THE STATE OF AMERICAN AVIATION

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HEARING

BEFORE THE

SUBCOMMITTEE ON
AVIATION

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

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T&I COMMITTEE

CHAIRMAN BILL SHUSTER
113TH CONGRESS

December 6, 2013

SUMMARY OF SUBJECT MATTER

TO:	Members, Subcommittee on Aviation
FROM:	Staff, Subcommittee on Aviation
RE:	Subcommittee Hearing on "State of American Aviation"

PURPOSE

The Subcommittee on Aviation will meet on Thursday, December 12, 2013, at 10:00 a.m. in 2167 Rayburn House Office Building to review the state of American aviation. The Subcommittee will receive testimony on the economic health of American aviation, including impediments to growth, as well as issues or policy areas that should be considered in the next Federal Aviation Administration (FAA) reauthorization bill. The Subcommittee will receive testimony from representatives of the Department of Transportation (DOT), National Business Aviation Association (NBAA), American Association of Airport Executives (AAAE), Transportation Trades Department (TTD), General Aviation Manufacturers Association (GAMA), and Airlines for America (A4A).

American Aviation

The aviation industry is a vital sector of the United States economy. Commercial aviation is responsible for roughly five percent of our gross domestic product and contributes roughly ten million American jobs to our economy.[1] The aviation industry is comprised of different sectors, including commercial aviation, general aviation (GA), airports, and manufacturing. All of these sectors depend on a safe, efficient, and modern air traffic control system; a well-maintained and vast airport network; and efficient, effective, and economical regulatory processes.

[1] US Travel Association and the Eno Center for Transportation. "Addressing Future Capacity Needs in the U.S. Aviation System" pg. 4
http://www.ustravel.org/sites/default/files/page/2013/08/USTravel_Eno.pdf

The United States has roughly 19,700 airports providing important services to our aviation system, and in many communities they are key economic drivers.[2] According to the FAA's Air Traffic Organization, aviation currently helps transport millions of passengers and move billions in revenue ton-miles of freight safely and securely all across the country.[3] Even though the United States has had a negative trade balance since 1971 (minus $500 billion in 2009), civil aircraft engines, equipment, and parts had a $75 billion positive impact on the trade balance and were the top net exports in the past decade.[4] Such impacts are also seen state-by-state, where airports and air operators help connect large and small communities and create jobs and economic output.

Notwithstanding the positive impact the aviation industry has on the economy, until recently, the industry itself endured one of the worst economic downturns it has ever experienced. From 2001 through 2012, air carriers and operators struggled to stay profitable while faced with high fuel prices, reduced passenger traffic, increased global competition, and recessionary economies in the United States and Europe. In response, airlines reduced capacity and terminated services on unprofitable routes, which had subsequent effects on airports, as well as aircraft and engine manufacturing.

The FAA forecasts long term aviation growth, resulting in increased traffic and necessitating increased system capacity.[5] These forecasts emphasize the need to modernize the air traffic control system, a program known as NextGen, in order to safely address the need for increased capacity while benefitting the environment.

Commercial Aviation

Commercial aviation is a major part of our economy, transporting over 640 million passengers domestically and nine million passengers internationally[6] and moving over thirty seven billion revenue ton-miles of freight.[7] The industry supported 380,564 full time jobs as of August 2013, which is a decrease of 2.2 percent from August 2012.[8] The commercial airline industry had a net profit margin of four percent in the first nine months of 2013, resulting from increased operating revenues and lower fuel prices.[9] The FAA's future forecast for commercial airlines anticipates growth in domestic capacity and passenger traffic. The FAA anticipates overall passenger enplanements will rise one percent this year, and regional carrier capacity is expected to increase by one and one half percent from 2013 levels.

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[2] Department of Transportation Bureau of Transportation Statistics. http://www.rita.dot.gov/bts/sites/rita.dot.gov.bts/files/publications/national_transportation_statistics/html/table_01_03.html

[3] Economic Impact of Civil Aviation on the US economy, FAA Air Traffic Organization, August 2011.

[4] FAA Air Traffic Organization, "About Air Traffic Organization," *Available at:* http://www.faa.gov/about/office_org/headquarters_offices/ato/

[5] FAA Aerospace Forecast for Fiscal Years 2013-2023.

[6] Bureau of Transportation Statistics, Department of Transportation Fiscal Year 2012 data. http://www.rita.dot.gov/bts/press_releases/bts051_13

[7] FAA Air Traffic Organization, "About Air Traffic Organization," *Available at:* http://www.faa.gov/about/office_org/headquarters_offices/ato/

[8] Data provided by the Bureau of Transportation Statistics to Aviation Subcommittee Staff.

[9] Data provided by Airlines for American to the Aviation Subcommittee Staff.

The increase in passenger traffic has benefitted the Airport and Airway Trust Fund, which is funded through revenues from a series of taxes paid by national airspace system users and the General Fund. Specifically, the Trust Fund has increased seven percent from fiscal year 2012[10]. The Airport and Airway Trust Fund provides funding for critical infrastructure projects and FAA programs.

During the first six months of 2013, despite the challenges of weather and sequestration, domestic airlines' financial condition improved to achieving a two percent profit margin, or $1.6 billion, up from $1.2 billion during the same period in 2012.[11] According to airline industry representatives, this increase in profit margin is mostly due to a modest relief in fuel prices. At an average price of $3.17 per gallon with taxes, the cost of jet fuel declined by five percent from an all-time high in 2012.[12] While passenger demand is rebounding, airline industry representatives argue that the industry continues to face structural and policy challenges and global competition.

General Aviation

In the United States, general aviation (GA) contributes about $150 billion to the United States economy and supports roughly 1.2 million jobs.[13] GA represents a broad range of aviation activities, including business, recreation, agriculture, law enforcement, and disaster relief.[14] According to the FAA and the Aircraft Owners and Pilot Association (AOPA), GA aircraft carry 166 million passengers and fly over 24 million hours annually, with roughly sixty-six percent of those flights being flown for business purposes. These operations are primarily supported by a network of nearly 3,000 public-use general aviation airports, heliports, and seaplane bases, as well as several thousand private-use facilities.

GA has experienced a growth in its fleet from 220,670 aircraft in 2012 to 221,085 aircraft in 2013. However, the piston-engine aircraft fleet – by far the most widely used general aviation aircraft – has been steadily declining for more than a decade. Further, the number of active private pilots has been steadily declining, from 241,000 in 2003 to 188,000 in 2012. At the same time, there has been a decrease of roughly one percent in GA operations at FAA and contract air traffic control towers.[15] Given the contributions that GA makes to the aviation system and the United States economy, it is important that the concerns and challenges for general aviation are understood and addressed.

Airports

The United States has an extensive network of over 19,000 airports, made up of commercial and general aviation airports of varying sizes, providing numerous services and contributing to the safety of our aviation system. In the United States there are roughly 499

[10] Data provided by the FAA to the Aviation Subcommittee Staff.
[11] Airlines for America, "U.S. Airlines and the Quest to Reinvest" October 28, 2013; *Available at:* http://www.slideshare.net/a4amediarelations/a4-a-indy-review-12884873 .
[12] Airlines for America, "U.S. Airlines and the Quest to Reinvest" October 28, 2013.
[13] Data provided by the General Aviation Manufacturers Association (GAMA) to Aviation Subcommittee Staff.
[14] General aviation does not include scheduled commercial flights or military flights.
[15] Data provided by the FAA to Aviation Subcommittee staff.

commercial airports that provide scheduled air service to the traveling public,[16] and approximately 2,952 airports that are considered general aviation (GA) airports by the FAA.[17] This network of airports provides critical services to the American public.

Airports are the gateways to the United States aviation system, enabling millions of passengers to fly safely every day to their destinations. In fiscal year 2012, commercial airports enplaned over 740 million passengers. Commercial airports contributed $1.2 trillion to the United States economy and supplied 1.2 million jobs.[18] Many airports provide a crucial staging area to support disaster relief efforts whenever a community is in need. GA airports provide staging areas for law enforcement, national security, and aeromedical flight activities, as well as enable access to remote areas in the United States. They also act as a reliever airport should an aircraft need to land prior to its intended destination. The airports within the United States are key economic drivers that provide vital and necessary services to the American public.

Manufacturing

The United States is a world leader in aviation manufacturing. The Boeing Company is one of two major global manufacturers of twin-aisle and wide-body aircraft, and three of the six major GA manufacturers are based in the United States – Cessna, Hawker Beechcraft, and Gulfstream Aerospace. Aviation manufacturers are responsible for the design and production of aircraft, aircraft parts, and engines, as well as aviation systems.

American aviation manufacturing appears to be on the road to recovery. In fiscal year 2013, commercial manufacturing increased over thirteen percent even as the recovery from the economic downturn of the past few years continues.[19] GA manufacturing has increased by twenty four percent from 2012 due to the continued demand for intercontinental business jets and new airplane models.[20] However, the GA manufacturing sector suffered during the recession, with a decline in total shipments and orders, a reduction in manufacturing activity, and significant layoffs. For example, in 2012 worldwide shipments of GA aircraft totaled just 2,133 units, as compared to 4,272 units delivered in 2007.[21]

Small businesses have a central role in United States aviation manufacturing as well. In fact, eighty percent of the 1,300 companies that are members of the Aircraft Electronics Association are small businesses.[22] It is also worth noting that since 2008, Boeing has attributed roughly $20.6 billion in activity to small business suppliers across the company's initiatives.[23]

[16] Federal Aviation Administration "Report to Congress: National Plan for Integrated Airport Systems (NPIAS) 2013-2017." September 27, 2012. Web. http://www.faa.gov/airports/planning_capacity/npias/reports/media/2013/npias2013Narrative.pdf

[17] Federal Aviation Administration "General Aviation Airports: A National Asset" May 2012. Web. http://www.faa.gov/airports/planning_capacity/ga_study/media/2012AssetReport.pdf

[18] ACI-NA. "The Economic Impact of Commercial Airports in 2010" January 2012. Web. http://www.aci-na.org/sites/default/files/airport_economic_impact_report_2012.pdf

[19] Data provided by Aerospace Industries Association to Aviation Subcommittee staff.

[20] Id.

[21] General Aviation Manufacturers Association Statistical Data Book and Industry Outlook, 2012

[22] www.aea.net

[23] Boeing Small Business Fact Sheet 10-31-13.

Aviation Workforce

The aviation industry faces challenges in hiring and retaining skilled and qualified workers. Industry, and the FAA for that matter, is dealing with baby boomer retirements and the loss of years of experience. In 2011, over sixty percent of the United States aerospace workforce was 45 or older. By 2016, more thirty percent of the workforce will be eligible to retire.[24] Industry is seeking ways to ensure a future pool of eligible and qualified workers. Currently, companies invest heavily in training and apprenticeships. Aviation manufacturing requires highly-skilled workers. Without a pipeline of qualified workers, the United States leadership in aerospace manufacturing could suffer.

Conclusion

The United States aviation industry is a significant contributor to our economic growth. Given the millions of jobs and trillions of dollars to the United States' economy that the aviation industry contributes, the continued success of aviation is critical.

Witnesses:

Honorable Susan Kurland
Assistant Secretary for Aviation and International Affairs
Department of Transportation

Mr. Nicholas E. Calio
President and CEO
Airlines for America

Mr. Mark Brewer
Airport Director
Manchester-Boston Regional Airport
Chair,
American Association of Airport Executives

Mr. Peter Bunce
President and CEO
General Aviation Manufacturers Association

Mr. Edward M. Bolen
President and CEO
National Business Aviation Association

Mr. Edward Wytkind
President
Transportation Trades Department, AFL-CIO

[24] Airlines for America.

THE STATE OF AMERICAN AVIATION

THURSDAY, DECEMBER 12, 2013

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON AVIATION,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:02 a.m. in Room 2167, Rayburn House Office Building, Hon. Frank A. LoBiondo (Chairman of the subcommittee) presiding.

Mr. LOBIONDO. Good morning. The subcommittee will come to order. Today we are going to hear from representatives of the Department of Transportation and the various segments of the U.S. aviation industry—airports, airlines, labor, manufacturers, and general aviation—on the state of American aviation. This hearing is a good way to wind down the subcommittee's 2013 activities and begin to shift focus to the 2014 and the next FAA reauthorization bill.

The existing Federal aviation law, the FAA Modernization and Reform Act, was enacted after 5 years and 23 short-term extensions: a very painful period that many of us remember all too vividly. It created a stable-four framework for the FAA and industry stakeholders. The Reform Act also made important reforms to the aviation system and to the FAA, in order to increase efficiency and modernize the air traffic system. The goal was to maintain a safe, modern, and efficient civil aviation system now and into the future.

And, as I have said before, ensuring implementation of the Reform Act remains a top priority of the subcommittee. This includes all of the ongoing work at the FAA's technical center, the premier facility in the Nation, in my district, on important programs such as NextGen, unmanned aircraft systems, and critical FAA safety initiatives.

But along with ensuring implementation of the Reform Act, we must also begin to look ahead to the next one. It is an understatement to say that aviation is a key sector of the U.S. economy. Commercial aviation represents 5 percent of our gross domestic product, and roughly 10 million American jobs. General aviation contributes about $150 billion to the economy, and supports roughly 1.2 million jobs. Commercial airports support over 10 million jobs and create annual payrolls of $365 billion.

Clearly, a healthy and safe aviation industry is good for the economy. It is good for job creation. It is good for passengers, and it is good for all of the stakeholders. The FAA forecasts long-term aviation growth, resulting in increased air traffic. These forecasts highlight the need to modernize the air traffic control system, streamline certification and rulemaking processes, and ensure that the FAA is properly organized to oversee the NextGen program.

Additionally, foreign competition and ongoing funding challenges must also be addressed. We want to create an environment that allows for a healthy aviation industry, while making sure that the United States remains the gold standard of aviation, innovation, and safety in the world.

As Chairman Shuster indicated in his speech yesterday, in preparing for the NextGen FAA reauthorization bill we want to think big and hear from everyone. All ideas are welcome. All stakeholders should be coming to the table.

We are all working towards the same goals, a healthy and innovative aviation industry that remains the world's gold standard, a modern and efficient air traffic control system, and a productive and effectively organized Federal Aviation Administration. Therefore, we look forward to hearing from each of the witnesses today regarding how they believe American aviation is doing right now, as well as any impediments to growth and ideas for the next reauthorization bill.

Before we turn to our panel of witnesses, I ask unanimous consent that Members have 5 legislative days to revise and extend their remarks, including extraneous material for the record of this hearing.

[No response.]

Mr. LoBiondo. Without objection, so ordered.

And now I would like to turn to Mr. Larsen for any remarks you may have. Rick?

Mr. Larsen. Thank you, Chairman LoBiondo, and thank you for calling today's hearing on the state of American aviation. This hearing provides us with an opportunity to look back on 2013 and the challenges and successes that we have had in our first year as chair and ranking member of this subcommittee.

Without a doubt, it has been a tough year for aviation here, in Washington, DC. We started the year at odds over sequestration with our aviation system caught in the middle. In April, air traffic controller furloughs caused by sequestration led to flight delays, and Congress, in my view, raided the Airport Capital Improvement Grant program to put controllers back to work.

Then again, in October, the FAA was partially shut down for 16 days, and 12,000 FAA employees were furloughed. We have wasted countless hours planning the—we have forced FAA to waste countless hours planning the 2013 furloughs, planning for the sequester budget, and planning for shutdown.

So, we called this hearing to explore today's state of American aviation. Simply put, American aviation cannot afford the American Government to keep doing the business as we did it in 2013. We need a balanced and responsible solution for fiscal and budgetary issues that allows our aviation system to move forward.

Yet, Mr. Chairman, while we started this year under difficult circumstances, you and I have continued to work in a bipartisan way, as we have always worked. And we are ending this year with bipartisan accomplishments that I think that we ought to be proud of, and bode well for the work that we will be doing together over the next year-and-a-half on FAA reauthorization.

Now, looking forward, I think it is important to note that the force of globalization, and the growth of emerging international markets present both opportunities and challenges for American aviation. And we simply can't write a reauthorization bill for 2015 without taking a look at what is happening elsewhere in the world. According to the IMF, GDP in emerging economies is growing at approximately 6 percent a year, while in advanced economies GDP is growing at approximately only 2 percent.

Now, earlier this year, our own State's—my own State's Governor, Jay Inslee, asked me to attend the Paris Air Show in his stead. That event made something very crystal clear to me: the aviation industry is global, it is competitive, and there are new entrants in the market every day. What happens in Shanghai, Dubai, New Delhi, Moscow, and Buenos Aires, matters here, in the U.S.

As an example, the Chinese National Aviation Authority has indicated that traffic to, from, and within China increased 10.6 percent in 2012 alone. And over the next 20 years, the Boeing Company predicts China will need nearly 6,000 new airplanes. The emergence of new international markets is already having an impact on U.S. aviation. Manufacturers have to adjust their strategies to target new customers. In my own State, the aerospace industry is the largest exporting sector, by value, accounting for $27 billion of the State's $64 billion in exports in 2011.

U.S. airlines are drawing an increasing amount of the revenue from international flights. In 2000, U.S. airlines earned an average of 25 percent of their systemwide revenue from international services, and today it's about 40 percent. Congress and the administration must ensure that American aviation can compete effectively in a global marketplace while protecting and preserving a strong middle-class aviation workforce here at home.

And, together, we have taken important steps this year to enhance the global competitiveness of the industry. We passed H.R. 1848, the Small Airplane Revitalization Act of 2013, requiring the FAA to update its small airplane certification regulations. We have conducted important oversight hearings this year, examining the FAA certification process. And, based on these hearings, Mr. Chairman, you and I requested yesterday that the GAO undertake a comparative study of U.S. certification processes relative to our international trading partners. And if we can glean lessons from these international efforts, perhaps it will lead to a more efficient U.S. certification process, and we could apply these lessons.

But we also must maintain the highest level of safety in our process. We have asked the GAO to examine challenges faced by manufacturers when navigating foreign certification processes. We have a lot of work to do, Mr. Chairman, and I appreciate your focus on safety. Safety is a top priority of FAA, it is a top priority of mine. We need to maintain our focus on aviation safety, as was made clear in July, with the crash of Asiana flight 214. We have to learn from that tragedy, and do what we can to prevent something like that in the future.

One way to move forward on safety is with the finalization of rules for pilot training and experience. These represent significant safety improvements from lessons we learned from the fatal Colgan

Air crash. I am proud that we worked together with the families from that tragedy to put together stronger safety rules.

But, as always, there will continue to be work to be done to make sure our skies are safe. Where the aviation faces global challenges like climate change, these challenges should be addressed through international cooperation. That is why, last month, the bipartisan leadership of this committee sent a letter urging Secretary Foxx to hold U.S. carriers harmless from a proposed unilateral European Union Emissions Trading Scheme.

The United Nations International Civil Aviation Organization has set forth a multilateral process for developing a global approach to aviation emissions. The international community has spoken on this issue through the U.N., and the EU should be discouraged from going it alone.

Additionally, while the American aviation industry must benefit from the growth of global markets, it must also ensure that globalization doesn't harm the American aviation workforce. Earlier this year, the administration announced that the U.S. Trade Rep's office will attempt to negotiate a comprehensive Trans-Atlantic trade and investment partnership with the EU.

Now, historically, international air transport service agreements have been negotiated bilaterally by the State Department and by DOT, under the oversight of this subcommittee. And issues such as foreign ownership and control of U.S. airlines have implications that we need to consider. And the Departments of State and Transportation possess the necessary expertise to negotiate on behalf of the U.S. aviation industry and its employees on a bilateral basis.

Therefore, I don't believe that an air transport service agreement should be considered in the context of a comprehensive trade agreement negotiated by the USTR, but that we maintain the existing process.

So, we have a lot of challenges ahead of us for the aviation industry. We have a lot of opportunities ahead for the aviation industry, and I look forward to hearing from our witnesses today. And I thank you, Mr. Chairman, for the opportunity to offer an opening statement, and for this panel that we have today. Thank you.

Mr. LoBiondo. Thank you, Mr. Larsen. Before we get to our panel, I just want to take a moment of personal privilege.

If you have not noticed, you should have noticed, and you should realize that the working relationship that has been established by Mr. Shuster and Mr. Rahall is certainly evident in this committee. And what Rick Larsen is talking about is something that we have lived by for a number of years together.

Rick is a close working partner. But, more importantly, he is a good friend. And we have been focused on results. And we hope, while there is a great deal of dysfunction here in Washington in this particular arena, that we can demonstrate that we can be focused on results. And, again, we are taking our cue from our chairman, Mr. Shuster.

And, with that, we are pleased that you are here, Mr. Chairman.

Mr. Shuster. Well, thank you, Mr. Chairman. And, Mr. Larsen, thank you for working together, and that is a great message to send out. And not only in this committee, but on Water Resources and Development we have also been able to work together. And hopefully we are moving forward to getting a bill out of conference.

But, again, I thank everybody for being here. Thank you, Mr. Chairman, for holding this hearing.

Yesterday I had the opportunity to speak to the International Aviation Club in Washington. And my message was pretty simple, I think, that aviation is extremely important to the United States of America. It is the industry we invented, and it provides millions of jobs to Americans, it provides a trillion dollars to our economy. It is a system that is the best in the world. But there is no guarantee that we will continue that way, unless we make some changes to the system.

You look at our history, whether we were the leaders in textile manufacturing, steel, automobiles, electronics, today we are not a leader in any of those fields. And we have to make sure that in this particular industry, we continue to be the world leaders. And I think that the status quo is unacceptable. And, as I said yesterday, I think we need to come up with bold, innovative ideas to improve the system. And it starts with the industry and Congress listening.

And, as I mentioned, WRRDA, I think that will be the model as we move forward to the next FAA reauthorization, is having roundtables, having the stakeholders in, listening to their concerns, talking to Members of Congress. And it is important that you are talking to Members of Congress, because I can assure you there are Members of Congress that don't understand the aviation system in this country.

So, it is really important for stakeholders to sit down with Members of Congress and educate them. I think that went a long way in us being able to assemble a very large bipartisan vote on the water resources bill that we passed. But it is about listening to the ideas, taking them in, figuring out how we can work together.

And I do recognize that our system is unique in the world. We are the largest system in the world. We have more airports, we have more commercial and general aviation activity than anywhere in the world. But the ultimate goal, I think, is to look at the industry leaders around the world, whether it is what Canada is doing with their air traffic control system, or what the Europeans are doing with airports, what other countries are doing with certification programs for manufacturing of aircraft, how the Europeans do it much faster than we do. Compare ourselves to them, and take the best of what they offer, and put it into our system, all the while maintaining the safety that we have today, because we do have the safest system in the world.

And the next reauthorization bill shouldn't be my vision, it shouldn't be the Congress' vision. It needs to be the industry, it needs to be all of us working together to come up with the bold vision that benefits everybody.

Our ingenuity in America is second to none. I think we can do this, continue to have a more efficient, safe, and modern aviation system. But working together is, I think, the way we need to do it.

So, we have about 12 to 18 months to do this. And, as I said, this is going to be an educational first dialogue to identify the problems, come up with solutions, and then educate the American people and educate Members of Congress. And I can't stress enough to you how important it is to educate Members of Congress. Because those of us that serve—especially these gentlemen that serve on this subcommittee, they really have an indepth knowledge of the aviation system. But, you know, I learned some things the other day, when I was talking to some airline folks, that I didn't even realize were going on out there in the world.

So, if I don't realize it, I can guarantee you there is 435—or 535, I guess I should include the Senate—that don't have a deep understanding of what we are doing. And for us to continue to overregulate and overtax the industries that are in this room is something that I think is harmful, and we need to make sure we step back and take a hard look at that, as we move forward.

So, with that, I appreciate you having this hearing today, and I yield back.

Mr. LOBIONDO. Thank you, Mr. Shuster. We will now turn to our panel.

We are pleased today to welcome the Honorable Susan Kurland, the Assistant Secretary for Aviation and International Affairs for the Department of Transportation; Mr. Nicholas Calio, president and CEO of Airlines for America; Mr. Mark Brewer, airport director of the Manchester-Boston Regional Airport, and chair of the American Association of Airport Executives; Mr. Peter Bunce, who is president and CEO of General Aviation Manufacturers Association; Mr. Ed Bolen, who is president and CEO of the National Business Aviation Association; and Mr. Edward Wytkind, president of the Transportation Trades Department of the AFL–CIO.

Welcome to all our panelists. And Ms. Kurland, you are up. I don't think your mic is on.

TESTIMONY OF HON. SUSAN L. KURLAND, ASSISTANT SECRETARY FOR AVIATION AND INTERNATIONAL AFFAIRS, DEPARTMENT OF TRANSPORTATION; NICHOLAS E. CALIO, PRESIDENT AND CEO, AIRLINES FOR AMERICA; MARK BREWER, A.A.E., AIRPORT DIRECTOR, MANCHESTER-BOSTON REGIONAL AIRPORT, AND CHAIR, AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES; PETER J. BUNCE, PRESIDENT AND CEO, GENERAL AVIATION MANUFACTURERS ASSOCIATION; EDWARD M. BOLEN, PRESIDENT AND CEO, NATIONAL BUSINESS AVIATION ASSOCIATION; AND EDWARD WYTKIND, PRESIDENT, TRANSPORTATION TRADES DEPARTMENT, AFL–CIO

Ms. KURLAND. Thank you. Chairman Shuster, Chairman LoBiondo, Ranking Member Larsen, and members of the subcommittee, I appreciate the opportunity to appear before you today to discuss the state of American aviation as you begin to consider reauthorization, and to highlight ways in which the Department of Transportation works to create opportunities for the U.S. aviation industry to compete effectively in the global marketplace.

After a long period of restructuring, the U.S. airline industry has become profitable, despite long-term increases in fuel prices. For many airlines, a significant component of their formula to profitability has been to expand their international footprint. And we are also seeing low-cost carriers expand into international markets, as well.

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 home. This also benefits our airports, and contributes to the economic development in our communities.

The future competitiveness of the U.S. aviation industry will depend upon the availability of a safe, modern, and reliable infrastructure. FAA's NextGen program is a critical ongoing initiative to help enhance safety and efficiency by transforming our aviation infrastructure. NextGen technologies and procedures guide aircraft on more direct routes, improve communication, save fuel, and decrease delays.

The FAA also places a strong emphasis on preserving and expanding airport infrastructure. In fiscal year 2013, FAA provided more than $3 billion to airports of all sizes throughout the country.

The Department also works to foster an environment that enables U.S. companies to compete successfully in the rapidly changing global economy. Since President Obama launched the National Export Initiative in 2010, the U.S. has seen an increase of 1.3 million export-supported jobs. Secretary Foxx's appointment to 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. exported $39.5 billion in air travel services. And this includes 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 Obama administration, working together with the aviation industry, has achieved much success in removing barriers to market access.

Through the Open Skies Initiative, we have expanded commercial opportunities for U.S. airlines in international markets. The economic activity enabled by liberal air service agreements has produced tremendous benefits for U.S. travelers and shippers. We now have 111 Open Skies partners. Communities of all sizes benefit, either through new nonstop international services of their own, or through access to international markets via efficient domestic connections.

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

GA and business aviation sectors are also seeking to aggressive expand in international markets. And to address this growing demand, we have worked closely with NBAA and GAMA, and have led an initiative to develop best practices in the economic treatment of business aviation operations in the APEC region.

A difficult challenge facing U.S. aviation 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 as part of the Obama administration's larger efforts to support STEM education, but we are working with industry, labor, and educators on this very important matter.

Expansion in international markets will remain a focus of the U.S. aviation industry, and DOT is committed to working with members of this committee and all of our aviation stakeholders.

This concludes my testimony, and I would be happy to answer any questions you may have.

Mr. LOBIONDO. Thank you.

Mr. Calio?

Mr. CALIO. Chairman LoBiondo, Chairman Shuster, Ranking Member Larsen, members of the committee, thank you for the opportunity to be here today.

I also want to take just a second to thank you for your ongoing work to fight off the European Union Emissions Trading Scheme, the EU ETS, which is really nothing more than a money grab so the EU could spend money however it wanted to. This committee and the administration were indispensable in putting a stop to that, and we are deeply appreciative of your continuing work on that issue.

The U.S. airline industry is indispensable to our society and economy. It enables our diverse and far-flung Nation be linked domestically and internationally, as Assistant Secretary Kurland points out. 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, and it won't be maintained by happenstance, which makes this committee's examination of the state of the U.S. aviation industry today and Chairman Shuster's speech before the International Aviation Club yesterday particularly timely.

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 they are ready to step up.

Unfortunately, all too often they confront indifferent, disjointed, or hostile Government policies. We operate in a public policy setting that sometimes seems to veer from listless to antagonistic. The current budget negotiations are an abject example of an antagonistic public policy setting that impedes the ability of the industry to lead and compete effectively. The industry, the administration, and the Congress sometimes operate, as Chairman Shuster has repeatedly noted, as if the industry is a piggy bank that is bottomless and can fund whatever comes to mind. In this case, increasing the TSA fee, not to do better at TSA, but to fund the deficit. More than doubling that fee is bad for the airlines, bad for consumers, and bad for the economy and job growth.

It is also bad for the airports and the communities that we serve. The way our Government acts is in sharp contrast to the way many of our foreign carrier competitors' governments act. As the global economy shifts, we are increasingly facing global competition from carriers that enjoy the benefits of their governments' cohesive national aviation policies that not only purposefully accelerate their expansion, they are treated as strategic assets to develop the economies, to grow the economy, and to increase passenger flows. Our

Government needs a like-minded understanding of the role the airlines can play, unfettered from the hugely burdensome tax and regulatory scheme.

In a speech to the IAC yesterday, Chairman Shuster called for all elements of the industry to work together, and with him, in this committee and the Congress, to take a holistic view of the industry, and what was necessary to maintain our leadership. We are willing to do that.

He also called for the development of a bold and innovative vision to achieve that goal. If nothing else, I think the current budget exercise can serve to underscore the need for a broad, cohesive, national aviation policy like the governments of many of our foreign competitors are currently executing. It is why Airlines for America has been trying to educate the Congress, the administration, and the public about the need for a national airline policy.

As many or all of you know, that policy would have five pillars: rationalize the industry's tax and regulatory burden; modernize our ATC infrastructure; try to eliminate or at least reduce fuel price volatility; and those four pillars all lead to make us more competitive on a global basis, which we need to do in order to keep growing our economy. We would be happy to share specifics about any of our ideas in any of those regards as we move forward.

But by undertaking this policy, this committee and the Congress could do what previous Congresses did for the railroad industry in the 1970s and early 1980s, and what it failed to do for the maritime industry. On the one hand, you have got a thriving rail industry now in this country that invests billions of dollars in its own infrastructure. We have no maritime industry any more.

So, we would encourage you to undertake a look at what could be done with a national airline policy that benefits all elements of all parties at this table. And, frankly, I have to say that the way this committee operates gives me some faith that this budget exercise can lead to that kind of examination and that kind of success. Thank you very much.

Mr. LoBiondo. OK, thank you.

Mr. Brewer, please.

Mr. Brewer. Mr. Chairman LoBiondo, Chairman Shuster, Ranking Member Larsen, members of the Aviation Subcommittee, thank you for inviting me to participate in today's hearing. It truly is an honor for me to be here with you today.

On behalf of airports around the country, I would like to begin by thanking members of this committee and your staff, who helped pass the long-delayed FAA reauthorization bill last year. We realize it was a difficult process, but we appreciate your persistence.

Since the FAA bill was enacted into law, airports and our colleagues in the aviation industry have been dealing with the uncertainty of sequestration. The first round of cuts threatened to furlough tens of thousands of controllers, and close a large number of contract towers at airports around the county. Congress wisely intervened and prevented those massive disruptions and tower closings from happening. But, at the end of the day, airports were forced to give up $253 million that had been set aside for important infrastructure projects. This quarter-of-a-billion-dollar cut came at a time when airports faced significant capital needs, and are restricted from generating more local revenue from higher passenger facility charges.

Unfortunately, further sequestration cuts loom on the horizon. There are, however, fiscally responsible ways we could work together to pay for critical infrastructure, and ensure that people in small communities have access to safe and reliable air service. With that in mind, we have a few recommendations for you to consider in dealing with the sequestration debate, as it continues, and in preparing for the next FAA bill.

First, we encourage you to prevent AIP funding from continuing to be diverted for FAA operations. Airport operators understand the downward pressure on Federal spending and the difficult choices that need to be made, but we firmly believe that keeping the FAA running smoothly should not be done at the expense of our Nation's infrastructure.

Additionally, AIP cuts could jeopardize needed safety and capacity projects. In Manchester, for instance, AIP cuts would—could delay our runway and taxiway projects, and our plans to relocate a roadway to improve safety and comply with current FAA standards.

Second, AAAE, ACI North America, and a group of large gateway airports are calling on Congress to raise the Federal cap on local passenger facility charges from $4.50 to $8.50, and to periodically adjust the cap for inflation. Considering the enormous constraints on Federal spending, it is time to give airports the self-help they need to finance a larger share of their infrastructure projects with local revenue.

The FAA is predicting that passenger levels will increase from 737 million passengers this year to almost 1.1 billion by 2029. That is another 320 million passengers, which is the equivalent of adding the entire population of the United States to an already-constrained system.

Sixteen years may seem like a long time, but runways often take 10, 15, and sometimes 20 years to complete.

Airports need to come up with more local revenue to build infrastructure projects, and to prepare for the influx of passengers to come. ACI North America estimates that the airports' capital needs now exceed $14 billion a year, but airports received only about $6 billion from AIP and PFC revenues combined in fiscal year 2013. Other groups have also highlighted the economic repercussions associated with the gap between capital needs and available resources. Our proposal to raise PFC cap to 850 and to adjust it for inflation periodically will help fill that funding gap.

Finally, I would like to thank you and all of the committee members for keeping the contract towers open earlier this year, and ask for your continued support during the ongoing sequestration process. We look forward to continuing to work with you in keeping those towers open, explore ways to improve the aviation program, and consider the next FAA bill.

Mr. Chairman, thank you again for inviting me to participate today. I would be happy to answer any questions.

Mr. LoBiondo. Thank you. Hold on a minute.

[Disturbance outside of hearing room.]

Mr. LoBiondo. If we have to, Shuster, Larsen, and I will go over and straighten this out. OK, we will try.

Pete, go ahead.

Mr. Bunce. Chairman LoBiondo, Chairman Shuster, Ranking Member Larsen, members of the committee, thank you for letting me be here today. And I really want to start by commending you all. For us, in the industry, to have an opportunity a year out from the next reauthorization, to have an opportunity to come and talk to you about the issues involved with the next reauthorization and doing what we have to do with our entire system here in the U.S. is—I couldn't ask for anything more from industry.

So that, coupled with what we were able to do all together with the Small Airplane Revitalization Act and the bipartisan way that that went forward and was eventually signed into law by the President, really shows what this committee can do, working together with industry.

So, maintaining this competitiveness is absolutely vital. We are 5 days away from the 110th anniversary of the Wright Brothers' flight at Kitty Hawk, and we have been leaders in aviation for that entire period of time. And to be able to keep that, this Committee has recognized and actually set the stage in the last reauthorization to ask the right questions. Your emphasis on certification, to be able to improve the processes for certification, to have consistency in regulatory interpretation, started a process that we very much appreciate. And we have got to keep the pressure on the FAA to be able to fulfill what—some of the promises that they have made in the reports to actually make that—strengthen that and streamline that process.

Last year, the International Trade Commission did a study, and they actually looked at general aviation manufacturing and said, how is this competitive in the world marketplace. They looked at factors and found out that financing—things like the Ex-Im Bank became very important. Research and development, obviously. Taxes and fees, to include the depreciation schedule and the incentive for manufacturing that is included in there have an impact. But, most importantly, it is certification.

You have given me an opportunity to come before this committee recently and talk to you about certification. We are making strides there. But to have the FAA really take a look at what works in other parts of the world, and take the best practices from those, we absolutely welcome. So thank you for asking for that study, because I think that we are able to pick some things out from other states of design that will actually help us.

In development programs, the burn rate for the actual original equipment manufacture is significant. One company, in their programs right now, has a burn rate of $10 million a month. Now, if you compound that throughout the supply chain, you are talking about big money. And any delay that we get in the certification project, because of overburdensome regulations or a lack of consistent interpretation, really hurts that process. That becomes important.

Also, in the last reauthorization, you called on the FAA to give a report on restructuring and how do we right-size the National Airspace System. We understand the FAA is starting to come and brief you all on what their program is. I cannot applaud that enough, because that really sets the foundation of our ability to lean the system out there. It is a very safe system, but we all know that it has got antiquated equipment, and it has got infrastructure that either has to be brought back up to speed, or divested from and consolidated, and modern technology allows us to do that.

So, I hope that we are bold in that process. We wouldn't have actually had this debate, I think, about the contract tower issue if, actually, the FAA had looked several years ago and said, "Hey, can we remote towers out there? Can we look at the capability that they already are putting forward in Scandinavia? In low activity can we remote towers like Reagan between 2:00 and 5:00 in the morning, and send the feed over to Dulles, and let them control?" Smart things like, we have propagated these GPS-based approaches all over the country.

Do we need to continue the expensive infrastructure of instrument landing systems that cost a lot to refresh? Can we back off on the number of radars that are out there now that we have the ADS–B ground infrastructure complete, and we know when the mandate is for equipage for aircraft. Can we back off on the number of VORs that are out there? All of those elements should be in the FAA's plan. And, with us working together as stakeholders, to be able to provide you inputs, if we can hold the FAA's feet to the fire to be able to do that, I think we will have achieved success.

And the last thing I want to emphasize is, back in 1996 the mandate was taken away from the FAA, because of some high-profile accidents, to actually advocate for the aviation industry. We understand the FAA should be the safety regulator out there, and there is no question about that. But it would be very useful, I think, for us as an industry all together, to piggy-back on what my colleague, Mr. Calio was talking about, for the DOT to pick up that assignment from Congress. They should be the advocates for the aviation industry.

We know the Department of Commerce has a lot of industry that they have to advocate for, but DOT knows the transportation system. And Assistant Secretary Kurland talked about what she was able to accomplish with the APEC initiative, working with industry, and we think we could expand that greatly through the next reauthorization.

I look forward to your questions.

Mr. LoBiondo. Thank you.

Mr. Bolen?

Mr. Bolen. Well, thank you. I very much appreciate the opportunity to be able to testify today at this important hearing. And I would like to just quickly begin my comments where Mr. Calio began his, with the EU ETS. Clearly, from our perspective, that is a fatally flawed program. It is very bad for all of aviation, particularly bad for business aviation. So I just wanted to associate myself with his remarks.

I am really excited about the hearing today, because it is so important that we set the stage for the future of air transportation in the United States. Several of you have already said aviation plays an enormous role in our Nation's transportation system and our Nation's economy. And business aviation, in particular, is important for a lot of small towns and communities that have no other access, really, to our air transportation system. And it really provides an opportunity for a lot of U.S. companies to compete effectively in a global marketplace, and respond in times of humanitarian crisis. This is an industry that generates a lot of jobs.

So, it is an important industry, it is one that the U.S. has always been the world leader. It is also an industry that is very heavily regulated by the Federal Government. And that means when we have situations where there are challenges with our Government and our Government spending, it has a significant impact on us. Sequestration has been talked about today. The shut-down has been talked about today. That is a period when we were not able to buy or sell any aircraft in the United States for the period of the shut-down. And we are grateful to this subcommittee for the efforts that you made to try to articulate the essential nature of the registry, and the importance to keep it open in times of crisis.

But as an industry that is heavily federally regulated, and hypersensitive to challenges in our Government operations, I think it is important for us to articulate that we recognize that continuing to do things the way we always have is not going to work. We simply don't have the revenues. We are going to have to work together to find efficiencies, moving forward. And that is why the MBAA, the general aviation community, has tried to be proactive, suggesting changes like streamlining certification and—again, commending, as Pete Bunce did, this committee for its efforts on the Small Airplane Revitalization Act, congratulate this committee for Section 804 of the past FAA reauthorization bill, which gives us an opportunity to look at facilities, going forward.

And certainly, as a community, we are trying to prioritize NextGen, so that we can get the benefits of a modern air transportation system within the constraints that we have with the current economy.

But I also want to make sure, as we begin to talk about the next reauthorization, begin to talk about the future, we understand that while we have got to move forward, we have got to change, we have got to adapt and evolve, we also want to take an opportunity to not just look at what is wrong with our current system, but also make sure we understand what is right, what does work. Because, at the end of the day, the U.S. today has the largest, the safest, the most diverse, and the most efficient air transportation system anywhere in the world. We have been the world leader since the inception of flight, and we don't want to lose those aspects that help make us great.

We also want to recognize that our national airspace is a public treasure. It benefits all Americans, not just the traveling public, all Americans. And that is underscored by those economic benefits we have talked about earlier. You know, I have heard Chairman Shuster talk about Adam Smith and the wealth of nations, and what are appropriate roles of the Government, going forward.

Transportation seems to be one where there is clearly a national interest, a public interest, and we believe that Congress is an appropriate place for us to oversee that public treasure. We think there is a role for Congress, going forward, and we have seen how Congress has been so vital in righting wrongs that have been taking place elsewhere, so I don't want to lose that fact, going forward, that this is a public treasure, there is a role for Congress. All Americans benefit. Historically, this Congress has recognized that the general taxpayer revenues ought to help fund a portion of that. We think that is appropriate, going forward.

I also want to underscore that, from a general aviation perspective, the fuel taxes are an appropriate way to contribute to the system. I know a lot of other parts of the world use user fees. We believe that anything a user fee can do, the fuel tax can do better.

So, as we begin to talk about how we move forward, how we evolve, how we adapt, how we keep America number one in aviation, we want to make sure we understand not just what is wrong with the current system, but what is right, so that, as we move forward, we take the best, and keep it, and build on it, and make sure that we are prepared to compete in the future.

Mr. LoBiondo. Thank you.

Mr. Wytkind?

Mr. Wytkind. Thank you, Chairman LoBiondo, Ranking Member Larsen, and members of the committee, for inviting transportation unions to provide their views on the state of the airline industry.

I appear today on behalf of not only our 32 member unions generally, but specifically our airline unions. I represent most workers in the aviation sector.

In today's global aviation marketplace, our Government must be proactive in developing an aggressive—and enforcing policies that help keep our industry competitive on the international level. At the same time, our Government must commit to maintaining a fully functioning and efficient FAA with stable and robust financing for our aviation industry.

We must also do more to ensure that important safety reforms are implemented, and current rules are not needlessly reformed or revisited, based simply on a broad antiregulatory agenda. The expansion of international air transportation can offer lucrative business opportunities for U.S. airlines, for sure. And, if done the right way, can create middle-class aviation jobs.

But our Government must embrace smart policies. Specifically, the administration must understand the land mines and pitfalls of unscrupulous liberalization, protect against the outsourcing of critical safety and security work, oppose regulatory overreaches by foreign states, and provide stable and robust financing for our aviation infrastructure and its workforce.

The most pressing trade issue facing our industry revolves around the Trans-Atlantic Trade and Investment Partnership, or TTIP. Negotiation is currently being held between the U.S. and the European Union. Despite historical precedent for excluding air services from broad trade negotiations, the EU is seeking to include them among the complex issues being discussed in TTIP.

The EU's aim? Pretty clear. To force changes to U.S. rules that limit foreign ownership and control of U.S. airlines, and reserve domestic point-to-point service, or cabotage, to U.S.-controlled carriers. These laws have helped ensure a viable U.S. airline industry, and have protected employees against unfair competition, preserved workers' rights, and ensured America's status as a world leader in air transportation.

Decades of unfair trade policy have ravaged jobs in many U.S. industries, and those experiences inform our unyielding commitment to ensuring that it does not have the same result for airline workers in this country. The administration must categorically reject these efforts by the EU. I am pleased that there is broad support for this position in the House, including a majority of this committee that recently signed a letter to the U.S. Trade Representative expressing those views.

In the EU we are currently seeing the negative impacts of aviation liberalization when labor protections are ignored, or fail to work as intended. Norwegian Air Shuttle, which is incorporated in Norway and holds an air operator's certificate in that country, has developed a suspect business model designed to exploit European aviation and labor law, and undermine the rights of employees. NAS is registering its aircraft in Ireland—by the way, you can't make this stuff up—and contracting or, more accurately, renting pilots and flight attendants that are based in Thailand, yes, and covered by labor laws in Singapore. The airlines is using a flag-of-convenience policy, one very familiar to our maritime unions: to shop around and scour the globe for the cheapest labor and the most compliant regulations for their bottom line.

Why does this matter to us? Because NAS has announced its intention to serve the United States: New York, Orlando, Fort Lauderdale, and possibly L.A., and they are clearly trying to undercut the U.S. airline industry by about 50 percent. An affiliate of NAS is now seeking an Irish operating certificate. And just this week it applied for a DOT permit.

The U.S. also must adopt and enforce policies that curb unsafe outsourcing of U.S. aircraft repair and maintenance, and provide adequate safety and security safeguards. The FAA has yet to issue a congressionally mandated rule, now 9 months overdue, to apply drug and alcohol testing to foreign mechanics working on U.S. aircraft. It is a simple mandate, one based on the premise that if you are going to repair aircraft overseas under FAA regulations, then the same rules will apply to those workers that apply here, in the United States. We urge the administration to adopt this rule without further delay.

In order to remain competitive in the global market, the U.S. must invest in the FAA's workforce and aging infrastructure and ensure enhanced oversight of the industry and airspace, and continue modernizing the National Airspace System through NextGen. We have already witnessed the impacts that Government shutdowns and budget uncertainty have on these programs. And each time Washington has another knock-down, drag-out budget battle, these initiatives designed to make air travel safer and more efficient, and to expand capacity, are grounded or idled. This stuff must end.

Under current budgetary constraints, we have concerns regarding the FAA's ability to fully function and operate without sufficient and predictable funding, particularly for its operating budget.

Compounding the problem, the FAA has a staffing crisis. It is operating under a hiring freeze, and one-third of its workforce, including controllers, aviation safety inspectors, and system specialists, will be eligible to retire in 2014. This is unsustainable, and must be addressed before it impacts operations and safety.

How we handle these issues and others included in my formal testimony will help shape this industry and its place in the world as it relates to aviation travel. I believe that, with strong leadership and sound policy, we can retain our standing as the world leader in aviation. We look forward to working with the committee to accomplish that. Thank you.

Mr. LoBiondo. Thank you, Ed. My first question is for anybody on the panel who would want to take a swing at this. Where, in your view, has the FAA been most successful in moving forward with NextGen, and where has FAA fallen short in implementing NextGen? Any takers?

Mr. Bunce. Mr. Chairman, I think if you look at the ground infrastructure for ADS–B, I think it is a true success story. They have a great program manager at the FAA that has put that infrastructure almost all out there, and these are—if you think of the ADS–B ground station as about the size of a refrigerator—they can put them up on cell phone towers, so it doesn't take a lot of land. It allows them to divest from other infrastructure that is out there. So I think the FAA needs to be commended on that.

When we look at performance-based navigation and going into airports, we have approaches that have now been put out there. A lot of them are overlays of existing approaches, so they don't take full advantage of the capability that satellite navigation gives you. But one of the problems is that pilots aren't able to use them. And that is because there are delays in getting the controllers the guidance, even though we have had years and years to get ready for the deployment of this system, we still aren't able to use those approaches.

Denver is a great example. So you had industry and Government working together, a great cooperative relationship between pilots and controllers and the FAA, all these—the airspace was redesigned, the approaches were put in, but then you talk to my airline pilot colleagues, and they can't use the approaches because the controllers won't issue them, because their handbook doesn't give them the guidance to allow them to do so.

So, there is good and bad throughout this deployment. And the more that we can focus on trying to utilize systems that have already been put in place, and then prioritize the NextGen workflow plan for other systems, I think really would help us in that quest.

Mr. Bolen. Yes, and I will just build on those remarks. I mean I think we are in a period where we are making some significant progress as we are getting to better granularity about what NextGen is, and what are the hurdles to its implementation.

Definitionally, I think we have made a lot of progress. I think we have seen the FAA bring in a very strong NextGen manager. We have had some NextGen successes, probably most notably the Greener Skies Initiative in Seattle, where we have had an opportunity to see where NextGen works. But we have also identified the problems, including the controller's handbook. And now efforts are being made to understand and remove those impediments, going forward.

So, I think, as it evolves, we are finally getting a level of clarity and a level of understanding that will help us get to where we need to go. But I think what we are finding is this is a much more challenging project than we may have anticipated. And we are finding things like controller handbook issues that weren't really anticipated.

So, I think we are at a point where the community is beginning to all get on the same page. There is better dialogue with the FAA, particularly through the NextGen Advisory Council. But there is a lot of work to do, particularly in a constrained Federal budget. And that is why prioritizing those NextGen projects, to get the right ones done at the right time so that we are truly making a difference, become so important.

Ms. KURLAND. Mr. Chairman, thank you. And I am very pleased to hear my colleagues' comments.

NextGen, as we all know, is critically important to the continued stable and world-class aviation system that we have, and a stable funding source is critical for us to be able to continue moving forward, so we are not doing it in fits and starts. It is a rolling program with many different components. And I am, you know, delighted to tell you that at this point the FAA is getting close to having the completed critical foundation, in terms of the software and the hardware. As, you know, both Ed and Pete mentioned, there are specific instances where we have got certain programs that have really been doing well: the Greener Skies program. We are seeing, for example also, JetBlue in New York, because of the approaches there, is able to save 18 gallons per flight. And, you know, that adds up.

So, it is critically important that we continue NextGen. We are very happy to have, you know, industry working with us. The National Advisory—the NextGen Advisory Committee has been critically important, and we look forward to working with the committee, as well.

Mr. LOBIONDO. OK, thank you. Mr. Larsen?

Mr. LARSEN. Thanks, Mr. Chairman. I want to just explore a few issues in the time I have, the first round.

The first issue has to do with ancillary fees, as they continue to grow as a revenue source for airlines. The majority of those fees are not taxed. So, for—to start with, Assistant Secretary Kurland, has this administration looked at that general issue at all, and have you made any determinations about that?

And then I want Mr. Calio and Mr. Brewer, then, to have a chance to respond.

Ms. KURLAND. Yes. They, as you rightly point out, have not been taxed. It is my understanding I thought this is something the committee might be looking at. But, if I could provide you some information for the record on that, I don't have that information at my fingertips.

Mr. LARSEN. I imagine it might be something we end up debating in the next year-and-a-half.

Ms. KURLAND. I would think so.

Mr. LARSEN. Yes. Mr. Calio?

Mr. CALIO. Thank you. In terms of taxing ancillary fees, we oppose it. You know, too often airlines are treated like they are some other kind of business. Under the Internal Revenue Code, ancillary fees or optional services are not taxed as part of the ticket tax, based on an excise tax, and they are taxed as income tax.

And I point out, also, that optional services accounted for about 6 percent of the total revenue. In 2012, airlines made 37 cents per enplaned passenger. Without the optional service fees, we would have lost $8.12 a passenger. When it comes to being bold and innovative, I hope that the bold and innovative vision for the future of the airline industry is not figuring out ways to further increase the tax and regulatory burden.

Mr. LARSEN. Yes. Mr. Brewer?

Mr. BREWER. I appreciate the question, and I appreciate the opportunity to respond.

Let me take it from a broader perspective, from an airport operator's perspective. One of the ways that we generate revenue at an airport to maintain and operate our infrastructure is through rates and charges to our retail concessions and to our food and beverage concessions. And we do it based on a percentage of gross. And I believe that when this excise tax was imposed on the ticket, at the time it was imposed, all of those ancillary fee—bag fees and so on—were all considered part of the gross.

I think what we are seeing now is that the airlines have found a way to take a lot of things that used to be part of the gross number, and make it so now the excise tax is taxed on the net, not on the gross. If the 7.5 percent was on the gross number, it would be an additional $260 million into the AIP fund, or into the Aviation Trust Fund, which could help build the infrastructure that is needed to maintain the systems that the airlines use. I think it would be a broad-based and very fair opportunity for the airlines to contribute through this tax system into the aviation system.

Mr. LARSEN. Thank you all for answering that set of questions. I appreciate it. And I imagine we will continue to have discussions about the infrastructure financing as we go forward. That is just going to, I think, be part of it.

Mr. Calio, I had a question regarding TTIP. And does A4A have a position on the issue of air transport services being in or out of TTIP?

Mr. CALIO. Our position is that we have concerns about it being in. I would note, though, in terms of the issue of foreign ownership, we are with our labor partners on that, that that should not be part of it. And the EU is pushing very hard on that.

Mr. LARSEN. Yes, that is great. Thanks. And then, Mr. Wytkind, on the—that point of TTIP, can you talk a little bit more about your position with regards to State and Transportation handling the issue of air service agreements versus having it part of a broader TTIP negotiation?

Mr. WYTKIND. Yes, thank you. And I—we have been very clear on this. We think that, in the trade arena, the aviation trade area is one where you are seeing a lot of progress in opening markets. Over 100 open skies agreements have been negotiated by the Departments of Transportation and State. We have worked very closely with those agencies to make sure that those agreements, as they are made, impact workers in a good way, and create and support middle-class aviation jobs.

We are very, very concerned and strongly opposed to seeing aviation in the TTIP negotiations, which are very broad, very complex, and there are going to be a lot of trade-offs at the bargaining table. We are not really interested in being part of a trade-off. This is too vital an industry to the Nation and to the economy. And we think it has worked quite well. We think it is a solution in search of a problem.

We are opening markets. We are growing international service. It is very lucrative, it supports good jobs. We support that. But we do not think it is a good idea to jam aviation into a very complex negotiation over TTIP. We have been very aggressive with the Obama administration, we have been very aggressive with the European governments, to let them know what our views are, and we are hopeful that this committee will continue to work with us to make sure that that doesn't happen, because I think it would really harm the airline industry and its employees.

Mr. LARSEN. Yes. And you have noted in your testimony the majority of this subcommittee has signed the broad letter opposing having these open skies agreements negotiated within TTIP.

Mr. WYTKIND. Indeed. And I am very heartened to hear Mr. Calio's comments, too, because one of the core issues involved in those discussions are the European Union's continued bully tactics to try to change our foreign ownership and control laws. They have tried in various venues. They have tried to—they tried to force it upon the U.S. Government when they had their last open skies agreement that they negotiated not long ago. And this is just another attempt to change our foreign ownership and control rules, which we are very much against, and we are very heartened to hear that our air carrier partners are in the same position.

Mr. LARSEN. Thanks. Finally, before I yield back, back to Mr. Calio. Could you maybe give three examples? You noted in your testimony other governments treat their airlines as strategic assets to the national economy. Could you give three examples of—name names, if you want, but three examples of tools other governments are using to treat their airlines as national assets, as strategic assets?

Mr. CALIO. Look to the Middle East to start. There is more you can see there.

For one, the level of taxation is very low. The level of passenger charges and fees are very low, which encourages people to fly and grow capacity. The level of regulation, particularly on the economic side—at A4A—we put regulation in two buckets. There is safety regulation, which is in one bucket. We work very closely with DOT and FAA on those.

The other side is economic regulation. We are supposed to be deregulated, as an industry. We are not. And if you look at the way these other countries are regulating their industries, they give them the freedom to operate as businesses to maximize their sustainability and profitability. And, unfortunately, also, in some cases, because they are almost starting from scratch, their air traffic control infrastructure is much, much better than ours.

And we could provide more examples, and we will, to your staff, going forward.

Mr. LARSEN. That would be an excellent help, I think, moving forward.

Thank you, Mr. Chairman.

Mr. LOBIONDO. Mr. Shuster.

Mr. SHUSTER. Thank you, Mr. Chairman. Broad question to the entire panel. What types of policy initiatives would you recommend? And don't give me a laundry list—I am sure you will have a laundry list—but just sort of the highlights in the next FAA reauthorization. And those we deal with specifically in this committee, because I know we are talking tax policy and things like that, which, at this point doesn't come out of this committee. But can you give us sort of a couple of high-priority items in the next FAA reauthorization you would like to see passed?

Start at the——

Ms. KURLAND. Mr. Chairman, the FAA has started the rampup process for considering what we would recommend for reauthorization. And after the first of the year, we will really be ramping that up. And we will look forward to working closely with you and the committee, as you move forward on reauthorization.

You know, many—a number of items have been mentioned, in terms of the cooperation, in terms of—with the committee and with my colleagues around the table, in terms of promoting our interests, internationally, and also to—in protecting and taking a look at small communities and how they fare in aviation and services.

So, on these and many other issues, especially in the FAA realm, we will look forward to working with you.

Mr. SHUSTER. Mr. Calio?

Mr. CALIO. First of all, we would like to provide more metrics and measurement to the FAA in terms of NextGen, so it can keep the program moving in the leadership at the FAA, which is working very hard on the issues and has the tools to get done what it needs to get done, in terms of advancing NextGen. Measurements will provide a business case for continuing on down the line.

We would like to see some parameters put around the regulatory process that require that it be based on sound science and data, and that there be cost benefit analysis done. And we would like no increase in the passenger facility charge. You know, it is interesting. In the last year, in 2013, a record amount—$12.3 billion—was paid into the Aviation Trust Fund. And that funds 80 percent of the FAA's budget. For a variety of other reasons which I think are listed in our testimony, but we would also be happy to provide, in terms of the airports. We don't think any change is justified.

Mr. SHUSTER. And NextGen would have a huge positive impact across the system. So that really should be a number-one priority, to move that forward as fast as—or faster than we are now?

Mr. CALIO. It has to be moved fast-forward. We had our board meeting yesterday, and Bill Ayer, who is the chairman of the NextGen Advisory Committee, and Margaret Jenny, who is the president and CEO of RTCA, came in—and Ed Bolen was referring to it earlier, I sit on the board of RTCA with him—the NextGen Advisory Committee was trying to provide advice and counsel and practical ways for the FAA to move forward on NextGen in measurable bites. Again, prioritizing, even within budget constraints. Get done what you can to make the business case.

You know, when we talk about 2020, 2025, it needs to move faster than that.

Mr. SHUSTER. Right. Mr. Brewer?

Mr. BREWER. Thank you, Mr. Chairman. I think I mentioned in my earlier testimony—and, as you might suspect, I have a different opinion on the PFCs. And we believe raising the PFCs will help with airport infrastructure, will help with the National Air Transportation System, and make local decisions and help airports fund projects locally.

We understand the pressures that are on all of you in this room, and Congress in general, to try and reduce Federal spending. We believe that this gives the flexibility.

Just a reminder that PFCs, at least in my experience at the airports that I have worked at, I have never done a PFC project unless it was suggested by the airlines, or approved by the airlines in our Airline and Airport Affairs Committee. So it is not an unusual request for the airlines to actually suggest the use of PFCs. And we think giving the additional flexibility for the airport operators to gain additional revenue for that purpose is appropriate and important.

Maintaining the contract control tower system is essential. It is very efficient, it is very effective, and I think it meets every parameter. The GAO has looked at it and said it is a great program. And maintaining the EAS program for smaller communities to gain access into the National Air Transportation System.

Mr. SHUSTER. One of the concerns I have is that I look around the country with airports—Airport X wants to build two 11,000 dual runways, where we have got other airports in the country that are vastly underutilized that are not far away. And so I want to make sure that Airport X, whatever airport that is—and I don't want to name names—but, you know, the airlines are saying, "Well, we don't necessarily need that extra runway," so I want to make sure that we are being prudent with those dollars, and that airports, again, that exist out there, can be utilized, and not just continue to build on one or two airports on either coast. So that is a concern of mine.

Mr. BREWER. We appreciate that thought. And, as you know, PFC programs have to be AIP-eligible. And so it would be something that would have to be consistent with an airport's master plan.

Mr. SHUSTER. Right.

Mr. BREWER. And an 11,000-foot runway that may not be necessary or justified most likely wouldn't get past that test.

Mr. SHUSTER. OK, thank you. Mr. Bunce?

Mr. BUNCE. Mr. Chairman, obviously, from the manufacturer's perspective, the emphasis on certification is welcome. And continuing to ask the FAA to provide metrics back to Congress to say, OK, are they really making an impact, as far as streamlining the process, allowing industry to use the delegation authorities, which then frees up other resources for companies that haven't had the long expertise.

So, a new startup company that wants to produce a jet, or has gone from piston production and now wants to produce a jet, can get the resources from the FAA, because other companies that have been able to do that for a long time are allowed to use their delegated authorities to the maximum extent possible to be able to get product out the door. Because we have to go through the FAA to be able to deliver anything.

I think, also, what I mentioned earlier about giving DOT the mandate to promote this industry could be very helpful to all of us together. As the FAA presents its plan to you for right-sizing the NAS, to be able to find a mechanism to make sure they deliver on that. And if we really can find a way where, if it is incremental and it is rolling over a period of years, that they come to you with a certain amount of integration or consolidation, and then the Congress has to approve it, and then they go to the next tranche, if we can keep them on schedule, that would benefit us all. Because if we right-size the NAS, those savings could easily be plowed back into important programs, like NextGen.

Mr. SHUSTER. Mr. Bolen?

Mr. BOLEN. Chairman Shuster, in terms of guiding principles, we would first recommend we establish the goal to ensure that the U.S. remains the largest, the safest, the most efficient, and the most diverse air transportation system in the world. I believe that translates into advancing NextGen, and making NextGen a priority.

I also would urge you to recognize that our National Airspace System is a public good that is worthy of public support. And I think that translates into a general fund contribution.

I also believe, because it is a public good, it demands and deserves congressional oversight, as we move forward.

And, finally, I would like to establish that the general aviation community should contribute to our air transportation system. We believe that the fuel taxes are the best and most efficient way for us to contribute, and we would urge you to keep that as a funding mechanism for general aviation.

Mr. SHUSTER. I have been in discussion with some of the business groups, and they believe that the time is now—with low interest rates, to figure out how to bond this thing. And they believe it can be built in 3 to 5 years, if we really focus on it, put the money behind it—whatever it is, $40 billion.

Do you believe that it can be built in that timeframe, if we put the effort on it? Or is it technologically, in your view, impossible?

Mr. BOLEN. Well, bonding has been suggested as a way to advance NextGen. I think it is worth understanding, however, that a lot of NextGen is software programs. It is technology, not brick and mortar.

Typically, we have done a lot of bonding to build roads, build infrastructure that is concrete, bricks, and mortar. This is a little something different. And so, if we are going to borrow money against a funding stream, I think we want to understand what is it we are borrowing money to purchase, and how is that going to pay for itself over time.

Mr. SHUSTER. Right.

Mr. BOLEN. We are working, as Mr. Calio suggested, we, as an industry, are working very hard to understand the benefits of NextGen, the business case for NextGen, and to figure out how we can implement it as quickly as possible, and as cost-effectively as possible.

Mr. SHUSTER. Thank you.

Mr. WYTKIND. Mr. Shuster, thank you for that question, and I am happy to try to offer a few observations.

First of all, this long-term funding issue is a challenge that you are facing, as a chairman, in every mode of transport. I congratulate you for the work you did on the WRRDA bill, because it did free up more resources, and brought—will eventually bring more investments into our ports and harbors.

I think the model that you used there to keep the committee together on a bipartisan basis needs to be used to figure out a long-term funding system for the FAA, and our air traffic control system, and the overall aviation sector. So that is issue one which we want to be at the table to discuss.

I think safety reforms are going to have to be on the table here. One is if the administration does not act on foreign repair station regulations, as this committee has already directed it to do, I think it is going to have to be revisited, to make sure we don't have unsafe conditions around the world in the way that we maintain our aircraft that you and I fly in.

And separately, I think that cargo pilot carve-out that occurred in the administration's pilot fatigue rules can't be ignored by this committee. Cargo pilots share the same airspace as commercial jets that fly passengers around, and there is no reason why we should have tired cargo pilots, simply because they don't carry people inside their aircraft.

Third, I would strongly recommend that the committee take a look at some of these international issues. While we can't come up with a legislative remedy today, we will in the future, if indeed some of these schemes that we saw with the Norwegian Air Shuttle continue to emerge in the context of our trade relationships with the Europeans and other parts of the world. We don't think we should be supporting policies, trade policies, that allow foreign carriers to come in, cook up new schemes that are designed to undercut U.S. airlines and their employees.

And lastly, I think these workforce challenges in the FAA, I urge you strongly to partner, as you have before, with the air traffic controllers, and PASS, the union that represents inspectors and technicians, to make sure that the FAA has the resources it needs to have the best workforce that is trained, that deals with its staffing crisis, and that makes sure that the workers of the FAA are at the table when you implement NextGen and other initiatives. I think that is going to be a priority we will bring to the committee in the next few months. Thank you.

Mr. SHUSTER. Well, I thank everybody for their input, and I thank the vice chairman for indulging. Good to see you.

And I am going to submit this question for the record to Mr. Calio. I am interested to know the impact of the recent consolidation in the industry, how it has impacted the small and medium-sized communities. Because, as you know—and we have talked before—I care very much about rural America. I am from rural America. And I want to make sure that there is some semblance of air service that continues to go out there, as we move forward, especially. We have just gone through another consolidation, which I think in the long run is going to be positive for the industry. I just want to make sure it is positive for the small and medium-sized markets in America. So I will submit that for the record. Thank you. Yield back.

Mr. DAVIS [presiding]. Thank you, Chairman Shuster. The Chair now recognizes the gentleman from Massachusetts, Mr. Capuano, for 5 minutes.

Mr. CAPUANO. Thank you, Mr. Chairman. Mr. Calio, I really like the concept of trying to come up with a national airline policy. It is not as easy as the title might presume. We will have some significant differences of opinion amongst all of us, tax policy being one of them.

For me, I am less interested in what is taxed, as much as does the tax raise enough money to do what we need to do. Can we build runways? Can we address safety? Can we do all those things? Where it comes from? Let's be serious; it all comes from the passenger. It all does. Taxes always pass through, from every company, and that is fine. So, for me, it is more of a level playing field than the absolute amount of what is precisely taxed.

You know, regulatory burden? I have yet to see any industry ever come to any committee I have ever served on that says they are not overly regulated. Exactly what—again, it is a competition thing to me. I am looking for level playing fields.

The air traffic control system we talked about. Stabilizing energy prices. Well, if we could figure out how to do that, we would all be—I don't know what we would be, but a lot better than we are.

But I do want to talk about the one item that I think would bring everybody together in a general way, and that is to support our efforts to compete globally. For me, I have watched the shipping industry go from a position during my lifetime where, for all intents and purposes, there are no American flag ships. I mean that is an overstatement, but not much of an overstatement. In the Port of Boston, I can't remember the last time I saw a significant sized U.S. flag ship. And I don't want to get to that situation in the airline industry.

And again, I don't mean to pick on Boston, I actually think they are doing a pretty good job, but we have the same thing, we have an international airport, and we have international business interests that we are interested in, and we want international flights. But just recently, I learned we are attracting—we are actually supporting a foreign-flagged airline to bring a flight in to Boston. And to me, it is like, well, if we really want that flight—which sounds fine, it is to the Middle East, I think that is great—why isn't one of our U.S. carriers doing that?

We had a big thing a couple of months ago; we brought our first direct flight from Beijing to Boston, a long flight. Again, Chinese company. And again, I am not against that, that is fine by me. But I guess what I really want to get at is I would really like to get people to the table to try to figure out what are the things that are truly putting us at a disadvantage. Not necessarily to give any significant advantage, but just to level the playing field. If they can do it, if the Emirates airlines can do it, if China Air can do it, why can't any one of the U.S. carriers do it? Why won't they do it?

And what are we doing wrong to not do that? And I think that goes to—and I want to stay away a little bit from the repair basis, because I think that will get us into some disagreements as to how we do it. And I am not interested in hearing things about, you know, we need to lower labor costs or we have to hire everybody from low-cost countries. That is, again, part of the problem with the station repair.

But I am interested in finding out and maybe talking a little bit about some of the things that you might see. And I am going to ask some of the other people on the panel to tell me some of the things you might see that might be able to, again, level the playing field, so that U.S. carriers are not at a disadvantage, so that my kids will actually see U.S.-based airlines operating in this world, and not all foreign operators.

Mr. CALIO. Thank you, Mr. Capuano. I appreciate your interest in the national airline policy. And that is what the national airline policy, or the concept of a national airline policy, is all about. It is all those elements that you mentioned. It is the taxation—the taxation does matter, because the taxation has an impact on capacity and demand, in terms of how much people are willing to fly. And we would be happy to sit down and talk to you at a roundtable, in your office, anywhere with any group, and talk about that.

It is the same on the regulatory side. It is just a rationalization—there are some ancient regulations that really don't do much to help anything. There is information that we are required to report that no other industry is required to report that doesn't impact safety, and it costs money to do so. There are all sorts of other things, like global distribution systems and potential rules on that.

So, the regulatory burden is something to look at, because these other airlines, as I pointed out earlier, these foreign competitors, are subject to different regimes. And you are correct; some things we can't ever compete on. We are not going to compete with labor—on labor costs, and shouldn't, with China and the Middle Eastern carriers. They can do things that we would not be permitted to do. And, you know, we value our workforce. But we don't want to be undercut by them, either, on that basis. So there are other things to look at.

We think we have to look at and applaud DOT here, because Open Skies are great, but you have to look at what happens down the line after the Open Skies comes. If people can keep flying here, and it is free for a new Beijing-to-Boston route, a new Middle East-to-Boston route, or New York route, but then we are having trouble getting in other countries with whom we are dealing, you know, on a practical basis, that makes a difference. There is a lot of different things.

Mr. CAPUANO. Are you aware of any of your members ever being subsidized by a foreign government to bring a plane into their space? I mean I just learned about the air services incentive program. To be perfectly honest, I am a little bit surprised and shocked that it even exists. Why are we paying foreign carriers to come to an airport that is already congested, and providing a service that certainly we could provide?

Were you offered, or any of your members offered that subsidy to be able to fly the same route, or do we just give it away?

Mr. CALIO. Not to my knowledge.

Mr. CAPUANO. Ms. Kurland, could you tell me what the—I mean, again, I am not asking about the specific issue, I wouldn't, that would be unfair. But, generally, the policy strikes me as crazy as to why are we paying somebody to come in to an already international airport to provide a service that any one of our U.S. carriers could have provided easily?

Ms. KURLAND. Congressman, I will get you the specifics of this. But, generally speaking, airports—and I think Mr. Brewer will be able to also talk a little bit about this—airports are allowed to have incentive programs if they are offered to all. If they want to attract a new service, one that is not being offered at the airport——

Mr. CAPUANO. Oh, I understand. That is why I am not mad at Massport. They are doing what they have to do to be competitive. I am kind of surprised that our policy—why we have allowed such a policy, why we would encourage such a policy. Why wouldn't we prohibit just that, to disadvantage a U.S. carrier?

Ms. KURLAND. The purpose would not be to disadvantage carriers. It would be a community, an airport, taking a look at the service that they are getting, and perhaps—and I can't speak to Boston—perhaps—I would assume that they have approached U.S. carriers saying, you know, "We have got a lot of business interests that are interested in going to and from Beijing. Are you interested in providing the service?"

And sometimes, in order to incentivize and get carriers to be more interested in providing the service, they may come up with an incentive program, as long as it meets FAA criteria. And, again, I would have to get those for you. You know, there would—as long as it is open to all comers, there could be that ability.

Mr. CAPUANO. I understand. But that doesn't get——

Mr. DAVIS. The gentleman's time has expired.

Mr. CAPUANO. My time is up, and I appreciate the chairman's indulgence.

Mr. DAVIS. The Chair now recognizes the gentleman from Pennsylvania, Mr. Meehan, for 5 minutes.

Mr. MEEHAN. Well, thank you, Mr. Chairman. I am appreciative of the opportunity to participate in this projection, which is so important, I think, and the time that you are taking to help us better understand where we need to go. And I am clearly struck by the emerging possibilities that we face in the international area. It certainly leads to the growth—I represent an area in which my own Chamber of Commerce has identified that the key to growth and our capacity to attract commerce from around the world is a viable international airport.

So, we know that these are vital, but it also means a level playing field competing globally. And I am trying to explore and understand a little bit better where some of the impediments to global competition may take place.

Ms. Kurland, I took time to read Mr. Calio's written testimony. And one of the things that concerns me is, as we are trying to expand opportunities to reach into certain markets, one of the markets, the Asian market, Middle Eastern, Chinese airlines, they are investing a great deal in more wide-bodied airplanes. We have a statutory mandate to try to strengthen the competitive positions of our air carriers so that we can compete with those foreign air carriers.

Can you give me a sense as to what you are doing to try to ensure that our airlines are able to compete on a level playing field, and particularly what your level of understanding is with regard to the kind of not just incentives, but some of the foreign countries seem to underwrite expenses that our independent airlines have to be able to sustain themselves on the open market? What are your observations with regard to that? What is DOT doing to help keep us competitive?

Ms. KURLAND. Thank you, Congressman, for that question. A few things.

Number one, as we talked about today, is the negotiation of Open Skies agreements. In order to make sure that we have, with as many countries as possible, liberalized air service agreements, so that the U.S. carriers can make the business decisions themselves for where they want to serve.

Number two, the U.S. Government and, working through the Department of Transportation, has the authority, which we have done on behalf of a number of our carriers in the global alliances, to award antitrust immunity to global alliances where it is warranted. And what that has allowed companies and the alliances to do is to create greater synergies, to create neutrality, to provide greater reach, where a particular carrier may say, "You know what? It doesn't make any sense for me to fly to that particular country," but by able to work or codeshare or have an alliance relationship with a foreign carrier, they have greater reach and greater opportunities for——

Mr. MEEHAN. Have we been promoting these opportunities to work——

Ms. KURLAND. Oh, yes.

Mr. MEEHAN. We just went through a situation in which the Department of Justice seemed to be a little bit involved in antitrust, with regard to where the airlines themselves believed that they had the competitive opportunity.

Ms. KURLAND. Let me just draw a distinction there. When it comes to mergers and consolidation, Justice makes those decisions and decides what divestitures or what remedies are appropriate. And when it comes to granting antitrust immunity for the global alliances, that decision rests with the Department of Transportation.

Mr. MEEHAN. OK. You made a point, though, and I appreciate it. And I think you were talking about the Open Skies agreements——

Ms. KURLAND. Yes.

Mr. MEEHAN [continuing]. And other kinds of things. And so I am asking what you are doing. But with regard to those——

Ms. KURLAND. Yes.

Mr. MEEHAN [continuing]. When you are engaged in those kinds of negotiations, are there kinds of either legal tools, or other kinds of things that you need to be able to more effectively negotiate with foreign governments?

Ms. KURLAND. Yes, sir. In all of our Open Skies agreements we do have fair competition provisions. That is number one.

Number two, on a regular basis, when it comes to specific doing business issues in different countries on behalf of our carriers, we are regularly engaged. For example, if a carrier is having a problem in a country using its own ground handling facilities, we weigh in and we are able to help resolve those issues.

When it comes to certain circumstances where a carrier wants a different time slot, we will work with communities—we will work with other countries to do that. Just recently we worked with a country in order—on behalf of one of our carriers in terms of the types of leasing arrangements that they had.

The point that you—the other point that you are raising, in terms of unfair competition, we have a statute that was passed by Congress—and I cannot pronounce the acronym, it is IATFCPA—and what it does is when carriers are able to provide us with the—with circumstances, with evidence, we are able to file a proceeding with another country, and take actions. And we recently did this in Italy, where the Italians were charging our carriers and other carriers different fees than they were charging their own in the EU. And what we did is we filed a—this proceeding. We said we were going to take retaliatory actions against Alitalia. And the EU and the Italians have said that they are going to rectify that.

So, we do have tools. They are fact-based, in order to be able to move forward. And, as Mr. Calio, you know, will also——

Mr. MEEHAN. Well, can I—my time is expiring, I thank you.

Ms. KURLAND. I am sorry.

Mr. MEEHAN. It probably has expired. But, Mr. Calio, do you have a reaction, as—with regard to just the issue of incentives that foreign airlines and others—countries may be giving to create a noncompetitive environment for our airlines, internationally?

Mr. CALIO. We work very closely with DOT on many of the issues that Assistant Secretary Kurland mentioned, and have had success on those. The partnership is very good in other areas, and I am going to take the opportunity to thank you and Congressman DeFazio here, and many members of this committee and subcommittee who have joined you.

One area where the Government is not working with us, but is actually working against us, is the creation of pre-customs and border protection—pre-clearance facilities, particularly in Abu Dhabi, where the Congress has well noted that this should not happen. It is going to open January 5th. It is a country to which no U.S. airline flies. It has low passenger flows. The State-owned Etihad airline, however, is currently marketing it publicly as an incentive to fly through Abu Dhabi. And the CBP and Department of Homeland Security have indicated publicly that they plan to litter the Middle East with pre-clearance facilities.

That is all well and good. You know, there are pre-clearance facilities in some places where there is a lot of benefit to the United States, where it actually lowers the lines. But right now we have wait times of 1 to 4 hours in some places when people try to fly into this country. It is kind of a slap in the face to U.S. citizens flying back from overseas. It is a disincentive for foreign travelers to come into this country. And we shouldn't spend a dime on a pre-clearance facility somewhere else, until we can get our own system straightened out. So, thank you again for your support.

Mr. MEEHAN. Thank you, Mr. Chairman. I yield back.

Mr. DAVIS. The gentleman's time has expired. The Chair now recognizes the gentleman from Oregon, Mr. DeFazio, for 5 minutes.

Mr. DEFAZIO. Thank you, Mr. Chairman. I was very concerned, and follow up on Mr. Capuano's question about—I was not aware of this flag of convenience. I have spent many years on this issue on the Maritime subcommittee, working through the international organizations.

Assistant Secretary Kurland, has the Department begun or taken a position, taken this to ICAO or anywhere else? I mean this flag of convenience thing is total BS, and we got to stop it now.

Ms. KURLAND. Well, sir, Congressman, we have talked—our door is always open. And we——

Mr. DEFAZIO. But the question—have you taken—do you support flags of convenience? Does the Department support that, that idea? Yes or no.

Ms. KURLAND. We support a liberalized aviation——

Mr. DEFAZIO. So you are not going to say you are against this scheme where we are going to find the least labor standards, the least regulated environment for a company to be based——

Ms. KURLAND. Oh, no, I am——

Mr. DEFAZIO [continuing]. And then they are going to fly into the United States to——

Ms. KURLAND. I am sorry, I misunderstood your question.

Mr. DEFAZIO. Yes.

Ms. KURLAND. Oh, you were talking about Mr. Wytkind's question.

Mr. DEFAZIO. Yes, yes.

Ms. KURLAND. I can weigh in on that, in terms of that specific situation. We have raised our concerns and labor's concerns with the EU at the last joint committee meeting in June. We have continued to raise them with the EU.

Just yesterday, Deputy Secretary Porcari spoke with the DG for transportation, Matthias Ruete, and the EU is looking into this and will be getting back to us.

Mr. DEFAZIO. OK, good. I would hope that our position——

Ms. KURLAND. Oh, yes.

Mr. DEFAZIO [continuing]. Would be we are not going to let these people land in the United States of America. Plain and simple, we are not going to let them land.

Ms. KURLAND. Sir, we are exploring this, and we have made our concerns known——

Mr. DEFAZIO. OK.

Ms. KURLAND [continuing]. To the EU.

Mr. DEFAZIO. I know, but I always hear that, and I want to see it go a little further than making our concerns known. You know, we have lost maritime industry. I have dealt with this consensus-based process. We have to take a strong stand——

Ms. KURLAND. And we do have, in our——

Mr. DEFAZIO. OK, I got to get through some other questions, I have very little time.

Was the FAA—have you been consulted on this TTIP, the foreign ownership? Are you involved in that?

Ms. KURLAND. The TTIP is—negotiations are ongoing under the purview of the USTR, and I can't comment. But what I can tell you, sir, is that when we have had our bilateral discussions on aviation with the EU, we have made it very clear that the issues of cabotage, ownership and control, are matters that Congress has statutes on, and any changes would have to come from Congress.

Mr. DEFAZIO. OK, good. When are we going to get a regulation on foreign repair stations? It has only been 12 years since I first began raising concerns about security there. We did finally mandate that you come up with new regulations. You are 9 months late. When are we going to have them?

Ms. KURLAND. I will take that back to Administrator Huerta, and I will get you an answer for the record.

Mr. DEFAZIO. That would be great. OK. Then we have talked a lot here about transparency and competitiveness and all this. And I don't understand why the FAA is prohibiting the airlines from breaking out what goes into the cost of a ticket. Now, why would we want to prohibit consumers from having that information? I don't quite get it.

I mean I—you know, I make—you know, I voted for some of these fees and taxes and that. I am not ashamed. But I think that, you know, the airlines, like any other—you know, I mean, you go to the gas station, they tell you how much tax you are paying if you—you know, so——

Ms. KURLAND. That is actually a DOT rule.

Mr. DEFAZIO. Yes. Well, you are part of the DOT.

Ms. KURLAND. Part of the DOT.

Mr. DEFAZIO. I would assume the FAA was consulted, since you regulate the airlines.

Ms. KURLAND. Yes. No, but it is something that comes out of our consumer affairs office.

We are trying to be responsive to the—you know, we—to the needs of consumers as they fly, in making sure that when they purchase their tickets they are aware of what goes into it. And I can provide you additional information on——

Mr. DEFAZIO. OK, I am just very puzzled, why we have that rule. I mean it is beyond me.

Ms. KURLAND. Well, it is a question of making sure that our—that the consumers are—understand what they are purchasing.

Mr. DEFAZIO. Right, which would mean I am purchasing a ticket, and I would like to have specificity. I would go so far as to say I like the specificity when the airline imposes a surcharge for fuel costs. I want to see all that stuff. I want to know why——

Ms. KURLAND. Well, no. There can be a—I believe that there can be a break-out. It is just—it is how it is done.

Mr. DEFAZIO. Yes.

Ms. KURLAND. And I would be happy to get you that information.

Mr. DEFAZIO. OK. Well, thank you. And my time is about to expire, but I—you know, I just—the concerns about the Abu Dhabi have already been stated. But, I mean, was FAA—are you working with Homeland? I mean you are supposed to help promote our domestic industry. You know, they are proposing a bunch more of these at places that are—where we have very little traffic for U.S. airlines.

Are you being consulted in this, or are you intervening or commenting to Homeland? I mean Homeland came into—I got the whole song and dance, served on that committee 10 years, I know it. But I have a concern here that we are going to lose this industry. We got this issue with these, you know, flags of convenience, and we got these problems where we are creating pathways for totally subsidized foreign-owned airlines into the U.S. with special privileges.

Ms. KURLAND. As you mentioned, it is in the Department of Homeland Security's wheelhouse. But we did intervene, and we did, at high levels, bring the industry's concerns to DHS.

Mr. DEFAZIO. OK. Well, please keep doing that, because they got more plans.

Mr. DAVIS. The gentleman's time has——

Mr. DEFAZIO. Thank the chairman.

Mr. DAVIS. Thank you. The Chair would like to now recognize the gentleman from Texas, Mr. Farenthold, for 5 minutes.

Mr. FARENTHOLD. Thank you very much. And I am going to have to echo the gentleman from Oregon's concern about some of the taxes, fees, and potential lack of transparency with the regulations requiring complete disclosure of the cost of a ticket. We are losing transparency as to the fact sometimes over 20 percent of a ticket is actually taxes and fees. I do think we are in a position in this committee—I am surprised that, of all the committees I sit on, we all seem very much concerned about the same issues. And I do remain concerned about that, and would like to remain posted on that.

Further, Chairman Shuster visited with Mr. Calio a little bit about the small and medium-sized airports, and how they are affected by the consolidation in the airline industry. The district I represent, our big commercial airports are Corpus Christi—we have got—you know, we are fortunate to have Southwest, United, and American in, but we do not have a SkyTeam carrier. And we are the smallest market Southwest covers. If we lose them, there is a real concern.

The other major metropolitan area we have is Victoria. It is an essential air service. And all it has got is a small prop plane to Houston, an independent carrier, which—I would like to get copies of the information you provide to Chairman Shuster, as well, please.

I would also like to ask you—Virgin America is probably the first new airline that has come about, and that has been quite some time. Can you talk about some of the impediments to entry of new carriers?

Mr. CALIO. I would have to say that, in terms of entry of new carriers, I am not a particular expert on that. We could provide you information on that.

Historically, however, the industry has had low impediments to entry, if you have the money and can handle the capital costs.

Mr. FARENTHOLD. Money is always an impediment, I would guess.

Mr. CALIO. I am sorry?

Mr. FARENTHOLD. Money is always an impediment to what you want to do.

Mr. CALIO. Right. But, you know, again, historically, many organizations—people have started airlines, not quite at the drop of a hat, but you can get an airline up and running relatively easily, I think. I would prefer to get back to you on that.

Mr. FARENTHOLD. All right, and let me go to Mr. Brewer now and talk a little bit about access to airports. You know, with the American Airlines and U.S. Air merger, there was some emphasis on access to airports here in Washington, LaGuardia, and Dallas Love Field. To what extent does this create a problem for—again, I am going to stick with new carriers or the, you know, up-and-coming folks. I mean how do we address this problem? Is NextGen going to solve it by creating more capacity, more slots? I mean in Washington there is no real estate to park the airplanes. Is there a solution to this problem?

Mr. BREWER. No, I think—I believe that the real issue is access to the—to DCA, in particular.

I will give you our example in Manchester. Four flights a day into DCA. With the merger of American Airlines and U.S. Airways, those slots are in jeopardy. There are 74 slots a day into DCA that are allocated to our commuter aircraft. The definition of commuter aircraft are those with 76 seats or less. But there are now more than those 74 commuter flights coming in to DCA.

So now, with the merger, U.S. Airways and American need to get mainline service in to protect the market share that they currently have.

Mr. FARENTHOLD. So, are you suggesting that there ought to be—that the carriers need to be bringing in—these capacity-controlled airports need to be bringing the bigger jets in so they have more people? Or——

Mr. BREWER. I am suggesting—there are two issues that—my little understanding it is of the airline industry, there is are words that we need to always remember. One is yield and one is demand. Yield is what keeps your existing flights flying. The airlines need to make a certain percentage of profit on every flight, or it is gone. And demand is what creates the need for additional flights.

Mr. FARENTHOLD. OK. I appreciate it. I have one other question I want to address to Mr. Wytkind and Mr. Calio, and that is the FCC has recently talked about allowing cell phone usage on airplanes. I got in a big argument with my family. Forget safety. There is an annoyance factor there. But do the folks you represent in your union and do the airlines have a particular take on that? It is my take the Government needs to stay out of it, the market will decide that. But I would like to hear both of you gentlemen's take on that.

Mr. WYTKIND. We—thank you for the question. We have publicly said that we support any legislation to not allow it. It is one thing to allow the use of smartphones on aircraft for other purposes, including being on the Internet, et cetera. But we are against cell phone use. We think it is disruptive, not only to passengers, but to the employees on the flight that need to service that plane. We think it creates a potentially very chaotic environment.

And since things happen on air flights that we don't want to see happen, when they do, I think if you have got a cabin full of passengers that are using their phones for calls, we think it is very disruptive and not consistent with what we think is a good, safe, and consumer-friendly environment.

And, lastly, I think it is important to note that when you allow this to happen, the front-line employees, the flight attendants, are going to be the ones that are going to be forced to arbitrate disputes inside that cabin when it is determined that there should not be cell phone use. It is going to be the front-line employees.

Mr. FARENTHOLD. And I am out of time. If the Chair will indulge me in letting Mr. Calio answer, I will yield back at the conclusion of his answer.

Mr. CALIO. Congressman, I am busy on a call.

[Laughter.]

Mr. CALIO. Seriously, we think that the FCC and the FAA have to resolve, first and foremost, whether they determine it is safe for cell phones to be used on an airplane.

If they do so, we believe the decision should be left up to individual carriers as to whether they want to institute a policy or not. And that policy will be instituted by individual carriers on the basis of whether it is safe to do so. And, in considering that, they will consider the safety of their passengers and their crews, and customer input on it.

Mr. GRAVES [presiding]. Ms. Titus?

Ms. TITUS. Thank you. I agree with you, I don't want to sit next to you talking on your cell phone, so I appreciate that.

We are just a little under 2 years away from the expiration of the FAA authorization. And given the recent history of the bill, it is not too early to start talking about it now, I don't believe.

I represent Las Vegas, and tourism is the life blood of our economy. Nearly 45 percent of the people who come to Las Vegas come through McCarran, which is the ninth busiest airport in the country. So we have got to have the infrastructure in place there to welcome them, speed them along, serve them effectively, efficiently, and in a friendly manner.

When this legislation was considered before, issued capital investments and reforms to the passenger facility charges and the airport improvement program were the top of the list of things that were concerned. I know this will come up again for 2014.

I wonder if, maybe starting with the Assistant Secretary and some of the rest of you weighing in, if you could tell us how those reforms are working, and if you are thinking about continuing them in the next bill, or if we might want to relook at that whole issue.

Ms. KURLAND. In terms of passenger facility charges, in the President's budget we have a proposed increase to $8. We—you know, also, the Federal Aviation Administration, through its airport office, is always very mindful, and always taking a look at how its—the capital improvement programs are working through AIP and PFCs, and I will be happy to work with the committee on this, going forward.

Ms. TITUS. And some of the larger airports don't feel like they benefit so much from that program and those charges, and would like to look at it from a different perspective. Is that—can somebody comment on that?

Ms. KURLAND. Yes. As part of the—getting a larger PFC, the larger airports would have already foregone a great deal of what they would have normally received under the AIP program. And if they were to receive a larger PFC, would forgo even more under the AIP program. They would like to have more autonomy and more control as to how to spend the funds. But perhaps Mr. Brewer——

Ms. TITUS. Thank you.

Mr. BREWER. For the first time in many years, you have three airport—the AAAE, American Association of Airport Executives, Airports Council International North America, and there is a new organization called Gateway Airports. For the first time, all are in alignment on the PFC issue, of $8.50 per passenger, and periodically an escalation.

Right now, the $4.50 PFC has the purchasing power of about $2.50, compared to what it was when it was initially implemented. The pressure on all of you to reduce costs on a national basis on the Federal budget is continuing. This gives local airports such as McCarran the ability to raise the funds that they need for PFC-approved—meaning AIP-eligible—projects, and implement them directly with local funds and local issue.

Ms. TITUS. Yes, sir?

Mr. CALIO. Prior to your arrival I addressed the PFC issue. Airlines for America's members oppose any increase in the fee. Airlines and their passengers are already taxed too much. It is occurring again right now, probably today, as we speak.

There are two Government studies that show if you increase the price by $1 of a ticket, demand goes down by 2 percent. These are GAO studies, they are not our studies. A $4 increase would be huge. You know, Las Vegas has suffered some diminution of service because of lack of demand. And particularly for flyers to your airport, very price-sensitive, and there is very little price elasticity.

In terms of increasing the PFC, again, near-record amounts were contributed through PFCs to the Aviation Trust Fund in 2012. Airport revenues outside of PFCs are $23.9 billion. That is a record level. We don't think there is a demonstrated need for the increase.

And I think, if you are going to consider an increase, you have to look at the impact on airlines and on airline passengers. Airlines and our passengers are already paying 17 separate taxes and fees. It is over 20 percent of the cost of the ticket. That could be going up as soon as Saturday or Sunday, whenever the President signs the budget agreement, if it passes. And at some point you have got to look to other sources, not just the airlines and their passengers. Thank you.

Mr. WYTKIND. May I offer a couple observations? We have looked at the financing issues. And one of the reforms that didn't get adopted in the last bill was a long-term vision for how you fund what is largely a looming insolvency in our Aviation Trust Fund, in terms of really being able to deal with their needs.

We haven't endorsed a PFC increase yet. We think it is part of a larger conversation. We think we should make sure we understand the impacts that fees and taxes, whatever form they take, will have on airline travel, on revenues, on profits, and, by extension, on the jobs that we support and represent in the airline industry.

And so, we think some of the compelling arguments made by our air carriers need to be very carefully considered as to what happens to demand, what happens to the pricing capability of the airlines, primarily because of what Mr. DeFazio said. I wish he was here. Because the lack of transparency means that a average consumer doesn't even know why he or she is paying the price they pay because of the pile-on of various fees and taxes.

And so, I think these need to be carefully looked at. Because our job is to represent the interests of our members. And so, what I do is I look at these things and figure out at what point are you harming air carriers? And, by extension, are you harming our workforce that we are duly, you know, elected to represent? And I think that is where the rub is, for us, to try to analyze this and understand it.

Ms. TITUS. Thank you, Mr. Chairman.

Mr. DAVIS [presiding]. The gentlelady's time has expired. The Chair now recognizes the gentleman from Missouri, Mr. Graves, for 5 minutes.

Mr. GRAVES. Thank you, Mr. Chairman. And I just have two statements, and then I have to follow up with a question. But one statement was made earlier—and this is for—just a statement for the Deputy Director. Advocacy. When we removed advocacy, or when you all removed advocacy from the mission statement at the Department of Transportation, specifically the FAA, I think we took a giant leap backwards in terms of promoting aviation in this country, one of the greatest industries and one of the best aviation systems in the world. And I think that needs to be fixed. I think you are, obviously, a regulatory agency, but you are—also should be advocating for and promoting aviation, and I hope that you take that back.

The second statement I want to make, too, because we have talked a little bit about PFC increases and the lack of money or stuff for AIP funds, and I tend to agree with Mr. Calio on the simple fact that, you know, we raided—we did keep the contract towers open, as Mr. Brewer pointed out. But we raided the AIP, or the Aviation Trust Fund. We raided it to keep those, and that was the worst thing we could have done, or Congress could have done. We took money away from capital improvement projects and put it into operating, and that was a bad mistake. It really, really was.

Now, having said that, my question is for Mr. Bunce. And you kind of touched on it briefly in your opening statement, on some of the changes we could be making in particularly remote towers and all. And I am just curious, you know, how our airspace operating environment compares to other countries, in terms of size and complexity.

And I also am going to give you a followup question with that, too, in how is UAVs going to play into this in the future. I mean I heard on the news the other day that Amazon wants to start making deliveries, you know, using UAVs straight to the home. And those things are flying in my airspace, which is a bit of a concern to me.

But, regardless, I am very curious, your thoughts on that, compared to other countries, and then how we integrate this in the future.

Mr. BUNCE. Thanks, Chairman Graves. If we look north of the border, a lot of people have used Transport Canada as a model. So if you look at their fleet, about 33,000 airplanes, compared to about 225,000 here. When you take movements, well less than about 5 percent of movements up north of the border.

If you look at their military, the last I checked they had four fighter squadrons operational out in Alberta and over in Quebec. You know, their military is one-fifth the size. So the need for airspace is not there.

They are using remotely piloted vehicles up in the Arctic up there, but nowhere near the scale that we are talking about down here. That has actually now been mandated by Congress.

And the other thing that I think we need to think about in our airspace is commercial space. What a great opportunity. I mean when could we have ever thought that we are actually delivering things to the Space Station using commercial vehicles now? But when we do a launch out of either the west coast or the east coast right now, the amount of airline traffic that Mr. Calio's folks are forced to change their routing, how it affects general aviation, too, is very significant. And these launch windows are long. And then you talk re-entry time. That is significant.

So, as we look at our system and compare it, let's say, to Europe, they have tried to get single European skies together for many years now. It keeps getting slid to the right, because there is no political agreement to align the airspace, it is just a patchwork of each small country that in a jet you pass through within, you know, just a few minutes. I think we welcome the opportunity to compare ourselves with other countries, but there is no place like the United States and the amount of traffic and what potential we have to increase with that. Because if we actually do UAVs in the airspace, the biggest concern for all of us is that we keep it all safe, and we keep it deconflicted.

So now you add to all those movements—now we have a manned aircraft, and try to put unmanned vehicles up there, we have got to be able to have somebody be able to see them. And for you and I flying in the airspace, seeing a small, little vehicle is almost impossible, when you are traveling at those speeds. We have to do that electronically. So NextGen has to bring that into play.

So our system is—there is no comparison to anyplace else in the world. We have got to be very careful when we talk about making radical change.

Ms. KURLAND. Congressman, may I just add one point? And this goes to the advocacy points that have been made. The FAA cannot do advocacy. But in the Secretary's office, as long as we get clearance from the Commerce Department, we do do advocacy, and we have done a great deal of advocacy on behalf of our aviation companies. I would be happy to provide you some of that information, as well.

Mr. GRAVES. I would love to have that information. But I got to tell you there is an attitude out there that a lot of—and I know the FAA has a regulatory job. I mean that is what they do. But

I have got to tell you out there, there is a strong sense by the pilot community, aviation community, all the businesses out there that surround aviation, that, you know, while there may be, you know, some advocacy going on, or should be some going on, there isn't. It is all about regulatory issues, regulatory authority. And, you know, and the unfortunate part is there is a lot of people in the FAA that don't understand aviation, or don't know the first thing about aircraft or—you know, or what it takes to run an airline, or what it takes to run a business, or to fly an airplane.

And that is probably the biggest problem that you have out there, particularly as we lose people within the FAA that have a knowledge or a background in aviation and replace them with people that have no background in aviation, whatsoever. It is getting worse and worse and worse. And as our pilot community tends to dwindle, you know, that is going to hurt the FAA, too, the Department of Transportation, because you are going to put yourselves out of business, as well.

But that is a neutral comment. I have got a lot of issues with that. But I would very much appreciate you letting me know or my office know what you are doing, in terms of promoting aviation and advocacy. Thank you, Mr. Chairman.

Mr. DAVIS. The gentleman's time has expired. The Chair now recognizes the gentleman from Texas, Mr. Williams, for 5 minutes.

Mr. WILLIAMS. Thank you, Mr. Chairman. And I want to thank all of you for being here today for this testimony.

I am from Texas. We got a lot of airports in Texas. I am a business guy, a small business owner, and I have always been concerned with Government's aggressive involvement with the private sector, often with negative results.

My question would be to you, Ms. Kurland. It is clear, from your testimony, that DOT believes it has been a strong advocate for the U.S. airline industry. Indeed, one of Secretary LaHood's—when he first came here, his first airline initiative was to establish the future of Aviation Advisory Committee to provide policy recommendations to ensure that we have an economically viable and globally competitive industry.

Now, one of the recommendations, as I know you are probably aware, of the committee was for DOT to conduct an independent evaluation of the airline industry's Federal tax burden.

Now, as you may know, the aviation tax burden—we have talked about it today—has doubled since 1992, and now constitutes 21 percent, or $61, of a typical $300 domestic round-trip ticket. Ironically, the administration included $5.5 billion in new and higher aviation taxes and fees in fiscal year 2014 in its budget proposal. And I can tell you that high taxes eventually will strangle a business.

So, my question would be, has the assessment been conducted? And, if not, when do you plan to do so?

And then, can you also explain how increasing the aviation tax burden on passengers and airlines by 25 percent makes the administration a champion of the industry?

Ms. KURLAND. Thank you, Congressman. That was a very important recommendation from the Future of Aviation Advisory Committee. The recommendation recommended that we get an independent source to conduct the inquiry. And we have been looking for one. And we think that the GAO would be a very good candidate to do such a study. And if perhaps, through your good offices, you could gauge their interest in performing such a study, we would be very appreciative of that, because we do think it is an important study, and the GAO would be a good entity to perform that.

With respect to aviation taxes, no one likes taxes. It is. But the system is an expensive system. It is a system that needs to have a stable funding source. And the airlines and the passengers who are the primary beneficiaries are—you know, we want to balance the—this burden.

As also has been mentioned, there is a certain portion of the funding of the aviation system that does come from the general fund. So it—the—excuse me—the approach of the administration is to be—to try and come up with a balanced approach to the taxation.

Mr. WILLIAMS. Well, I appreciate the administration's view on that. I, as a small business owner, sometimes realize—sometimes fewer regulations and fewer taxes kind of creates competition. And competition, in the end, benefits not only the business, but also the—in this case, the passenger. I would like for you to take that message back to the administration, have them start taking a look at fewer regulations, fewer taxes, to create competition and better service for the consumer.

Ms. KURLAND. I will. Thank you, sir.

Mr. WILLIAMS. We will try to help you with the GAO.

Ms. KURLAND. Thank you very much, sir.

Mr. WILLIAMS. Thank you. Yield back.

Mr. DAVIS. Thank you. The Chair now recognizes Mr. Coble from North Carolina for 5 minutes.

Mr. COBLE. I thank the chairman. Mr. Chairman, I apologize. I was tied up in Judiciary. So, hence, my belated arrival. But it is good to be with all of you. Good to have the witnesses before us.

Mr. Bunce, let me start with you with what I regard as a feel-good question, which I hope will elicit a feel-good answer. How do you view the contributions of aviation to the economy and communities across our country, A.

And is there a broader public benefit to aviation that policymakers in the administration and the Congress need to recognize in our respective funding and policy decisions?

Mr. Bunce, first, and anyone else who wants to put their oars into these waters are welcome to do so.

Mr. BUNCE. Well, thank you, Mr. Coble. And, as you said, aviation is just a crown jewel for this country. We are an aviation Nation. And the vitality of the entire aviation system—myself, as a general aviation pilot, represent general aviation manufacturers, we are all inner-related. So I want to see a very healthy airlines. I want to see a very healthy network of airports.

And our tax policy is integral to be able to keep that healthy. But also, we need to recognize that, as we look at employment in this country in this aviation industry, it is truly significant. Just in general aviation alone, it is 1.2 million jobs. We have been hit hard during the down-turn. We haven't asked for a bail-out. We have been proceeding on board, and we rely on this committee—and I really think you all have done a very commendable job of trying to help us look at smart policy that can not only preserve the jobs that we have, but actually expand it, because we do have that capability.

And this airspace system that we have in this Nation is one of those incubators for that. We talked about unmanned aerial vehicles just shortly a little while ago, a commercial space launch. But also, you look at the new technology that we are pumping into cockpits to be able to facilitate NextGen.

As my colleague, Ed Bolen, pointed out earlier, it is not just ground infrastructure. We are providing amazing technology that is making people safer in the skies. And also, we are reducing our footprint environmentally. The new technology that we are putting up there just with engines alone, let alone the composite structures that we are putting for airframes, is significantly lowering our carbon footprint.

And then you add that to these approaches that we have designed, we are really making significant gains. That is why our leadership is so vital. Ground infrastructure for ADS–B can allow us to do some things with separation that we never could do before with radars. That is why it was so important for us to try to prioritize and keep this on track. And we rely so much on you all to help the FAA along in that process.

Mr. COBLE. Thank you, Mr. Bunce. And I hope that my next statement is inaccurate, but I fear that the average American citizen does not fully appreciate the contributions submitted by the aviation community. And I am appreciative to you for it.

Anybody else want to be heard?

Mr. BOLEN. Well, I would just say, Mr. Coble, it is clearly, internationally, that there are a lot of parts of the world that want to move to the center of the world's aerospace stage, and they are investing heavily in their infrastructure, in their airlines, in their manufacturing base, because they recognize aerospace is a remarkable industry with a lot of high-tech, well-paying jobs that connects communities, it connects people, facilitates trade and commerce and jobs.

And so, the rest of the world wants aerospace. We are currently wearing the crown. And I think that we, as a aviation community, and Congress, and the public ought to be aware of what we have and how we can preserve and enhance that so we retain that mantle of the world leader in every aspect of aerospace. Because the rest of the world wants what we have got.

Mr. WYTKIND. Mr. Coble, may I? I just have one observation.

The airline sector has been sort of an island for middle-class jobs in this country for the entire history of flight. And if you look at the quality of the jobs on the operating side, on the maintenance side, on the manufacturing side, and everything else in between, those jobs are jobs that elected officials and the private sector ought to be fighting to keep.

And I am worried that if we do not rationalize our policies, if we do not look at the way in which, for example, we deal with taxes and fees, if we do not look at the way in which we regulate commerce, if we do not look at our trade policies to make sure we are not creating a sort of a runaway flag of convenience model that is going to guide the future of the airline industry, then we find ourselves stuck in a situation where we will ravage yet another American industry that is an island for middle-class jobs, the way we have across most sectors of the economy, which is why we have been with many elements of the industry on issues involving tax and fee burdens. It is because we see that at some point the piggy bank doesn't work any more, and you need to go somewhere else to find revenue to deal with the problems we have.

And that is why we have been trying to cooperate with our employers, because of that island of middle-class jobs that we are trying to protect.

Mr. DAVIS. The gentleman's time has expired.

Mr. COBLE. Yield back, thank you.

Mr. DAVIS. The Chair now recognizes another gentleman from North Carolina, Mr. Meadows, for 5 minutes.

Mr. MEADOWS. Thank you, Mr. Chairman. And I wanted to use just the first opening to thank the gentleman from North Carolina that just spoke. He is the dean of our delegation. When you use the term "gentleman," Mr. Coble is really the epitome of that word. And we are going to really miss him when he retires at the end of this term. And I just wanted to go on record as thanking the gentleman from North Carolina.

Mr. COBLE. If I may, Mr. Chairman, thank you for your generous comments. This may end up costing me.

[Laughter.]

Mr. DAVIS. The Chair agrees.

Mr. MEADOWS. I am going to just close with just two points and two questions. Mr. Bunce, I would like to come to you and, the Assistant Secretary, if you would weigh in on this, as well.

In 2003, Vision 100 was passed. In there it had a deadline for TSA to approve the repair station—the security rules for repair stations abroad. They missed that deadline.

Then again, in 2007, as part of recommendations from the 9/11 Commission, we passed it again. And that particular rule gave them a new deadline, of which they have missed again. The problem with that second issue is that it prohibited the FAA from certifying, if that was missed.

And so now we are here some 10 years later without the TSA essentially making a ruling on that particular thing. And, Mr. Bunce, is that lack of issuing the security rule affecting manufacturing of some of our U.S. companies?

Mr. BUNCE. Yes, sir. It is impacting us significantly. And if you really look at a situation where when DHS did not respond to the Congress, then the FAA was put in a position where they couldn't authorize any new repair stations. So then we, as industry, were kind of made the lunchmeat in the middle of this argument of one agency not responding to the Congress appropriately. And, as you say, 10 years is just unacceptable.

What we have seen in the process is if you cannot get your aircraft repaired throughout the places where this global industry flies, what happens? People don't want to buy an aircraft that has an FAA certification on it. So, effectively, you are negatively impacting jobs here. And, actually, the rule is very simple. We work very closely with our colleagues on the labor side of the House. It has been debated back and forth. And the rule, just to provide basic security mechanisms over there to make sure something nefarious isn't put on an aircraft should be fairly simple. And we just cannot get it out of the administration.

Mr. MEADOWS. So what you are saying is the lack of the TSA to make a rule in 10 years is affecting jobs.

Mr. BUNCE. Absolutely.

Mr. MEADOWS. OK. So can either of you, under any circumstance, figure out what is so complicated that, for the last 10 years, there wouldn't have been this—because it sounds like it is even undermining our certification process, where other people look to have it certified in another country or without that, it sounds like it is undermining that. But at worst case, it is affecting manufacturing. Is there any possible scenario why that would be accepted?

Ms. KURLAND. I can't speak on behalf of DHS. I am sure that they are taking a careful look at it. But as you——

Mr. MEADOWS. I would say very careful, if it took 10 years. They are taking a very careful look at it.

Ms. KURLAND. But as you noted, the FAA, without that, cannot issue any new certifications for foreign repair stations. And, from the FAA's perspective, we will—you know, once that happens, we will only certify those stations where we know that we have the ability——

Mr. MEADOWS. OK. Can you put some pressure on the TSA? I know that is a different agency, but it is all under the executive branch. Can you put some pressure on them to make that, or should we have them in here for a hearing?

Ms. KURLAND. Well, Congressman, we will go back and we will talk to them——

Mr. MEADOWS. So you will personally call——

Ms. KURLAND. I will personally call over to the TSA. But—and convey your comments.

Mr. WYTKIND. Mr. Meadows, is it possible to offer an observation? Because we have been involved with this issue, too. We agree with you, that 9-plus years to get that regulation completed is completely unacceptable. What I want to caution, though, is that rule was put in—that legislation was put into effect with bipartisan support. We supported it, because we were concerned about the security risk of this massive outsourcing of foreign—of aircraft maintenance overseas.

And, yes, they should have it done. It should have been done years ago. We are concerned, though, that the rule needs to meet high security standards, so that we don't run into a situation where we are sending so much maintenance overseas, and it is being done under substandard security rules.

But we completely join you in calling on the DHS to get this rule done. It is absurd that we are about to hit a decade—I was a much younger man when that legislation was passed, and we fought for it. But we didn't fight for it so then the regulation sits for 10 years. So we agree that it needs to be finished.

Mr. MEADOWS. Well, and I think at this point, if we don't address is, Congress needs to act to go back the other way. And TSA needs to understand that. You know, I will close with this quote. There is a quote out there that—I love the quote. No matter how beautiful the strategy, we must occasionally look at the results. And the results of this have not been effective.

I yield back.

Mr. DAVIS. The gentleman yields back. The Chair would now like to recognize for 5 minutes the gentlelady from Nevada, Ms. Titus.

Ms. TITUS. Thank you, Mr. Chairman. As I listen to you, it seems that a theme which is emerging is kind of a lack of coordination. The Secretary at one point said, “Oh, that is the public relations division of FAA,” or, “That is DOT,” or, “You have got—that is Homeland Security,” or “That is TSA,” or “That is Commerce doing trade.”

I wonder if you would start, Madam Secretary, addressing how you coordinate efforts within your agency, and then we might talk about how to improve them overall, so we can hope to some day get to an overall plan, like Mr. Wytkind said we need for aviation in this country.

Ms. KURLAND. Well, thank you very much, Congresswoman. We do coordinate. There are two types of coordination that go out. We coordinate within DOT across our modes. And if I don’t particularly have a certain piece of information today, I will get it to you for the record.

We also coordinate, on an interagency basis, on various activities. For example, in terms of exports. The idea of—we work closely with the Commerce Department, in terms of being able to advocate on behalf of U.S. transportation and U.S. aviation companies, where they are seeking to do business and get contracts in other countries. We work closely with the State Department in negotiating Open Skies agreements and in helping to resolve doing business issues on behalf of our carriers. So we do have ways of communicating with each other. I am sure they can always be improved, we would take back any suggestions or thoughts or ideas that you have.

Ms. TITUS. Anybody else want to weigh in of what we can do to improve it, or what we, as Members of Congress, might do to help make that better?

Mr. BUNCE. Congresswoman, I would just add that when this committee worked during the last Congress on, like, consistency of regulatory interpretation, all of us are affected, day in and day out, by regulators that come in and perhaps in one region of the country have a totally different interpretation of how this regulation should be applied than another. And to be able to have the FAA look at this holistically, try to make sense of the millions of pieces of guidance that are out there that—we have to repair aircraft, we have to operate them, we have to manufacture them and try to get a handle on that. This committee has been very helpful in trying to put pressure in that regard.

When we go and even work in the stovepipes that exist within the bureaucracies, and let’s say we manufacture an aircraft that can work up at the high-altitude airspace, and we manufacture to a standard that the FAA says, “Yeah, it is good to go,” they bless it, but then it goes over to the other part of the FAA that deals with the operators—and this is actually within the same directorate within the FAA—and we have to reprove again that the plane can do what one part of the FAA already blessed it to do—that is inefficiencies in the system.

And so, with your help, we try to emphasize this, put pressure on it. And then, as Mr. Calio said earlier today, metrics become very important. The more metrics that we are able to produce, agree on, and then be able to report back to you, we can actually establish whether we are making progress.

Mr. WYTKIND. I have one observation I want to make. The Obama administration has been incredibly proactive in working with the labor movement in the aviation trade arena, which is an important issue that has been raised in this hearing today. And the amount of input we have to make sure that aviation workers are at the table, and that their concerns and their rights and their jobs are being considered by those that negotiate trade policy in the aviation sector, has been incredibly good.

And that is why we are worried about TTIP and jamming aviation into those broad trade talks, because we have a lot of faith that the State Department and the Transportation Department understands what is at stake when you open markets abroad, and understands that the needs and the rights and the jobs of middle-class workers in this country have to be at the table, and we are worried that they won't be.

So, I want to say, for the record, there has been a lot of back-and-forth about some of the problems with DHS and with the DOT and other agencies. But I have to tell you. On the aviation trade issues, they have worked very, very closely, and have made it very clear that the rights and the jobs of middle-class workers in this country are at the table, and we are there to protect them.

Ms. TITUS. OK. I guess it is not as bad as I thought it was.

Mr. DAVIS. The gentlelady yields back. First off, thank you to the panel. As a freshman who is sitting here, I learned early that I would rather give time to everyone else to ask their questions instead of jumping in mid-term, so you have got one more to put up with me.

And I want to start by asking Assistant Secretary Kurland for a response. I am hearing that reports are—I am seeing in some reports that—we all know that the FCC has a very important meeting this afternoon regarding passenger usage of cell phones in flight. But I am seeing reports that DOT may actually preempt that decision. Can you confirm or deny that that may be taking place? And what might that decision be?

Ms. KURLAND. It is my understanding, Congressman, that the FCC is, in fact, having a public meeting today, in which they may be taking a vote in order to go—whether or not to go forward with a rulemaking on the use of certain types of equipment.

The only thing that I can comment on from the FAA perspective would be that the FAA would take a very careful look at any safety implications, whether it is from avionics interference or from cabin safety. So—but, like, this—the first step right now is for the FCC to be having—they are having this meeting today.

Mr. DAVIS. So the FCC is having the meeting, yes. But the reports are that DOT is going to preempt them with a decision. Is that——

Ms. KURLAND. I am going to have to look into that, and I will provide you an answer for the record. I don't have that information.

Mr. DAVIS. How long will it take?

Ms. KURLAND. As quickly as I can.

Mr. DAVIS. OK.

Ms. KURLAND. As soon as I get back to the office, I will——

Mr. DAVIS. I will ask a few more questions. If your staff could kind of text their folks over at DOT and maybe get a response, that would be great. We would very much appreciate it. I mean we are on the—we are very concerned about what is going to happen with the FCC decision today. And seeing reports that DOT may actually already have a decision made, I guess the question that I need answered is, is it inevitable that you are going to actually make a decision that would or could affect whatever comes out of the FCC?

Ms. KURLAND. As I say, I will have to check that. You may have more information right now than I do.

Mr. DAVIS. OK. We will come back. Mr. Bunce, first off, thank you for being here. I think this committee has been a model for bipartisanship and working together to find solutions. An example of this, obviously, is the Small Airplane Revitalization Act, which was signed into law this year, and focuses on streamlining the small aircraft certification standards. The sooner these new Part 23 standards are in place, the better it will be for all of our aviation community, especially general aviation community, and our economy.

I guess my question is, from your perspective, what can be done to facilitate the FAA's development and implementation of this Act?

Mr. BUNCE. Well, thank you, Mr. Davis, and thank you very much for your cosponsorship of that important legislation. That was substantive for us.

And I just want to let you know the impact. I was in Cologne at EASA, which is roughly FAA equivalent over there. And because of the effort of the Congress that started here, in this committee, actually, EASA has said that is one of their number-one rulemaking programs, going forward. So they call it CS–23, we call it Part 23 over here, but this is truly global rulemaking.

We had eight different countries participate in that rulemaking process, but we were very worried during that that certain elements within the bureaucracy would start to parse it up and break it up, and we wouldn't have the game changing effect that it will have now, because of your help. How do we make this actually happen over the next 2 years to try to get the FAA to deliver it is actually just, we think, having this committee very engaged in saying, "OK, what is the progress to date."

If we get this right, now we can expand this to rotocraft and then Part 25 transport category aircraft. So it is just not stand-alone. We are not just talking about aircraft below 12,500 pounds. In rotocraft right now, we have to modernize the regulations. Because, to keep them safe, we are having too many accidents, because we are not properly able to use new technology to keep pilots safe. So we can extend this if we do it right. But this is fundamental.

Mr. DAVIS. Well, thank you. And, I mean, obviously, keeping the committee engaged is a priority. But do you foresee any other problems in meeting the December deadline in 2015?

Mr. BUNCE. Having worked with the FAA, there could always be problems, sir. But we are going to report back to you if we see any problems in the process.

Mr. DAVIS. Well, thank you. Mr. Brewer, thank you for being here today. I appreciated your testimony with respect to protecting our contract towers. These cost-effective partnerships, they promote safety and are absolutely critical to small communities and many of the small airports that I represent.

There are a number of great contract towers in my district. We have Bloomington, Decatur, and, actually, Bethalto, St. Louis Regional Airport. And, in fact, Carl Olson, who is the executive director at the Bloomington Airport, just contacted us the other day and let us know they received another perfect score from the FAA on their safety inspection.

The question I have for you—I am confident Congress is going to keep working together on this, but what can be done in the near and the long term to promote and protect the contract tower program?

Mr. BREWER. I just want to say thank you for bringing this up again, because it is such an important and cost-effective way to maintain safety throughout the system. And, as you indicated some of the contract towers in your own district, there is 252 of these contract towers in 46 States and 4 territories around the country; 28 percent of all of the tower operations go through the contract tower program.

I think the funding of it needs to be maintained. And, as we look forward to the new FAA reauthorization bill, ensuring that that program is protected, I think, is key.

Mr. DAVIS. Well, thank you, and I couldn't agree more. Mr. Calio, you knew I wouldn't forget you.

Hey, I have got a great workforce training facility at one of my community colleges in Springfield, Illinois, Lincoln Land Community College, where they are training aviation mechanics for the future. And by 2016, reports are that one-third of the aviation workforce is going to be eligible to retire.

Besides the facilities like Lincoln Land Community College's program, what can this committee do, in your opinion, to help prepare for that future, and bring more individuals into the workforce in aviation?

Mr. CALIO. Well, Congressman, you identify a significant problem. Mr. Wytkind referenced it before, I think, and it is not just machinists and other airline workers, it is the air traffic controllers, as well.

And, candidly, I think the best thing that this committee could do would be to take today's hearing and use it as a springboard to look holistically at the entire industry and what needs to be done to let us maintain our world leadership and make us more competitive. Because we do have problems, we do have challenges. Particularly on a global basis across the board, we all are challenged.

And so, if you can continue your work and make it serious, and produce the kind of results you had previously on WRRDA, on the certification bill, that would be it.

Mr. DAVIS. Thank you. Mr. Wytkind?

Mr. WYTKIND. Thank you for that question. The only thing I would offer is that, first of all, the machinists union has a partnership with at least one, if not more, high schools that train future mechanics. I will send more formally to the committee information about that program. It might be one that the committee might look at as a way to expand training.

But I do think this outsourcing problem, where we now have one-third of—excuse me, 70 percent of all maintenance is outsourced in the airline industry, more than a third goes overseas, we are creating disincentives for people to even want to become airline mechanics in this country, because the jobs are going overseas.

So I think, if we connect the dots, you have got a public policy challenge of making sure we keep the level playing field, that we don't incentivize outsourcing abroad, but at the same time we have the shortage looming. Well, you can't ignore—those two points are related.

And so, I think, as we go forward, we are going to be offering some suggestions about workforce training issues that apply to not only mechanics, but to pilots, to air traffic controllers, to other FAA workers. And I am looking forward to working with you on that. I think it is an area where we can find some bipartisan support and agreement.

Mr. DAVIS. I agree. Thank you. Assistant Secretary Kurland, any new news?

Ms. KURLAND. I understand that the press is making statements, but I will have to go back to the Department and we will have to get back to you and report back to you on that, sir.

Mr. DAVIS. OK, because I am told that another committee—at a committee hearing today the FCC chairman said the DOT was working on a rule to regulate voice calls. And I guess it perplexes me——

Ms. KURLAND. I don't know.

Mr. DAVIS [continuing]. To know that something is going on with DOT and this committee can't get the same answers that another committee can.

Ms. KURLAND. And I apologize, but I don't have that information at my fingertips. But I will get back to you. Maybe I do.

Mr. DAVIS. You want to say something?

Ms. TITUS. Thank you, Mr. Chairman. I just——

Ms. KURLAND. We will be making a statement later today, and we will make sure that we get it to you. Thank you.

Ms. TITUS. Well, Mr. Chairman, I am just reading here, it came out 6 minutes ago. "U.S. Carriers, FCC Reach Accord on Unlocking Cell Phones. FCC chairman, Tom Wheeler, said before Members of Congress that an agreement was reached between the carriers and the agency, and details will be presented at the FCC meeting later on. The agreement would ensure that providers notify," et cetera, et cetera. So apparently, you are right, Mr. Chairman.

Mr. DAVIS. Thank you.

Mr. CALIO. If I could just clarify, I believe—in terms of carriers, so nobody misunderstands—that would be the cell phone carriers, not the airline carriers.

Mr. DAVIS. Thank you for that clarification, Mr. Calio, and thank you. And, Ms. Kurland, if you could have your staff get back to my office with a—as soon as this is made public, so that we can be aware, and let our constituents know, and also let the rest of this committee know, I would sincerely appreciate it.

Ms. KURLAND. We will certainly do that, sir. And thank you for your patience.

Mr. DAVIS. Well, thank you. And I guess I will end by saying does anyone have any comments on this cell service issue? I am happy to take them now. Otherwise, we will adjourn the hearing.

[No response.]

Mr. DAVIS. Seeing none, this hearing is adjourned.

[Whereupon, at 12:28 p.m., the subcommittee was adjourned.]

STATEMENT OF SUSAN L. KURLAND
ASSISTANT SECRETARY FOR AVIATION & INTERNATIONAL AFFAIRS
U.S. DEPARTMENT OF TRANSPORTATION
before the
COMMITTEE ON TRANSPORTATION & INFRASTRUCTURE
SUBCOMMITTEE ON AVIATION
U.S. HOUSE OF REPRESENTATIVES

December 12, 2013

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 Inter*VISTAS* 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.

DOT RESPONSES TO QUESTIONS FOR THE RECORD SUBMITTED BY MEMBERS OF THE HOUSE AVIATION SUBCOMMITTEE FOLLOWING THE DECEMBER 12, 2013 HEARING ON THE STATE OF AMERICAN AVIATION

February 10, 2014

Shuster

QUESTION

Submitted on behalf of Chairman Shuster

1. *What has been the impact of recent consolidation in the industry on air passenger service to small- and medium-sized communities?*

ANSWER –

Some airline managements have argued that larger airline networks will sustain service to more communities, especially small- and medium-sized communities. Given increased economies of scale and scope, mergers tend to provide airlines with more flexibility to respond to changes in demand for air travel. For example, some small and medium-sized communities in places such as North Dakota and Florida have experienced an increase in air service in recent years. However, mergers also produce shifts in management focus, changes in relationships with regional airlines, and significant network restructuring that can have an impact on communities that were used to a particular level of service. While some of the recently merged carriers have maintained or added service to these types of communities, others have substantially cut service, choosing instead to focus on larger markets. DOT took a proactive approach in seeking an agreement with AA/US in order to preserve service to small- and medium-sized communities at DCA post-merger. In the case of the AA/US merger, DOJ deliberately did not require the divestiture of any commuter slots which are designated for aircraft having 76 seats or less and are suitable for service to small and medium sized communities. The agreement DOT concluded with AA/US requires that the New American use all of the commuter slots held in November 2013 for services to small and medium sized communities for a period of 5 years.

LoBiondo

QUESTIONS

Submitted on behalf of Chairman LoBiondo

1. *How can FAA best ensure that it is prioritizing its investments in an uncertain and unconstrained budget environment?*

ANSWER –

The FAA uses a Joint Resources Council ("JRC") as its investment review board to prioritize its investments, including in the current uncertain and constrained budget environment. The JRC's members include the agency's Chief Information Officer, the Chief Financial Officer, the FAA's Acquisition Executive, the Air Traffic Organization Chief Operating Officer, Associate Administrator for Aviation Safety, Associate Administrator for NextGen, Director of the Joint Program Development Office, Associate Administrator for Airports, Assistant Administrator for Policy, International Affairs, and Environment, and the Chief Counsel.

The JRC uses the following standard set of criteria for prioritizing its investments: benefits, lifecycle cost, benefit to cost ratio, alignment with the enterprise architecture, effect on the Administrator's significant initiatives, and risk. In addition, the JRC is informed by the priorities established by the agency's other governance boards: its Executive Council, chaired by the FAA's Administrator which establishes significant agency policy and priorities; the NextGen Management Board (which establishes priorities for the Next Generation Air Transportation System), the Business Council (which establishes priorities for the overall agency budget and information technology needs), and the Executive Safety Management System Council (which prioritizes safety risks and mitigation strategies).

2. *What are the foremost cyber security threats faced by FAA and the aviation industry, and what is being done to ensure these assets are protected in an open system?*

ANSWER –

There are many constantly evolving cyber security threats faced by the FAA and the aviation industry. Motivations may be malicious intent, profit through theft and sale of information, and / or the desire to make a political statement, to name a few. As a complex, interconnected system of systems, the FAA and aviation industry are a potential target. With the introduction of new technologies, the potential for introduction of risk increases, necessitating our ability to evolve our cyber security capabilities.

Earlier this year, the FAA became a member of the Early Engagement Group with the Department of Homeland Security (DHS) in support of Continuous Diagnostics and Mitigation. As a result, the FAA will have access to and intends to use the DHS acquisition vehicle and associated funding to obtain tools and services that Federal agencies are to use to better secure their respective infrastructures, enable visualization and identification of risks. This will permit us to make informed decisions and direct resources to the areas of highest concern first. . Until available, disparate legacy tools and services will continue to be utilized to address cyber security threats.

Larsen

QUESTION –

Has the administration looked at the general issue of taxing the ancillary fees of airlines and has it made any determinations?

ANSWER –

As you may know, the Internal Revenue Service has determined that many "ancillary fees" offered by airlines for such things as checked baggage are not subject to excise taxes, because the IRS views them as "optional" services offered to the consumer. See Internal Revenue Service Letter Ruling Number 201002004 (Jan. 15, 2010).

Lipinski

QUESTIONS –

Questions for the Record for: The Honorable Susan Kurland, Assistant Secretary of Aviation and International Affairs, United States Department of Transportation (USDOT)

As a follow-up to several of my colleagues' inquiries on December 12, 2013, I would like to respectfully request for the record written responses to the following questions:

1. *What is the current status of Section 308 (d) of the FAA Modernization and Reform Act of 2012 (PL: 112-95), related to the drug and alcohol testing of persons performing safety-sensitive maintenance functions on aircraft? What are the current challenges USDOT faces in implementing this provision and meeting the deadline established under the law? As you know, I offered a similar amendment during the 2011 House Committee consideration and support the inclusion of Section 308 (d) in P.L 122-95. For this reason, I also respectfully request you inform the Committee what USDOT has done thus far to implement the provision and provide a timeframe of when USDOT plans to move forward.*

ANSWER –

In accordance with Section 308 of the FAA Modernization and Reform Act of 2012 concerning alcohol and controlled substances testing program requirements of employees of repair stations located outside the United States, in October 2012, the Secretaries of State and Transportation jointly solicited the support of every International Civil Aviation Organization (ICAO) Member State in seeking ICAO action to develop standards that require all member states to implement effective drug and alcohol testing of all persons performing safety sensitive functions on commercial air carrier aircraft within their country. A Department of State cable was sent to all embassies on October 19, 2012, outlining the requirements of section 308. Despite the fact that may member states support these efforts, to date, the response to implement such programs has been minimal.

The statute directs the Administrator to promulgate a rule requiring repair station employees that perform maintenance on part 121 aircraft to be covered by a testing program acceptable to the Administrator and that is consistent with the laws of the state where the repair station is located. The laws and regulations of some countries may place limitations on what types of drug and alcohol testing may be allowed, prohibit it entirely, or place conditions on how testing must be done. In light of this, the FAA has elected to proceed with an Advance Notice of Proposed Rulemaking (ANPRM) as a first step. The ANPRM, which is currently under development and review, will allow us to gather information on legal, logistical, medical, and international policy considerations as well as the costs associated with establishing a drug and alcohol testing regime for persons performing safety sensitive maintenance functions on part 121 air carrier aircraft. We will then use the gathered information to craft a proposed rule.

2. *What actions has USDOT taken to promote America's aviation industry both domestically and abroad? What do you believe the Department has done well in this regard and what can it do better? How would you describe USDOT's initiatives to promote aviation compared to other sectors, such as rail or maritime transportation? I strongly believe that America must continue to be the global leader on aviation. What do you believe will be the consequences if we fall behind, particularly related to our ability to set global standards and increase exports?*

ANSWER -

The staff of the Department of Transportation's (DOT's) Office of the Secretary of Transportation (OST) regularly advocates on behalf of the interests of the U.S. aviation industry, consumers, and the aviation workforce.

Through the Open-Skies program, the DOT works to achieve an equitable, pro-competitive operating environment for U.S. aviation services between the United States and foreign countries. We have now established Open Skies with 113 aviation partners and continue to work with other countries to liberalize our bilateral aviation relationships. Among other things, our liberalized aviation agreements make it possible for U.S. airlines to enter new markets freely, offer innovative products and pricing to consumers and to work with airlines of other countries to explore new markets. These opportunities support tourism and business connections as well as facilitate the growth of trade and exports generally. Importantly, the DOT consults regularly with the industry and works closely with airlines and other U.S. agencies to ensure that U.S. airlines are able to exercise all the rights available to them under the applicable bilateral agreements.

Moreover, to support U.S. national interests, OST works in conjunction with the U.S. Department of Commerce's (DOC's) Advocacy Center to assist U.S. transportation companies looking to sell their products and services overseas through formal educational efforts in regard to U.S. products, standards harmonization, and resolving issues faced by U.S. businesses. OST's commercial advocacy efforts which promote U.S. interests in the aviation sector are robust and cover a wide range of sub-sectors and companies, including aircraft and parts manufacturers, ground-based equipment for airports and air traffic management providers, and airline management services. Throughout its efforts, the DOT avoids conflicts of interest and preferential treatment to any entity. Our commercial advocacy comes in the form of letters from the Secretary and Deputy Secretary of Transportation to their foreign counterparts highlighting the strengths of U.S. companies as well as in-person discussions by high-level OST officials while meeting their counterparts both abroad and in the U.S.

In FY13 alone, OST advocated for aviation interests with regard to eight U.S. aviation companies competing for nine different tenders worth a combined $11.7 billion. These cases range from very large tenders bid on by a large aircraft manufacturer to smaller, but no less important, bids by companies to supply air traffic management equipment and services. In many of these cases, although a foreign company is acquiring the products or services, that company's national government is a decision maker in the sale. OST conducts outreach to ensure a level playing field on behalf of the U.S. companies. While these are tremendous successes, the Department believes that its efforts in the promotion of the strengths of the U.S. aviation industry have room to grow.

Although U.S. companies are known the world over for their quality, value, innovation, and customer service, the Department recognizes that these companies face immense competition from foreign counterparts and their governments. OST is therefore committed to providing fair opportunities for U.S. companies through continued and persistent work with our foreign government counterparts. That work includes engaging with national governments to discuss the compatibility of regulatory standards and the importance of ensuring that all commercial bids are considered on their technical and economic merits. Without this support, U.S. companies would lose an important advocate for their products and services. This could put U.S. companies at a disadvantage when going up against companies that have the full support of their national governments.

(Note: Rep. Graves also inquired about this matter during the hearing. This question is meant to be responsive to that question as well.)

DeFazio/ Meadows

QUESTION –

What is the status of the foreign repair station rulemakings?

ANSWER –

During the December 12, 2013 hearing, Congressman DeFazio and Congressman Meadows, as well as other members of the subcommittee, inquired about the status of rulemakings concerning foreign repair stations. The FAA has been prohibited from issuing new Foreign Repair Station certificates until the release of a TSA security rule for repair stations. The final rule was published in the Federal Register on January 13, 2014, 78 FR 2119, and will take effect on February 27, 2014.

Going forward, the FAA will only issue new certificates when it can provide appropriate, long-term safety oversight as resources allow. In addition, to address the requirements of section 308(d) of the FAA's Modernization and Reform Act of 2012, the FAA plans to issue an Advanced Notice of Proposed Rulemaking (ANPRM), to gather information on legal, logistical, medical, and international policy considerations as well as the costs associated with establishing a drug and alcohol testing regime comparable to that currently used in the United States. We will then use the gathered information to craft a proposed rule. The ANPRM is currently in executive review.

DeFazio

QUESTION

What are the Department's rules with regard to how airlines can display fares, fees, taxes, and surcharges? Does the Department prohibit airlines from breaking out the fees, taxes, and surcharges applicable to a consumer's airfare?

ANSWER –

The Department's full fare advertising rule requires airlines to state the entire price to be paid by a consumer but the carrier remains free to describe the charges included within the single total price such as government taxes and carrier fees (e.g., fuel surcharges). To be clear, no rules or regulations prohibit airlines from disclosing or "breaking out" taxes and fees. However, the separate statement of these taxes and fees must not be false or misleading, must be provided on a per-passenger basis and must accurately reflect the cost of the charge to the carrier, and may not be displayed as prominently as the total price.

While the Department does not require the breaking out of the charges included within the single total price, it does require that the advertised price include all mandatory fees including government taxes and fees and prohibits advertisers from displaying the charges included within the total price as prominently because of concern that in many cases consumers are not easily able to determine the total cost of air transportation services or are deceived regarding the true price. Individuals and consumer organizations such as FlyersRights.org described in the rulemaking comments that they submitted to the Department feeling deceived when the total price, including taxes and fees, is not quoted to them after an initial fare inquiry. The purpose of the full fare advertising rule is to ensure consumers are not misled regarding the total cost of the purchase.

In addition to full fare advertising rule, if an airline or travel agent (including online travel agents) sells tickets on its website, it is required to disclose on the first screen in which it offers a fare quotation for a specific itinerary that additional airline fees for baggage may apply. Airlines are also required to list on their websites information on fees for all optional services that are available to a passenger purchasing air transportation.

Cohen

QUESTIONS –

Ms. Kurland, as former Associate Administrator for Airports at the FAA, you may know that the FAA is considering a change to its long standing criteria used to conduct airspace reviews of proposed structures under 14 C.F.R. Part 77 ("Part 77"). This possible change would, for the first time since FAA began reviewing structures over sixty years ago, take into consideration airline-specific procedures known as One Engine Inoperative (OEI) procedures.

I'm particularly concerned about the effects this change would have on private property rights, building heights, urban development, and jobs, especially in Memphis. As you may know, Memphis plans for growth as an "Aerotropolis" are centered around the airport.

During a hearing in this committee last year, I asked Administrator Michael Huerta for an update on possible changes to the FAA's Part 77. At that time the agency was engaged in internal discussions about the possible change. I trust that that, should FAA decide to move forward, any changes to Part 77 would undergo a notice-and-comment rulemaking process. Can you provide an update on the discussions surrounding OEI and Part 77, and verify that any change would be conducted through the rulemaking process?

ANSWER –

The FAA is continuing to review the OEI issue and will continue to work with and seek the input of interested parties to explore balanced public policy solutions. We are also committed to supporting airports in their efforts to be good partners to the communities they serve.

Any change in existing policy will be subject to the Administrative Procedures Act, and the public will have an opportunity to comment.

Capuano

Air Service Incentives

Questions: Why does the Department have a policy in place to allow airports to offer air carrier incentive programs? What are the rules associated with the programs? Is it possible for foreign carriers to receive subsidies for international services that are not available to U.S. carriers?

DOT Answer

U.S. airports are prohibited from subsidizing any airline operations, either U.S. or foreign flag. The FAA's Policy and Procedures Concerning the Use of Airport Revenue (7696FR February 16, 1999) does allow for financial incentives to encourage new service. However, those are limited to landing fee waivers or discounts, must be offered to all air carriers for similar service for a promotional period.

Airlines for America
We Connect the World

Testimony

STATE OF AMERICAN AVIATION

Statement of Nicholas E. Calio
President and CEO, Airlines for America (A4A)[1]
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.

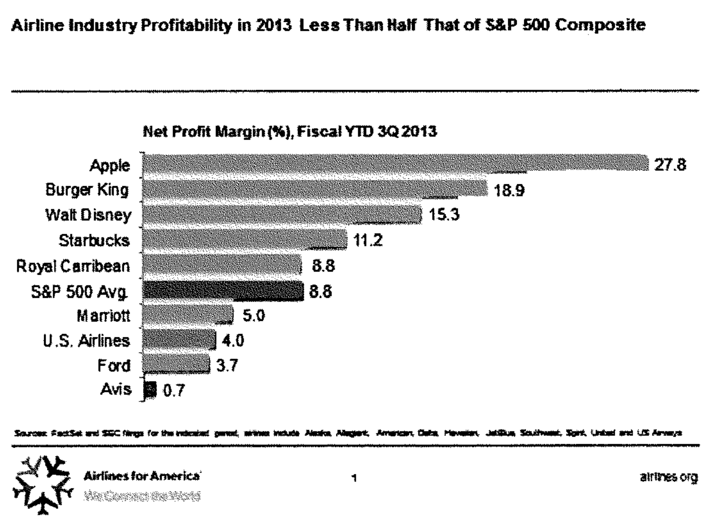
These core principles and the need for their adoption are described more fully below.

THE FINANCIAL STATE OF THE U.S. AIRLINE INDUSTRY

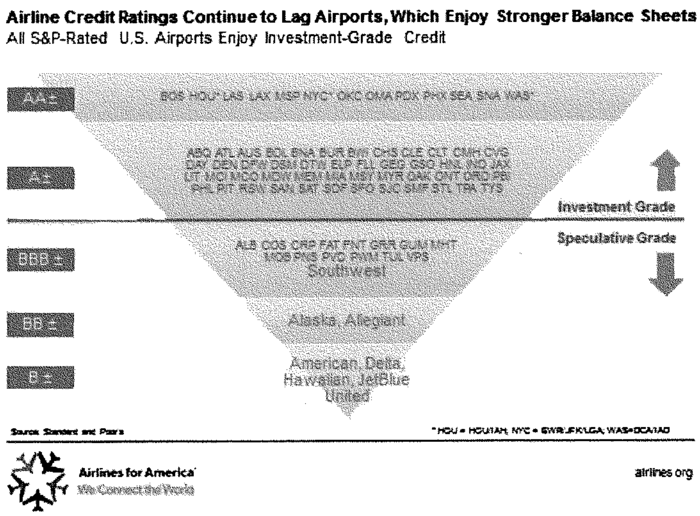
Despite recent improved financial results, the U.S. airline industry is far from having entered a robust era.

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

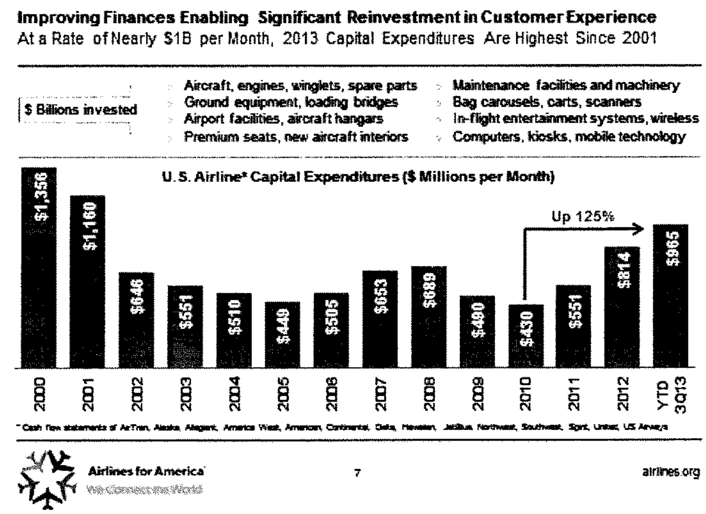


Slide 2



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

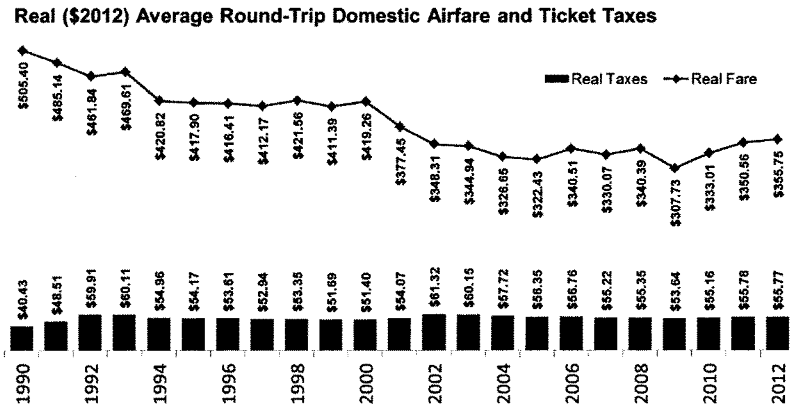
Congress deregulated the domestic airline industry in 1978 to unlock its value to the American public. Congress recognized that removing the straitjacket of government economic regulation and allowing airlines to operate competitively like other businesses would make air transportation services affordable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



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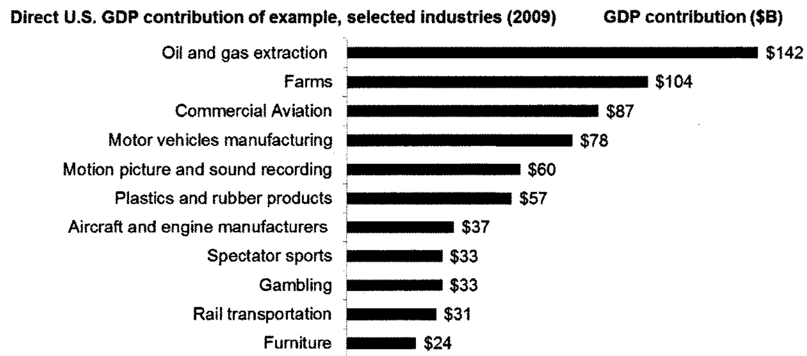
Slide 5

Why Is a Comprehensive Airline Policy in the National Interest?

Commercial Aviation Is a Key Direct Contributor to the U.S. Economy



Note: Not intended to be a comprehensive ranking, example industries only to give a point of comparison; aviation-related data extrapolated from FAA economic impact report; aircraft and engine manufacturers include Boeing, GE, Pratt, Honeywell, Collins, etc.

Sources: BEA industry accounts; gambling and spectator sports from BEA Travel & Tourism satellite account data; FAA Air Traffic Organization, "The Economic Impact of Civil Aviation on the U.S. Economy" (Dec. 2009); BCG analysis

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	✓	✓	✓	✓	✓

Airlines for America
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9

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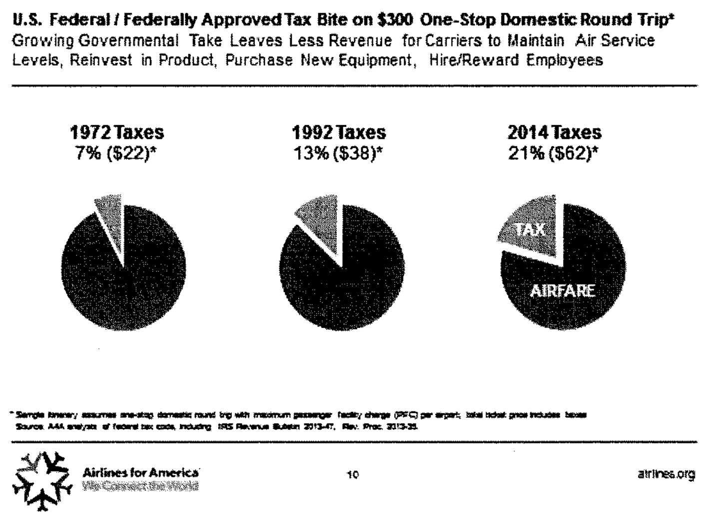
Likewise, more recent regulatory initiatives substitute the government's judgment for the working of the marketplace and manifest a philosophy that favors re-regulation over market discipline that reflects consumer decisions. These new regulatory burdens run counter to the Airline Deregulation Act, which 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

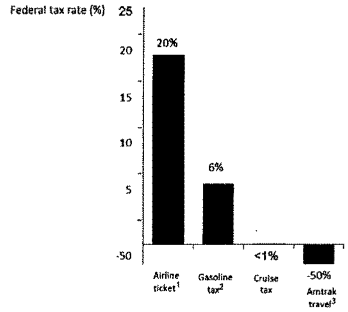


Slide 8

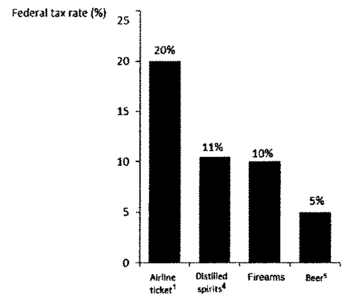
Rationalize Tax Burden

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



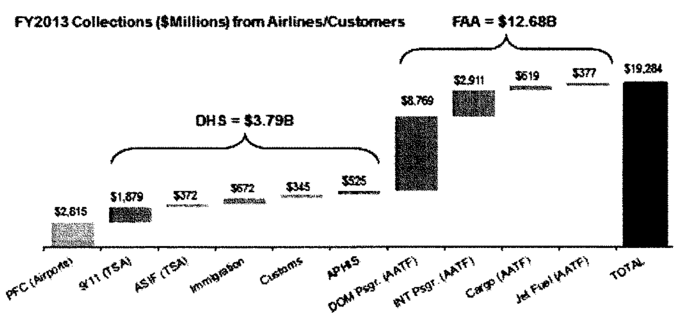
1. Sample itinerary assumes one-stop domestic round trip with maximum passenger facility charge (PFC) per airport; total ticket price includes taxes
2. Federal tax percentage (18.4 cents per gallon gasoline, 24.4 cents per gallon diesel) based on June 27, 2012 prices (including state and federal taxes of $3.68/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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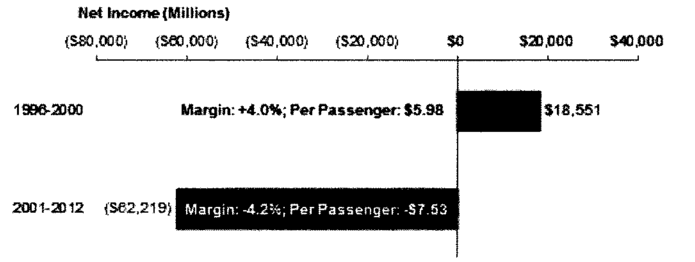
More recently, there have been attempts to have airlines and their customers pick up the tab to reduce the federal budget deficit or to cover the cost for a payroll tax-cut extension. Last year and earlier this year, on multiple occasions, the Administration offered a proposal that would triple the security 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



Source: A4A analysis of DOT Form 41 data reported by U.S. airlines for which passenger revenue constitutes at least 25 percent of operating revenues

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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.

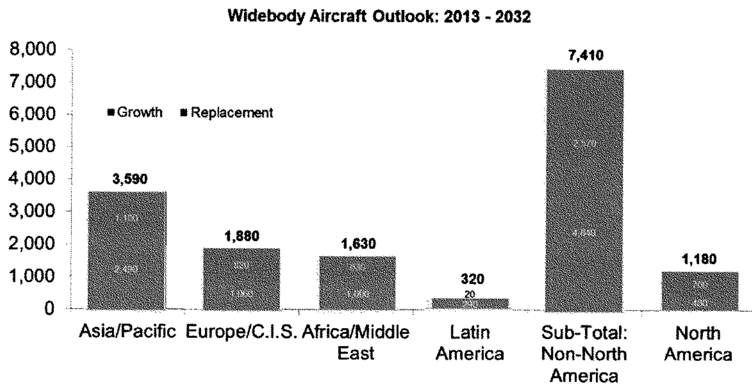
The United States does not have an overarching airline policy that recognizes the strategic value of the U.S. airline industry and seeks to advance its global competitiveness. Rather than "strengthening the competitive position of air carriers to at least ensure equality with foreign air carriers...to 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

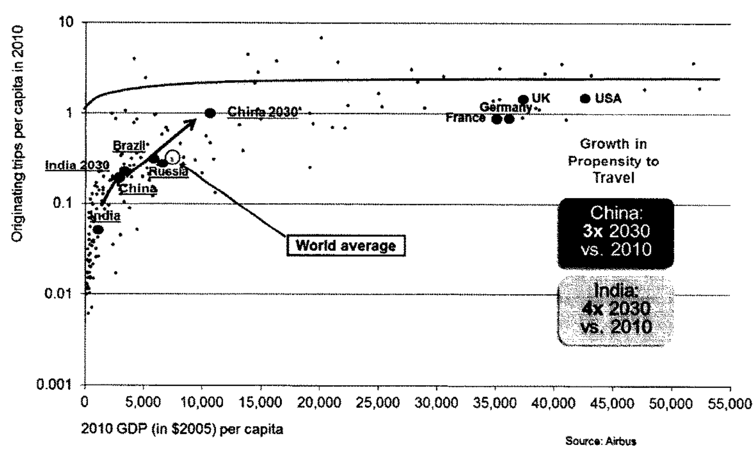
Foreign Airlines are Projected to Order Six Times as Many Widebody Aircraft as North American Airlines



Slide 13

Growth Opportunities for U.S. Airlines Abound in the BRIC Nations

Unlike Developed Economies, Emerging Economies Drive Strong Travel Growth



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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.

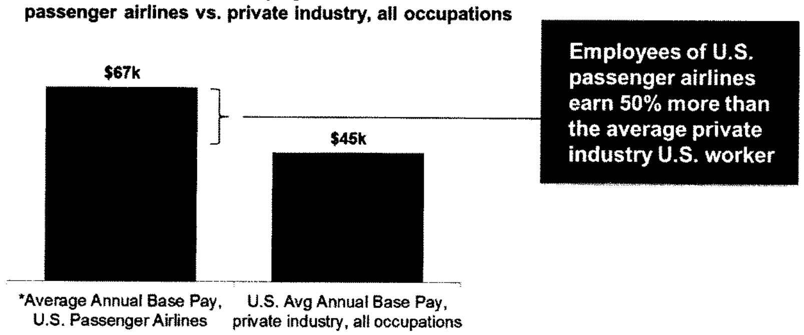
WHY IS THIS IMPORTANT?

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

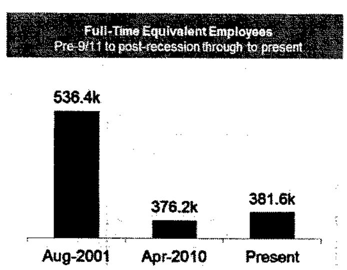


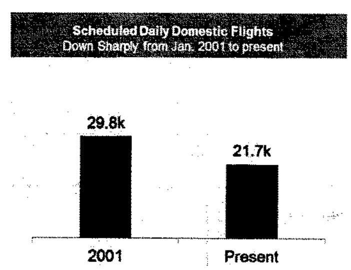
*Sources: Bureau of Labor Statistics; A4A U.S. Passenger Airline Cost Index

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.

Nicholas E. Calio
President and CEO
Airlines for America
Response to Question for the Record issued by Hon. Bill Shuster

Submitted on behalf of Chairman Shuster

1. **What has been the impact of recent consolidation in the industry on air passenger service to small- and medium-size communities?**

Response

The net impact of consolidation on service to small- and medium-size communities has been positive, because it has allowed airlines to acquire new aircraft to serve those communities and to hire and retain high-quality employees. What determines the level of service to and from these communities is the level of demand (a combination of population and income) and the cost of operating a fleet that is tailored to those smaller markets. The combination of weak demand in many small markets, high and volatile fuel prices and the accessibility of competing airports within a reasonable driving distance all have undermined the economics of serving certain communities. However, new aircraft coming online and relief in pilot scope clauses have started to reverse that trend. Consolidation itself did not cause service reductions – in fact, it improved network traffic flows to help sustain service to many small communities (that otherwise might have seen cuts) and deploy new or refurbished and more fuel-efficient aircraft to others. Airlines, like other businesses, have an obligation to their employees and investors to maximize returns. The resultant job security, wage and benefit gains, and greater access to capital results in a better product and quality of service for travelers in communities of all shapes and sizes.

In addition, many of our foreign airline competitors are among the largest airlines in the world due to consolidation, which has dramatically changed the competitive landscape of the global aviation market. Recent U.S. airline industry consolidation activity has allowed U.S. carriers to compete with rapidly expanding foreign airlines, enabled cost-lowering efficiencies, increased travel consumer travel options, and, most importantly, expanded service options to highly profitable global markets.

For U.S. network airlines, unfettered access to the fastest-growing global markets is critical to their economic viability and competiveness. In fact, more profitable international operations enable U.S. network airlines to provide service to less-profitable small- and medium-sized communities. U.S. airline share of the global aviation market is threatened by increased competition from foreign airlines whose governments view them as strategic assets to drive economic growth. As a result, our foreign airline competitors, particularly those in the Middle East, are subject to more favorable tax, regulatory and infrastructure policy environments than U.S. airlines. Many of our foreign airline competitors are among the largest airlines in the world due to mergers, which have dramatically changed the competitive landscape of the global aviation market.

Congress can help protect service to small- and medium-sized communities by enacting a comprehensive National Airline Policy (NAP) that will support the integral role the domestic airline industry plays in our economy. Commercial aviation – particularly the U.S. airline sector – is vital to the health of our nation's economy, enabling 11 million U.S. jobs and 5 percent of our nation's gross domestic product. Every 100 airline jobs help support some 473 jobs outside of the airline industry.

From 2001-2013, U.S. passenger airlines lost $50 billion – or nearly $6 per passenger – and shed more than 150,000 jobs – about one-third of their total workforce. In large part due to these historic losses, the nine largest U.S. carriers entered 2014 with $72 billion in debt; eight of them had non-investment grade credit.

Since 2000, the price of jet fuel has grown twice as fast as revenue, making jet fuel by far the U.S. airline industry's largest and most volatile cost, constituting about one-third of total operating expenses today. Last year, U.S. passenger and cargo airlines spent $51 billion on fuel – or $140 million per day – exceeding $50 billion for the third consecutive year. As a result, U.S. passenger airlines are barely covering their costs, earning a margin of just 2.5 percent from 2010-2013 – less than half the Standard & Poor's 500 average.

The NAP includes the following policy proposals, each of which will help protect service to small- and medium-sized communities:

Reduce the Aviation Tax Burden – Today, the U.S. aviation industry and its customers are subject to 17 unique taxes and fees imposed by the federal government, which totaled over $19 billion in 2013, a record-high. When a recent Transportation Security Administration (TSA) passenger security fee increase takes effect in July 2014, government-imposed taxes and fees will constitute $63, or 21 percent, of the cost of a typical $300 domestic round-trip ticket, putting air travel in the same tax brackets as so-called "sin products" – alcohol and tobacco – which are taxed to discourage use. The NAP calls for Congress to hold the line on existing aviation taxes and fees, including the Passenger Facility Charge (PFC) cap, and immediately repeal the 4.3-cents-per-gallon commercial jet fuel tax, which was enacted in 1993 as a "temporary" measure to help reduce the federal deficit. This tax costs airlines about $400 million per year. The tax has been eliminated for other major transportation modes.

Rationalize the Regulatory Burden – Although the U.S. airline industry was deregulated in 1978, it remains one of the most regulated sectors of the U.S. economy. In contrast to many of our foreign airline competitors, U.S. airlines are subject to many costly and burdensome economic, safety and security regulations that inhibit U.S. airline profitability, job growth, and service to small- and medium-sized communities. The NAP calls for Congress to eliminate or revise inefficient and costly rules, such as Department of Transportation's Full Fare Advertising Rule and Tarmac Delay Rule, which do not improve safety or the customer experience. In addition, the NAP calls for reform of the regulatory process at the Department of Transportation and FAA by ensuring that future rules are tailored specifically to the various segments of the industry, based on sound science and real-world operating conditions, and do not undermine the economic viability and global competitiveness of U.S. airlines.

Modernize the National Airspace System – The current radar-based, U.S. air traffic control system dates back to the World War II era. The FAA is in the process of a multi-year, multi-billion-dollar initiative, known as NextGen, to modernize our ATC system. If implemented properly, this satellite-based system and resulting policies and procedures would enable airlinesto leverage technology investments they have already made, resulting in fewer flight delays, missed connections and cancellations, and lower fuel consumption and related emissions. The NAP calls for vigorous congressional oversight to ensure that the FAA focuses on implementing the most cost-beneficial components of NextGen, including performance-based navigation (PBN) procedures, before requiring airlines to spend billions of dollars to equip their aircraft with technology for which no clear benefits have been demonstrated. Successful implementation of NextGen will improve airline productivity and operations and streamline airline costs, thereby protecting service to small- and medium-sized communities.

Enhance Global Competitiveness – Because the governments of many of our foreign airline competitors view their airlines as strategic economic assets, they have adopted favorable, forward-looking policies that enable their airlines to out-compete U.S. airlines. As a result, global airline traffic is shifting South and East, with the Middle East and Chinese carriers emerging as the fastest growing international airlines in terms of revenue and capacity. Middle East carriers alone have more than four times as many wide-body aircraft on order than U.S. airlines. The NAP calls for a wide-range of legislative and regulatory initiatives that would help enhance the competitiveness of U.S. airlines, including the reallocation of Customs and Border Protection (CBP) officers from land and sea ports of entry to airports of entry; ensuring that future CBP Preclearance facilities do not place U.S. airlines at a competitive disadvantage; expansion of the Visa Waiver Program; and prohibition of environmental taxes and cap-and-trade schemes like the European Union's Emissions Trading Scheme (ETS).

Statement of

Mark Brewer, A.A.E.

Airport Director,

Manchester-Boston Regional Airport

and Chair,

American Association of Airport Executives

Before the

Committee on Transportation and Infrastructure

Subcommittee on Aviation

U.S. House of Representatives

December 12, 2013

Chairman LoBiondo, Ranking Member Larsen, and members of the Transportation and Infrastructure Subcommittee on Aviation, thank you for inviting me to participate in this hearing on the "State of American Aviation." It is an honor for me to be here.

My name is Mark Brewer. I am the Airport Director of the Manchester-Boston Regional Airport, a small hub airport located just north of Boston. I also serve as the Chair of the American Association of Airport Executives (AAAE). AAAE is the world's largest professional organization representing the men and women who manage primary, commercial service, reliever, and general aviation airports.

I am also pleased to be testifying today on behalf of the Airports Council International-North America (ACI-NA). ACI-NA represents local, regional, and state governing bodies that own and operate commercial airports in the United States and Canada. ACI-NA's member airports enplane more than 95 percent of the domestic and virtually all the international airline passenger and cargo traffic in North America. AAAE and ACI-NA are working closely together in an effort to find solutions to the enormous challenges facing airports throughout the country.

I would like to begin by thanking those of you who served on this panel in the 112th Congress and helped to pass H.R. 658, the FAA Modernization and Reform Act of 2012. After five years of debate and 23 short-term extensions, the FAA reauthorization bill provided airports with some much-needed stability. We truly appreciate all the time and hard work that members and tireless staff dedicated to getting that multi-year FAA bill enacted into law.

Impacts of Sequestration and Other Funding Cuts

Mr. Chairman, since Congress passed the FAA reauthorization bill in early 2012, airports and our colleagues in the aviation industry have been focused on the across-the-board cuts called for in sequestration. The first round of cuts that were implemented earlier this year could have resulted in the closure of a large number of FAA contract towers, furloughs for tens of thousands of controllers and other FAA employees, and massive delays in our aviation system.

Congress wisely stepped in to prevent those disruptions from happening. However, airports were forced to give up $253 million in Airport Improvement Program (AIP) funding in order to maintain FAA operations. This precedent of diverting limited capital dollars to FAA operations is of great concern to airports and we would suspect to this committee, which has long been at the forefront of efforts to ensure adequate investment in the nation's airport infrastructure. Unfortunately, funding for infrastructure projects may be targeted again as the sequestration process continues.

The recent quarter of a billion dollar cut in AIP funding and the continuing downward pressure on federal spending underscore the need for Congress to raise the federal cap on local Passenger Facility Charges (PFCs) and to take additional steps that would allow airports to finance a greater share of critical infrastructure projects with local revenues.

Even if sequestration is eliminated or its impact is limited in subsequent years, it is clear that federal resources are under tremendous strain and insufficient to meet the significant infrastructure needs at airports. We are simply asking Congress to provide airports with the self-help they need to fill the gap.

Plans to Close Contract Towers: As most of you know, the Administration earlier this year initially planned to close 189 contract towers and eliminate midnight shifts at more than 60 towers in order to comply with the sequestration cuts. The proposed closure list was later reduced to 149. But closing such a large number of towers would have had an enormous impact on the safety of small airports around the country.

Airports are grateful that a large number of Republicans and Democrats in the House and Senate stood up and voiced their strong opposition to the Administration's plans to close contract towers. On behalf of my colleagues at contract tower airports around the country, I would particularly like to thank Chairman Shuster for his leadership on this issue as well as Ranking Member Rahall, Chairman LoBiondo, Ranking Member Larsen, and all of you on the Transportation and Infrastructure Committee who helped to protect contract towers.

Eighty-three House members -- Republicans and Democrats -- sent a letter to the Secretary of Transportation in May urging the administration to keep contract towers open. Forty-one Senators sent a similar letter to the Secretary of Transportation and the FAA Administrator. The strong bipartisan and bicameral support for contract towers reinforces just how important this program is to maintaining safety at small airports throughout the country.

Using AIP Funds to Pay for FAA Operations: In order to mitigate the impact of cuts at the FAA, Congress ultimately passed S. 853, the Reducing Flight Delays Act of 2013. The legislation kept the contract towers open and put an end to controller furloughs. However, it did so by diverting $253 million from AIP to pay for FAA operations. AAAE and ACI-NA strongly opposed plans to furlough air traffic controllers and shut down contract towers. But the two airport associations believe that keeping our aviation system running at full capacity should not be done at the expense of investing in airport infrastructure projects.

ACI-NA Interim President Deborah McElroy and AAAE President and CEO Todd Hauptli commented on how AIP cuts shortchange the future of America's airports in a joint letter that they sent to Congressional leaders in September. They pointed out that continued use of AIP funds to pay for FAA operations would undercut the ability of airports to finance infrastructure projects and remain competitive with airports in other countries:

"The use of AIP to fund FAA operations is a misguided approach that disregards the fact that passengers are paying a portion of their airline ticket taxes for airport capital improvements, in particular the safety and capacity projects necessary to keep U.S. airports' infrastructure reliable and competitive with the rest of the world," they wrote. "These funds ensure airports can make essential, long-term investments in maintaining and upgrading facilities. Using the funding that passengers pay for airport improvements to again address FAA's sequestration problem is not in the long-term interests of the U.S. aviation system."

Lawmakers who serve on the Senate Appropriations Committee seem to agree with that assessment. The report accompanying S. 1243, the Fiscal Year 2014 Transportation, Housing and Urban Development, and Related Agencies Appropriations bill, states:

"The use of AIP funds for purposes other than airport infrastructure development could have a serious impact on the ability of the Nation's airports to meet current and future FAA standards; replace or rehabilitate critical airport facilities; increase airfield capacity; enhance competition among airlines; modify, replace, or construct facilities to accommodate additional passengers and aircraft; or meet other important safety, security, and environmental requirements."

Without Congressional intervention, sequestration is slated to last through 2021. To illustrate the threat this poses to airports, if AIP funding were to be reduced at a rate of $253 million per year our members would see their AIP funding shrink by almost $2.3 billion. A cut of that magnitude would have a severe impact on the ability of airports to finance critical infrastructure projects and prepare for increasing demand.

Let me give you give you an example of how additional cuts could affect the Manchester-Boston Regional Airport. During the next five years, our airport hopes to receive at least $14.2 million in AIP discretionary funds for a variety of projects including runway and taxiway overlays and relocating a roadway so that it is outside of our Object Free Area and complies with FAA standards. These projects along with planned purchase of snow removal equipment would improve safety at our facility. However, we are concerned that additional AIP cuts could delay those infrastructure projects and equipment purchases and ultimately increase our costs.

TSA Exit Lanes: While airports are facing significant AIP cuts they are also being forced to take over new costly responsibilities currently held by the federal government. As you may already know, the Transportation Security Administration (TSA) is requiring some 150 airport operators to staff nearly 350 exit lanes by early 2014 -- a responsibility that the TSA has held since the agency was created. According to TSA's own estimates, shifting this responsibility to airports would cost our members more than $100 million per year.

This is a significant policy change that is being undertaken strictly for the agency's budget convenience. We would argue that it is also being done without the benefit of a comment and review process in violation of the Administrative Procedures Act. This is such a consequential issue that AAAE and ACI-NA, along with more than 20 individual airports, have requested that the Court of Appeals issue a stay, preventing TSA from taking this action. We have also been urging Congress to prohibit TSA from shifting exit lane responsibilities to airport operators or at a minimum comply with the Administrative Procedures Act and issue a notice of proposed rulemaking for public comment in order to promulgate the requirement.

TSA's plans would impact airports and our airline partners. AAAE and ACI-NA have been working with our colleagues at Airlines For America (A4A) and the Regional Airline Association (RAA) in an effort to prevent the TSA from implementing this costly plan. I would like to thank Mr. Calio, his team at A4A, and the RAA for all their help on this matter.

Airports Face Significant Capital Needs as Demand and Congestion Increase

Mr. Chairman, at a time when federal funds for airport infrastructure projects are receding, airports are trying to prepare for increasing demand, increasing congestion, and increasing capital needs. Before I get into a few specific airport proposals, I would like to take some time to describe rising demand and congestion and explain why airports need to begin preparing now for increasing passenger levels to come.

Increasing Demand: The FAA estimates that commercial carriers in the United States will carry approximately 737 million passengers this year. The agency's latest Aerospace Forecast indicates that enplanements are expected to increase by about 3 percent next year to 757 million passengers. That is a slight uptick in the short-term. However, passenger levels are expected to jump by approximately 56 percent over the next 20 years.

The FAA indicates that passenger enplanements are expected to reach the one billion mark by 2027. Two years later, passenger levels are expected to rise to 1.1 billion -- an increase of almost 320 million above current levels. Adding 320 million passengers is the equivalent of adding the entire population of the U.S. to our already constrained aviation system. Sixteen years may seem like a long time to some. However, planning and building runways and other capacity-enhancing projects can take an enormous amount of time.

Mark Reis, the Managing Director at the Seattle-Tacoma (SEA-TAC) International Airport and ACI-NA Chair, knows firsthand how long it can take an airport to build a new runway. SEA-TAC, the 15th busiest airport in the country, finally opened a new runway in 2008. But my ACI-

NA counterpart and partner can tell you how that project took almost 20 years to complete due, in part, to a lengthy environmental review process.

Runways often take 10 to 15 years or more to complete. Airports simply don't have the luxury of being able to flip a switch and instantly complete a new runway or some other large capacity project. Airports need to begin preparing now for the inevitable influx of passengers to come. And it will be increasingly difficult for airports to fund those projects if AIP funding continues to be reduced and the PFC cap remains stalled at $4.50 as it has been since 2000.

Increasing Congestion: Without adequate airport infrastructure investment, increasing demand can translate into increasing congestion. The U.S. Travel Association recently released a report that vividly describes how increasing passenger levels and reduced capacity will impact passengers. The "Thanksgiving in the Skies" report makes the point that passengers will experience Thanksgiving-like congestion at most large airports at least one day a week within the next ten years.

According to the study, one in five major airports in the United States already experiences passenger levels equal to the Wednesday before Thanksgiving at least one day a week. Within the next five years, 24 of the top 30 airports will experience those Thanksgiving-like passenger levels at least one day a week. The U.S. Travel Association predicts that ten years from now 25 of the top 30 airports will experience Thanksgiving-like congestion two days a week.

Significant Airport Capital Needs: Airports also face significant capital needs. As part of its 2013 National Plan of Integrated Airports System (NPIAS), the FAA estimates that there will be $42.5 billion in AIP-eligible projects between 2013 and 2017 or approximately $8.5 billion per year. The annual average is more than twice the $3.1 billion that airports received in AIP funds in Fiscal Year 2013.

The FAA's NPIAS provides a good snapshot of certain airport capital needs. However, it is important to note that the report only addresses those projects that are eligible for federal funds. It does not include other necessary but ineligible infrastructure projects such as revenue-producing areas of terminal buildings that airports fund with PFCs, bonds, and other revenue sources.

Like the FAA, ACI-NA has a long track record of evaluating airport capital needs. The association's 2013 Capital Needs Survey estimates that airports will have $71.3 billion in capital needs over the next five years or $14.3 billion annually for AIP-eligible projects and other necessary projects that are not eligible for federal funds. This is far more than the $5.9 billion that airports expect to receive in AIP funds and PFC revenue in 2013.

"Airport operators have a responsibility to make needed investments in modernizing aging airport facilities so that they can ensure efficient, safe and secure operations for the traveling public and other aeronautical users," ACI-NA's latest report correctly states. "Without adequate investment, the ability of airports to fully serve the public and the community as a growth engine is diminished."

Recommendations for Financing Airport Infrastructure Projects

Airports rely mostly on PFC revenue, AIP funds, and bonds to finance infrastructure projects at their facilities. Ensuring that airports have adequate infrastructure funding will require Congress to take action on all three accounts. But continuing to reduce or maintain current AIP levels increases the need for Congress to allow airports to finance a greater share of their infrastructure projects with local revenues instead.

Raise Federal Cap on Local PFCs: AAAE, ACI-NA, and a number of large hub airports that participate in the Gateway Airports Council are urging Congress to raise the federal cap on local PFCs from $4.50 to $8.50 and to allow for the periodic adjustment of the cap for inflation.

Considering the ongoing pressure to reduce federal spending and that across-the-board cuts called for in sequestration may last through 2021, it is now more important than ever that Congress raise the federal cap on local PFCs. The PFC cap has not been raised since 2000, and it's time for Congress to revisit this issue and provide airports with the self-help they need to finance critical infrastructure projects.

The recent $253 million cut in AIP funding and the possibility that the program may be targeted again underscore the need for Congress to raise the federal cap on local PFCs. At a time when there is enormous pressure to reduce discretionary spending, raising the PFC cap would provide airports with the self-help they need to finance critical infrastructure projects without relying as much on scarce federal funds.

For more than 20 years the PFC program has helped airports increase safety, security, and capacity, reduce aircraft noise, and increase competition. Money generated from PFCs augments AIP funding and other sources of revenue that airports use for a variety of purposes including building new runways, taxiways and terminals. The FAA estimates that airports will collect about $2.8 billion from PFCs this year.

A PFC increase would help large and small airports pay for critical infrastructure projects and debt service on bonds they issue to finance projects at their facilities. For instance, the Manchester-Boston Regional Airport could use the additional PFC revenue to make additional payments on its existing debt service on PFC projects. By using PFC revenue for that purpose we could reduce the debt load on airline rates and charges. This is yet another example of where airports *and* airlines would truly benefit from a PFC increase.

Airport efforts to prepare for higher passenger levels that I mentioned earlier have been hampered by rising construction costs. According to the Means Construction Cost Indexes, the average construction costs for 30 major U.S. cities jumped more than 65 percent since 2000 – the last time Congress raised the PFC cap. Despite a slight reprieve in 2009, construction costs are continuing to rise.

Unfortunately, rising construction costs have eroded the purchasing power of PFCs and AIP funds. For instance, a $4.50 PFC is only worth less than $2.50 today. Unless corrective action is taken, the value of PFCs will erode even more by the time the current FAA reauthorization bill expires in 2015.

In order to keep up with construction inflation, it would be necessary to raise the PFC cap to more than $8.50 today. Keep in mind that raising the cap to that level would only allow PFCs to keep up with construction cost inflation. To prevent further erosion of the value of PFCs, the cap would need to be adjusted periodically.

I would like to stress that PFCs are not taxes. PFCs are local user fees charged to passengers using airport facilities to help defray the costs of building airport infrastructure. Moreover, PFCs are imposed by states or units of local government – not the federal government. PFCs are not collected by the federal government, not spent by the federal government, and not deposited into the U.S. Treasury.

Moreover, the current PFC collection process works well. The Government Accountability Office (GAO) considered other possible PFC collection methods. However, the agency concluded that none of the alternatives it examined are better than the current collection method. In fact, the GAO found that the other alternatives, "would diminish the passenger experience by adding another step in the payment or check-in process, reduce customer transparency and entail higher administrative costs."

Protect AIP Funds: AAAE and ACI-NA are urging Congress protect AIP funding from additional cuts in the sequestration process and to maintain adequate funding for airport infrastructure projects in the next FAA reauthorization bill. It is important to point out that no general fund revenues are used for AIP grants. The AIP program is supported entirely by users of the aviation system through various taxes and fees that are deposited into the Airport and Airway Trust Fund.

AIP is an important source of funding for all sizes of airports and especially smaller airports around the country that don't generate as much PFC revenue or have access to the bond market. However, AIP is not just for small airports. Large and medium hub airports also depend on AIP funding -- particularly money distributed through the Letter of Intent Program -- to help pay for large capacity-enhancing projects.

Even before the first round of sequestration, federal funding for airport projects has been held stagnant and has not been nearly enough to cover all eligible projects or to keep up with inflation. As members of this committee know, the FAA Modernization and Reform Act of 2012 authorized $3.35 billion for AIP annually -- down from the $3.515 billion that Congress appropriated for AIP in Fiscal Year 2011. As I mentioned earlier, airports received approximately $3.1 billion in Fiscal Year 2013 after the diversion of $253 million to operations.

Preserve and Restore Tax Exempt Financing for Airport Bonds: I know that this isn't under the Transportation and Infrastructure Committee's direct jurisdiction, but AAAE and ACI-NA urge you to work with your colleagues on the Ways and Means Committee to help finance infrastructure project with bonds. Specifically, we are urging Congress to retain the tax exemption for municipal bonds and to eliminate the tax burden of the Alternative Minimum Tax (AMT) on airport private activity bonds.

Airports frequently turn to the capital markets to finance long-term construction projects. Bond proceeds are the largest source of funds for airport capital needs, accounting for approximately 54 percent of the total funds available to airports historically. This is a particularly important source of revenue for large hub airports.

AAAE and ACI-NA have long argued that federal tax law unfairly classifies the vast majority of bonds that airports use as private activity even though they are used to finance runways, taxiways and other facilities that benefit the public. Since private activity bonds are subject to the AMT, airport bond issuers traditionally have been charged higher interest rates on their borrowing.

A permanent AMT fix would help airports save more, allow them to invest in more infrastructure projects and support jobs. Moreover, it would reflect the fact that airports use private activity bonds on projects that benefit the traveling public and should not be subject to the AMT in the first place.

Impact of Airline Fees on the Trust Fund: Airport operators have an enormous amount of respect for our airline partners and the highly competitive nature of the commercial airline industry. However, at a time when federal funding for airport infrastructure project is declining, and the purchasing power of PFCs is eroding, the airlines' current business model simultaneously reduces funds available for airport infrastructure projects and air traffic control modernization.

Air carriers are increasingly relying on revenue generated from checked baggage fees and other ancillary charges and less on funds from base airline tickets. Unlike airline tickets, baggage fees and some other ancillary charges are not subject to a 7.5 percent excise tax. In other words, the airlines' a la carte pricing model allows carriers to avoid paying federal taxes for services that were once included in the price of traditional airline tickets.

The Department of Transportation (DOT) recently reported that U.S. airlines collected almost $1.7 billion in baggage fees in the first half of 2013. That means the carriers are on track to collect approximately $3.5 billion in bag fees again this year like they did in 2012. Those figures are for bag fees alone and do not include revenue that the carriers generate from other ancillary charges. Notably, that figure is more than the amount made available to all airports through AIP.

The airlines' use of ancillary fees shortchanges the Airport and Airway Trust Fund of revenue that would otherwise support airport infrastructure projects, air traffic control modernization, and other aviation system improvements. Taxing baggage fees at the same 7.5 percent would have generated more than $260 million last year -- more than enough to cover the AIP cut that airports sustained earlier this year. Since the beginning of the 2009, a 7.5 percent tax on bag fees would have generated more than $1 billion.

The airlines' reliance on untaxed baggage fees and the negative impact on the Airport and Airway Trust Fund has been a growing trend in recent years and is expected to continue to increase in the years ahead. According to DOT, the percentage of airline revenue from base ticket sales has dropped from 87.6 percent in 1990 to slightly more than 70 percent in 2012. Other independent research backs up DOT's findings about this growing trend. For instance, the IdeaWorksCompany recently released a report indicating that seven major carriers in the United States are expected to generate $14.3 billion in ancillary fee revenue this year.

We truly appreciate the airlines' responsibility to answer to their shareholders. And considering the symbiotic relationship between airlines and airports, our members stand to benefit when our airline partners are successful. But it is important to acknowledge that the ancillary fee loophole is having a negative impact on the amount of money that goes into the Airport and Airway Trust Fund, which in turn provides money for AIP and NextGen, and helps the nation meet the long-term needs of our aviation system.

Recommendations for Helping Small Communities

Mr. Chairman, the FAA reauthorization bill that Congress passed last year reaffirmed federal support for programs that help small communities maintain and attract commercial air service. We appreciate your support for key small community programs and urge you to continue that support during the next FAA reauthorization. Modest investment in these programs is particularly critical at a time when the airline industry is continuing to consolidate.

Preserve FAA's Contract Tower Program: The FAA's Contract Tower Program garnered a great deal of attention earlier this year when the Administration initially proposed to close 189 contract towers because of budget cuts called for in sequestration. Thankfully, members of this committee and numerous other lawmakers in the House and Senate intervened and prevented the shutdown from happening.

Again, I would like to thank all of you helped earlier this year to keep contract towers open. I would also like to thank this committee for providing funding for the cost share program in the last FAA reauthorization bill and for implementing a number of program changes that are helping contract towers around the country. Airports deeply appreciate your support for this critical program.

The FAA's Contract Tower Program has been in place since 1982 and currently provides for the efficient and cost-effective operation of air traffic control towers at 252 smaller airports in 46 states and 4 territories. Sixteen airports currently participate in the cost share program. Although contract towers are located at small airports throughout the country, they handle 28 percent of all tower operations in the United States.

Maintaining the Contract Tower Program is critical to ensuring that small communities continue to have safe air service. Controllers at contract towers separate aircraft; issue safety and weather alerts; assist with military, emergency response and medical flights; and perform other functions that enhance safety. Needless to say, if contract towers are closed, controllers no longer perform those functions -- a fact that could reduce safety and create significant local economic impacts.

The Contract Tower Program continues to be one of FAA's most successful and cost effective industry partnerships. In an audit released late last year, the DOT Inspector General concluded that contract towers "continue to provide cost-effective and safe air traffic services...." The report pointed out that "the Program has been successful in providing low-cost air traffic control services at airports that otherwise would not have received these services, increasing the level of safety at these airports for pilots and the surrounding local communities."

With strong support from members of this committee, we were able to avoid dramatic cuts in the first round of sequestration. However, contract towers may very well be targeted for closure again as the sequestration process continues. We look forward to continuing to work with you to keep contract towers open and to explore ways to improve the program when you consider the next FAA reauthorization bill.

Maintain Essential Air Service Program: We also urge Congress to support the modified Essential Air Service (EAS) program. The EAS program allows people who live in rural and less populated areas to have access to our national aviation system. Commercial air service is not just a matter of convenience. It is also critical to economic development efforts in communities around the country. Without commercial air service made possible by the EAS program, it would be difficult for many small communities to retain and attract businesses that support jobs.

As members of this committee already know, the EAS program received a great deal of scrutiny during consideration of the last FAA reauthorization bill. The final legislation included a total of $193 million per year for the program through Fiscal Year 2015. However, it calls for the program to rely increasingly on revenues generated from overflight fees and less on money from the Airport and Airway Trust Fund.

The final FAA bill also ushered in a number of EAS reforms and restrictions. For instance, it preserved a provision that eliminates service to communities with more than $1,000 per passenger subsidy -- a proposal that Congress approved as part of a previous short-term extension. It also eliminated service to communities with fewer than 10 enplanements a day except for the communities that are more than 175 miles from a large or medium hub airport and those locations in Alaska and Hawaii.

With the new funding mechanisms and reforms in place, we hope that the contentious debate surrounding the EAS program is behind us. On behalf of small communities around the country, we urge Congress to support the modified EAS program when you consider the next FAA reauthorization bill.

Economic Impact of Airports

Mr. Chairman, investing in airport infrastructure projects and small community programs improves aviation safety and capacity and ensure that people who live in less populated areas have access to our aviation system. But investing in airports also has profound impact on our economy.

ACI-NA Study: Our colleagues at ACI-NA released a study last year that describes the enormous impact that airports have on our economy. The association points out that "when you consider direct employment, 'Airports, Inc.' is the nation's largest employer, after Wal-Mart."

The *Economic Impact of Commercial Airports* concluded that more than 1.2 million jobs are located at 490 commercial airports and that visitors supported another 3.6 million jobs. It also found that the direct economic output from airports topped $227 million and that visitors spend more than $217 million annually.

When you factor in the total economic impact, commercial airports support 10.5 million jobs including those on the airport, those related to capital improvements, and those supported by the spending of visitors. According to the report, the overall economic impact includes an annual payroll of $365 billion and produced an annual output of $1.2 trillion.

"These economic impacts are a significant contributor to the national economy," the report stated. "Not only do these airports provide vital transportation links that permit the rapid, efficient, and cost-effective movement of people, goods and services, they account for more than 8 percent of the national GDP and support more than 7 percent of the country's work force."

Infrastructure Funding Gap: There is also a price to pay if we don't invest in needed airport infrastructure projects. The American Society of Civil Engineers earlier this year released a report indicating that the infrastructure funding gap in the United States is expected to exceed $1 trillion by 2020. The paper also describes how deteriorating infrastructure negatively impacts the economy.

The ASCE report entitled, *A Failure to Act,* suggests that overall infrastructure needs will exceed $2.7 trillion by 2020. However, expected investment levels will be slightly more than $1.6 trillion – a projected $1.1 trillion deficit. According to the report, the funding gap could widen to $4.7 trillion by 2040.

The report points out that, "Declining airport and marine port infrastructure directly impacts the nation's ability to import and export goods efficiently, driving up costs to U.S. consumers." It goes on to say that the airport infrastructure funding gap would cost the gross domestic product approximately $313 billion by 2020 and lead to 350,000 fewer jobs.

Conclusion

Chairman LoBiondo, Ranking Member Larsen, and members of the Transportation and Infrastructure Subcommittee on Aviation, thank you again for inviting me to participate in this hearing on the state of American aviation. I know I speak on behalf of AAAE and ACI-NA when I say airport operators look forward to working with you as the sequestration debate continues and as you begin preparing for the next FAA bill.

Mark Brewer, A.A.E., Airport Director, Manchester-Boston Regional Airport, and Chair, American Association of Airport Executives
Responses to Questions for the Record issued by Hon. Frank A. LoBiondo

Question: The United States has a lot of airports, but not a lot of money. Do you have any comments about the current formula for distributing AIP dollars to airports? Are there any changes that you would like to see in the next FAA reauthorization bill regarding the distribution of AIP dollars?

Answer: The American Association of Airport Executives (AAAE) has put together an airport infrastructure financing plan that includes a number of recommendations for recalibrating the AIP formula in recognition of the downward pressure that exits on federal spending. The plan would focus limited resources on smaller airports that rely on federal funds and allow airports to generate more local revenue by raising the federal cap on local Passenger Facility Charges (PFCs). AAAE and Airports Council International-North America are proposing that Congress raise PFC cap to $8.50 and that the cap be periodically adjusted for inflation. We look forward to discussing the details of our financing plan with you and staff as you prepare for the next FAA reauthorization bill.

Question: In your testimony you indicate that runways often take up to 20 years to complete, in part due to lengthy environmental review processes. Do you believe Congress needs to look at streamlining those processes?

Answer: With help from the House Aviation Subcommittee, the environmental review process for airport infrastructure projects has improved in recent years. Vision 100, the FAA reauthorization bill that Congress passed in 2003, included a number of provisions that have helped to accelerate the review and approval process for runways and other capacity-enhancing projects. We would welcome the opportunity to sit down with you and your staff to explore other ways that we can expedite the environmental review process.

Reduced AIP funding coupled with an outdated and artificial federal cap on local PFCs also impacts the ability of airports to quickly complete runways and other infrastructure projects. As I mentioned in my testimony, the Manchester-Boston Regional Airport hopes to receive at least $14.2 million in AIP discretionary funds for projects including runway and taxiway overlays. However, additional AIP cuts could delay those needed infrastructure projects.

I should point out that $14 million in AIP discretionary funds represents only current needs at MHT. In other words, the needs are now but the limitations on available AIP funds require us to spread the projects out over a five- year term. Additional PFC revenue, which could be gained by raising the cap to $8.50, could also move these projects forward sooner.

Testimony of Peter J. Bunce

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Committee on Transportation and Infrastructure – Subcommittee on Aviation

State of American Aviation

2167 Rayburn House Office Building

December 12, 2013

Introduction

Chairman LoBiondo, Ranking Member Larsen, distinguished members of the Subcommittee; my name is Pete Bunce and I am the President and CEO of the General Aviation Manufacturers Association (GAMA). GAMA represents over 80 companies that are the world's leading manufacturers of general aviation airplanes, rotorcraft, engines, avionics, and components. Our member companies also manage airport fixed-based operations, as well as pilot training and maintenance facilities worldwide. I appreciate the opportunity to testify today regarding the state of America's aviation manufacturers and the issues that lie ahead for this important part of the aviation sector and our economy. We applaud the leadership of this Subcommittee for focusing on this critical issue as we begin to discuss what aviation policy needs to look like in the months and years to come.

General aviation (GA) is an essential part of national transportation systems in the United States and is especially critical for individuals and businesses that need to travel and move goods quickly and efficiently in today's just-in-time market. In the United States, GA supports over 1.2 million jobs, provides $150 billion[1] in economic activity and, in 2012, generated $4.8 billion[2] in exports of domestically manufactured airplanes.

But when you look behind these numbers, you see general aviation's impact more clearly. In Alaska, general aviation is the way health care and school transportation is provided. In the rural and small communities of our country, it is the way that small businesses operate more efficiently and maintain and grow their customer base. When communities face disaster, general aviation acts as a lifeline to deliver much needed relief supplies and assist in medical evacuations. General aviation also employs large numbers of veterans across this country and transports veterans for medical and other purposes through the good work of volunteer

[1] General Aviation Contribution to the U.S. Economy, Merge Global, 2006
[2] 2012 General Aviation Statistical Databook and Industry Outlook, GAMA, 2013

organizations and individuals. Additionally, rotorcraft is a key part of our growing energy industry.

As we go forward, we need to ensure that our efforts address the needs of all communities for aviation services and with the recognition that general aviation is integral to U.S. leadership in aviation and its economic success.

General Aviation, Manufacturers, and Key Ingredients for Success

General aviation manufacturing employs individuals in over 40 states and strongly contributes to the tax base and local community in states like California, Florida, Illinois, Indiana, Minnesota, North Carolina, Pennsylvania, Washington, West Virginia, and Wisconsin, to name just a few.

A report released in May 2012 by the United States International Trade Commission (USITC)[3] looked at the factors shaping the competitiveness of the U.S. business jet industry from 2006 to 2011. The study found that three of the six global business jet manufacturers are headquartered in the United States, while the other three producers have U.S.-based production activity. Additionally, the U.S. is the principal source of key parts and systems for all of the world's business jet manufacturers. The report found that competition in the industry is strong, frequent technological upgrades are necessary, and demand is closely linked to overall economic conditions.

The ITC also determined that sales and development are affected by the availability of financing, investment in research and development, aircraft certification, and issues like airspace management and taxes/fees including depreciation policies. Finally, the study concluded that workforce development is essential to the industry's continued success.

The market for general aviation aircraft has shifted tremendously in recent years, with over 50 percent of billings linked to the export market.[4] A decade ago, the United States typically accounted for four out of five airplane sales, but in 2012 the market was split: half of the airplanes GAMA's members manufactured went to North American customers and the other half went to customers in other parts of the world.[5] While Europe is our lead market outside North America at 18.1 percent of total unit deliveries, the Asia-Pacific region is a close second at 15.2 percent.[6] We have also seen the Latin American market almost double in market share since 2007; it now accounts for close to 12 percent of the world's airplane sales.[7] The helicopter market is leveraged even more outside the United States with customer demand over the next

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[3] Business Jet Aircraft Industry: Structure and Factors Affecting Competitiveness, United States International Trade Commission Publication 4314, April 2012
[4] Ibid
[5] 2012 General Aviation Statistical Databook and Industry Outlook, GAMA, 2013
[6] Ibid
[7] Ibid

five years accounting in Europe for 28 percent of projected deliveries and in the Asia-Pacific region for 19 percent, according to Honeywell.[8]

However, it is also important to note that since the 2008 recession, the global general aviation manufacturing industry has experienced a real and substantial decline in airplane sales. The recent peak of 4,276 deliveries in 2007 was followed by a decline to 1,977 airplane deliveries in 2011 for the same set of companies.[9] Small, piston engine aircraft experienced the most dramatic decline, from 2,755 deliveries to 886 in 2011, a reduction of 68 percent.[10] The employment numbers at these companies reflect this decline with job losses in total for GAMA member companies at roughly 15 percent. Many of these jobs are high-skilled, well-paid positions, and the loss of these jobs affects communities across this nation.

During this time, the Export-Import Bank of the United States (EXIM) has played a key role in facilitating general aviation aircraft exports into emerging markets. As an industry, we have increased our use of EXIM. For example, 10 years ago, we typically financed only a handful of airplanes a year at a value of less than $100 million annually. However, in the midst of the recent economic turmoil, the bank increased its support for general aviation and we identified over $800 million in transactions in 2009.

The bank's work also reaches down to support small aircraft. Air Tractor, which is a small, employee-owned company in Olney, Texas, manufactures agricultural and firefighting aircraft and leverages the bank as part of the company's export transactions. The company has been able to increase its exports over the past decade with the help of the EXIM bank and the company reached record production in 2012.[11] Air Tractor aircraft are delivered to customers in Argentina, Brazil, China, Australia, and Spain through joint export guarantees between EXIM and the Canadian equivalent Export Development Canada.

Another component supporting global competitiveness is leveraging the strong research and development programs that are conducted by GAMA companies to ensure they can bring new technology and products to market. We support extending and making permanent the Research and Development Tax Credit to further these programs. This is the minimum that should be done given the U.S. was once a leader in encouraging research and development and we are now behind 23 other Organization for Economic Cooperation and Development (OECD) nations in providing research and development incentives to the private sector.

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[8] 15th Annual Turbine-Powered Civilian Helicopter Purchase Forecast, Honeywell, 2013

[9] 2012 General Aviation Statistical Databook and Industry Outlook, GAMA, 2013

[10] Ibid

[11] Ickert: Growing small business through exports, David Ickert, *Star-Telegram*, March 20, 2012

The Role of Certification in Growing Aviation Manufacturing

Maintaining global competitiveness and leadership of both the Federal Aviation Administration (FAA) and industry is critical for our nation's aviation system and economic strength. Aviation safety, operator efficiency, and environmental progress are all dependent on the success of aviation manufacturers and aircraft operators. Our manufacturers stand ready to help drive innovation and investment but, too often in the past, FAA policy and procedure have hindered the industry's ability to successfully develop and deploy new aviation products and technologies.

With this committee's strong and essential support, progress is being made to create efficiencies and streamline the FAA's certification process. There has been tremendous effort by FAA leadership, industry, and Congress to ensure that we have the FAA focusing on safety critical activities and leveraging industry resources to improve the efficiency and effectiveness of the certification process. There is, however, much more progress that needs to be achieved to meet the important goal of enhancing the competitiveness of aviation manufacturing and growing exports. We are greatly appreciative of the inclusion of Section 312, entitled Aircraft certification process review and reform, in the FAA Modernization and Reform Act of 2012 (P.L. 112-95). This section is helping drive several recommendations to improve the certification process and allow FAA to focus on priority safety activities. We applaud you for your initiative in this area, including the subcommittee's recent hearing, and the clear and consistent message that has been conveyed to stakeholders about the importance of this reform.

These reforms and improvements are even more vital given the current budget environment that faces our nation. Manufacturers cannot bring any new products to market without FAA certification approval. More than almost any other industry, we depend on action from government regulators. FAA stated it expects more challenges associated with staffing, management of programs, and infrastructure investment. For manufacturers, this could result in more uncertainty and delay for approval of products that are safety-enhancing and key to success in an already competitive marketplace. This uncertainty and inefficiency of FAA certification processes restricts industry growth and has resulted in missed business opportunities and impacted decisions to invest in new projects, expand facilities, and increase employment. One of our companies has calculated that a delay on one project alone costs them $10 million a month.

Constant Focus on Safety

Improvements in FAA policy and procedures are also a key driver of another critical objective of our member companies – safe operations of general aviation aircraft. I'd like to again thank the members of this committee for their leadership on the Small Airplane Revitalization Act (SARA), particularly Chairman Shuster, Ranking Member Rahall, Subcommittee Chairman LoBiondo, Ranking Member Larsen, original cosponsors like Congressmen Lipinski, Graves and Nolan, and the numerous members of this committee who lent their support to this measure becoming law. It is a critical first step to regulatory reform of airplane design requirements focused on streamlining the FAA certification process and making real-world safety improvements. We can have the best research programs and the most innovative technology, but if products cannot get to market, it is of no benefit to manufacturers, users, or the cause of safety. SARA charts a new path, promising increased safety benefits while reenergizing a part of the industry that has struggled with the economic downturn that occurred over the last several years.

While SARA is a significant milestone, there are other key areas of emphasis and growth that general aviation manufacturers are dedicated to advancing. In partnership with the FAA and the operator community, the general aviation manufacturers are working to provide insight to the General Aviation Joint Steering Committee (GAJSC). This partnership is focused on identifying and constructively mitigating safety concerns based on data-driven analysis. The GAJSC is also working diligently to establish ways to collect and analyze voluntarily shared data from operators that can be used to identify trends and improve safety. The GAJSC has provided input about how to better train pilots about stall awareness to mitigate loss-of-control, recommended the establishment of smarter policies for the installation of safety-enhancing equipment, and asked the FAA to provide more education about medications and how pilots should address medical issues safely.

For example, through the data-driven approach of the GAJSC, it was determined that the installation of Angle of Attack (AoA) indicators could improve safety by increasing situational awareness and enabling the pilot to better control the aircraft during approach and landing. Since the recommendations from the GAJSC, several manufacturers have indicated interest in installing AoAs in their aircraft and multiple avionics manufacturers have announced the incorporation of AoA into their displays. We are still waiting for a key policy decision by the FAA that will enable the installation of this safety equipment more broadly, but the GAJSC approach has helped underscore the importance of AoA installations and driven the policy issue forward.

Another example is the recent aviation rulemaking advisory committee that helped to revise the airmen testing standards to ensure that the standards used to test and train pilots more effectively gauge their ability to operate safely. This is the first comprehensive modernization of the policy and standards framework for general aviation and commercial pilot training in several decades and will assist in advancing training for all pilots. The FAA has responded positively to this update to the airmen testing standards and accompanying knowledge test and is currently working to establish a pilot program and implementation plan that will drive these changes into the aviation training community. Both the AoA and training examples, as well as the work of the GAJSC, are concerted efforts on behalf of industry and regulators to improve safety and should be commended and strengthened.

Better data, a focus on safety critical activities, and FAA-industry collaboration are essential if safety is to be improved within the confines of current budgetary resources. As Administrator Huerta has emphasized, we must leverage both public and private expertise appropriately if we are to focus scarce resources while continuing to advance aviation safety. Certification is one area where progress has been made but further implementation in other regulatory and operational areas will be essential. We applaud the Subcommittee for recognizing this and hope that this experience can be applied effectively to other areas of FAA operations and investment.

Funding Challenges and the Road Ahead

In the recent government shutdown, general aviation manufacturers endured significant disruption to their businesses. One example is the closure of the FAA Aircraft Registry office, which effectively precluded our member companies from being able to make routine transactions necessary to deliver aircraft. By way of background, every aircraft that is sold domestically, exported, or imported must obtain FAA approval and receive a certificate of aircraft registration to process financing, such as titles and bill of sale. As a result, we estimate that the closure impacted the delivery of more than 150 newly manufactured general aviation aircraft by mid-October, with an estimated value of over $1.9 billion. The government shutdown also further impeded the development of new aircraft and products as certification activities faltered.

The shutdown, combined with the impact of sequestration and the multiple extensions associated with FAA reauthorization, has made it clear that funding for various programs will not be easy to sustain at the levels it has been over the recent past. We need to be prepared for an agency that will have fewer resources to do all the things it currently does. Fewer resources means we all have to look in the mirror at what we need, how we can do it better, how we can work more effectively with the FAA, and how we as an industry can work together.

Fewer resources for the FAA also presents opportunities to leverage federal resources more effectively. Our focus needs to be providing the same or better level of services at a lower cost. Remote tower capability is one example. In northern Europe, towers are now certified through the use of modern camera/surveillance and telecom technology to route the feeds from several low activity airfields to a consolidated location. Through the use of modern technology we can lower personnel costs and actually expand service to more airports and increase safety. We know the technological capabilities are there, but the ability to apply that technology needs a sea change at the FAA and within the aviation community. Sequestration did not allow for these constructive discussions and FAA has the opportunity to take a leadership role in facilitating these discussions and decisions with all stakeholders as we address our nation's fiscal challenges.

One way to do this is to deliver the oft-delayed consolidation report that Congress asked FAA for in the last reauthorization. Without it, we will likely lurch from crisis to crisis. We need a roadmap and this report could begin the dialogue of how we better manage resources going forward. We also need a better way to prioritize resources and we look forward to seeing how the recent NextGen Advisory Committee report on NextGen priorities will be implemented by the FAA.

At the same time, we must be clear in these discussions about the potential implications for the entire aviation sector. The recent government shutdown illustrated that there are enormous ramifications when functions of the FAA are inactive. The closing of one office in the FAA—the registry—had enormous effect on the industry. It impacted airlines and general aviation operators and their ability to add new aircraft to their fleet. It impacted pilots seeking to renew their qualifications in simulators that required or furthered their training. And as previously discussed, it impacted manufacturers and their ability to deliver product.

There are no doubt challenges ahead and a myriad of options that policymakers may consider. GAMA is open to constructively and collaboratively proposing and discussing areas that merit funding as well as areas that are underperforming or deserve streamlining or change. We have clear priorities—to reform certification while ensuring adequate resources are available to ensure our products get to market so we can grow our industry and exports. At the same time, we continue to firmly oppose new aviation user fees or other efforts that will contribute to the further decline of general aviation operations and negatively impact states and communities throughout this country.

We also need to be cognizant as we move forward of the demands placed on the FAA. I cited a number of them earlier as we examined the importance of aviation to various communities and industries. The FAA and aviation industry are critically interdependent and are facilitators of public transportation, economic growth and the strength of small businesses, medical services, emergency services, our national defense, and homeland security. Any new policy or budget proposal must recognize FAA's broader role in our society and the larger public benefit it facilitates. Additionally, the U.S. is unique in the size and complexity of the National Airspace System as well as the security and national defense needs of the airspace and aviation system. This complexity will only be heightened as unmanned aviation systems and commercial space transportation become more commonplace.

One area deserving of this committee's attention is whether we can better ensure in the future that resources this industry pays to the federal government in the form of taxes and fees for FAA operations and investments are protected from these fiscal disruptions. If this is achieved, it will provide some important stability for the industry and FAA during future fiscal challenges and may provide a way forward for addressing other aviation priorities. We look forward to engaging with the subcommittee in this effort.

International Leadership

A less immediate problem, but no less significant one, highlighted during the federal government shutdown, is the perception that it has left about United States' leadership with aviation safety partners around the world. The FAA is one of the four world leading aviation state-of-design authorities for aircraft safety standards, certification and manufacturing. In early October, the first quadrilateral meeting of these authorities was held in Ottawa, Canada, with the goal of discussing enhanced cooperation to improve efficiency in global aviation certification and validation. Europe attended. Canada hosted. And, Brazil was there. FAA? No, due to the shutdown, the United States was not there. This is not the first international set of meetings where the FAA's participation was hampered due to similar types of challenges. As manufacturers we need clear and consistent U.S. leadership in the international aviation marketplace, which means certainty in FAA budget and staffing.

I also want to highlight an issue that is linked to the certification reforms we discussed earlier: proactive leadership by the FAA in supporting its certification and safety activities globally. FAA has historically been viewed as the gold standard for certification around the world. Increasingly, however, other countries are questioning that gold standard. It is imperative that FAA actively promote and defend the robustness of its safety certification globally to facilitate acceptance and/or streamlined recognition of U.S. products and direct engagement with its regulatory counterparts is a necessary part of that effort. At a time of growing exports, any delay in delivering aircraft, after the already lengthy U.S. process, is very harmful.

One piece of good news is that we are starting to have some success with the help of the U.S. Department of Transportation (DOT) in improving the operating environment for general aviation around the world. At the 8th Transport Ministerial meeting in Tokyo on September 5, 2013, Asia-Pacific Economic Corporation (APEC) Ministers endorsed a set of "Business Aviation Core Principles" to provide for a more flexible operating environment for non-commercial business aviation. If implemented, this will help open markets, create employment, and strengthen trade links between the U.S. and its 20 partner economies in APEC.

We appreciate the support from U.S. government agencies in these efforts, including the DOT as well as the Departments of State and Commerce. We firmly believe, however, that these agencies, particularly FAA and DOT, must stay engaged and demonstrate continued leadership, because while the potential to grow general and business aviation is tremendous, so are the challenges.

In this regard, and building on the APEC model, we believe that the Subcommittee should amend DOT's mission to give the Department a clearer role in advocating for the aviation community within the U.S. government and internationally. To address many of the issues facing the U.S. aviation industry, it will take sustained focus and resources, and we believe is critical that DOT have clear direction from Congress that this is a priority and needs a substantial and sustained level of activity. We look forward to working with members of the Committee on this matter.

Security Policy and the Impact on the Marketplace

The policies of the Department of Homeland Security (DHS) and its respective agencies have a direct impact on the ability of our industry to prosper. We are very supportive of security measures that are smart, balanced, and include sufficient stakeholder input to ensure that rules match operational reality. At the same time, we are very frustrated when policies are ill-conceived or fail to be implemented effectively.

For example, for almost 10 years, the DHS and Transportation Security Administration (TSA) have failed to respond to a Congressional requirement to promulgate aircraft repair station security regulations. In 2007, in an attempt to spur action by these agencies, Congress barred FAA from issuing new repair station certificates for overseas facilities until the rule is finalized. This has meant that as new markets develop, our companies have been hindered in fully utilizing facilities to support their products. In turn, U.S. industry is less responsive and less competitive as these opportunities emerge. This point is illustrated in the USITC report examining the business jet industry as it states, "Business jet firms must maintain global support and service for their customers, who expect and require around-the-clock availability."[12] Our companies stand ready to meet these security requirements but we need to know what they are. As such, we continue to urge policymakers to press these stakeholders to conclude this decade-long process in an expedient manner.

Additionally, the United States remains the world leader in flight training due to an airspace environment that is conducive to learning how to fly and because the U.S. general aviation industry and the existing aviation safety regulatory framework is conducive to initial and recurrent flight training. However, since the agency's inception, the requirements of DHS have significantly increased through added rules and oversight. While TSA has stepped forward to work with the flight training industry, it is GAMA's view that TSA and other agencies within the Department must take additional steps to ensure the requirements placed on flight training providers are consistent and efficiently executed. Without this, leadership in flight training, an essential part of sales of aircraft, may go elsewhere.

Conclusion

Chairman LoBiondo, Ranking Member Larsen, and members of this subcommittee, thank you for the opportunity to testify before you about the state of American aviation. Almost 110 years ago, aviation as we know it took flight in Kitty Hawk, North Carolina. We have made tremendous advances that have had enormous impact on our economy and way of life. From small towns to large metropolitan areas, aviation plays a crucial role in our transportation system. We cannot rest on our laurels of being first in flight—we must continue to make strides to advance aviation. We thank you for recognizing the importance of general aviation manufacturing in the context of this conversation and look forward to working with you to make these objectives reality. Thank you, and I would be glad to answer any questions that you may have.

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[12] Business Jet Aircraft Industry: Structure and Factors Affecting Competitiveness, United States International Trade Commission Publication 4314, April 2012

1. The enactment of the Small Airplane Revitalization Act streamlines the certification process for small airplane manufacturers. Is there another aspect of certification for airplane and/or avionics manufacturers that needs to be improved?

Enactment of the Small Airplane Revitalization Act is a milestone for our industry and we believe will reinvigorate a segment of the marketplace that has struggled recently. Moreover, the improvements this law brings to the certification process will not only benefit small airplane manufacturers but also the users of these products as they will benefit from safety-enhancing technology. It is our hope that similar reforms can be applied, where appropriate, to both Part 27 (rotorcraft) and Part 25 (large cabin aircraft).

At the same time, we continue to believe that further certification reforms can be implemented to leverage industry expertise and resources and better focus FAA activities on the safety-critical aspects of certification. We are appreciative of the leadership that this committee has shown to help ensure that these reforms continue and look forward to continuing to work with you on this effort.

2. Aircraft manufacturing is one of the few industries that actually provide a trade surplus. What is the outlook regarding the economic future of U.S. manufacturing?

The general aviation manufacturing industry experienced significant declines in demand following the 2008 economic recession, but the market demand has stabilized during the past two years and there is optimism about 2014 and beyond.

The primary markets for general aviation aircraft exports are the Latin American region and Europe. We are also experiencing increasing demand in Asia. The U.S.-based airplane manufacturers accounted for 71 percent of worldwide production in 2012 of which 720 airplanes and $4.8 billion was exported.

The FAA, however, must be more aggressive in supporting the export of U.S. manufactured aircraft. Unlike other export products, the aircraft manufacturing industry is required to obtain a validation of its safety certification into each market to which aircraft are exported. It is essential that FAA actively facilitates U.S. manufacturing and worldwide aviation safety.

3. What can the FAA to incentivize operators of small aircraft to start equipping their aircraft with NextGen technology? We keep hearing about airliners that are not seeing benefits yet of NextGen, how is the outlook for smaller general aviation aircraft?

The NextGen program will improve capacity and enhance efficiency for scheduled airline operations. The origin of the NextGen program was the summer of 2000 when airline delays reached an unacceptable peak. Congress responded in the Vision 100 legislation to establish a focused program, now called NextGen, to transform and modernize the National Airspace System (NAS). The benefits to general aviation from NextGen are limited and general aviation operators will be required to equip to retain airspace access in a NextGen future.

The good news is that the NextGen programs that will enable general aviation are on-schedule and are either already operational or will be operational by the middle of this decade. As an example, WAAS (a program launched prior to NextGen in the mid-1990s) has enabled guided approaches and enhanced access to thousands of general aviation airports. Similarly, the ADS-B ground infrastructure is today providing real-time weather across the NAS by way of the UAT-link and FIS-B services.

With the right approach and effort, FAA can help users better realize the benefits from the NextGen program. The agency should also enable the certification and installation of avionics equipment on general aviation aircraft, both airplanes and helicopters, so aircraft operators can take advantage of those services that the agency has offered in the NAS already.

STATEMENT OF THE

NATIONAL BUSINESS AVIATION ASSOCIATION

ED BOLEN
PRESIDENT AND CEO

BEFORE

THE SUBCOMMITTEE ON AVIATION

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

U.S. HOUSE OF REPRESENTATIVES

REGARDING

"THE STATE OF AMERICAN AVIATION"

December 12, 2013

Chairman LoBiondo, Ranking Member Larsen, members of the subcommittee, on behalf of the more than 10,000 members of the National Business Aviation Association (NBAA), I am pleased to have the opportunity to provide our views at this important hearing today on "The State of American Aviation."

We commend the members of this subcommittee for your continued commitment to our nation's aviation-transportation system and the on-going efforts to strengthen growth and opportunity during this period of economic recovery. Ensuring that the United States continues to lead the world in aviation is clearly in our country's interest, and must remain a national imperative.

NBAA and its members remain committed to working with the Congress, industry and other stakeholders to strengthen and modernize the nation's aviation system.

Facts About Business Aviation

As the members of this subcommittee know, the aviation system is made up of three, fully integrated segments, each critical to the success, strength and growth of our economy. Those are:

- The scheduled operations, including passenger airlines;
- Military operations, and;
- General aviation.

As part of the general aviation segment, business aviation is a term defined by the Federal Aviation Administration (FAA) as the use of any general aviation aircraft – piston or turbine – for a business purpose.

This includes a diversity of operations, from small and mid-size businesses, to companies that are household names; from businesses that use aircraft for agricultural purposes, to entities that rely on it for public services, like law enforcement, fire and rescue, and other government services.

The business aviation fleet is dominated by pistons and turboprops, with over 80 percent of the business aircraft in the U.S. having cabins about the size of an SUV, and flying on average less than 1,000 miles per leg. The vast majority of these operators use small aircraft that seat no more than eight people. Supporting these aircraft, and the organizations that rely on them, are Fixed Base Operators (FBOs), maintenance technicians, suppliers and service providers.

Business aviation is a vital link in our transportation system, and a powerful engine for job creation and economic growth. The industry contributes more than $150 billion to annual U.S. economic output, and directly or indirectly employs more than one million people.

Most business aircraft operating around the world are manufactured and/or completed in the U.S., and the industry's strong American manufacturing and employment base contributes positively to our nation's balance of trade.

A Vital Lifeline for Main Street

In communities across America, business aviation is an essential tool that enables businesses to thrive, grow and create jobs in their hometowns. That's because in many instances, there are few or no other transportation options that meet their needs.

Many small and mid-size businesses are located in areas with little or no scheduled airline service. Businesses of all sizes require in-person travel for such operations as sales, technical support and other types of customer service. Such trips may call for multiple stops in a short period of time, or travel to remote locations. Frequently, the distances are too long to drive, or airline service is not available. And often, workers need to optimize the productivity of their travel time, even including sustained contact with colleagues at headquarters while in flight. And when these and other needs must be addressed, business aviation provides the solution.

A Competitive Tool for American Businesses

For example, a survey of business aviation pilots and passengers, conducted for NBAA and the General Aviation Manufacturers Association by Harris Interactive, concludes that managers, technical teams and other employees are the typical passengers on business aircraft – not senior executives. The business airplane gives these employees the ability to have an in-person presence that is often fundamental to a company's success.

Respondents to the Harris survey also reported that employees use their time onboard company aircraft more effectively and productively than when they are on airline flights. Workers can meet and collaborate, and on many aircraft, communications technologies let passengers stay in contact with the home office while in flight. Some passengers even estimate that they are more productive on the company aircraft than they are in the office, because of fewer distractions.

Of course, the Harris survey is not the only study that has pointed to the benefits of business aviation to companies of all sizes. Multiple studies commissioned by NBAA, including one conducted this year, have shown that companies using business aviation routinely out-perform similar companies that do not use business aviation. The same studies have pointed out that America's most innovative and admired companies, and the nation's best corporate citizens and most-trusted brands, are business aviation users.

Simply put, the use of a business airplane is the sign of a well-managed company – like a Smartphone or a tablet device, business aviation helps companies be more efficient, productive and successful. In an economy that has in recent years been enormously challenging, it's a tool that can help a company outperform its competitors. As the economy slowly recovers, it's a tool we wouldn't want to take away.

A Lifeline in Emergencies

Business aviation is not only essential to communities and companies – it also provides critical assistance to individual citizens in crisis.

The people and companies in the industry have snapped into action when there's a need to confront hurricanes in the Southeastern U.S., floods or tornadoes in the Midwest, fires in the West, or a host of other natural disasters. The business aviation community – working mostly on a volunteer basis – has always been quick to help assess damage, rescue those affected by these disasters, and carry in lifesaving support and supplies to the affected regions.

The Corporate Angel Network, which counts NBAA Member Companies among its supporters, arranges free air transportation for cancer patients traveling to treatment using the empty seats aboard business airplanes.

Angel Flight America's seven member organizations and 7,200 volunteer pilots arrange flights to carry patients to medical facilities.

Veterans Airlift Command uses business airplanes and unused hours of fractional aircraft ownership programs to provide free flights for medical and other purposes for wounded service members, veterans and their families.

The industry's humanitarian efforts even extend beyond our own shores. For example, hundreds of business aircraft operators, including a number of NBAA Member Companies, coordinated to deliver thousands of passengers and over a million pounds of supplies to and from Haiti after the devastating earthquake there. In fact, Congress passed a resolution commending business aviation for its response to the crisis. The work of these entrepreneurs and businesses to help Haiti's people continues even today: In summer 2013, another series of volunteer relief flights delivered some $100,000 of critically needed medical supplies to St. Luke's Hospital on the island nation.

Clearly, business aviation is an essential industry in America today. From creating growth opportunities and global connectivity for America's small towns and rural areas, to supporting the nation's productivity, to providing lift for humanitarian initiatives, business aviation plays a critical role in the nation's aviation system, and the country's broader transportation network.

But for all the good news about business aviation, the industry finds itself in challenging economic times.

An Industry Confronting Headwinds

As this committee knows, the people and companies in business aviation have in recent years been weathering one of the worst economic storms anyone has ever seen. The impact of the flagging economy on the companies and communities that rely on business aviation has been visible in all parts of the country.

During the Great Recession, we saw business aviation flying decrease by as much as 35 percent in some locations in the United States. The inventory of used airplanes available for sale reached an all-time high, with close to one in five airplanes for sale. Prices for business airplanes plummeted by 40 percent, and the employment ranks at leading general aviation companies were slashed by as much as 50 percent.

While it appears that the industry is off what economists call the "bottom" of the recession, we know that most analysts do not expect the industry to return to the high-points in flight hours and other measures of health and growth – which we last saw in 2007 – until the year 2018.

We also know that our economic challenges are often exacerbated by the political challenges we face.

Take, for example, the crisis the industry faced from the government shutdown earlier this year. After all, the aviation industry is among the country's most heavily regulated industries, so when government services are reduced or eliminated, our industry feels the impact more acutely than others do.

Imagine if no citizen of the United States could buy or sell a car, purchase or re-finance a home, or if the sale of other critical goods came to a complete and grinding halt – that's what basically happened in business aviation. The government shutdown led to the closure of the FAA's U.S. Aircraft Registry, and as a result, aircraft could not be purchased, sold, imported, exported, and in some cases, flown.

The many small and mid-sized companies that rely on the Registry to be open and accessible were harmed, and the shutdown impacted the industry in a host of other ways as well. The situation dealt a harsh setback to an industry already in the midst of a gradual economic recovery, exacerbating the challenges created by the recession.

Throughout the shutdown, NBAA urged policymakers from every point on the political spectrum, both sides of Capitol Hill and both ends of Pennsylvania Avenue to find some way forward. We appreciated the support of Members of Congress, and the bipartisan group of 44 members of the House who sent a letter calling on FAA Administrator Michael Huerta to reverse the closure of the Aircraft Registry office.

And, while the shutdown unquestionably took a heavy toll on business aviation, the people and companies in the industry proved resilient as always, and focused on solutions to the challenges it posed. The business aviation community has a proud tradition of working toward shared solutions to challenges, and as an association that represents the industry, that solution-oriented approach is one we bring to discussions with government leaders about ways to ensure that America's aviation system remains the world's best.

Focusing on Near-Term Challenges

As a first example, I'll point to the impact of sequestration – meaning, the recent curtailments to government spending – not just on long-term planning for the aviation system, but also on its operation today.

NBAA has participated in stakeholder dialogue with the FAA regarding the best approach to the fiscal constraints posed by sequestration. Our shared general aviation community has made a number of recommendations to apply specific options to help the FAA meet its sequestration-driven mandate for reducing aviation services and programs.

Our primary concerns included the impact that closing contract air traffic control towers would have on the airspace and airport system, as well as the risks associated with deferred maintenance and restoration of equipment outages for navigation and communication capabilities. On both fronts, we came to the table not with complaints, but with possible options for mitigating such scenarios to the greatest extent possible.

For example, we proposed that towers located in rural and remote areas with no overlying radar control services from an adjacent TRACON facility should receive consideration for at least some operating hours, as they provide the only aircraft separation service for an airport.

We also proposed that FAA evaluate the capacity of TRACON facilities to provide separation services on a limited basis to contract-towered airports underneath any overlying airspace that might have a closed tower. Prioritizing this approach would minimize the total efficiency impacts on the airspace system and on its operators as a whole.

We also urged FAA to consider the scope of the ground-equipment infrastructure at an airport in the potential tower-closing decision. An airport with remote long-distance communications links to a TRACON facility, local pilot-controlled runway lighting and automated local weather-reporting capability has a broad service, based on local automation and can more readily operate without a contract tower.

In a similar manner, we recommended that FAA reconsider and modify its initial approach to deferring maintenance and restoration services on critical navigation and communications equipment. Rather than let whatever equipment fails remain out of service – either permanently, or for a specified period of time – we urged a less-random strategy that would prioritize equipment restoration in certain areas, for certain purposes.

For example, at any airport that had an air traffic control tower closed, FAA should prioritize the continuous operation of ILS/VOR landing systems and AWOS weather-reporting capabilities – especially at airports with a single runway. At airports with multiple runways and multiple instrument landing approaches, we recommended that an outage of one or two capabilities could likely be deferred for a period of time, given the alternative capabilities that continued to operate and support on-going local services.

Unfortunately, as members of this subcommittee know, the FAA proposed to close about 150 contract air traffic control towers across the country last spring. Generally, these were the towers FAA indicated had less than 150,000 total annual operations, or less than 10,000 commercial flight operations. We believed those criteria were too broad, and that with more specific criteria, the agency could better ensure the safety and efficiency of flight for all operators in the airspace.

Mr. Chairman, we greatly appreciate the strong support the aviation community received from you and your Congressional colleagues on this issue. We applaud the leadership role Congress took in addressing the very serious concerns raised over the FAA's proposal to close the contract towers with legislation giving the FAA the funding flexibility, even under sequester, to keep the towers open. And, following the enactment of your legislation into law, we welcomed the FAA's decision to keep the towers in operation.

As sequester-related concerns continue into the future, NBAA stands ready to work with the Congress and the FAA to identify appropriate cost-savings and efficiencies to avoid harmful impacts on the agency and the aviation community.

Keeping Long-Term Priorities in View

That said, as we continue working to address the sequester and other near-term challenges, we know that we cannot lose sight of one, key, long-term priority: continued, forward movement on modernization of the nation's air traffic control system.

As the members of this subcommittee are well aware, the transition to a Next Generation, or "NextGen" air-transportation system will advance important national objectives, including further reduction of the industry's environmental footprint, the reduction of long-term costs at the FAA, enhancements to safety, expansion of system capacity and reductions in delays.

While we know that the current system has its short-comings, it is still the largest, safest, most efficient and most diverse system in the world – no other nation's aviation system comes close to matching our own.

At the same time, we recognize that this is not a time for complacency, or for accepting the status quo. The general aviation community is committed to working with the FAA, Congress and others to explore ways to do more, and do it better, with regard to aviation safety, operations and technologies, despite flat or declining government resources. As I said before, we want to be a constructive party in this conversation.

And as we look to the future, we believe there are at least three key areas that represent opportunities to reduce FAA spending, while maintaining or even enhancing aviation. Those are as follows:

1. **Streamlining Certification**. The FAA continues to be challenged in accomplishing the necessary certification of new aviation products and technologies. Current FAA certification processes have been overtaken by new aircraft design, components and technologies, which have resulted in unacceptable delays in integrating needed enhancements into the aviation system. Recent enactment of the Small Aircraft Revitalization Act of 2013 provides an enhanced certification process for new light general aviation aircraft, avionics and other equipment. While we welcome this legislation, we also urge the FAA and Congress to continue working with the aviation community on streamlining and enhancing the certification process to reduce delays, eliminate duplications and encourage internal FAA certification-enhancement management practices.

2. **Moving Forward on an FAA Realignment and Consolidation Plan**. Section 804 of the 2012 FAA Modernization Reform Act requires the FAA to submit a National Facilities Re-alignment and Consolidation Report, to reduce costs and make necessary changes without adversely affecting aviation safety. We are hopeful that FAA will soon move forward to develop this plan, so that the industry, labor and other stakeholders can work with Congress and the FAA in making sensible, necessary and cost-effective changes to the system.

3. **Prioritizing NextGen Programs**. The business aviation community remains a committed supporter of prioritized investments in deploying new technology for air traffic control services. These Next-Generation investments provide direct benefits, by expanding aviation transportation capacity to accommodate economic growth, reducing on-going FAA operating costs, enhancing safety and reducing environmental impacts. FAA is working actively with all operators to define the most beneficial implementation strategy for NextGen equipment and facilities, as we proceed to the initial 2020 capability date. NBAA welcomes this collaborative effort, because it is clear that both FAA and individual operators need to identify additional incentives and/or benefits before equipage can be accelerated beyond its current pace.

Guiding Principles for Reauthorization

As we consider opportunities like the three I've outlined here – and as we look to the challenges and opportunities ahead – I would also like to offer a list of what we at NBAA consider our "Guiding Principles," which we believe can serve as the foundation of coming policy and legislative discussions with our community:

1) *A continued robust general fund contribution is vital to maintaining a safe and efficient national air transportation system.* All Americans benefit from such a federal investment, and it is important that all Americans have equal access to the aviation system, regardless of whether they live in rural America, or in the nation's largest urban cities.

2) *Preserve the general aviation fuel-based revenue sys*tem. Fuel-based fees do not require a new "Sky-R-S" to administer. Fuel fees are efficient to pay and difficult to avoid. Fuel fees are assigned fairly, based on an operator's usage of the system – the longer the distance an aircraft flies, the more its operator will pay in fuel fees. Fuel fees are also assigned fairly based on aircraft size, because small aircraft use less fuel and pay lower taxes, while large aircraft use more fuel and pay higher taxes. Fuel fees also provide an important environmental incentive for GA operators to acquire newer, cleaner, quieter and more efficient aircraft.

3) *Congress should continue to have direct oversight over the FAA funding system.* Despite the economic and funding challenges we face now, or challenges such as 9/11, past recessions and other national impacts – Congress has provided a stable and consistent level of funding for our national aviation system.

A Need for Continued Engagement on Specific Challenges

As we consider our broad, current and future aviation needs, it is clear that continued Congressional engagement in specific aviation policies will also remain essential. To understand the importance of Congressional involvement in the industry's concerns, we can look to two recent, specific policy developments – one here in the U.S., and one with its origins overseas – that could have serious ramifications for our shared aviation community. In both cases, the active involvement by Congress has been of critical importance.

First, there is the matter of the FAA's recent announcement in November that the agency would soon begin subjecting pilots with a body mass index (BMI) of 40 or greater to obstructive sleep apnea (OSA) screening prior to receiving a medical certificate. It was later revealed that the agency would require pilots to bear the significant costs of getting tested for OSA (as much as $5,000, according to some sources), and obtaining the requisite equipment to treat the condition, if necessary.

NBAA and other industry groups were alarmed by the FAA's announcement, because there appears to be no causal link between OSA and flying accidents, and no clear indication that the additional screening requirement would improve aviation safety. Equally troubling, the vast majority of pilots have neither been provided an opportunity to learn of the FAA's plans, nor been given a mechanism for providing feedback on the proposal.

Mr. Chairman, the legislation you introduced with Ranking Member Larsen – H.R.3578 – will compel the FAA to consult with industry stakeholders through the established rulemaking process before issuing any requirement for pilots to undergo OSA screening. Furthermore, it will ensure that the FAA will conduct a fully transparent, data-driven justification for its proposal, which takes into account the full spectrum of costs, benefits and other important criteria before any OSA rule or regulation can take effect.

We appreciate the recent, prompt, bipartisan action by the full Transportation and Infrastructure Committee on this matter, and we look forward to working with you and your co-sponsors in obtaining prompt passage of the bill by the full House.

Another area in which the involvement of Congress has been critical is on the matter of the European Union Emissions Trading Scheme (EU-ETS), which continues to be a pressing concern for general aviation operators.

As you are aware, the EU-ETS is still applicable to business aviation flights between two European airports. While the EU implemented a "stop-the-clock" provision in the spring of this year, which suspended applicability for flights from foreign points into Europe, the internal operations are still being affected.

As NBAA has noted many times before, the EU-ETS raises a host of serious challenges for our industry. As just one consideration, the compliance procedure for the scheme puts a costly financial burden on U.S. business aviation; equally important, it raises security concerns, because U.S. companies must provide a huge amount of sensitive data, including bank account information, flight data, personal information and other disclosures—all of which would become available to the public.

Mr. Chairman, as you know, Congress took action on this issue last year, passing legislation that would give the U.S. Department of Transportation the authority to prohibit U.S.-based operators from participating in the EU-ETS. Again, the active engagement by Congress on pressing issues for our industry proved critical.

In the time since that legislation became law, the International Civil Aviation Organization (ICAO) met in a worldwide Assembly of member nations, which concluded with the advancement of a framework for international aviation emissions policies, which pivots away from the EU-ETS in key ways. Although far from perfect and certainly not everything we have worked for, it promotes an international dialogue that is focused on simple, more workable measures for addressing aircraft emissions – measures that can be built around various types and sizes of operators.

While the ICAO work will continue on the this issue, it is unclear if – when the EU's "stop-the-clock" policy expires in April 2014 – the applicability of EU-ETS will once again be expanded to flights entering Europe's airspace from foreign departure points, including the U.S. Therefore, we urge the Congress to remain engaged on this issue, and we thank you for your continuing support for the aviation community with regard to this matter.

Conclusion

In conclusion, Mr. Chairman, Ranking Member Larsen and members of the Subcommittee, we are grateful for the continued leadership you provide in working with the aviation community to foster a vibrant industry and a strong, world-class aviation-transportation system.

Thank your for the opportunity to appear here today. NBAA and the larger business aviation community look forward to working with you and other Congressional leaders on policies that support our nation's aviation system today, and ensure that it retains its world-leadership position in the future.

I would be pleased to respond to any questions or comments you may have.

TTD

A bold voice for transportation workers

WRITTEN STATEMENT OF
EDWARD WYTKIND, PRESIDENT
TRANSPORTATION TRADES DEPARTMENT, AFL-CIO

BEFORE THE
HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON AVIATION
HEARING ON
"THE STATE OF AMERICAN AVIATION"

December 12, 2013

Chairman LoBiondo, Ranking Member Larsen, and members of the House Transportation and Infrastructure Subcommittee on Aviation, thank you for the opportunity to testify today on the state of American aviation.

As the President of the Transportation Trades Department, AFL-CIO (TTD), I am honored to speak on behalf of the workers who operate, maintain, service and build our nation's aviation system. By way of background, TTD consists of 32 affiliated unions that represent workers in every mode of transportation, including those who work in aviation[1].

Today, the U.S. aviation sector and its workforce are confronted with enormous challenges. Foreign states and carriers are aggressively pursuing liberalization agendas designed to increase their share of the world aviation marketplace – often at the expense of U.S. carriers and their workers. Our government must be vigilant in rejecting inherently unfair and anti-competitive accords and instead it must promote policies that ensure the competitiveness of U.S. airlines. The ability of U.S. carriers to operate domestically and compete internationally depends on having a fully functioning and efficient FAA with stable and robust financing for our aviation system and its workforce. We must also do more to ensure that important safety reforms are implemented and current rules are not needlessly reformed or revisited based simply on a broad anti-regulatory agenda.

The policy and trade decisions of our government and the business decisions of our air carriers in the next few years will determine the fate of this vital sector of the U.S. economy. We know that the expansion of international air transportation opportunities can offer lucrative business opportunities for U.S. airlines and, if done the right way, create and sustain good aviation jobs. But we also know that globalization without checks and balances can have devastating effects on

[1] A complete list of TTD affiliates is attached.

entire industries and middle class American jobs.[2] TTD has always rejected efforts that seek aviation liberalization at any cost and without adequate protections for the men and women who work in our aviation industry. Decades of unfair trade policy have ravaged workers in many U.S. industries, and we will not relent in our commitment to ensuring that aviation liberalization does not have the same result for U.S. aviation employees.

What is clear is that globalization is moving fast, and how the U.S. handles and addresses an array of issues over the next several months and years will determine if a strong and vibrant U.S. aviation industry and middle class workforce are preserved.

A pending trade issue that is vital to our aviation sector is the U.S.-European Union (EU) negotiations over a Transatlantic Trade and Investment Partnership, better known as TTIP.

These negotiations encompass a wide variety of trade liberalization issues, yet despite the historical precedent of excluding air services in these types of broad trade negotiations, the EU is attempting to include aviation in these talks. We are strongly opposed to this approach, as it is an attempt by the EU to force changes to U.S. rules that limit foreign ownership of U.S. airlines and reserve domestic point-to-point service, or cabotage, to U.S.-controlled carriers. Because the EU has failed in its attempts to force unwanted reforms to these U.S. laws, it is attempting to do so in complex TTIP talks with hopes that somehow our aviation interests would be "traded away" for other trade objectives. This strategy must be rejected and we have communicated these views to the Administration and the EU.[3] Fortunately, many members of the House agree with us. In July of this year 158 Members – including the majority of this committee – signed on to a letter to Ambassador Froman asking that he exclude air transport services from TTIP. We were pleased that Mr. Froman responded to this letter by stating that he will consult with the Department of Transportation (DOT) and Department of State (DOS) as negotiations move forward. But we think that USTR needs to take a hard stance on this issue and state unequivocally that air transport services will not be included in TTIP.

The good news is that risking our aviation interests in a broader trade negotiation isn't necessary if the objective is opening aviation markets and expanding trade and jobs in a fair and balanced manner. Over 100 trade liberalization pacts, referred to as "Open Skies" agreements already exist between the U.S. and various governments, and new and expanded agreements are on the table. In other words, aviation trade is expanding through existing negotiating frameworks. There is no need for our government to throw aviation into a larger, more complex pot of trade issues.

"Open Skies" negotiations are overseen by dedicated experts at the DOS and DOT. This process, led by those with a deep understanding of the unique nature of this industry, has shown in the past to produce positive growth opportunities for U.S. carriers, passengers and aviation employees. When the U.S. and the EU negotiated the bilateral Air Transport Agreement (ATA)

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[2] Bivens, J. (2008, May 6). Trade, Jobs and Wages. *Economic Policy Institute.* Issue Brief #244.

[3] Attached are TTD's comments on the Transatlantic Trade and Investment Partnership, submitted to USTR docket number USTR-2013-07430 on May 10, 2013.

we were pleased to see the inclusion, for the first time ever, of a labor article and a process through which the parties can seek to address adverse effects of the agreement on aviation employees. The U.S. also wisely rejected efforts by the EU to force changes to our rules and regulations governing foreign ownership and control of U.S. airlines.

Foreign ownership and control rules, and prohibitions against foreign carriers engaging in cabotage have ensured a viable U.S. airline industry and have protected U.S. aviation workers against unfair competition, preserved workers' rights and ensured our nation's status as the world's leader in air transportation. Foreign states have long lobbied to loosen these restrictions in order to gain a foothold in the lucrative U.S. aviation market, the world's largest, and syphon away good middle class jobs. In rejecting these proposals, despite the heavy-handed tactics of the EU, the final U.S.-EU accord proved again that responsible liberalization agreements can promote international growth while also protecting a vital U.S. industry and good jobs.

While we supported the U.S.-EU agreement, we are concerned about a business model being developed by an EU carrier – Norwegian Air Shuttle (NAS) – that is designed to exploit aviation and labor laws in order to undermine the jobs and rights of its pilots and flight attendants. As the name suggests, Norwegian Air Shuttle is incorporated in Norway and holds an air operators certificate (AOC) from that country as well. Rather than register its 787 aircraft in its home country, NAS has registered them in Ireland and is seeking to obtain an Ireland-issued AOC. The airline is using pilots who will be based in Thailand and employed on individual employment contracts that are governed by the laws of Singapore to crew these flights. The pilot crew will not be employed directly by NAS but by a pilot recruitment company that will then contract, or more accurately "rent" them to NAS. A similar arrangement will apply to the flight attendants who will work on the 787s.

In addition, the airline apparently takes the position that because its aircraft are registered in Ireland it does not need to obtain Norwegian work permits for its Asian-based crew. While the union that represents the non-787 crew is challenging this assertion, the government of Norway has indicated that registration of the aircraft in Ireland will postpone the need for Norwegian work permits for the Asian-based pilots and has indicated that obtaining an Irish AOC may take those pilots completely out from under coverage by Norwegian social laws. It is also unclear whether Irish social laws will cover these airline workers, or if they will be required to obtain Irish work permits. An affiliate of NAS is now seeking an Irish AOC and, just this past week, that affiliate has applied to DOT for an air carrier permit.

The goal here is clear. NAS is using the unique nature of EU aviation laws to effectively shop around for the labor laws and regulations that best suit its bottom line. It's using a "Flag of Convenience" strategy at the expense of decent labor standards. We raise this, not just to complain about a foreign airline operator, but to demonstrate that what happens in the global aviation industry impacts U.S. aviation employees. It is significant that NAS has announced that it intends to serve routes from London to New York City and Fort Lauderdale, with plans to serve Los Angeles, Oakland and Orlando in the near future. By using a "Flag of Convenience" operating model designed to chase cheap labor costs, NAS will undercut U.S. carriers and their employees that serve those same markets by as much as 50 percent.

The previously referenced labor article in the U.S.-EU ATA was drafted with this type of abusive conduct in mind. The evasive tactics taken by NAS remind us however, that even with certain safeguards in place, they must be effectively enforced. The NAS operating scheme must be derailed. Our government, and hopefully members of this committee must make it clear that these tactics run contrary to the faith and intent of the US-EU Air Transport Agreement.

The expanding web of aviation liberalization agreements throughout the world is making the global aviation system increasingly interconnected and integrated. With this come a host of regulatory issues and concerns that need to be addressed. One such issue is the impact of aircraft carbon emissions on the environment and global climate change. TTD is committed to working with U.S. carriers and the U.S. government in seeking a global solution to reducing aviation emissions, but we believe that any solution must be truly global in order to provide meaningful results and ensure competitive balance. Piecemeal unilateral attempts to curb carbon emissions would place an unreasonable financial burden on U.S. carriers and their employees and only further delay the process of reaching an international, consensus-based agreement. This includes the EU's Emissions Trading Scheme (ETS), a plan that if implemented would apply to all flights entering and leaving EU airspace.

I would like to thank members of this Committee for leading the effort last year to pass legislation that allowed the Secretary of Transportation to combat the harmful effects[4] of the EU ETS and ensured that U.S. airlines were not subject to the EU cap-and-trade tax penalties. Because of this legislation, and other international pressure, the EU postponed implementation of ETS for a year to give the International Civil Aviation Organization (ICAO) an opportunity to draft a global plan. We were pleased, then, when earlier this month ICAO's general assembly approved a plan that will provide for the development, over the next three years, of a global framework for addressing aviation's impact on climate change, with the goal of implementing the plan worldwide by 2020. The ICAO action was an important step toward implementing a global solution to this problem, and we look forward to working with ICAO to develop a framework that will substantially reduce global emissions, improve the efficiency and cost-effectiveness of our aviation system, and promote sound environmental stewardship while maintaining competitive balance and fairness in the international aviation marketplace.

We are concerned, however, that despite the international commitment to a global framework for reducing carbon emissions, EU officials have expressed disappointment with the ICAO agreement and continue pushing the misguided ETS scheme. In the aftermath of the ICAO general assembly meeting, the European Commission (EC) proposed revising the EU law so that the ETS would cover all flights over EU airspace, including those flown by international carriers. The latest EU proposal only complicates international negotiations, and we hope that the U.S. government continues to work toward a truly global solution through ICAO. I want to thank the

[4] Attached is TTD's policy statement "Supporting a Global Solution to Aviation Emissions," which was adopted by the TTD Executive Committee on October 29, 2013.

Chairmen and Ranking Members of both the full and subcommittee for writing to Secretary Foxx on November 22, 2013 and asking that he work to resolve this issue. Your diligence and leadership in pushing back against the EU is critical to our success moving forward.

We also must ensure that the more than 700 foreign-based aircraft repair stations certified by the FAA to work on U.S. aircraft are held to the same safety and security rules that we require for work done in this country. Too often this has not been the case. For example, aircraft mechanics working in the United States either employed at air carriers or at domestic contract repair stations are required to undergo various drug and alcohol screenings to ensure their ability to perform safety-sensitive repairs. Yet employees working at repair stations based overseas are exempt from these tests despite the fact that they work on the same U.S. aircraft and at repair stations certified by the FAA. The FAA Modernization and Reform Act of 2012 included a number of reforms to aircraft repair station regulations designed to address safety loopholes. Specifically, the final law included a provision (Section 308(d)(2)) directing the FAA, within one year of enactment, to issue a proposed rule requiring all repair station employees responsible for safety-sensitive maintenance on U.S. aircraft to be subject to an alcohol and controlled substance testing program.[5] While we are pleased that Congress moved to address this safety issue, the FAA is now almost nine months late in fulfilling this mandate and the provision will have no impact until it is formally implemented by the FAA. This delay is unacceptable and particularly grievous since additional time will be needed to implement the final regulations after the proposed rule is finally released.

Furthermore, we continue to wait for the Transportation Security Administration (TSA) to issue security rules – now nine years late – that govern foreign and domestic repair stations. While the TSA finally did issue an NPRM in 2010, we have significant concerns that the proposal does not go far enough to address the security questions that have been raised. As we stated in our 2010 comments that we agree with TSA's assessment, noted in the NPRM, that as the agency "tightens security in other areas of aviation, repair stations increasingly may become attractive targets for terrorist organizations attempting to evade aviation security protections currently in place." With this in mind, we are disappointed that nothing in the proposed rule requires stations to determine if a worker is a security threat; instead, stations are only required to "verify background information through confirmation of prior employment …" (Section 1554.103(a)(6)). This stands in stark contrast to the extensive criminal background checks and threat assessments imposed on in-house U.S. carrier mechanics.

We are also concerned that security plans submitted by contract repair stations would not be approved or even filed with TSA. This problem is compounded by the fact that the mandates of the security plan appear ambiguous and will change based on the perceived risk of each repair facility. We noted that TSA must have the ability to conduct unannounced inspections to ensure compliance with security rules in place and that the NPRM offered a conflicting statement on whether and how inspections would occur. The absence of unannounced inspections at foreign

[5] Separately, Section 308(d)(1) directs the Secretary of Transportation and the Secretary of State to request that member countries of ICAO establish international standards for alcohol and controlled substance testing of persons that perform safety-sensitive maintenance functions on U.S. commercial aircraft.

stations would again create a double standard with domestic facilities. More to the point, unannounced inspections make good sense as part of a comprehensive aviation security oversight program.

Under current law, the FAA is barred from certifying any new foreign repair stations until the security rule is finalized. We strongly support continuation of this ban and urge TSA to make needed changes to its proposed rule before a final rule is issued.

Beyond TTIP, Open Skies negotiations and ICAO global aviation emission issues, the U.S. government must embrace policies that promote the competitiveness of U.S. airlines and protect and expand U.S. airline jobs. It also must not advance policies that provide a competitive advantage to foreign airlines, particularly state owned or subsidized airlines. Unfortunately the Department of Homeland Security (DHS) has been doing the latter. Earlier this year DHS announced plans to open a Customs and Border Protection (CBP) pre-clearance facility at the Abu Dhabi International Airport in the United Arab Emirates (UAE). This facility will be staffed by U.S. customs agents at significant cost to the U.S. taxpayer. CBP pre-clearance facilities are popular with passengers and can help relieve congestion at customs check points in U.S. airports. However, no U.S. carrier currently flies between the U.S. and Abu Dhabi. A preclearance site in Abu Dhabi would benefit only Etihad – the state-owned air carrier of the UAE – and is a significant departure from the current construct of preclearance operations, which is to facilitate U.S. air carrier travel and to benefit U.S. travelers. Preclearance should not be a vehicle to put U.S. air carriers and U.S. airline jobs at risk by exclusively advantaging a foreign competitor. Given that Etihad only operates three routes between Abu Dhabi and the U.S., we believe CBP resources and personnel would be better used here at home to relieve overburdened customs lines in U.S. airports. I would like to thank two members of this committee, Reps. Patrick Meehan and Peter DeFazio for introducing H.R. 3488, which would prevent DHS from opening this preclearance facility, and I urge Congress to move to quickly pass this bill into law. Members of the House Homeland Security Committee, led by Reps. Sheila Jackson Lee and Bennie Thompson have introduced similar legislation (H.R. 3575). Absent legislative action, we urge DHS to reconsider the planned pre-clearance facility and hope that committee members will oppose this plan.[6]

In order to remain competitive in the global marketplace and continue in our commitment to serving the flying public, the U.S. must invest in the FAA's workforce and aging infrastructure, stabilize the FAA's operating budget, ensure enhanced oversight of the industry and airspace, and continue modernizing the National Airspace System (NAS) through the Next Generation Air Transportation System (NextGen) initiative. We've already witnessed the impacts that government shutdowns have had on these programs and each time this occurs, these initiatives, designed to make air travel safer and more efficient and to expand capacity, are grounded or idled. The government shutdown is just the latest disruption for the FAA. Passage of the 2012 FAA Reauthorization Act was delayed over three years with 23 extensions before finally being signed into law. In fact, when an agreement could not be reached on the 21st extension, the FAA

[6] Calio, N., Moak, L., Wytkind, E. (2013, July 22). Why Preclearance in Abu Dhabi is a Bad Deal for America. *The Hill's Congress Blog*.

was partially shut down for two weeks during the summer of 2011, costing the government nearly $30 million a day. More recently, in April 2013, sequestration forced the FAA to furlough every employee, including air traffic controllers and safety inspectors, and look at closing towers in order to achieve the mandated spending cuts. This year, Congress did not pass a stand-alone Transportation, Housing and Urban Development (THUD) Appropriations bill, and is now only able to pass temporary, short-term, stopgap continuing resolutions to keep our government funded. This must end. Under the current budgetary constraints we have serious concerns regarding the FAA's ability to fully function and operate. Sufficient and predictable long-term funding is desperately needed to ensure that our aviation system is as safe and efficient as possible.

This lack of stable funding has already caused damage, some of which will be difficult if not impossible to reverse. For example, stop-and-start funding means that the FAA can't plan for the future, making long term improvement and modernization projects even more difficult. In addition, restarting modernization projects is very expensive and some projects may need to begin again from square one. The April 2013 furloughs caused delays to modernization projects like En Route Automation Modernization (ERAM) that are costing $6 million per month of delay (currently estimated to be about $42 million).

Due to sequestration cuts – which are set to continue into fiscal year 2021 unless Congress takes action – preventative maintenance has been halted, and engineers and systems specialists must contend with a fix-on-fail policy, meaning they must wait until equipment actually breaks before replacing it. This creates an obvious safety concern and may also result in excessive and avoidable air traffic delays. Sequestration-mandated furloughs in April 2013 caused severe delays: during the week of April 21-27 2013, delays nearly tripled at our nation's airports, from 5,103 delays to 13,694. These funding cuts are problematic, and will continue until Congress finds a responsible way to end sequestration. Until then, our NAS is in jeopardy of falling behind on efficiency, safety, and capacity.

The FAA also continues to operate under a hiring freeze and one-third of its workforce, including air traffic controllers, aviation safety inspectors and systems specialists, will be eligible to retire starting in 2014. With a hiring freeze in place, the FAA lacks the ability to replace retiring employees and respond to the influx of future retirements. Furthermore, even when the FAA is permitted to hire new employees, the training for employees throughout the agency is extensive and it can take two to five years to fully train new hires. In addition, FAA operations within the current budget environment are presenting major challenges for the FAA workforce and the aviation system, which is resulting in limited funding for travel, challenges performing inspections and other surveillance activity, reduced or delayed maintenance of critical systems and equipment, and difficultly in meeting growing industry demands with its manufacturing and certification process. Without clear funding in place to ensure the current workforce remains on the job and a new generation of employees is in place with access to thorough on-the-job training, there is no way the FAA can guarantee there will be enough aviation safety inspectors, air traffic controllers, systems specialists and other employees in place to secure the safety and efficiency of the system.

Investment has been severely reduced at the FAA for new and existing manufacturing certifications. Current reductions in the FAA's certification process are expected to have serious economic impact on the aviation industry and ongoing aircraft and part manufacturing products. In fact, the FAA estimates that as many as 1,480 ongoing aircraft and parts manufacturing projects will be impacted as long as sequestration remains in place. Adequate FAA staffing must be in place to support a robust certification process. The global aviation marketplace is expanding at a rapid pace and the FAA must continue to move forward confidently without the continuing uncertainty associated with threatened shutdowns and sequestration.

Finally, as this Committee and Congress as a whole develop and consider legislation that impacts our nation's aviation system, it is critical that it continue to promote safety in the workplace. The 2012 FAA Reauthorization made many significant reforms to improve the health and safety of our aviation works both on the ground and in the cabin. More work needs to be done both in implementing these reforms and developing new legislation, but Congress must also not pursue a recklessly anti-regulatory agenda that undermines existing safety rules or inhibits progress in making our aviation system the safest and most efficient in the world.

The U.S. aviation industry and its workers face significant challenges and opportunities in the months and years ahead. Already, U.S. aviation crews have seen their jobs threatened by corporate schemes such as alliances between U.S. and foreign air carriers, and the "flag of convenience" scheme being advanced by Norwegian Air Shuttle. Similarly, foreign outsourcing of aircraft maintenance and passenger service functions is sending good U.S. aviation jobs overseas, while our own FAA remains paralyzed by sequestration and budgetary uncertainly. The U.S. aviation system remains the best and safest in the world, however, and through smart government policy that promotes U.S. competitiveness we can thrive in the international marketplace while creating and protecting high quality U.S. aviation jobs.

Thank you for the opportunity to testify today, and I look forward to working with the committee to promote the health of the U.S. aviation industry and to protect and expand our middle class aviation industry workforce.

Attachment 1

TTD MEMBER UNIONS

The following labor organizations are members of and represented by the TTD:

Air Line Pilots Association (ALPA)
Amalgamated Transit Union (ATU)
American Federation of Government Employees (AFGE)
American Federation of State, County and Municipal Employees (AFSCME)
American Federation of Teachers (AFT)
Association of Flight Attendants-CWA (AFA-CWA)
American Train Dispatchers Association (ATDA)
Brotherhood of Railroad Signalmen (BRS)
Communications Workers of America (CWA)
International Association of Fire Fighters (IAFF)
International Association of Machinists and Aerospace Workers (IAM)
International Brotherhood of Boilermakers, Iron Ship Builders,
Blacksmiths, Forgers and Helpers (IBB)
International Brotherhood of Electrical Workers (IBEW)
International Longshoremen's Association (ILA)
International Organization of Masters, Mates & Pilots, ILA (MM&P)
International Union of Operating Engineers (IUOE)
Laborers' International Union of North America (LIUNA)
Marine Engineers' Beneficial Association (MEBA)
National Air Traffic Controllers Association (NATCA)
National Association of Letter Carriers (NALC)
National Conference of Firemen and Oilers, SEIU (NCFO, SEIU)
National Federation of Public and Private Employees (NFOPAPE)
Office and Professional Employees International Union (OPEIU)
Professional Aviation Safety Specialists (PASS)
Sailors' Union of the Pacific (SUP)
Sheet Metal, Air, Rail and Transportation Workers (SMART)
SMART-Transportation Division
Transportation Communications Union/ IAM (TCU)
Transport Workers Union of America (TWU)
UNITE HERE!
United Mine Workers of America (UMWA)
United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (USW)

December 2013

TTD

A bold voice for transportation workers

Attachment 2

May 10, 2013

Ms. Yvonne Jamison
Office of the United States Trade Representative
600 17th Street, NW
Washington, DC 20508

RE: Request for Comments on the Transatlantic Trade and Investment Partnership Docket No. USTR-2013-07430

Dear Ms. Jamison,

The Transportation Trades Department, AFL-CIO (TTD) appreciates the opportunity to submit its views on the proposed Transatlantic Trade and Investment Partnership (TTIP) between the United States and the European Union. TTD has previously submitted comments during the United States European Union High Level Dialogue process, and I gave an oral presentation of TTD's views at the US-EU High Level Regulatory Cooperation Forum on April 11, 2013. TTD's comments today will reflect those previously stated positions.

We understand that the EU has asked that the ownership and control rules that pertain to airlines, the right of the carriers of two sides to operate in each other's domestic markets ("cabotage operations"), and maritime transport services be included as topics in the TTIP negotiations. For the purposes of air transport services, TTD's comments here are limited to whether or not air traffic rights and services directly related to those rights should be included in TTIP. TTD strongly believes that they should not. Likewise, TTD believes that maritime transport services and U.S. maritime laws such as the Jones Act should not be included in these negotiations.

Air transport services have historically been excluded from general trade agreements such as GATS and bilateral and multilateral free trade agreements. Rather, such services have been subject to a separate administrative regime, under which the U.S. has negotiated air service specific agreements with foreign countries. These negotiations have been led by the Department of State and the Department of Transportation, two agencies with dedicated experts on air transport services. This regime has led to the steady and dramatic removal of barriers to trade in the air transport services sector and since 1993 the U.S. has entered into "open skies" agreements with 107 countries – agreements that have eliminated virtually all restrictions on the ability of carriers to select routes, to establish frequencies and to set prices.

Transportation Trades Department, AFL-CIO

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Edward Wytkind, President /Larry I. Willis, Secretary-Treasurer

The U.S. and the EU have recently entered into such an open skies Agreement ("Agreement"). During the comprehensive discussions that resulted in the Agreement, the EU sought the exchange of cabotage rights and the elimination of restrictions on the ownership and control of airlines by the nationals of the parties. In fact, it is fair to say that consideration of altering the ownership and control rules was one of the central topics in the negotiations. Ultimately, the Agreement left in place the restrictions on cabotage. With respect to ownership and control, the Agreement left in place the statutory restrictions but did establish a Joint Committee (consisting of representatives of the two sides) that meets on a regular basis and is tasked, among other things, with considering possible ways of enhancing the access of U.S. and EU airlines to global capital markets.

In TTD's view the existing administrative framework has been successful in opening markets and liberalizing trade in air transport services while at the same time taking into account the legitimate concerns of airline labor. The regime has also created an open market environment that has permitted the airlines of the two sides to receive antitrust immunity for ever-deeper alliance arrangements. Almost all major U.S. and EU passenger airlines are now members of immunized alliances that permit them to operate as virtually single entities in the international markets that are covered by the immunity grants. Additionally, the Agreement contains provisions that recognize the value of "high labour standards" and establishes a mechanism for considering and addressing adverse effects on airline workers that may result.

While restrictions on cabotage and on ownership and control remain, there are good reasons for this. With respect to cabotage, the operation of foreign airlines in U.S. domestic markets would be at odds with a host of U.S. laws, including visa and labor laws. It would also be inconsistent with the treatment of other business sectors. For example, if a foreign automobile company wishes to set up a manufacturing operation in the U.S., that facility and its workforce are subject to U.S. laws and regulations. Granting cabotage rights to EU airlines, however, would allow these airlines to operate in the U.S. domestic market with a workforce that remains technically based in their home country and subject to that country's laws. This would allow the airlines to bypass U.S. laws and displace U.S. aviation employees. Additionally, given that the U.S. represents about half of the world's aviation market, it is unreasonable to argue that opening the U.S. domestic point-to-point market to foreign carriers would represent an even exchange of benefits with our EU trading partners.

The request to eliminate the ownership and control restrictions raises its own set of difficult issues. If an EU airline were able to own a U.S. airline, it would be able to place the air crew of the U.S. carrier in competition with the air crew of the EU airline for the international routes flown by the previously U.S-owned carriers. If the foreign owner sought to eliminate U.S. jobs and move this work to a foreign crew, it is unlikely that U.S. labor laws would provide an adequate remedy or protection for these workers. This is a very real threat, and the consequences of a similar arrangement are currently being felt by aviation workers in Europe where several airlines have taken advantage of the lack of a comprehensive labor law in the European common aviation area to undermine the ability of European flight crews to bargain over the flying done by their companies. We would be happy to provide specific examples of these actions if you wish to consider the issue in more depth.

Changes to our ownership and control laws would have a negative impact on U.S. aircraft maintenance workers as well. If foreign carriers are allowed to take over U.S. airlines, the practice of outsourcing aircraft maintenance to foreign countries will only accelerate. This is already a major problem that has cost thousands of skilled U.S. jobs and lowered safety standards. And while there is currently a congressionally mandated moratorium on certifying new foreign repair stations, we are still awaiting long overdue security rules governing contract repair stations and drug and alcohol testing at foreign repair stations. Any actions that would further promote the outsourcing of aircraft maintenance work, particularly without adequate rules governing the oversight of these foreign repair stations, should be rejected by this administration. The U.S. government should be pursuing market-opening aviation trade opportunities that create and sustain U.S. jobs both in the air and on the ground, not those that leave the future of U.S. aviation to foreign carriers (and their respective governments) that may have different economic agendas.

In addition to the problems that relaxing foreign ownership and control rules would cause for our domestic aviation workforce, this proposal would strain our government's ability to mandate and enforce critical security standards. With a foreign interest so integrally involved in controlling the operations of a U.S. air carrier, it would be impossible to assert U.S. security interests. Moreover, the ability of our government to manage the Civil Reserve Air Fleet (CRAF) program, which assures U.S. air carrier capacity for our military's air transport needs during wars and conflicts, would be undermined. Under relaxed foreign ownership and control rules we question how a foreign executive that controls the commercial aspects of a U.S. carrier but does not support our military strategy would be compelled to provide CRAF air transport services during a war or conflict.

Finally, we would note that the Bush Administration in 2005 proposed a rule change to allow foreign entities to exercise actual control over U.S. airlines. This proposal was subject to fierce opposition in Congress and eventually had to be withdrawn by the Administration. It is clear that there remains little support in Congress for changing our current ownership and control standards at the demand of an international trading partner when there is no identifiable benefit to U.S. interests.

The same principles noted above apply to any consideration of U.S. maritime transport laws and policies. The Jones Act has been a successful part of our nation's national security and economic policy since 1922, and serves a critical economic role for our nation, sustaining over 500,000 good-paying American jobs and generating $100 billion in total annual economic output. This law has ensured that the U.S. continues to have a reliable source of domestically built ships and competent American crews to operate them. Overall, the U.S.-flag maritime industry has played a vital role in supporting our armed forces, our trade objectives, food and other aid to other countries, and our national security. We should be promoting the growth of the U.S. merchant marine, not pursuing changes in our maritime policies through trade negotiations that weaken this vital segment of our transportation system.

Any limitation of the Jones Act would harm American mariners, increase the unemployment rate, accelerate the decline of U.S.-flag operators and seriously damage our economic recovery and national security. This would also permit foreign entities that do not employ U.S. workers and do not pay taxes to our treasury to operate with impunity on our inland waterways and along our coasts. Any efforts to include maritime transport services in these negotiations or to otherwise weaken or infringe upon the Jones Act should be rejected by U.S. negotiators.

TTD looks forward to working with the U.S. Government as it considers how to proceed with respect to the proposed TTIP. Thank you for your consideration of our views.

Sincerely,

Edward Wytkind
President

cc: Susan Kurland, Assistant Secretary for Aviation and International Affairs, DOT
Paul Gretch, Director, Office of International Aviation, DOT
Kris Urs, Deputy Assistant Secretary for Transportation Affairs, DOS

TTD

A bold voice for transportation workers

Attachment 3

SUPPORTING A GLOBAL SOLUTION TO AVIATION EMISSIONS

Earlier this month the International Civil Aviation Organization's (ICAO) general assembly approved a plan that will provide for the development, over the next three years, of a global framework for addressing aviation's impact on climate change, with the goal of implementing the plan worldwide by 2020. TTD applauds the adoption of this plan, and looks forward to working with ICAO to develop a framework that will substantially reduce global emissions, improve the efficiency and cost-effectiveness of our aviation system, and promote sound environmental stewardship while maintaining competitive balance and fairness in the international aviation marketplace.

The U.S. aviation system plays a critical role in our national economy. It employs millions of workers both directly and indirectly, generates nearly $900 billion in economic activity annually, and is responsible for nine percent of our GDP. The aviation industry also faces significant financial head winds as profit margins remain thin and job losses continue at some carriers. Rising fuel costs have contributed greatly to these hardships. Despite technology driven reductions in jet engine fuel consumption and airline fuel conservation practices, jet fuel expenses have become the airlines' largest operating cost. As a result, U.S. airlines have acted proactively to both decrease their environmental footprint and combat volatile fuel expenses. The industry has improved fuel efficiency and lowered emissions, including a 1.5 percent annual average fuel-efficiency gain through 2020, carbon-neutral growth from 2020, and a 50 percent net reduction in emissions by 2050. The U.S. was also actively engaged in negotiating the ICAO global emissions plan.

The ICAO agreement comes on the heels of a contentious period revolving around aviation emissions. In November of last year President Obama signed legislation that allowed the Secretary of Transportation to combat the harmful effects of the European Union's Emissions Trading Scheme (EU ETS) and ensured that U.S. airlines are not subject to the EU cap-and-trade tax penalties. TTD endorsed this legislation, the purpose of which was not to turn a blind eye to the effects of aviation emissions on global climate change, but to reaffirm our commitment to finding a global solution to reducing aviation emissions through ICAO.

The U.S. and EU share the common goal of reducing carbon emissions in the aviation industry. However, while the U.S. was committed to working through the ICAO process, the EU moved forward by unilaterally subjecting all international flights arriving and departing from the EU to emissions standards mandated by the EU ETS. This would have placed an unreasonable financial burden on U.S. carriers and their employees, and would have only further delayed the process of reaching an international, consensus-based agreement. Fortunately, in the face of deep criticism from the international community including the legislation signed by President Obama, the EU delayed implementation of the EU ETS for one year to allow the ICAO process to deliver a global plan.

A global solution is not only the most effective way to reduce aviation emissions in the environment that we all share, but also the most economically sound solution. Rather than a patchwork system of environmental standards set by various governments, a global system will address this problem without putting U.S. carriers and their workers at a competitive disadvantage. The emission payments under the EU ETS, for instance, were expected to cost the U.S. aviation industry over $3 billion dollars in the next several years – a prohibitive expense that could have cost thousands of jobs.

Despite the international commitment to creating a global framework for reducing carbon emissions, EU officials have unfortunately expressed disappointment with the ICAO agreement and are pushing to implement the misguided ETS scheme regardless. In the aftermath of the ICAO general assembly meeting, the European Commission (EC) proposed revising the EU law so that the ETS would cover all flights over EU airspace, including those flown by international carriers. While we continue to support the responsible reduction of carbon emissions, the latest EU proposal only complicates the goal of reducing emissions on a truly global scale.

TTD and its affiliated unions oppose the heavy handed, unilateral approach being taken by the EU and believe that these actions only harm the international community's ability to find a meaningful and permanent solution. We remain committed to working with U.S. carriers, the U.S. government, and ICAO to build an international framework for combating global carbon emissions in the aviation system, but will oppose unilateral action by other governments that undermine U.S. airlines and their workers.

Resolution No. F13-05
Adopted October 29, 2013

Edward Wytkind
President
Transportation Trades Department, AFL-CIO
Responses to Questions for the Record issued by Hon. Frank A. LoBiondo

1. **QUESTION: In your testimony, you mention that the ability of U.S. carriers to operate domestically and compete internationally depends on having a fully functional and efficient FAA. Is the FAA fully functional and efficient?**

   The FAA is hampered by a lack of stable, long term funding. In recent years, the government shutdown, sequestration, and partial FAA shutdown have caused furloughs and massive disruptions in the U.S. aviation sector, including flight delays and cancellations, and millions lost in economic activity. The lack of predictable long-term funding has delayed modernization and system-wide improvement projects. Budget cuts have also halted preventative maintenance, and engineers and systems specialists must contend with a fix-on-fail policy, meaning they must wait until equipment actually breaks before replacing it. This creates an obvious safety concern and may also result in excessive and avoidable air traffic delays. Unless robust and stable funding is provided for the FAA's workforce, operating budget, and aging infrastructure, these problems will only get worse over time.

2. **QUESTION: There is some industry concern regarding a possible workforce shortage for pilots, aviation professionals and other crucial aviation workers. How do we foster enthusiasm for aviation in this generation and the next?**

   A key component to the long term solution is to turn those jobs in aviation to careers in aviation. To do that we must provide adequate, livable, wage and benefits. That in turn will attract the best and the brightest to our industry. We also must provide stability in our aviation industry. The past 10 to 14 years has been tough on aviation. Bankruptcies, liquidations, and mergers have taken a toll. Taxes and fees are also an issue. We need national, Presidential, level policy that supports and promotes aviation here in the U.S.

AIRCRAFT MECHANICS FRATERNAL ASSOCIATION
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Chairman Shuster and Members of the Committee:

The Aircraft Mechanics Fraternal Association ("AMFA") appreciates this opportunity to submit testimony regarding the state of the American aviation industry. As explained below, AMFA supports greater oversight and regulation of foreign repair stations and their operations. AMFA is concerned that while qualified and skilled aircraft maintenance technicians cannot find work domestically, foreign repair stations continue to flourish, utilizing staff with insufficient industry training, minimal drug and alcohol screening, and no criminal background checks. The aviation industry has evolved dramatically since 2000, with multiple airline bankruptcies, mergers, and newly formed carriers. As the industry has evolved, so have airlines' business practices and annual budgets. The Federal Aviation Administration (FAA) is now responsible for over 4,700 foreign repair stations, and the popularity of these stations is expected to increase. AMFA's concern is that foreign repair stations are held to a different standard, one where profitability trumps passenger safety. If such foreign repair services are going to continue to exist, AMFA urges that these facilities be subject to the same regulations and requirements as domestic facilities and operations. Only in this way can we hope to maximize passenger safety, while maintaining opportunity for the highly qualified and skilled aircraft maintenance technicians in the United States.

Aircraft Mechanics Fraternal Association

AMFA is a national, craft oriented, independent aviation union representing over 3,000 aircraft maintenance technician and related personnel at Alaska and Southwest Airlines. AMFA is unique in that it is the only aircraft maintenance technician-specific organization within the entire industry. Membership spans the entire country, with members working tirelessly at hubs in Florida, Maryland, Washington, California, Texas, among others. AMFA members are utilized for routine maintenance, major aircraft repairs, and aircraft breakdowns while in service. AMFA prides itself on holding its members to the highest standards, and we are proud to fight for aircraft maintenance technicians' rights and maintaining the integrity and vitality of the industry.

While AMFA maintains a diverse membership, the common voice among all of our technicians is that airplanes repaired abroad are not of the same quality as those repaired domestically. AMFA members have witnessed countless examples of deficient foreign work - the use of improper screws and fasteners, shoddy electrical work, or a variety of other problems indicating poor attention to detail and lax oversight. AMFA certification within domestic hubs ensures that these planes become ready for commercial use. However, these problems should not be allowed to fester under the assumption that AMFA members will catch every mistake. Fixing sub-par work done in a foreign repair facility costs money, delays travelers, and jeopardizes flyer safety.

Federal Aviation Administration Oversight Concerns

The FAA is the only federal agency with direct access, oversight, and power to regulate the thousands of foreign repair stations around the globe. AMFA appreciates and respects the efforts of the FAA and their inspectors, and believes that FAA oversight should be enhanced for each of these international repair stations and their respective personnel.

As noted in the FAA's recent Inspector General (IG) report on the FAA's oversight of foreign repair stations, the FAA's focus on meeting quotas for the number of stations inspected inadequately accounts for risk, failing to focus resources on stations where oversight is most needed. While the FAA has made effort to implement a risk-based oversight system over the past five years, this system suffers from a series of shortcomings, including inadequate staffing, insufficient of training, and inconsistent application.

The FAA's overall model is dependent on a reliable annual station check, complete with 16 sub-inspection items, which includes quality control, training, manuals, as well as tools and equipment. The FAA requires that at least nine elements be inspected annually, regardless of risk, yet the IG revealed that less than half (7 of 16) of these parameters are actually inspected. Further, inspectors have little to no historical data to work from, hampering efforts to identify industry trends, track specific facility performance, or to establish consistent inspection practices. Such gaps in data are alarming. Work done domestically can be clearly tracked, allowing for consistent, effective oversight, while the most basic data searches and analysis are almost impossible when applied to facilities abroad. While the FAA has taken steps to gather this data, most significantly through the Repair Station Data Package (RSDP), the IG found that, despite being implemented in 2007, the RSDP has yet to be effectively deployed by FAA personnel. Sixty (60) percent of inspectors interviewed by the IG were either not familiar with the RSDP, felt the guidance was unclear, or did not know how to access the information.

Further, the IG found that FAA inspectors lack standardized checklists to guide their inspections and surveillance activities. Over half of the inspectors interviewed (19 of 33), used no checklist during inspections, assessing criteria based solely on their own previous experience with the respective station Compounding this problem is the fact that many inspectors do not clearly identify and document which areas were reviewed in the inspection database.

The Need for Action

The findings contained in the FAA's IG report reflect the need for legislative action to strengthen the FAA's hand in overseeing foreign repair stations, and encourage the performance of these crucial services by domestic professionals best prepared to handle intense aircraft maintenance. AMFA firmly believes this problem will not solve itself. Airlines must be required to provide the same level of service, with the same safeguards, for work done abroad as is required at home.

Finally, in addition to requiring parity between domestic and international repair facilities, services and inspections, AMFA encourages Congress to consider establishing incentives for airlines to perform this work domestically, including measures which would provide credits or offsets for such services.

Proper oversight of aircraft maintenance performed abroad depends on a consistent set of standards and rigorous enforcement. Both of these are currently lacking. U.S. commercial airlines are exploiting this gap by having crucial maintenance performed in foreign locations by personnel who do not meet our domestic standards. While this saves money, it jeopardizes the flying public. AMFA understands that foreign repair stations will not disappear; however, these stations should, at minimum, be subject to the standards we have set for operations within the U.S. Moreover, Congress should emphasize oversight of the FAA's management of these facilities. Congress has the ability to focus the FAA on this problem, and the authority to direct action. We strongly encourage the Committee to make this a priority.

AMFA looks forward to working with the FAA, Members of Congress, the House Transportation and Infrastructure Committee, and industry stakeholders as we find an appropriate solution to maintain the safety of our commercial aircraft.

Thank you for this opportunity and AMFA appreciates the Committee's attention regarding this issue.

Sincerely,

Louie Key

Louie Key
National Director

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