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As I was thinking about what to say today, I had to wrestle with the fact that the airline industry and TSA have a complex relationship that, overall, is highly cooperative and based on shared goals; yet at times is marked by sharp disagreement. Like most family squabbles, our disagreements tend to be about money… or the way to achieve an objective – not about the objective itself. That is important and from time-to-time something to be remembered. Also important from our perspective is that all of you - our colleagues at TSA and other agencies - are professionals. We are able to separate the disagreements from the important work that we do together in furtherance of protecting the flying public.

As a consequence, we have ongoing partnership activities that enhance aviation security and ease travel for the public. Pre-check is a great example, as is the Known Crewmember Program. The airlines work closely with TSA and CBP in many other ways on a daily basis, all of which supports our shared objectives of safe and secure air transportation. And for that we thank you.

The importance of our shared objectives was underscored for me recently by DHS Secretary Johnson. I was privileged to be appointed to the US Travel and Tourism Advisory Board, a federal advisory committee established by Commerce Secretary Pritzker to assist her efforts to increase foreign visitors to the United States. At our first meeting a few weeks ago, Secretary Pritzker and Secretary Johnson dialed into the meeting to tell the Board about their commitment to three principles to guide their joint efforts:

1. Security and trade are mutually reinforcing - Promoting the secure and legitimate flow of goods and people, and preventing the illegal movement of people and goods that pose a potential threat, is good for the economy and security.
2. The private sector is a crucial partner in the two Departments' shared goals of security and economic competitiveness - Government programs and policies that affect the private sector are more effective when designed in collaboration with affected stakeholders – and better executed when they appropriately tap market forces to encourage private investment in public goods.
3. The public deserves good service from its government - Competent, efficient and responsive service must be a priority in all programs that involve direct interaction with the public. Good service facilitates compliance with laws and regulations, eases burdens on people and businesses, enhances the value provided to our nation and promotes trust in government.

These three principles will guide DHS and Commerce as they work together with industry to grow travel and tourism to the United States. But they also are a powerful foundation for TSA and industry to work together – they articulate in a new and fresh way the principles that guide our own collaborative efforts.

Why are these principles important and why should you care? This brings me to what I want to talk about today – the importance of a financially healthy US airline industry and the challenges we face realizing that objective.

The U.S. airline industry is a powerful engine to improve the well-being of America. Yet federal government policies have repeatedly throttled-back our industry. The government does not have a holistic policy perspective that enables the airline industry to thrive and thereby contribute as much as it can to the U.S. economy and U.S. employment. That shortcoming needs to be corrected. Government must remove the yoke of ever-rising taxes, fees and regulatory programs that curb U.S. airline growth.

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Overview

Let me give a little context. Despite starting 2014 with $71.9 billion in debt – following years of losses after 9/11 - U.S. airlines' recent modest financial progress has allowed them to accelerate investments in employees, products and technology to enhance the customer experience and to cope more effectively with operational impediments, such as extreme weather. In addition to capacity growth, airlines plan to invest an additional $11 - 12 billion in 2014 in such areas as new aircraft, spare engines, seating, airport terminal and lounge improvements, mobile technology, in-flight entertainment and Wi-Fi, and baggage systems.

U.S. airline workers also have benefited from improving airline finances, through enhanced job security and higher wages and benefits. Enhanced employee well-being is one of the most important outcomes of the industry's modest improvement.

Despite these tangible commitments, non-investment-grade balance sheets continue to burden most airlines. The passenger airline industry remains a low-margin business, significantly lagging Standard & Poor's average net profitability - 7.9 percent net margin for passenger airlines in 2013 compared to the S&P 500 average net margin of 10.4 percent. The airlines' first quarter 2014 net margin was a paltry 1.1 percent. One culprit is that airlines remain highly susceptible to volatile jet fuel prices. Jet fuel costs in 2013 exceeded $50 billion for the third straight year despite improved fuel efficiency.

Basic Considerations

So, what can government do? An effective U.S. Government airline policy should be based on four fundamental considerations

First, there must be a recognition that the U.S. airline industry is indispensable to our nation and its economy. What that means, of course, is that the healthier our industry is, the more that we contribute to the prosperity of America.

To place this in some context, the FAA estimated that, in 2009, civil aviation supported more than 10 million jobs, contributed $1.3 trillion in total economic activity and accounted for 5.2 percent of total U.S. Gross Domestic Product. Civil aviation in general, and the airline industry in particular, are thus central to the U.S. economy.

An important element of this economic contribution is international trade and tourism. The Department of Commerce has reported that international visitor spending in the United States totaled $180.7 billion in 2013. Air travelers journeying to and from the United States reached a record 185.4 million in 2013. Non-U.S. citizens represented 5.1 percent of year-over-year growth, compared with just 3.6 percent growth in U.S. citizen international travel.

The value of international air cargo transportation likewise is significant. The United States traded a record $940 billion of merchandise by air last year, much of it in high-value items, including $431 billion in exports.

Second, embrace profitability - there is nothing sinful about it. Profitability directly benefits employees, customers and the businesses from which we buy goods and services. This is the simple reality. Airlines are now in the position to reduce debt, invest in staffing and training, purchase new aircraft and better meet customer demand by offering new and improved products, destinations and seats. As JP Morgan airline equity analyst Jamie Baker recently observed, "With airlines in the U.S. now generating acceptable returns, their ability to reinvest in their product has been greatly enhanced."

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Perhaps most important, profitably means more stability and better remuneration for our employees. Over the last three years, employment levels at U.S. passenger airlines have stabilized while wages and benefits have risen substantially.

In harsh contrast, the last decade was brutal for airline employment. The number of full-time equivalent employees at U.S. passenger airlines declined 27-percent between 2000 and 2010, and only recently has it begun to trend upward again. With the recovering financial health of the industry, average employee compensation per FTE rose from $85,372 in 2010 to an estimated $93,856 in 2013. That 10 percent increase is a concrete example of the benefit of profitability.

Third, the marketplace is the best guarantor of consumer welfare. The passenger or shipper will reward or punish the airline based on the price and quality of service it offers. That is how it should be. What we don't want is to have someone who is not in the arena turning the dials and deciding our fate by imposing uneconomic regulations that look an awful lot like the price and service regulations rejected by Congress.

Fourth, where the federal government has the responsibility to provide services related to air transportation, such as customs and air traffic control functions, it must meet the demand for those services and do so efficiently - as Secretaries Pritzker and Johnson have recognized. This means that CBP should not construct new preclearance facilities overseas. Instead, it should concentrate on assuring improved service at U.S. airports of entry. Congress should also recognize this imperative legislatively. Similarly, the FAA should concentrate on exploiting proven, available technology to improve air traffic procedures so that airlines can leverage their investments in existing equipment.

The Government's ATM Culture: The Relentless Rise in the Burden of Taxes and Fees

Let's take a quick look at taxes. The federal aviation tax burden rose 30 times from 1972 to 2013, hindering the industry's ability to grow and facilitate growth and job creation in the broader economy. Unhappily, we have become regarded as the "go-to guy" for financing the federal government.

This problem was illustrated in December in the congressional budget deal, which changed TSA security fees from $2.50 per leg of a connecting flight to a flat $5.60 each way. This increase will generate an estimated $12.6 billion over the next decade, which the legislation says will be deposited in the general government fund with no incremental benefit to air travelers. And this is before we take into account the TSA's construction of that language, with which we disagree, eliminating the one-way cap.

Unfortunately, the Administration's fiscal year 2015 budget proposal reinforces the view that we remain the "go-to-guy" by increasing taxes and fees another $4.2 billion annually. The FY 2015 budget proposal has four alarming elements:

First, the White House is proposing to increase the TSA aviation security fee from $5.60 per one-way trip to $6.00, which would cost airline passengers more than $217 million per year. And, the White House proposes to reinstate ASIF, which would cost the industry an additional $420 million annually.

Second, the budget proposal would create an 18th unique tax on aviation – a mandatory $100 charge for every aircraft departure, costing the U.S. aviation industry another $1 billion annually.

Third, the budget proposal would raise the Passenger Facility Charge cap from $4.50 per flight segment to $8, which would cost passengers an additional $2.2 billion annually.

Fourth, the budget proposal would increase the customs user fee from $5.50 to $7.50, and the immigration fee from $7 to $9, further increasing the passenger's overall aviation tax burden by $318 million annually.

The astonishing bottom line is that the Administration's proposal would increase taxes and fees on a typical $300 one-stop domestic round-trip ticket from $62.98 to $76.75. That is 25.6 percent of the $300 ticket cost.

The Administration's proposal ignores the fact that air travel is often discretionary; higher costs count when consumers make the decision to fly or stay home, or to ship an item. The elasticity in demand for air travel is well documented. In 2012, the GAO found that a 1 percent increase in the cost of an airline ticket (including taxes and fees) would result in a 1.12 percent reduction in the quantity of tickets sold. That unmistakably implies that further increases in government-imposed taxes and fees will dampen demand, reduce airline revenue and diminish overall U.S. economic activity.

The International Landscape

Another significant factor not to be overlooked is that the international aviation landscape has been shifting dramatically. It is clear now that the days of North American and European domination of air transportation are long gone.

Governments in key countries have recognized the critical role that global air traffic will play in future economic development. They have created clear, strategic national aviation plans to develop integrated aviation eco-systems that are very effective vehicles for national economic growth.

These aviation "ecosystems," consisting of airlines, airports, airport concessions (e.g., duty free shops), ground services, maintenance, aircraft leasing, aircraft financing and aviation policy-maker authorities, work under a single government umbrella to serve a unified goal and purpose: drive overall economic growth.

Fast-growing international airlines, such as the Middle East and Chinese carriers, have emerged as top airlines in terms of revenue and capacity. For example, rapid growth in the last decade has caused the Middle East carriers' share of all international capacity to increase from 2 percent in 2002 to 11 percent in 2012. On the other hand, the U.S. carriers' share of capacity decreased from 14 percent to 11 percent in the same period.

These foreign-flag carriers benefit from smart, forward-looking government strategies to stimulate passenger growth by setting low airport fees, low corporate taxes and minimal passenger-related fees and taxes. These decisions generate significant economic benefits to the host countries as traffic increases dramatically. Moreover, some of these carriers have structural business model advantages such as low labor costs and relaxed labor regulations. These benefits combine to create low-cost and resilient business models.

These dynamics have several noteworthy implications.

First, they highlight how critical government policy is in the development – or stagnation - of air transportation.

Second, at the core of the policies is a recognition that a vibrant airline industry inevitably and significantly promotes overall economic development.

Third, given the promotional role of some foreign governments, the U.S. Government must make clear to civil aviation authorities in other countries that a basic tenet of U.S. aviation policy is the maintenance of fair competition.

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We are not suggesting that the U.S. Government adopt all of the policies of the governments that oversee rapidly expanding foreign-flag airlines. However, we firmly believe that the existence of such policies means that the United States must develop a coherent National Airline Policy that enables us to respond with maximum effectiveness to our foreign-flag competitors.

In closing, let me observe that over the arc of its existence, TSA has evolved considerably, as has the airline industry. Unlike the early years, today we are fully invested in risk-based security and - to echo Secretary Johnson - have shared goals for designing and executing policies and programs that effectively and efficiently promote the secure and legitimate flow of goods and people. In the larger picture, we need Congress to recognize and embrace the value of the U.S. airline industry to our country's economic well-being and establish a National Airline Policy. U.S. airlines continue to demonstrate that the flying public, employees, investors and the U.S. economy all are vastly better off with a financially strong U.S. airline industry. It is with such financial health that we will be able to compete effectively on the global stage. The government – Congress and our regulating agencies – must unshackle us from exorbitant taxes and fees, and unnecessary regulations.

Thank you.