United States House of Representatives
Committee on Transportation and Infrastructure

Panel on 21st Century Freight Transportation

"How Freight Transportation Challenges in Urban Areas Impact the Nation"

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Testimony of William J. Flynn, President and Chief Executive Officer

Atlas Air Worldwide Holdings, Inc.

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Chairman Duncan, Ranking Member Nadler, and Members of the Committee's Panel on 21st Century Freight Transportation, on behalf of Atlas Air Worldwide Holdings, Inc. and the more than 2000 employees of our U.S. airline operating subsidiaries, Atlas Air, Inc. and Polar Air Cargo Worldwide, Inc. (collectively "Atlas"), I want to thank you for the opportunity to testify before you today. I commend the Committee for reviewing the challenges facing the nation's freight transportation network and how improvements might be made to meet the growing demands of our economy, create jobs, and improve the quality of life in America. The focus on the challenges facing freight transportation in urban areas is especially significant. According to the 2010 Census, the nation's urban population increased by 12.1 percent from 2000 to 2010, outpacing the nation's overall growth rate of 9.7 percent for the same period. In 2010, urban areas accounted for 80.7 percent of the U.S. population.

I am testifying today as President and CEO of the world's largest operator of the Boeing 747 cargo freighter. The all-cargo industry is a primary driver of a worldwide economy that demands the efficient, time-definite transportation of a wide range of products. My over 30 years of experience in the transportation industry (sea, rail, and air) have shown me why it is critical to work together to transform our current freight transportation system into an efficient intermodal network that adds value to each mode while capturing the available efficiencies for our nation. Our efforts must include a common commitment to meeting the highest standards of safety and security while protecting, and preserving the environment.

Background on Atlas

Through its airline subsidiaries, Atlas is the world's largest operator of Boeing 747 freighter aircrafts. It is one of two major U.S. airlines with headquarters in the State of New York and based operationally at John F. Kennedy International Airport. It is now celebrating its 20th year in business.

Atlas's primary business is to provide Aircraft, Crew, Maintenance, and Insurance (ACMI) services. We enter into what essentially are "take-or-pay" contracts to operate aircraft for the world's leading freight consolidators and other air carriers to enable them to access modern, fuel-efficient aircraft that would be expensive and inefficient to acquire, crew and operate on their own. Using ACMI services also allows our customers to avoid hiring and training additional crew and staff.

Our operating fleet consists of 33 Boeing 747F freighters, including 9 of Boeing's newest 747-8F long range freighters which represents a $1.5 billion investment. We also operate 18 other modern aircraft, including 747-400 and 767 aircraft supporting the U.S. Department of Defense, FedEx, UPS, and several other commercial customers. In addition, we provide aircraft and U.S. flight crews to other major international airlines, including British Airways, Qantas, and Etihad.

In 2012, Atlas flew to 113 countries and 361 airports, safely flying approximately 153,000 hours to every region of the world including Afghanistan. We conduct frequent daily flights to major U.S. airports including New York, Miami, Cincinnati, Los Angeles, Chicago, and Anchorage, plus all major international airports. The intermodal aspects of these freight movements are illustrative of the focus of this hearing.

Constraints on Freight Transportation

A vibrant U.S. airline and air freight industry is critical to U.S. economic growth and global competitiveness. Because of its vast geography and spaced out population centers, the U.S. economy depends on air transportation more than most other national economies. Commercial aviation empowers more than $1 trillion in U.S. economic activity and more than 10 million U.S. jobs.[1] In 2012 alone, U.S. cargo carriers moved 17.7 million tons of cargo, all of which had to be transferred to another mode of delivery before it reached its final destination.[2]

However, in conducting frequently daily flights to and from major U.S. airports, Atlas has faced a number of freight transportation challenges, particularly in urban transportation hubs. I would characterize these challenges as constraints that hinder the ability of Atlas and other freight and cargo providers to efficiently and effectively transport freight. These constraints fall into three categories: (1) physical, (2) informational, and (3) financial.

The physical constraints on freight transportation include restrictions relating to airspace and airports, including taxiways, runways, our aircrafts, and the air traffic control system. In addition, there are informational constraints on our ability to track customers' cargo, plan safe routes for our flights, obtain dangerous goods permits, and other regulations and policies. There are also financial constraints on the financial processes, accounts, tools, and staff needed to support our business operations and investments.

My testimony highlights examples of the constraints on business Atlas has experienced, and offer suggestions for alleviating these constraints in order to improve freight transportation efficiency and safety.

Physical Constraints

One of the great physical constraints Atlas has experienced is congestion in major urban transportation hubs, which is exemplified by New York/New Jersey (NJ/NJ metroplex), the most congested and complex U.S. intermodal hub. By supporting the transportation needs of over 20 million people, NY/NJ has highly congested road, rail, air, and port facilities. From an air cargo perspective, air traffic delays in NY/NJ have a profound ripple effect on the entire national and international air traffic network, and cost consumers and operators hundreds of millions of dollars every year in lost productivity, not to mention frustration on the part of all stakeholders and citizens. A 2012 study by MITRE's Center for Advanced Aviation System Development showed:

- Air delays are heavily concentrated in the New York area:
    - 40 – 50% of the National Airspace ground delays occur in New York
    - 59% of NY/PHL flights depart on time, compared to the national average of 73%
- New York airspace is <u>heavily used</u>:

[1] Airlines for America, The Case for a National Airline Policy, http://www.airlines.org/Pages/The-Case-for-a-National-Airline-Policy.aspx (Nov. 2012).
[2] *See supra* Airlines for America, National Airline Policy, n. 1.

- 33% of all U.S. flights are directly affected by delays in NY/PHL[3]
- 20% of all flight plans transit New York airspace
- 18% of U.S. international operations transit New York hubs

As the MITRE data show, the existing intermodal network is outdated and in desperate need of modernization. Although Atlas has worked with regional transportation agencies and governments to ensure safety and security of our transportation infrastructure and operations, the outdated freight transportation network leads to severe congestion that substantially hinders the ability of Atlas to stay true to its "just in time" business model of speedily delivering freight domestically and internationally. Cincinnati is an appealing urban transportation hub because this cargo-friendly airport was built specifically to expedite intermodal freight movement. Like Louisville and Memphis, intermodal solutions developed by intermodal stakeholders in conjunction with airport authorities and the FAA have helped reduce congestion.

Unquestionably, more needs to be done to modernize the intermodal network and American urban transportation hubs. We also need a modern air traffic control system that incorporates modern technology and controller training to improve airport and airspace efficiency promptly.

Atlas strongly supports the Federal Aviation Administration's (FAA) NextGen initiative which is focused on improving efficiency using existing modern technology and controller training to reduce airport and airspace inefficiencies. NextGen also has the added benefit of reducing the industry's carbon footprint, thereby positively impacting the environment.

There is no reason to prolong implementation of NextGen. Atlas and many airlines already have the ability to secure the equipment and utilize procedures necessary for NextGen. While Atlas supports full implementation of NextGen and related funding, we hope the U.S. government will focus in the near term on aspects, such as performance-based navigation, which do not require the development of new technologies or substantial monetary investment by the nation or its airlines but do require regulatory approval of new procedures. In order to accomplish this, we need effective leadership, which the Committee can help provide.

In recent testimony before the Subcommittee on Aviation, the Inspector General of the U.S. Department of Transportation supported this approach and called on the FAA to complete its planning and implementation of the necessary flight navigational procedures. Atlas looks forward to the time when the industry will be able to use performance-based navigation to reduce flight delays, save fuel and help conserve the environment.

At the same time, it is important to ensure that regulations designed to reduce air space congestion are not developed and applied arbitrarily. I understand that the FAA is in the process of drafting a proposal to rework the slot control and assignment system for NY/NJ airspace. My hope is that the proposal will fully recognize the air cargo business model and its reliance on nighttime flying.

[3] *See also* USA Today, *NYC Airports Bet on New Taxiways to Ease Traffic*, http://www.usatoday.com/story/todayinthesky/2012/11/16/new-york-jfk-laguardia/1709241/q, (Nov. 16, 2012).

Informational Constraints

As for informational constraints, a key concern of that of inefficiencies with the U.S. Customs and Border Protection procedures. Although there is no question that this process is necessary and an integral part of this nation's safety and security, existing technology and applications can be used to streamline its cargo processing and documentation. Atlas and our global customers depend on an efficient and modern Air Traffic Control and Airport system to facilitate on-time arrival, departure, and processing of our aircraft, aircrews, and cargo. While Atlas commends the Port Authority of New York and New Jersey and the many agencies and actors for their hard work in helping facilitate the safe, secure, and timely movement of cargo and passengers 24/7 in the NY/NJ metroplex, more needs to be done to improve customs and border protection policies, particularly relating to cargo clearance.

Atlas strongly endorses the TSA's Risk-Based Approach to Transportation Security, which attempts to address existing inefficiencies. At several congressional hearings, TSA Administrator John S. Pistole has testified that the agency's existing security measures create a multi-layered system of transportation security that mitigates risk. We fully agree that using a risk-based approach is not only the right way to address cargo security; it is also the *only* effective way to address cargo security. It is imperative that cargo processing and documentation be streamlined to enhance productivity, while also ensuring that security threats are quickly and adequately identified and addressed.

The importance of good intelligence in identifying high-risk shipments cannot be overstated. It is crucial in enabling companies such as Atlas to target potentially dangerous shipments. To be effective, however, we must find better ways to communicate such intelligence to those in the air cargo supply chain. If there was any doubt about the role of effective intelligence, that doubt should have been erased by the events of October 28, 2010, when the dissemination of intelligence led to the interception of explosive devices on all-cargo aircraft originating in Yemen and ultimately bound for the United States. The Office of the Director of National Intelligence is already implementing an aggressive program to improve communication between key government and industry players to ensure we receive the information we need to help keep our industry safe from another terrorist event.

In conjunction with both TSA and CBP, industry members are well on their way to fully implementing the Air Cargo Advance Screening program, which is designed to provide as much shipment information as possible to the government for purposes of targeting potential anomalies. We expect this program to be fully functional by next year, allowing millions of tons of freight to move unimpeded while identifying "at risk cargo" that poses a threat to our companies and our country.

At the same time, security concerns, which Atlas takes very seriously, must be balanced with efficiency and permitting the free flow of goods that do not pose security threats. To accomplish this, TSA is in the process of developing a "Trusted Shipper" concept that would recognize that certain repeat shippers may possess less of a threat than the occasional single shipper. In the case of Atlas, upwards of 90% of non-express cargo exported from Asia arriving in the major urban areas comes from repeat, reputable customers in the high-tech arena, such as Apple and Samsung.

Cooperation remains key to the success of customs and border protection procedures. Supply chain security can be effective only if the industry and local, state, and national government work together to identify both problems and solutions. Atlas applauds TSA Administrator Pistole's commitment to work

collaboratively with the stakeholder community to develop the programs necessary to enhance security across the transportation system. To his credit, the Administrator has made good on his promise to engage the industry in formulating key security policy. This cooperation, including the understanding of the operationally unique characteristics of the various industry segments, has resulted in the best possible security regime. It is vital that this level of cooperation continue.

Financial Constraints

Modernizing our public and private national aviation network, including the air traffic control systems, is critical to a growing U.S. economy and job creation. As it is, the U.S. freight transportation system creates economic value measurable in the trillions of dollars. Modernization will be costly. Developing a fair and equitable means for financing the necessary investment must be a priority.

The Federal government must do its part to provide public funding of essential physical and regulatory infrastructure. As Congress and the President address the nation's overall fiscal situation, they must provide a stable, secure means of financing vital Federal investment. While I recognize that the current budgetary climate places constraints on what may be possible, this Committee can play an important role in focusing attention on the benefits that appropriate funding will provide.

In addressing the financing issue, it will be important for policymakers to not adopt tax policies that contribute to industry instability, and instead adopt policies that rationalize the industry's tax and regulatory burden, restore and enhance U.S. airline viability, and enable airlines to increase air service, expand global competitiveness, create jobs, and boost economic growth.

Suggestions to Improve Freight Transportation Efficiency and Safety

To address the constraints I have detailed, I offer three recommendations for the Committee to consider:

1. **Establish a Comprehensive National Transportation Policy Covering All Modes of Transportation:** Establishing transportation as a national priority and securing the support of both public and private stakeholders is imperative. Atlas urges the Committee to prepare and adopt a comprehensive policy that addresses all modes of transportation—air, sea, rail, and road—as well as infrastructure. This policy should ensure that there is significant collaboration among government and industry in all aspects of transportation. To succeed, this policy would require the support and commitment of the President, Congress, state and local governments, and all levels of industry. The National Interstate and Defense Highways Act (Public Law No. 84-627),enacted on June 29, 1956 under President Eisenhower, provides a useful template.

2. **Ensure Prompt and Effective Implementation of NextGen:** Atlas urges the Committee to recommend that the Aviation subcommittee continue to oversee the FAA to ensure that NextGen program milestones are timely met and spending limits are enforced. Such oversight can also help guarantee that FAA corrects the deficiencies and shortfalls detailed in the U.S. Department of Transportation (DOT) Inspector General's report dated July 17, 2013. Because collaboration is key to NextGen's success, Atlas also encourages the Committee to urge DOT to increase dialogue and interaction with the transportation industry and private stakeholders.

Such cooperation can help ensure that NextGen improves all modes of freight transportation. In addition, Atlas hopes the Committee will direct the FAA to accelerate implementation of near-term NextGen capabilities and processes at major urban transportation hubs. Doing so would enhance traffic and freight flow, while reducing fuel consumption and negative environmental impacts.

3. **Continue to Oversee Freight Transportation Improvements and Developments**: Atlas encourages the Committee to continue to hold periodic oversight hearings focused on freight transportation to assess the progress that has been and needs to be made. As TSA Administrator Pistole has explained and exemplified, increased communication and information sharing between government and industry will pay big dividends and help us improve freight transportation processes and business practices.

Conclusion

Although we cannot create a new freight transportation system from scratch as many emerging nations are doing, we have the leadership and intellect to reform our existing system and infrastructure. Doing so will require continued, committed leadership, national will, strategic planning, wise investment, and teamwork from both the government and industry.

By holding this hearing to better understand the challenges and impact of freight transportation in urban areas, the Committee has taken a critical first step in the process of developing and committing this nation to adopting feasible freight transportation solutions.

I firmly believe this issue should rank as one of America's vital national interests. If we are to remain the world's leader and economic engine, we must take charge of our destiny by making a national commitment to improve the nation's freight transportation.

I and my Atlas Air Worldwide Team stand ready to work with the Committee and find solutions to move forward. I look forward to answering your questions.