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Testimony

STATEMENT OF
AIRLINES FOR AMERICA®
BEFORE THE
SUBCOMMITTEE ON AVIATION OPERATIONS, SAFETY, AND SECURITY
OF THE
SENATE COMMERCE, SCIENCE AND TRANSPORTATION COMMITTEE

THE U.S. AVIATION INDUSTRY AND JOBS: KEEPING AMERICAN MANUFACTURING COMPETITIVE

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The U.S. airline industry is a powerful engine to improve the well-being of America and Americans. Yet, federal government policies have repeatedly throttled-back our industry. That must change.

The U.S. airline industry has been extraordinarily successful in fulfilling Congress' mandates that safety be maintained as the highest priority and that maximum reliance should be placed on market forces in providing our services. In doing so, our industry has shown remarkable adaptiveness and resilience. We have experienced seismic events – first, deregulation and, more recently, the wrenching aftermath of 9/11 – and persevered. Since 2001, U.S. airlines lost over $55 billion. Our perseverance, however, has been rewarded and is paying off for our customers. We've now bounced back from the upheaval that the airline industry experienced in the first decade of this century, albeit with significant levels of debt remaining on our balance sheets.

It is a stunning accomplishment. Because of it, we should be looking at a brighter future, yet it is far from that. We continue to suffer from government policies that exhibit indifference and, often, outright hostility to our industry and, by implication, our employees, customers, the communities that we serve and the aviation manufacturers upon which we rely.

Overview

Commercial air travel remains one of the best bargains in America, especially given its superior speed and price versus other means of travel.

Despite starting 2014 with $71.5 billion in debt, U.S. airlines' modest but encouraging 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, and the continuation of stable employment and rising wages, airlines plan to invest an additional $11 billion -12 billion in 2014. Investments will be made in such areas as new aircraft, spare engines, larger overhead bins, premium seating, airport terminal and lounge improvements, ground equipment, mobile technology, customer kiosks, in-flight entertainment, and Wi-Fi, and baggage handling.

Despite these tangible commitments, non-investment-grade balance sheets continue to burden most airlines. The airline industry remains a low-margin business, significantly lagging (Standard & Poor's) average net profitability (7.9 percent of revenues for airlines versus 10.4 percent of revenues for the S&P 500 in 2013). Moreover, airlines –as ever -- remain highly susceptible to volatile jet fuel prices. Jet fuel costs in 2013 exceeded $50 billion for the third straight year.

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

The carriers 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 that can cover its full costs over an entire business cycle and attract investments. It is with such financial health that we will be able to compete effectively on the global stage. In other words, we need sustained, meaningful profitability.

Despite all of the above, the federal government does not have a holistic perspective that encourages government policies that enable 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. We are not asking the government to put its thumb on the scale. Instead, we are asking it to remove the yoke of ever-rising taxes and fees, and regulatory programs that neither benefit the consumer nor the airline and thus curb U.S. economic growth.

Basic Considerations

An effective U.S. Government aviation 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 Federal Aviation Administration (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. Air travelers journeying to and from the United States reached a record 185.4 million in 2013. Significantly, non U.S. citizens represented 5.1 percent of year-over-year growth, compared with 3.6 percent growth in U.S. citizen international travel. The Department of Commerce has reported that international visitor spending in the United States totaled $180.7 billion in 2013. U.S. airline receipts totaled $41.2 billion of that sum.

The value of international air cargo transportation is similarly 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. The value of a kilogram exported by air was 129 times the value of a kilogram transported by sea.

These examples illustrate the need to scrutinize legislative and regulatory initiatives to assure that they do not wrongly inhibit U.S. airlines' ability to deliver air transportation services efficiently and economically. Taxes and fees, as well as unnecessary regulations, impose a hefty, ongoing drag on airlines and consequently their ability to serve the public.

Second, there is nothing sinful about being profitable. Profitability directly benefits our 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." Most importantly, the recently improved finances have allowed the airlines to sustain more air service than would be possible under unprofitable or less profitable conditions.

Profitably also 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 from 520,600 in 2000 to 378,066 in 2010, a 27-percent decline. The FTE figure was 380,853 last year. With the recent recovering financial health of the industry, average employee compensation per FTE rose from $85,372 in 2010 to an estimated $93,856. 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. We're prepared to take our lumps. What we don't want is to have someone who is not in the arena turning the dials and deciding our fate.

Finally, 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. This means that Customs and Border Protection (CBP) should not be constructing 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 the investments they have already made in existing equipment.

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

The ever-rising federal aviation tax burden rose 30 times from 1972 to 2013, hindering the industry's ability to grow and facilitate broader economic growth and job creation, and putting it at a competitive disadvantage vis-à-vis our foreign airline competitors. Unhappily, airlines continue to be regarded as the "go-to guy" for financing the federal government.

This was illustrated in December in the congressional budget deal which changed Transportation Security Administration (TSA) security fees from $2.50 per leg of a connecting flight with a $5 per trip cap, to a flat $5.60 each way. This increase will generate an estimated $12.6 billion over the next decade, which the legislation says would be deposited in the general government fund with no incremental benefit to air travelers whatsoever. Thus, passengers were involuntarily and uniquely conscripted into the federal government's budget travails.

The Administration's fiscal year 2015 budget proposal starkly demonstrates that we remain the "go-to-guy." That dubious distinction would mean an increase in federal aviation taxes and fees of $4.2 billion annually. Left unsaid in it is the inevitable outcome if the Administration is successful: downward pressure on services and upward pressure on prices. This would not be a winning combination for air travelers and shippers.

More specifically, the FY 2015 budget proposal has four alarming elements.

First, the White House is proposing to increase the TSA aviation security tax from $5.60 per one way trip to $6.00, which would cost airline passengers more than $217 million per year. This comes on the heels, as noted above, of Congress increasing the tax to pay for deficit reduction. Moreover, despite the fact that Congress recently eliminated the TSA's Aviation Security Infrastructure Fee (ASIF), the White House proposes to reinstate ASIF, which would cost the industry $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 (PFC) 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 Department of Homeland Security's (DHS) customs fee from $5.50 to $7.50 and immigration fee paid by passengers from $7 to $9, further increasing their overall aviation tax burden by $318 million annually.

The astonishing bottom line is that if the Administration's proposed new, higher taxes and fees were enacted, the tax bite on a typical $300 one-stop domestic round-trip ticket would increase from $62.98, or 21 percent, to $76.75, or 25.6 percent. That would be a deplorable disregard of the consumer. The Administration's proposal also 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 in for air travel has been well documented. In 2012, the U.S. Government Accountability Office (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 would dampen demand, reduce airline revenue and diminish overall U.S. economic activity.

Congress should recognize the need to leverage commercial aviation – as a key enabler of job growth and U.S. economic activity rather than as a source of U.S. deficit reduction – by rejecting the White House's proposed aviation tax and fee increases.

The International Landscape

The international aviation landscape has been shifting dramatically; indeed, by all appearances, change is accelerating. One fact has been clear for some time: the days of North American and European domination of air transportation are long gone.

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

These aviation “ecosystems” consist of airlines, airports, airport concessions (e.g., duty free shops), ground services, maintenance, aircraft leasing, aircraft financing and aviation policy-maker authorities, that work under the same government umbrella to serve a common government goal and purpose: drive overall economic growth.

Strategic growth is being executed in different ways – organic growth through acquisition of aircraft and the utilization of sixth-and fifth-freedom rights, growth through equity investments in other airlines that open up access to new territories, or growth through industry consolidations backed by the governments.

Global airline traffic activity is shifting south and east in the world, with fast-growing international airlines, such as the Middle East and Chinese carriers emerging as top airlines in terms of revenue and capacity. For example, rapid growth in the last decade has resulted in Middle East carriers’ share of all international capacity increasing from 2 percent in 2002 to 11 percent in 2012, equaling U.S. widebody-operator carriers’ capacity, which decreased from 14 percent to 11 percent in the same period.

These foreign-flag carriers benefit from smart, forward-looking governmental 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 (e.g., ~36% lower average employee 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 of air transportation in these countries. Whether one agrees with the nature of the governmental involvement, there is a precise focus and abiding discipline exhibited in the execution of the policies.

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

Third, the shift to the south and the east will continue unabated. We are not witnessing a temporary phenomenon.

Fourth, given the role of some 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.

We are not suggesting that the U.S. Government adopt all of the policies of the governments that oversee rapidly expanding foreign-flag airlines. We, however, 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.

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We have demonstrated time and again that we have the wherewithal to compete effectively – domestically and internationally. Customers, airline employees, communities and businesses have been the beneficiaries of that ability. We need government's help, however. Not to tilt the playing field but unshackle us from exorbitant taxes, fees, and regulations that all-to-often are uncalled-for.