

STATEMENT OF SUSAN L. KURLAND
ASSISTANT SECRETARY FOR AVIATION & INTERNATIONAL AFFAIRS
U.S. DEPARTMENT OF TRANSPORTATION
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Chairman LoBiondo, Ranking Member Larsen, and Members of the Subcommittee:

Introduction

I appreciate the opportunity to appear before you to discuss the state of American aviation and the role of the Department of Transportation in fostering the necessary conditions for U.S. aviation companies, consumers, and the aviation workforce to thrive in the global marketplace.

It is difficult to overstate the value of aviation to the U.S. economy. Civil aviation accounts for \$1.3 trillion in activity in the U.S. economy and supports more than 10 million jobs. The U.S. industry has a diverse value chain, including air framers, avionics companies, engine and parts suppliers, maintenance repair and overhaul providers, airports, airlines and the highly skilled aviation workforce that supports this industry. According to FAA figures compiled in 2011, the entirety of commercial aviation contributes about 5 percent to the U.S. GDP.

The U.S. Aviation Industry's Focus on Global Markets

The U.S. aviation industry is in a state of dynamic change due to the phenomenon of a deregulated marketplace and globalization. While the United States remains an important market for aviation products and services, U.S. aviation companies see big opportunities in foreign markets. Most U.S. firms are now emphasizing marketing and selling to a global customer base, especially in emerging markets where demand is strongest. The International Monetary Fund estimates that GDP in emerging economies is growing at 6 percent annually, while GDP in advanced economies, such as the U.S. economy, is growing at 2 percent. Fully three quarters of global purchasing power now resides outside of U.S. borders. In view of these macro trends in the global economy, the U.S. aviation industry is focusing on global markets, and we expect that to continue in the future.

In order to adapt to changing demands and traffic flows, the airline sector, in particular, has undergone a dramatic shift in emphasis. After a long period of restructuring, the U.S. airline

industry has become profitable despite long term increases in fuel prices and fuel price volatility. For many airlines, a significant component of their formula for profitability has been efforts to serve the growing international markets and to compete for a greater share of international traffic. In the year 2000, U.S. legacy airlines earned an average of 25 percent of their system-wide revenue from international services; now that figure is approaching 40 percent. Between 2003 and 2013, international revenues increased 86 percent, while domestic revenue increased by only 10 percent.

It is not just legacy airlines that are looking abroad. Low-cost carriers also are expanding into international markets. U.S.-based carriers such as Southwest Airlines, Spirit Airlines and JetBlue have quadrupled their international revenues since 2008, albeit off of a small base figure. Moreover, new fuel-efficient aircraft enable further expansion into long-haul international markets and the creation of new airline business models.

International flights connect travelers, shippers, and U.S. businesses to the global economy and they create jobs. Moreover, air travel brings foreign tourists and business travelers who spend money and carry U.S. products back to foreign markets. In 2012, more than 66 million international visitors traveled to the United States, generating an all-time record of \$165.6 billion in revenue – an increase of 8.7 percent from 2011. The U.S. Commerce Department predicts that within the next four years this number will grow to 81 million visitors, contributing to an additional 338,000 American jobs over 2010. Also in 2012, travel and tourism accounted for 8 percent of all U.S. exports and 27 percent of all service-exports. In 2008, the value of freight exports equaled approximately \$387.3 billion. This spending created indirect and induced flows that totaled \$1,137.6 billion and generated about 6.4 million jobs and \$300.8 billion in earnings. Aviation is a substantial component of these travel, tourism, and freight activities. The increase in international visitors and air freight exports benefit our domestic airports and contributes to the economic development in our communities.

The future competitiveness of the U.S. aviation industry, as well as the ability to grow the U.S. tourism base, will depend, to a substantial degree, upon having a safe, modern and reliable infrastructure. The Department, through our Federal Aviation Administration (FAA), places a strong emphasis on preserving and expanding airport infrastructure to satisfy aviation demand throughout the system. In Fiscal Year 2013, the FAA issued 2,277 grants and amendments, obligating 100% of the funds available for grants. This critical program provided more than \$3 billion to airports of all sizes throughout the country, supporting capital projects to ensure that runways, taxiways and aprons remain safe and efficient, as well as other crucial infrastructure and enhancements in environmental sustainability.

Also, the FAA is in the midst of a much-needed infrastructure modernization program that will allow people and goods to move more safely and more economically. FAA's Next Generation Air Transportation System—or NextGen—is helping us enhance safety and efficiency by

transforming our aviation infrastructure. NextGen technologies and procedures guide aircraft on more direct routes, improve communications, save fuel and decrease delays. New clean technologies and renewable fuels developed through FAA and industry partnerships improve the environmental performance of U.S. aviation. NextGen is not only good for the environment, but it also reduces costs to airlines and is good for business, jobs and the manufacturing base.

All of these infrastructure improvements occur in a dynamic operating environment. Collaboration is the key to success and to providing the most benefits to all of our stakeholders.

The Department of Transportation's Role

The Department not only monitors the trends shaping aviation, but it has a role to play in fostering an environment that allows U.S. workers and companies to compete effectively in the rapidly changing global economy.

Since President Obama launched the National Export Initiative (NEI) in 2010 – a plan to double the number of American goods and services sold in foreign markets by 2014 – the United States has seen an increase of 1.3 million export-supported jobs. Secretary Foxx's appointment as a member of the Export Promotion Cabinet is an affirmation of the critical role that transportation plays as both a generator and facilitator of exports.

In 2012, the U.S. aerospace industry contributed \$118.5 billion in export sales to the U.S. economy. The industry's positive trade balance of \$70.5 billion – the largest trade surplus of any manufacturing industry – was the result of the industry's exporting 64 percent of all aerospace production. U.S. exports of civilian aircraft also rose by more than one-third in 2012 from 2011.

The Department, in coordination with the Commerce Department's Global Market's Advocacy Center, helps to advocate for U.S. companies that bid on government contracts around the world. Since the beginning of the NEI in March 2010, the U.S. Government has supported advocacy cases in the commercial aviation sector, with a total estimated project value of over \$31.1 billion and U.S. export content of \$25.8 billion.

In 2012, the United States exported \$39.5 billion in air travel services. Included in these figures are airline seats and cargo holds in U.S.-registered aircraft, which constitute exports when foreign customers purchase international transportation. These exports could not happen without the ability to readily access international markets. The Department has, for many years, led efforts to open markets and to create new opportunities for U.S. aviation businesses.

The Obama Administration, working together with the aviation industry, has achieved much success in removing barriers to market access and creating the kinds of opportunities that benefit the aviation industry, the aviation workforce, our economy and the traveling and shipping public

alike. Through the Open Skies initiative, we have worked with the State Department to expand commercial opportunities for U.S. airlines in growing international markets. Open Skies agreements remove operating restrictions in international markets by giving airlines the freedom to make their own market-based decisions concerning routes, schedules, and pricing, as well as marketing arrangements, such as alliances and joint ventures.

The economic activity enabled by liberal air service agreements has produced tremendous benefits for American travelers. A study done by the InterVISTAS group found that liberalization of air services has led to new and better services, which in turn produced traffic growth at an average of 12 to 35 percent greater than the growth of the preceding years. Moreover, the study showed an overall cost reduction of 4.2 percent for the airlines, achieved from greater productive efficiency. Another study by the Brookings Institution and Washington State University found that Open Skies agreements have generated at least \$5 billion in annual gains to passengers. It is not just the largest gateway cities capturing those benefits. Communities of all sizes benefit, either through new nonstop international services of their own or through access to international markets via efficient domestic connections.

The United States now has 111 Open-Skies partners. During the Obama Administration we reached new Open-Skies agreements with important aviation partners like the European Union, Japan, Colombia, Brazil and Israel, and we work every day to protect the achievements of Open-Skies and to ensure that our airlines are able to exercise the rights established by those agreements.

We are constantly working to resolve issues that our industry faces doing business abroad and to address unfair and discriminatory practices that interfere with U.S. airlines' ability to take advantage of the economic opportunities afforded by the Open Skies agreements. This work is an essential part of our mission, since the rights we negotiate in aviation agreements are only as valuable as the industry's practical ability to exercise them.

While many of these issues are resolved informally on a government-to-government basis, there are occasions where we must seek redress through more formal procedures. Earlier this year, we issued a show-cause order tentatively finding that Italy's airport landing and take-off fees, which are higher for non-EU originating flights - violate the U.S.-EU Air Transport Agreement and warrant remedial action under the International Aviation Fair Competitive Practices Act. This proceeding, which is supported by all major U.S. carriers serving transatlantic markets, is seeking to end the discriminatory treatment of U.S. carriers. Italy has now announced that it will end the discriminatory airport fees at Italian airports, and we are pressing the European Commission and Italy to move quickly to implement the change.

We also are engaged in developing policies, technologies and regulatory standards that will allow the U.S. industry to efficiently and safely expand to serve the global marketplace. The Department, together with U.S. Trade and Development Agency and other U.S. government

agencies, has cooperation agreements with China, Brazil, and India, all important countries for U.S. exports. These bilateral partnerships promote aviation infrastructure development priorities and connect U.S. companies to growing business opportunities in the aviation sector. They also allow for technical exchanges covering such important areas as airport expansion, airspace management, safety and security.

The general and business aviation sectors also are seeking to aggressively expand their presence in international markets. By offering unparalleled flexibility for when and where to fly, general aviation aircraft have a unique capability to provide open access to remote regions that are not able to sustain commercial air service. General and business aviation have the potential to yield benefits not just for users and service providers, but also to allow the development of manufacturing industries at locations that might not be otherwise accessible. For governments, this translates into potential economic development and job growth.

Business aviation is growing at a rapid rate globally, especially within the Asia-Pacific region. According to forecasts, the Asia-Pacific market for business jet sales will be on par with the European market by the year 2030, with a fleet totaling approximately 2,000 aircraft. It is only a matter of time until business aviation operators will routinely operate in and out of all the major cities in Asia.

We listened to the views of the U.S. business aviation industry and led an initiative to develop best practices in the economic treatment of international business aviation operations in the Asia Pacific Economic Cooperation (APEC) forum. Many countries are just beginning to consider regulatory approaches to the sector, and so the work we are undertaking, in close cooperation with private industry, will provide for a much-needed foundation of principles on which to build.

This year, the APEC Transportation Ministers endorsed a final set of best practices at the 8th APEC Transportation Ministerial in Tokyo in September of this year. This understanding ensures that, as APEC Economies consider regulatory frameworks for business aviation, they do so in a way that is compatible with one another and with international best practice, and in a manner that does not stifle the flexibility that is business aviation's primary comparative advantage.

One of the most difficult challenges facing U.S. aviation, and its ability to compete around the world, is the need to develop a future workforce with the technical training and creative ability to carry this industry well into the 21st Century. We are working together with industry stakeholders and educators around the nation helping to prepare this future workforce. In addition to participating in the Obama Administration's larger efforts to support Science, Technology, Education, and Math education, we are engaged in targeted efforts to address the future employment needs of the U.S. industry. For example, we are working with industry and labor to better understand the challenges of recruiting, training, and retaining workers.

In 2012, our Research and Innovative Technology Administration developed an analytical foundation for workforce issues and proposed a national, cross-modal approach at the National Transportation Workforce Summit in April 2012. Recently, we created a new web portal on *dot.gov* that makes it easier for veterans to enter the civil aviation workforce. FAA already has rules in place to facilitate certification of skilled veterans as rated pilots, aircraft maintainers, and air traffic controllers. Through the web portal, we hope to accelerate this process and assist in transitioning a pool of existing trained workers into the aviation field. We are also working to address shortages in skilled labor by trying to interest talented young people in joining the aviation field. Earlier this year, FAA launched the “Walk in Your Boots” program, which pairs high school students with FAA-certificated professionals at major aviation and aerospace companies. The goal is to educate young people about aircraft maintenance, avionics and engineering.

Conclusion

It is clear that growth in international markets has already become, and will remain, a focus of the U.S. aviation industry. Global markets afford U.S. firms the potential for expansion and profitability, as well as offering consumers enhanced competition and increased options. But there will be challenges as firms from around the world seek to take advantage of the same opportunities. We are committed to working with the Members of this Committee and all of our aviation stakeholders to help foster the international competitiveness of U.S. aviation. In the meantime, I can assure you that we will continue our focus on opening markets, on advancing new commercial opportunities and on creating economic conditions that allow our aviation industry and its employees to thrive in the global marketplace.

Chairman LoBiondo, this concludes my testimony. I would be happy to answer any questions you may have.