

**Statement of James C. May
President and CEO
Air Transport Association of America, Inc.
Subcommittee on Aviation, Senate Commerce Committee
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On behalf of the Air Transport Association member airlines, thank you for the opportunity to appear before you this afternoon.

Airline security is a policy matter of vital national interest. And, the financial impact of decisions made by the Congress and the Administration will have consequences for the very future of the airline industry. We applaud this Committee for moving promptly to address these issues and welcome the opportunity to work with you in finding solutions.

Clearly, with just over forty-eight hours in my new position, I do not appear here as an authority on aviation security. What I can do, however, is provide you with candor and perspective. I offer you the same commitment I have given to the airline CEOs – the straight facts, to the best of my ability and that of the ATA, along with our best judgment with regard to solutions that will work in the national interest.

As President Bush emphasized in his State of the Union address, reinvigorating our nation's economy is essential to our future. The 9/11 attack on the United States unquestionably was intended to cause harm in every conceivable way, including undermining our national economic vitality – and its impact continues. While we have felt the pain, we have not, and will not, let that attack succeed.

Among the key economic targets, was our airline industry. In a country the size of the United States, the role aviation plays in our success is without parallel – it links our communities together, it delivers our critical goods, it drives essential industries, and it employs or produces employment for more than 11 million people. I need not go through the litany of numbers with this Committee. You know them well. I would note, however, that fully half of the jobs lost in this country since 9/11, have been lost in the aviation and travel sectors. The fact is that our way of life depends, in a very fundamental way, on the airline industry and if we are to jumpstart our national economy, the airline industry issues being considered today must be resolved.

The airlines, unfortunately, are in grave condition. Two major airlines, representing more than twenty percent of the industry, are in bankruptcy. Passenger carriers have reported over \$10 billion in 2002 net losses. Industry debt now exceeds \$100 billion, while the industry's \$15 billion total market capitalization continues to decline. Our ability to borrow is evaporating. The few airlines that have been able to achieve a profit, are doing so under tremendous adversity – and with the prospect of war on the horizon, the picture is not bright.

The reasons for the imperiled condition of the industry are clear. The industry has always struggled with high costs. Stubbornly high fuel prices, escalating insurance costs and spiraling labor expenses, among other things, have combined with a particular vengeance in an underperforming economy exacerbated by the aftermath of 9/11.

The airline CEOs recognize completely that “self-help” is imperative – and they are making the tough calls. For the top six network airlines in 2002, operating expenses have already been cut

by \$4.5 billion, with more to come. Capital spending has been slashed by almost 50 percent – some \$5.6 billion from 2000 levels. Regrettably, to reduce operating expenses, staffing has been cut by over 90,000 positions across the industry. It is well known that wage reductions and/or productivity increases are the order of the day.

Despite these measures, many analysts are looking to an industry loss of between \$5 and \$6 billion in 2003 – meaning, the airline industry will have incurred losses totaling nearly \$25 billion over a three-year period – and it could well get worse.

The picture is obviously bleak. The question is, beyond what airline managements and labor can do, what can be done to restore the industry and, with it, a huge portion of the national economy? That is where today's hearing and the role of this Committee becomes critical.

Beyond the unprecedented push for internal cost reductions and improved productivity, our second major problem arises from the impact of government decisions. As a consequence, in addition to what the airlines can do, the government has a major role to play in restoring balance to the aviation sector. Let me be clear. The industry's self-help measures are being counterbalanced by increased costs arising from the new national security requirements, which are being passed through to the airlines as unfunded mandates.

Given the state of the economy and the public mood, capacity in the airline industry continues to substantially exceed demand. Consequently, any ability to pass these national security costs on to the consumer is non-existent. As the airlines struggle to climb out of the financial hole the

industry is in, it keeps getting deeper and deeper as a result of new security costs. If the airline industry is going to succeed, the government must reverse this situation.

Let me provide you with just a few examples of the kind of expenses I am referring to:

- Hardened cockpit doors are estimated to cost in excess of \$300 million. To date, less than \$100 million has been appropriated and obligated. While, with the help of this Committee, more support is hoped for soon, major funding gaps remain.
- Ramp security, aircraft inspections, passenger document verification and extensive employee background-check expenses, among the multitude of new security requirements, continue to add hundreds of millions in new, post-9/11 costs.
- The screening of catering materials and supplies, and the pre-flight screening of charter passengers by the airlines – both responsibilities which, we believe, were appropriately vested in the TSA – continue to be performed by the airlines, adding yet more major new costs.
- The booking of Federal Air Marshals into first class seats (often displacing passengers at the last minute), particularly at a time when every additional revenue dollar is so important to the industry, is producing opportunity costs running again over \$100 million annually by some estimates.

- Postal and freight restrictions resulting in hundreds of millions in lost revenue.
- Finally, in a period when the only effective way to encourage people to get back in the air is through discounted prices – as is reflected by the fact that 2003 airfares are virtually identical to the fares charged in 1988 in actual, not inflation-adjusted, dollars – the airlines have no ability to pass on additional costs to consumers. Consequently, both the Passenger Security Tax and the Air Carrier Security Fee come right off the airlines’ bottom line – with additional billions lost.
- And the problems continue to grow. Just last week, I was informed that, at least at the staff level, TSA is calling for cabin and cockpit crew defense training that will cost hundreds of millions if these plans proceed without change.
- The multitude of issues surrounding the use of guns in aircraft cockpits threaten still further costs. As one example, I just learned that at least some in the pilot community are viewing the TSA-mandated procedures as a basis for adding more time to their schedules.
- As Mr. Barclay notes in his testimony, the addition of national security costs at airports is just as alarming. Construction and reconfiguration of space for TSA processing, offices and other facilities occupied by TSA, and the additional demands for security personnel and procedures, are again adding billions in new costs. While we are in complete agreement with the airports in calling upon the government to assume these expenses, it does bear noting that no matter what is ultimately decided in this area, the airports, in the end, do not absorb these

expenses. Either the government will assume these costs or they will be borne by the airport tenants. Yes, again exposing airlines to billions in new costs.

Mr. Chairman, I want to be clear that in presenting this picture to you, it is not intended as a criticism of TSA, the Administration or the Congress. Every party is acting in extraordinary good faith in trying to do what is best for the public interest within the limit of resources available. What is difficult for all of us, however, is bringing perspective to these issues – and that is where this Committee can be so helpful.

In the brief time I have had to discuss and analyze the problems we are discussing today, it appears that there are three essential steps that should be taken immediately.

- First, Congress must establish and enforce an unalterable policy that aviation security is the responsibility of the federal government;
- Second, we must work together to jointly understand and assess the financial impact of the unfunded security mandates. While some estimates identify an annual cost to the industry in the area of \$4 billion, more work must be done to validate these figures; and
- Third, once the unalterable policy is clear, Congress, the agencies and the industry must work in concert to identify changes to procedures that will minimize the cost of security requirements without compromising essential security goals.

Our reasoning is clear. The attacks on the United States, which took place on 9/11, were just that – attacks on our country and all that it stands for around the world. Although the instruments of

the attacks were hijacked aircraft, the effect was no different than an attack on our nation by hostile foreign forces. Defending against such attacks – defending against foreign aggression and providing for our common defense – are, without question, responsibilities of the United States government and not private industry.

In enacting the Aviation and Transportation Security Act, Congress responded to the attack by mandating that the federal government assume responsibility for aviation security. That legislation made clear that, with the exception of specified airline responsibilities, TSA was to take over all screening of passengers and property.

What the airlines are asking is that the Committee take action to see that this mandate is met and that the unfunded security mandates now being imposed upon the industry are eliminated. TSA must establish its security priorities and meet those priorities within its budget.

If we are to begin to restore the health of the airline industry, we must adhere to the principle that protection against terrorism is a national defense function. As such, expenses associated with anti-terrorism and airline security must be assumed as general taxpayer expenses. Doing so is not “bailing out” the airlines. Rather, it is recognizing that the extraordinary costs associated with national security cannot be supported by the private sector alone. The evidence is clear that the failure to do so is having a devastating impact on the fragile economic condition of the airline industry – with a growing threat to the broader economy.

This message is made all the more urgent by the imminent prospect of war. Based on the industry's experience during the first Gulf War, and the current state of demand, the prospect of increased losses of \$4 billion per quarter from a combination of war-depressed travel and increased fuel costs, is very real. Given the depletion of the industry's borrowing power, however, should that occur the very functioning of this critical component of our economy would be in doubt. The urgency of the case for action by this Committee, the agencies involved and the Appropriations Committees cannot be overstated.

In conclusion, let me thank you for all that you are doing to work with us in these exceptionally difficult times, and for all you have done in response to the 9/11 attack. Please be assured that the Air Transport Association will do everything possible to support your work on behalf of the public interest.

Thank you.