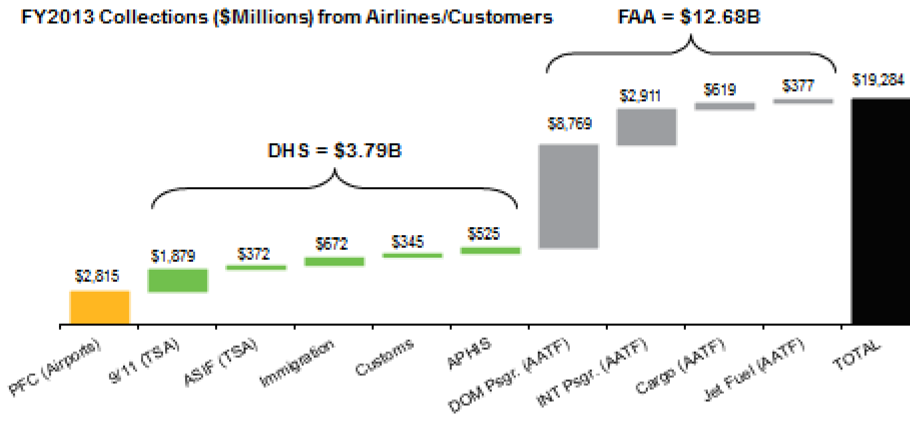
1. Sample itinerary assumes one-stop domestic round trip with maximum passenger facility charge (PFC) per airport; total ticket price includes taxes
2. Federal tax percentage (18.4 cents per gallon gasoline, 24.4 cents per gallon diesel) based on June 27, 2012 prices (including state and federal taxes of $3.69/gallon diesel
3. US government has suggested investments in high speed rail infrastructure while increasing airfare taxation (PFC and security fees); consists of 2011 net loss margin which is funded by federal government; 15% excise tax pre-1962
4. Based on $20 sale price per 750ML bottle
5. Based on an average price of $1.00 per can

Sources: MIT Ticket Tax; US Department of Treasury; TTB.gov; Gaspricewatch.com; US Energy Information Administration; IMF; BCG analysis

Slide 9

"Special" Commercial Aviation Tax Burden* Exceeded $19 Billion in 2013

Atop Typical Federal/State/Local Taxes (e.g., Income, Property)



* Federally levied/approved commercial aviation taxes/fees only; some taxes/fees shown include collections from non-U.S. carriers

Sources: Department of Homeland Security, FAA, Office of Management Budget, Transportation Security Administration, A4A

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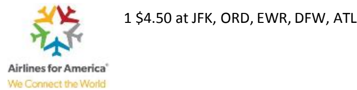
In addition, the rising federal aviation tax burden puts U.S. airlines at a competitive disadvantage vis-à-vis their rapidly expanding foreign airline competitors in the Middle East and China, who enjoy domestic tax burdens up to three times lower than U.S. airlines. (**Slide 10**).

Slide 10

Aviation specific taxes and fees are 2-3x higher in US than in Middle East and China

	US	UAE	Qatar	China
Ticket tax	▪ 7.5% of fare value domestic ▪ $17.20 per pax for international	▪ None	▪ None	▪ None
Passenger charge	▪ PFC up to $4.50 per pax[1]	▪ AED 75 (USD 20.40) per departing pax	▪ QAR 40 (USD 11) per pax	▪ CNY 70-90 (USD 12-15) per international pax
A/C & Pax inspection	▪ APHIS $70.75 per int'l arrival and $5 per int'l pax	▪ None	▪ None	▪ None
Security	▪ $2.50 per pax per segment	▪ AED 5.00 (USD 1.36) per pax	▪ $2.15 per pax or $0.50 per transfer pax	▪ CNY 12.00 (USD 2.00) per pax
Immigration	▪ $7.00 per pax	▪ Included in the security charge	▪ Included in the security charge	▪ None
Flight segment	▪ $3.90 per domestic pax per segment	▪ None	▪ None	▪ None
Customs	▪ $5.50 per int'l pax per flight	▪ None	▪ None	▪ None
Total fees per int'l pax	$42	$22 (+92%)	$13 (+217%)	$16 (+169%)

Source: IATA Fuel, Taxes and Airport Fees Database



1 $4.50 at JFK, ORD, EWR, DFW, ATL

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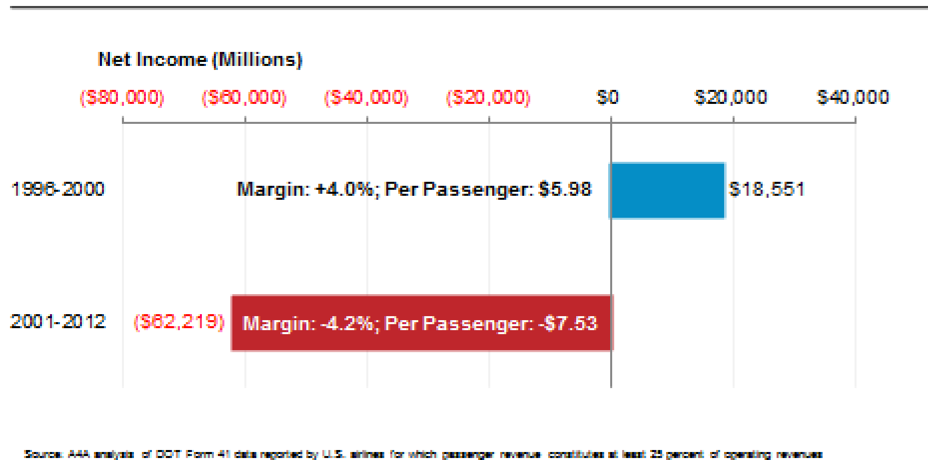
More recently, there have been attempts to have airlines and their customers pick up the tab to reduce the federal budget deficit or to cover the cost for a payroll tax-cut extension. Last year and earlier this year, on multiple occasions, the Administration offered a proposal that would triple the security tax we all pay on each flight, as well as impose on airlines a $100 tax on every plane departure. In the end, the proposals were rejected – but they are back. The White House budget proposal for Fiscal Year 2013 again proposes to triple the security tax and add a $100 departure tax. These new taxes alone would cost the airline industry $36 billion over the next 10 years.

The importance of these burdens is illustrated by comparing them to recent airline earnings – remembering first that U.S. passenger airlines ***lost*** $63 billion during the period 2001-2010. This cumulative loss includes the "benefit" of having earned $541 million in 2011. They earned $264 million in 2012, a mere 0.2 percent profit margin. (**Slide 11**). Put another way, in 2012 U.S. passenger airlines earned just 37 cents per passenger. Thus, from 2001 to 2012 combined, U.S. passenger airlines lost $62 billion.

Slide 11

U.S. Airlines Are Digging Out of a Large Hole of Cumulative Losses



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Finally, as the Committee knows, the climate change resolution adopted in October by the International Civil Aviation Organization's (ICAO) Assembly focuses on technology, operations and infrastructure measures as the primary means for addressing aviation greenhouse gas (GHG) emissions. It reconfirms the rigorous emissions goals established for the industry in 2010 – annual average fuel efficiency improvements through 2020 and carbon neutral growth from 2020. In an important step, the resolution establishes a commitment to work toward a global market-based measure to "fill the gap" should the industry not be able to achieve carbon neutral growth from 2020 through concerted industry and government efforts through technology, operations and infrastructure measures.

There is no question that the work that this Committee did in advancing legislation to push back against the application of the unilaterally imposed European Union Emissions Trading Scheme (EU ETS) to U.S. aircraft operators created much-needed negotiating room for the positive result at the ICAO Assembly. Notably, the ICAO Assembly confirmed that the focus should be on global measures, and reconfirmed that any local and regional market-based measures in the meantime should be limited by a set of principles agreed in the Assembly Resolution and undertaken under consent between countries.

Unfortunately, despite the positive outcome at the ICAO Assembly and the admonition against such unilateral measures, the European Commission has proposed legislation that would capture the portions of U.S. aircraft operator flights to and from the EU while in a unilaterally defined EU airspace "bubble" without the consent of the United States and contrary to the agreed ICAO principles. We are hopeful that the legislation the United States adopted last year and the clear and continuing opposition from around the world will give the EU pause as they consider their new ETS proposal.

A4A and its member airlines are committed to reducing GHG emissions from aviation and, with fuel-efficiency improvements have saved more than 3.4 billion metric tons of carbon dioxide (CO_2) emissions since 1978, have a strong record of meeting that commitment. By investing

billions of dollars in fuel-saving aircraft and engines, innovative technologies and advanced avionics, the U.S. airline industry improved its fuel efficiency by 120 percent between 1978 and 2012, resulting in emissions savings equivalent to taking 22 million cars off the road each of those years. And A4A's members are keenly committed to continuing to implement measures that improve their fuel efficiency and reduce their CO_2 emissions output and potential climate change impacts, while allowing commercial aviation to continue to serve as a key contributor to the U.S. economy.

Our firm belief is that ICAO is the proper, multilateral venue to develop a worldwide policy to reduce GHG emissions from commercial aircraft. We fully support ICAO's efforts and urge Congress and the Administration to support the ICAO Assembly Resolution and oppose any efforts to pursue unilateral solutions, including the European Union's latest proposal.

U.S. POLICY HAS NOT EVOLVED WITH THE CHANGING GLOBAL MARKET WHILE OTHER COUNTRIES SUPPORT THEIR AIRLINES

The United States has championed free trade in the airline sector, and the U.S. airline industry has supported that effort. The United States, as noted, has entered into 111 Open Skies agreements with aviation trading partners. These agreements liberalize the aviation relationship and allow airlines to decide route, frequency, capacity and pricing decisions based on commercial considerations free from government interference. Our members are efficient, effective enterprises and are anxious to compete in the global marketplace.

To take full advantage of this liberalized framework, U.S. airlines must be supported at home by policies that encourage economic stability and growth, and allow U.S. airlines to respond to market opportunities and challenges. U.S. policy, however, has not kept up with the evolution of the global market for airline passenger and cargo services. As discussed previously, U.S. airlines are hindered by ad-hoc and irrational tax and regulatory and burdens.

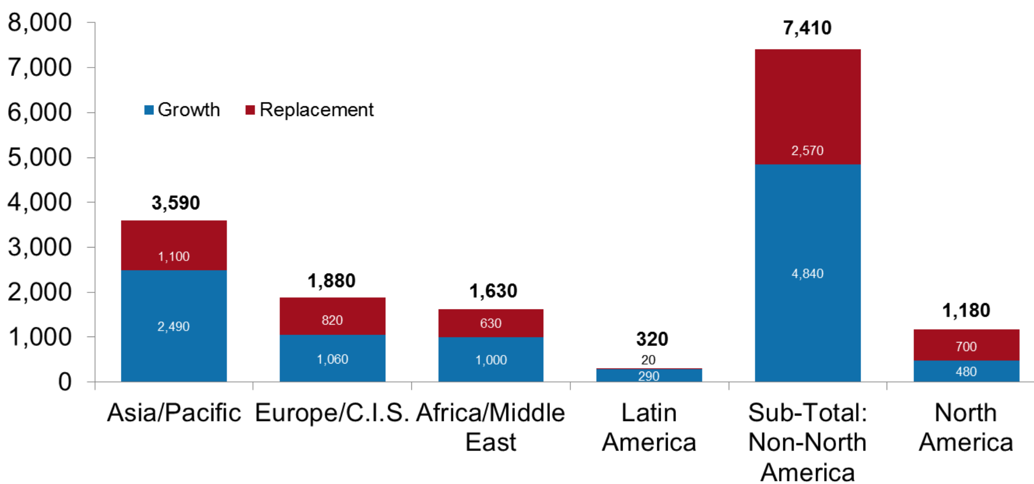
The United States does not have an overarching airline policy that recognizes the strategic value of the U.S. airline industry and seeks to advance its global competitiveness. Rather than "strengthening the competitive position of air carriers to at least ensure equality with foreign air carriers…to maintain and increase their profitability in foreign air transportation," another of the Airline Deregulation Act's specific policy goals (49 USC § 40101(a)(15)), the *ad-hoc* approach to the U.S. airline industry has hobbled it.

Other countries, on the other hand, have such policies. This is particularly true in South America, Asia and the Middle East areas that have seen strong growth and expansion by their national airlines and where future demand is expected to be strong. Asian and Middle Eastern countries, in particular, have encouraged their airlines to grow and supported that growth with policies that reduce costs and encourage capital investment. Emirates and Singapore Airlines, for example, not only have large, young fleets of widebody aircraft; they also have considerably more widebody aircraft on order than U.S. airlines. (**Slide 12**). With the greatest amount of growth forecast to be in the emerging economies, foreign airlines, not U.S. airlines, are poised to succeed. (**Slide 13**).

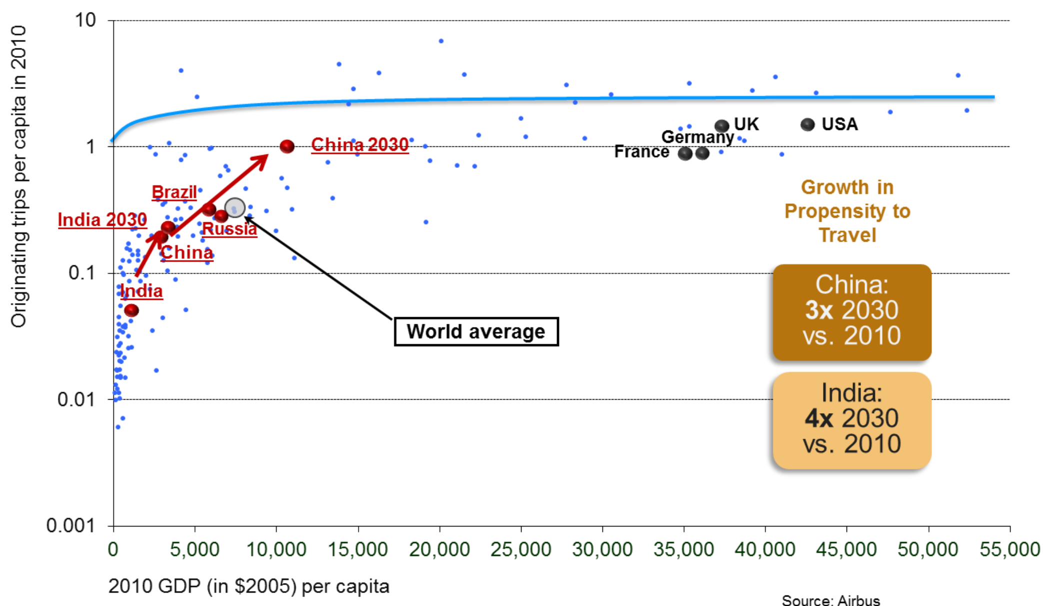
Slide 12

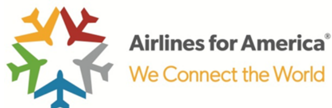
Enhance Global Competitiveness

Foreign Airlines are Projected to Order Six Times as Many Widebody Aircraft as North American Airlines



Slide 13





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The international carriers that are buying the majority of planes today are providing the connectivity their governments envisioned – and driving economic growth in the process. This includes flying to the United States in increasing numbers – to our major cities – which has caused U.S. airlines to pull down capacity in some international markets, which is the most profitable part of the business and a part of the business that subsidizes – to a great degree – our domestic routes.

As the largest aviation market in the world, the United States remains an attractive target for foreign carriers and the absence of an airline industry policy is plain. Unfortunately, because U.S. policy lags the policy support other countries give their carriers, 111 foreign airlines flew to the United States from 84 countries in calendar year 2013. This compares to 18 U.S. airlines scheduled to fly to 82 countries. Today, for example, Emirates operates to Dallas, Houston, Los Angeles, New York, San Francisco, Seattle and Washington, D.C. Emirates also announced plans to start Boston-Dubai service in March 2014. Etihad offers daily service from Abu Dhabi to Chicago, New York and Washington, D.C., and plans to start service to Los Angeles in summer 2014.

The risk to the United States is clear: without a policy shift at home, our airlines will continue to lose market share to the point of being dominated by carriers whose home-country policies enable sustained growth and expansion. The result will be diminished service (both international and domestic), fewer airline sector jobs, fewer jobs in the industries that support the airlines and ultimately a weaker American economy.

WHY IS THIS IMPORTANT?

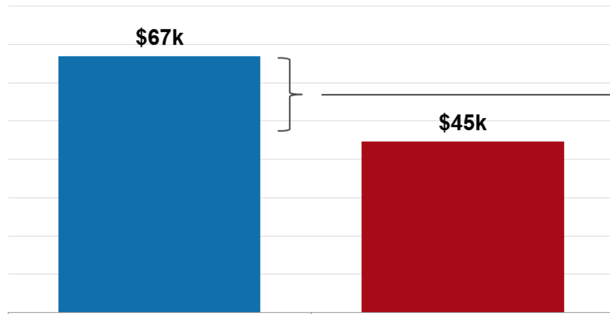
A strong airline industry drives high-quality, middle-class American jobs within the industry and is the foundation for jobs in the broader aviation industry. (**Slide 14**). As we learned from the post-9/11 and post-recession years, an unprofitable airline industry translates directly into job loss, reduced service and reduced investment in airplanes, facilities and equipment. The entire value chain suffers. In August 2001, employment at U.S. passenger airlines exceeded 536,400 full-time equivalent employees. As of August 2013, that number had dropped to just under 380,600, a loss of approximately 155,800 high-wage jobs. Likewise, an unprofitable industry cannot sustain the level of service America needs. In January 2001, there were nearly 30,000 daily scheduled passenger domestic flights. That number dropped more than 27 percent, to 21,700 daily flights, in January 2013. (**Slide 15**).

Slide 14

Why Is a Comprehensive Airline Policy in the National Interest?

The U.S. Airline Industry Is a Major Source of High-Quality, Middle-Class American Jobs

Average wages, 2012: employees of U.S. scheduled passenger airlines vs. private industry, all occupations



*Average Annual Base Pay, U.S. Passenger Airlines

U.S. Avg Annual Base Pay, private industry, all occupations

Employees of U.S. passenger airlines earn 50% more than the average private industry U.S. worker

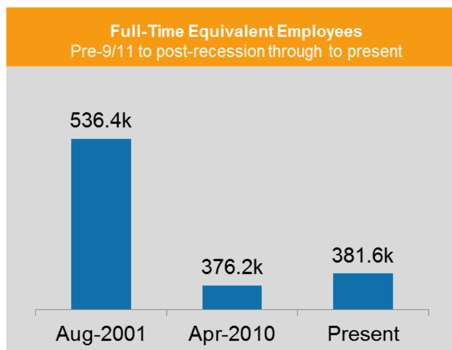
*__Sources:__ Bureau of Labor Statistics; A4A U.S. Passenger Airline Cost Index

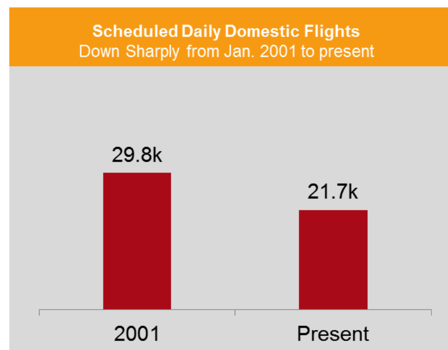
Slide 15

Why Is a Comprehensive Airline Policy in the National Interest?

When U.S. Passenger Airlines Lose Money, They Lower Costs by Reducing Service and Cutting Jobs

» Reduced U.S. passenger airline industry earnings results in reduced air service, fewer U.S. jobs, delayed fleet renewal, reduced in-flight service options, and, for some airlines, bankruptcies





Foreign carriers will not directly serve smaller U.S. markets. They will cherry pick profitable gateway cities and rely on others to provide connectivity, at whatever cost, across the rest of the country. That is not good for American businesses or consumers.

The U.S. network carriers' business model accommodates connecting every part of the country with the revenues from the more profitable segments subsidizing the much less profitable, smaller communities. To continue to provide such service, U.S. carriers need a more rational, normalized business environment, with less government interference, and with a fair tax and fee structure. Our airlines want to compete head-to-head with their international competitors but on a more level playing field.

A4A CALLS FOR A NAP

For all of the reasons discussed, A4A is calling for enactment of a NAP – a comprehensive approach to putting the U.S. airline industry in a position to survive and thrive; a policy in keeping with the fundamental role it plays in the U.S. economy and that gives substance to the aspirations for the industry articulated in the Airline Deregulation Act.

These are the five core components that together form the basis of an effective NAP:

1. **Rationalize our tax burden**: Repeal the 4.3-cent-per-gallon commercial jet fuel tax. Reevaluate the other 16 federal taxes and fees paid by U.S. airlines, their customers and other users of the system, which totaled $19 billion in 2012, to ensure that such taxes and fees are rational, cost-effective and administered efficiently.

2. **Rationalize our regulatory environment**: Ensure that rules are based on sound science and cost analysis and eliminate rules that drive excessive costs or inefficiencies while doing nothing for safety or consumer benefit.

3. **Fix the infrastructure and NextGen**: Accelerate the deployment of the most cost-beneficial elements of NextGen by implementing policies and procedures to use the equipment we have in place today.

4. **Enable global competitiveness**: This industry needs to compete on a level playing field with global competitors. Endorse global strategies to address issues that affect us all, like the EU ETS plan, and put in place the policies, resources and structure to promote business and leisure travel and tourism in the United States.

5. **Mitigate fuel costs and price volatility**: We need the Commodity Futures Trading Commission (CFTC) to follow its statutory mandate and curb excessive speculation in the oil futures market and, at the same time, we need to bolster domestic fuels production and alternate fuels development in an environmentally sound manner.

This is an ambitious list with a great deal of work required on each part – and it will take time and unified engagement with Congress and the Administration to get it done. A4A is committed to doing just that.

Conclusion

There is much to do but there can be no question that we need a holistic approach that addresses the fundamental tax, regulatory and infrastructure challenges that prevent this industry from being sustainably profitable – and globally competitive.