TESTIMONY

State of Aviation in Hawaii

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before the
Aviation Subcommittee
of the
Senate Committee on Commerce, Science and Transportation

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AIR TRANSPORT ASSOCIATION

Good afternoon, Mr. Chairman and members of the subcommittee.

I appreciate your urgent concerns about the future of air service in Hawaii. Air transportation is essential to the economic health and social fabric of the state and of all Hawaiians. Without a question, the shutdown of passenger service and auction of its air cargo business by Aloha Airlines is painful, not only for its employees and their families, but also for the overall ease of travel and shipping throughout the islands. People depend on air travel to meet their needs and support the state's vibrant tourism industry in a fundamental, unique way.

Truth be told, my affinity for Hawaii goes back some 25 years. My wife and I visit Hawaii every year and have traveled extensively among the islands. It is hard for me personally to imagine a more idyllic paradise, so I am keenly interested in the state's well-being.

Although I would like to reassure you that the recent service disruption is nothing more than a passing anomaly in an otherwise stable airline industry, nothing could be further from the truth. Some analysts view Hawaii as just the beginning of a sea change in the <u>nation's</u> air transportation network.

And change will come because U.S. airlines are facing overwhelming odds: U.S. airlines' significant increases in taxes, fees, security burdens and environmental costs; ongoing labor concerns; staggering capital costs for new aircraft and infrastructure improvements; and unprecedented fuel prices. From 2001 to 2006, the industry lost $35 billion dollars and more than 20 carriers filed for bankruptcy (including four of the six large network carriers), employee benefits and numbers were cut; planes were parked; and the industry scrimped to cut costs.

In 2007, the future looked somewhat brighter. With a modest profit, the airlines seemed to have turned the corner. But in 2008, our shaky recovery hit a brick wall: the economy deteriorated and jet fuel prices went through the roof. Today the forecast is grim.

Record-high fuel prices were the breaking point for some airlines. This year the industry likely will pay $55 billion for fuel – $14 billion more than last year – <u>a staggering 35 percent increase.</u> That's the equivalent of employing 440,000 airline workers full-time or purchasing 330 new wide-body airplanes. Last week, jet fuel averaged $135 per barrel – <u>a 30 percent-plus increase since January</u>. In Hawaii, some pay a premium for jet fuel that increases the financial hit.

Mr. Chairman, yesterday brought even more discouraging news. The price of home heating oil in the New York Harbor – a well-accepted price marker for jet fuel – jumped to over $150 per barrel. That's a record that **<u>shocked</u>** even the most seasoned analysts.

With the brutal jet fuel costs and elimination of the low-hanging, "cost-saving" fruit gone, airlines large and small again are forced to take painful steps that have painful consequences for their customers, employees and shareholders. Airlines are literally fighting for survival as they:

- <u>File for Bankruptcy:</u> Three carriers filed in the past two weeks – Aloha Airlines, ATA Airlines and Skybus. Champion Air, a charter operator, will stop service at the end of May. After 61 years and facing severe financial difficulties, Aloha shut down passenger service – laying off some 2,000 employees and terminating aircraft and ground-support leases. The impact on Hawaii's economy, its passengers and shippers, is abrupt and widespread.

- Cut Employees: Delta offered early retirement to 30,000 employees – half of its work force – to eventually reduce headcount by 2,000; American and Northwest announced hiring freezes.
- Charge for Amenities: Carriers are imposing additional fees for extra and over-size bags; telephone reservations, onboard meals; unaccompanied minor service; and pet transport. Some carriers also have added fuel surcharges, particularly on international routes.
- Cut Unprofitable Service: United, Delta, Northwest and others are parking planes; carriers are reducing service on marginal routes and eliminating service on unprofitable routes. Delta will end service to several small communities and US Airways cut 30 percent of its overnight flights into Las Vegas. If demand softens as the economy weakens, more unprofitable routes may be cut.

None of these changes are popular with our passengers. As airlines try to pass on their increased operating costs, the number and volume of complaints will jump even higher.

In short, we're doing everything we can to get ourselves out of this tailspin. But there is a limit to how much more we can cut costs and increase revenue.

The nation's economy depends on a vibrant national air transportation network with secure access to a stable, rationally priced fuel supply. That is not what we have today. The only solution is for the federal government to develop a national energy policy and a forward-looking aviation policy. As these policies takes shape, we've asked the administration to do what it can **NOW** to alleviate the pressure on fuel prices. We've asked the Department of Energy to stop filling the Strategic Petroleum Reserve that takes fuel out of the market place and increases costs, and for a release from the Home Heating Oil Reserve to remove the premium for jet fuel.

In closing, record-high fuel costs touch passengers and shippers in ways they do not like – the people of Hawaii will feel the demise of Aloha as their everyday lives are impacted. One key component of the national air transportation system has been hit hard. The federal government must take some bold steps very soon, or the entire system will suffer.

Thank you.