

REMARKS OF ANDREW B. STEINBERG
ASSISTANT SECRETARY OF TRANSPORTATION
FOR AVIATION AND INTERNATIONAL AFFAIRS

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GOOD AFTERNOON AND THANK YOU FOR YOUR KIND WORDS OF INTRODUCTION. I SPENT MUCH OF MY CAREER WITH COMPANIES THAT RELIED ON TRAVEL AGENTS FOR THEIR LIVELIHOOD, SO IT'S ALWAYS A GREAT PLEASURE FOR ME TO ADDRESS THE AMERICAN SOCIETY OF TRAVEL AGENTS. I AM DELIGHTED TO BE HERE TODAY AMIDST A DISTINGUISHED ROSTER OF OTHER SPEAKERS, AND I'D LIKE TO TALK ABOUT THE ENVIRONMENT FOR THE COMMERCIAL AIRLINE INDUSTRY IN THE UNITED STATES.

EVEN FOR AN INDUSTRY THAT IS NOTABLE FOR ITS DYNAMISM, THE PAST FIVE AND A HALF YEARS HAVE BEEN PARTICULARLY DRAMATIC. DURING THIS TIME, THE U.S. AIRLINE INDUSTRY HAS SHOWN ITSELF TO BE HIGHLY RESILIENT AND ADEPT AT DEALING WITH RAPID CHANGE. THAT INCLUDES TRAVEL AGENTS -- THE FRONT LINE OF THE AIRLINE PASSENGER CUSTOMER EXPERIENCE (AN UNENVIABLE POSITION AS WE ENTER THE SUMMER OF 2007, NEXT WEEK). THE TRIALS OF OUR INDUSTRY ARE WELL-KNOWN AND WIDELY PUBLICIZED SO THERE IS NO

NEED FOR ME TO RECITE THE SPECIFICS OF WHAT HAS OCCURED.
BUT AS WE LOOK AT THE AIRLINE MARKET TODAY, I WOULD LIKE TO
DISCUSS – AND CHALLENGE – SOME OF THE ‘CONVENTIONAL WISDOM’
WE HEAR ABOUT U.S. AIRLINES. FRANKLY, I THINK IT IS
FUNDAMENTALLY FLAWED AND, TO THE EXTENT THAT IT SHAPES THE
VARIOUS DEBATES AND VIEWS OF POLICY MAKERS, HARMFUL TO THE
LONG-TERM HEALTH OF THE INDUSTRY, ON WHICH ALL OF US DEPEND.

THERE ARE FIVE GENERAL IDEAS WHICH I WOULD COLLECTIVELY
DESCRIBE AS THE CONVENTIONAL WISDOM. THEY ARE AS FOLLOWS:

FIRST, THE U.S. AIRLINE INDUSTRY IS EXPERIENCING A ROBUST AND
LASTING RECOVERY.

SECOND, AMERICAN CARRIERS ARE ABOUT ON PAR WITH FOREIGN
AIRLINES.

THIRD, AS LONG AS FARES REMAIN VERY LOW AND FLYING IS SAFE, THE
FEDERAL GOVERNMENT’S JOB IS ESSENTIALLY OVER.

FOURTH, THE PASSENGER AIRLINE INDUSTRY STILL SUFFERS FROM A
BIG COST PROBLEM.

AND FIFTH, THAT IF WE HAVE FEWER AIRLINE CARRIERS YOUR CUSTOMERS WILL SUFFER.

FIRST IS THE NOTION THAT THE AIRLINE INDUSTRY IS EXPERIENCING A BROAD RECOVERY. WE CAN CERTAINLY CELEBRATE THE FACT THAT FOR THE FIRST TIME IN SEVERAL YEARS, NO MAJOR AIR CARRIER IS OPERATING OUT OF BANKRUPTCY. BUT DESPITE DEEP CUTS IN CAPACITY AND COSTS, AND RESTRUCTURING OF BALANCE SHEETS, THE LONG TERM FINANCIAL OUTLOOK FOR THE U.S. AIRLINE INDUSTRY STILL REMAINS UNCERTAIN. THE NUMBERS ARE STRIKING-- U.S. NETWORK AIRLINES HAVE REDUCED THEIR ANNUALIZED MAINLINE COSTS BY MORE THAN 25% WHICH TRANSLATES TO NEARLY \$20 BILLION. THESE IMPROVEMENTS ARE THE RESULT OF OPERATIONAL IMPROVEMENTS BUT ALSO RENEGOTIATION OF LABOR CONTRACTS, AIRCRAFT LEASES, AND OTHER FINANCIAL OBLIGATIONS. AND OUR CARRIERS HAVE ALSO SLASHED DOMESTIC CAPACITY ACROSS THE BOARD IN A DRAMATIC WAY. ONE LARGE NETWORK CARRIER CUT ITS DOMESTIC SYSTEM CAPACITY BY 28 PERCENT.

FOR ALL OF THAT EFFORT, THEY HAVE ONLY MEAGER RESULTS TO SHOW. IN 2006, THE INDUSTRY COLLECTIVELY EARNED \$1.9 BILLION ON REVENUES OF \$123 BILLION – LESS THAN A TWO PERCENT RETURN. IN 2007, ONE PROJECTION SHOWS AN INDUSTRY PROFIT OF AROUND \$6

BILLION ON REVENUES OF \$129 BILLION – JUST SLIGHTLY BETTER THAN 2006. AND IT IS IMPORTANT TO REMEMBER THAT THESE NOMINALLY PROFITABLE YEARS FOLLOW A STRINGS OF YEARS IN WHICH THE AIRLINES LOST TENS OF BILLIONS OF DOLLARS. IN ANY OTHER INDUSTRY, THESE RESULTS WOULD BE CONSIDERED ABYSMAL. I THINK THESE RESULTS, VIEWED IN THE AGGREGATE, ARE INDICATIVE OF LONG-TERM STRUCTURAL PROBLEMS IN THE INDUSTRY THAT THE MARKET HAS YET TO CORRECT. FURTHER THIS DEGREE OF VOLATILITY MAKES IT DIFFICULT FOR FIRMS TO MAKE THE LONG-TERM CAPITAL INVESTMENTS NECESSARY TO COMPETE GLOBALLY IN THIS INDUSTRY.

THE SECOND BIT OF CONVENTIONAL WISDOM SUGGESTS THAT U.S. AIRLINES ARE ABOUT ON PAR WITH FOREIGN RIVALS. AGAIN, I THINK A CLOSER LOOK REVEALS A VERY DIFFERENT STORY. U.S. CARRIERS HAVE FALLEN BEHIND THEIR RIVALS ON MOST MEASURES OF SUCCESS. AS I AM SURE YOU KNOW, IN GLOBAL RANKINGS OF ON-BOARD SERVICE, OUR AIRLINES FRANKLY FARE POORLY. IN THE GLOBAL AIRLINE SURVEY, NOT A SINGLE U.S. AIRLINE RANKED IN THE TOP 40 FOR CUSTOMER SATISFACTION. THIS IS NOT FOR LACK OF MANAGEMENT ACUMEN. IN THE STRUGGLE TO SURVIVE, OUR AIRLINES HAD TO JETTISON MOST, IF NOT ALL, OF THE CREATURE COMFORTS OF AIR TRAVEL. IN CONTRAST, MANY OF THEIR FOREIGN RIVALS HAVE BECOME GLOBALLY RECOGNIZED BRANDS AND INNOVATORS OF

CUSTOMER SERVICE. HAVING EXCELLENT FOREIGN AIRLINES ISN'T BAD FOR U.S. CONSUMERS, AND THE SOLUTION TO THIS PROBLEM – I WOULD EMPHASIZE – IS NOT TO CLOSE OUR MARKETS. INSTEAD, IT IS TO RECOGNIZE THAT IT IS IMPORTANT TO HAVE A VIABLE AND CONSISTENTLY PROFITABLE DOMESTIC AIRLINE INDUSTRY THAT CAN REINVEST IN ITS BUSINESS AND BECOME MORE COMPETITIVE AS GLOBAL MARKETS OPEN UP. U.S. AIRLINES STILL HAVE A NETWORK ADVANTAGE ASSOCIATED WITH BEING BASED IN THE UNITED STATES – THE WORLD'S LARGEST AVIATION MARKET -- THAT SHOULD ALLOW THEM TO COMPETE EFFECTIVELY IN A MORE STABLE ENVIRONMENT.

ORDERS FOR NEW AIRCRAFT ARE A GOOD INDICATION OF HOW US AIRLINES HAVE LAGGED BEHIND THEIR FOREIGN RIVALS. 2005-2006 WERE RECORD YEARS FOR NEW ORDERS. IN THIS TWO YEAR PERIOD, BOEING SOLD NEARLY 2,100 AIRPLANES. DESPITE THE FACT THAT THE U.S. ALONE REPRESENTS ALMOST 40% OF THE WORLD'S AVIATION MARKETPLACE, OUR CARRIERS ONLY REPRESENTED 13% OF THE BOEING'S ORDERBOOK DURING THESE TWO YEARS, AND MUCH OF THAT WAS FROM A SINGLE AIRLINE, SOUTHWEST. THE U.S. HUB-AND-SPOKE AIRLINES MADE UP JUST 4%. AT AIRBUS, THE STORY IS LARGELY THE SAME WITH THE U.S. CARRIERS. THEY REPRESENT A DISPROPORTIONATELY SMALL PART OF A RECORD ORDERBOOK-- SOMEWHERE BETWEEN 9-12%. UNFORTUNATELY, THE U.S. DID LEAD

ON ONE MEASURE . . . THE NUMBER OF AIRCRAFT ORDER DEFERRALS
IN 2005-2006.

THE THIRD BIT OF CONVENTIONAL WISDOM IS THAT SO LONG AS AIRFARES ARE LOW AND FLYING IS SAFE, EVERYTHING ELSE IS PRESUMED FINE AND THE FEDERAL GOVERNMENT'S JOB IS OVER. IN SOME OF WAYS, THIS IS THE MOST CURIOUS PART OF THE STORY. THE BANKRUPTCIES OF SEVERAL U.S. CARRIERS IN A SHORT PERIOD OF TIME HAD CONSIDERABLE FALLOUT FOR EMPLOYEES, RETIREES, SHAREHOLDERS, LENDERS, SUPPLIERS, AND TAXPAYERS. AIRLINE CLAIMS COMPRISE MORE THAN 38 PERCENT OF PBGC CLAIMS WHILE THEY PAID 2.6% OF TOTAL PREMIUMS. AIRLINES HAVE BECOME GREATER DRAIN ON PBGC THAN THE STEEL INDUSTRY WHICH ACCOUNTS FOR 33% OF CLAIMS, WHICH IS TELLING.

IN TERMS OF LOST EMPLOYMENT AND WAGES, THE NUMBERS ARE STRIKING. PASSENGER AIRLINES IN THE UNITED STATES HAVE SHED 28% OF THEIR WORKFORCE SINCE 2001 AND CUT THEIR ANNUAL PAYROLL BY \$9.5 BILLION. WHEN MULTIPLIER EFFECTS ARE FACTORED INTO THE EQUATION, IT IS EVIDENT THAT A HIGH PRICE IS BEING PAID FOR CONTINUAL BELOW-COST PRICING IN THE DOMESTIC AIRLINE INDUSTRY.

MY DEPARTMENT'S GOVERNING STATUTE (THE FEDERAL AVIATION ACT), I WOULD POINT OUT, DOES NOT STATE THAT KEEPING FARES LOW SHOULD BE THE ONLY OR EVEN THE PARAMOUNT CONSIDERATION IN MAKING GOVERNMENT POLICY. IT SAYS WE SHOULD ALSO FOCUS ON "ENCOURAGING EFFICIENT AND WELL MANAGED AIR CARRIERS TO EARN ADEQUATE PROFITS AND ATTRACT CAPITAL"....."MAINTAINING A COMPLETE AND CONVENIENT SYSTEM OF AIR TRANSPORTATION FOR SMALL COMMUNITIES AND ISOLATED AREAS".... AND "STRENGTHENING THE COMPETITIVE POSITION OF DOMESTIC CARRIERS TO ENSURE AT LEAST EQUALITY FOR FOREIGN AIR CARRIERS." IT WOULD BE HARD TO ARGUE THAT WE HAVE SUCCEEDED IN THOSE OBJECTIVES. THUS, FOCUSING ONLY ON MAINTAINING LOW PRICES NECESSARILY MEANS SACRIFICING SOME OF THESE OTHER GOALS.

THE FOURTH BIT OF WISDOM IS THAT THE INDUSTRY STILL HAS A BIG COST PROBLEM. THE NUMBERS JUST DON'T SHOW THIS – THEY SHOW THAT THE MAJOR AIRLINES HAVE, IF ANYTHING, A REVENUE PROBLEM. AS I MENTIONED EARLIER, THE AIRLINES HAVE SHED TREMENDOUS COSTS IN THE PAST SEVERAL YEARS, AND YET THEY STILL OPERATE AT A SUBSISTENCE LEVEL. THE PROBLEM LIES IN EXTENDED PERIODS OF BELOW-COST PRICING, FACILITATED IN PART BY A RELENTLESS CYCLE OF AIRLINE BANKRUPTCIES. IN THE LAST 30 YEARS, AVERAGE AIRFARES HAVE LAGGED FAR BEHIND GROWTH IN THE CONSUMER

PRICE INDEX AND HAVE EVEN MOVED IN THE OPPOSITE DIRECTION AT TIMES. EVEN WHEN COMPARED TO OTHER MASS-CONSUMED OR WIDELY CONSUMED GOODS AND SERVICES, THE RATE OF GROWTH IS REMARKABLY LOW. WHILE PRICES HAVE HOVERED AT LOW LEVELS, THE SAME CANNOT BE SAID FOR THE COSTS INPUTS. RISES IN THE PRICE OF FUEL IN PARTICULAR HAVE SOAKED UP MUCH IF NOT ALL OF THE SAVINGS GAINED BY THE SACRIFICES OF EMPLOYEES AND PRODUCTIVITY IMPROVEMENTS. THE RESULTS ARE APPARENT.

THE FIFTH PIECE OF COVENTIONAL WISDOM IS THAT IF WE HAVE FEWER NETWORK CARRIERS, THE PUBLIC SUFFERS. I THINK THAT REFLECTS AN OVERLY SIMPLISTIC VIEW. CONSUMERS COULD ACTUALLY BENEFIT FROM A STABLE, LESS FRAGMENTED AIRLINE INDUSTRY, JUST AS THEY HAVE FROM AN EXPRESS PACKAGE INDUSTRY THAT IS DOMINATED BY TWO LARGE BUT HIGHLY SUCCESSFUL AND INNOVATIVE COMPANIES, FED EX AND UPS. IF PASSENGER AIRLINES WERE ABLE TO ACHIEVE SUSTAIN PROFITABILITY THROUGH CONSOLIDATION—WHETHER THAT IS ACHIEVED BY MERGERS, EXIT FROM THE MARKET OF FAILED FIRMS, OR DISCRETE ASSET SALES— THE CHANGE COULD BROADEN THE TERMS OF COMPETITION TO ENCOMPASS MORE THAN JUST PRICE. RATHER THAN STRANDING PASSENGERS AT AIRPORTS LACKING EVEN A MODICUM OF CUSTOMER SERVICE, OUR AIRLINES COULD ALSO BEGIN COMPETING

AGAIN IN TERMS OF SERVICE INNOVATIONS, EXPANDED NETWORK OPTIONS, AND OTHER ATTRIBUTES. AND YOU WOULD LIKELY SEE MORE SERVICE TO SMALLER COMMUNITIES, NOT LESS, IF WE HAD NETWORK CARRIERS THAT COULD PROFITABLY REACH ALL U.S. CITIES WITH COMMERCIAL AIRPORTS. IN MAKING THIS POINT, I AM NOT ADVOCATING MERGERS PER SE. RATHER, I AM SAYING THAT WE SHOULD ALLOW MARKET FORCES TO CORRECT STRUCTURAL PROBLEMS....AND CONSOLIDATION IS ONE WAY IN WHICH THE MARKET ACTS.

IF WE WANT DOMESTIC AIRLINES THAT CAN EARN ENOUGH PROFITS TO REINVEST IN THEIR FLEETS, HONOR THEIR PENSION AND OTHER FINANCIAL OBLIGATIONS, AND PROVIDE CUSTOMER SERVICE THAT COMPARES FAVORABLY WITH THAT OF FOREIGN AIRLINES, THERE ARE SEVERAL STRUCTURAL OBSTACLES WHICH WE MUST ADDRESS. WE ARE WORKING HARD TO DO SO. IN THE REMAINING TIME I HAVE TODAY, I'D LIKE TO FOCUS ON A FEW OF THEM.

I'LL BEGIN WITH THE AREA IN WHICH WE AT THE U.S. DEPARTMENT OF TRANSPORTATION HAVE SEEN THE MOST PROGRESS OF LATE, WHICH IS INTERNATIONAL MARKET ACCESS. U.S. AIRLINES STILL HAVE THE BEST NETWORKS, BECAUSE THEY OPERATE OUT OF THE LARGEST AVIATION MARKET WITH THE MOST LOCAL TRAFFIC, AND THEREFORE

SHOULD BE POISED TO CAPITALIZE ON THE GROWTH IN INTERNATIONAL SERVICE. BY NEGOTIATING LIBERALIZED BILATERAL AIR SERVICES AGREEMENTS – AND ADHERING TO THE OPEN SKIES MODEL WHEREVER POSSIBLE – THE U.S. GOVERNMENT HAS CREATED NEW COMMERCIAL OPPORTUNITIES FOR U.S. CARRIERS WHILE BRINGING THE BENEFITS OF AFFORDABLE AIR TRAVEL TO CONSUMERS AROUND THE WORLD. JUST THIS YEAR, WE IMPLEMENTED AN OPEN SKIES AGREEMENT WITH CANADA, SIGNED THE HISTORIC “OPEN SKIES PLUS” AGREEMENT WITH THE EUROPEAN UNION ENDING A TWO-YEAR STALEMATE, SUBSTANTIALLY IMPROVED U.S. CARRIER OPPORTUNITIES IN ARGENTINA, AND OBTAINED RIGHTS ESSENTIALLY DOUBLING THE AMOUNT OF PASSENGER SERVICE IN THE KEY U.S. – CHINA MARKET. ENCOURAGINGLY, AND MORE QUICKLY THAN WE EXPECTED, WE’VE SEEN ONE AIRLINE AFTER ANOTHER ANNOUNCES PLANS TO TAKE ADVANTAGE OF THESE NEWFOUND RIGHTS. BY MAKING IT CHEAPER AND EASIER FOR PASSENGERS TO CROSS THE PACIFIC, THE ATLANTIC, AND OUR OWN BORDER UP NORTH, WE BELIEVE WE ARE CREATING ENORMOUS VALUE FOR THE PUBLIC AND THE TRAVEL INDUSTRY.

BUT EVEN WITH THE PROGRESS WE HAVE MADE IN OUR BILATERAL AVIATION TALKS, THE FACT IS THAT THE AIRLINE INDUSTRY REMAINS SUBJECT TO ANACHRONIST RESTRICTIONS ON INTERNATIONAL SERVICE AND CROSS BORDER INVESTMENT. IRONICALLY ENOUGH, THE

VERY INDUSTRY THAT HAS ENABLED GLOBALIZATION TO OCCUR REMAINS ONE OF THE MOST PROTECTED. THESE RESTRICTIONS, WHETHER EMBODIED IN BILATERAL AGREEMENTS THAT RESTRICT AIRLINE SERVICE OR LAWS ON CITIZENSHIP, ARTIFICIALLY HAMPER THE ABILITY OF U.S. AIRLINES TO CAPITALIZE ON THEIR INHERENT NETWORK STRENGTHS AND TO OPERATE AS TRUE GLOBAL COMPANIES. WE FIRMLY BELIEVE THAT AS THESE RESTRICTIONS ARE EASED, U.S. AIRLINES WILL BENEFIT, AS WILL THE TRAVEL INDUSTRY AND CONSUMERS OF TRAVEL GENERALLY. THE U.S. CANNOT AFFORD TO LAG BEHIND THE REST OF THE WORLD IN THIS RESPECT – MUCH LESS BECOME MORE PROTECTIONIST – BECAUSE IN ALL KEY AVIATION MARKETS – EUROPE, ASIA, AND LATIN AMERICA , WE ARE SEEING CONSOLIDATION ACROSS NATIONAL BORDERS.

HERE AT HOME, WE NEED TO GET OUR DOMESTIC HOUSE IN ORDER. THE CONTINUOUS CYCLE OF FAILURE AND DOMESTIC BANKRUPTCIES IN THE UNITED STATES HAS OBVIOUSLY BEEN DAMAGING TO THE INDUSTRY AS A WHOLE AND NOW MEANS OUR CARRIERS MUST PLAY CATCH UP IN RENEWING THEIR FLEETS, INVESTING IN TECHNOLOGY, AND ENHANCING THEIR PRODUCTS. YOU KNOW ALL THIS FROM THE PRODUCTS YOU SELL DAY IN AND DAY OUT. AIRLINES THAT DON'T MAKE MONEY WON'T, AND CAN'T, PROVIDE EXCELLENT CUSTOMER SERVICE. SO IT SEEMS TO ME THAT WE, IN GOVERNMENT, NEED TO

ENSURE THAT OUR POLICIES DON'T FACILITATE ANOTHER ROUND OF BANKRUPTCIES IN THE NEXT DOWN CYCLE.

LET ME NOW TURN TO OUR AIR TRAFFIC SYSTEM, WHICH IS BECOMING INCREASINGLY OUTMODED AND CANNOT SUPPORT THE NEAR TRIPLING OF CAPACITY NEEDED TO MEET THE GROWTH IN DEMAND FOR AIR TRANSPORTATION IN THE NEXT TWO DECADES. WE ARE ALREADY SEEING THE EFFECTS OF A SYSTEM OPERATING ON MOST DAYS AT CAPACITY.

AS YOU PROBABLY KNOW, THE U.S. DEPARTMENT OF TRANSPORTATION COLLECTS AIRLINE CONSUMER COMPLAINTS AND PUBLISHES A MONTHLY *AIR TRAVEL CONSUMER REPORT* THAT SUMMARIZES AIRLINE DATA ON FLIGHT DELAYS, MISHANDLED BAGGAGE, AND DENIED BOARDINGS, AND ALSO LISTS BY AIRLINE THE NUMBER OF COMPLAINTS FILED. BETWEEN 2000 AND 2006, COMPLAINTS FILED WITH THE DEPARTMENT FELL BY NEARLY TWO-THIRDS, BUT NOW COMPLAINT NUMBERS ARE STARTING TO INCREASE.

MOST COMPLAINTS FOCUS ON DELAYS. THIS PAST WINTER WE SAW AIRLINE PASSENGERS TRAPPED FOR MANY HOURS ON AIRCRAFT ON THE GROUND. THE MOST HIGHLY-PUBLICIZED EVENTS INVOLVED AMERICAN AIRLINES IN LATE DECEMBER OF LAST YEAR AND JETBLUE

AIRWAYS IN FEBRUARY, BOTH OF WHICH WERE RELATED TO ADVERSE WEATHER. ALTHOUGH THESE TWO CARRIERS RECEIVED EXTENSIVE MEDIA ATTENTION, THE FACT IS VIRTUALLY ALL CARRIERS HAVE HAD PROBLEMS RELATED TO CUSTOMER SERVICE, INCLUDING, ON RARE OCCASION, FLIGHTS THAT EXPERIENCE EXTREMELY LONG TARMAC DELAYS.

SECRETARY PETERS AND THE DEPARTMENT WERE OBVIOUSLY TROUBLED BY INCIDENTS LIKE THESE, PARTICULARLY OVER REPORTS THAT FOOD, WATER, AND OTHER BASIC PASSENGER NEEDS WERE NOT BEING MET BY THE AIRLINES. THAT IS WHY SECRETARY PETERS FORMALLY ASKED THE DEPARTMENT'S INSPECTOR GENERAL (IG) TO CONDUCT AN INVESTIGATION INTO THESE INCIDENTS. SHE ALSO ASKED THAT THE IG EXAMINE HOW THE MAJOR AIRLINES ARE DOING ON THE COMMITMENT THEY MADE NEARLY EIGHT YEARS AGO TO ENSURE THAT THE BASIC NEEDS OF PASSENGERS ARE MET DURING LONG GROUND DELAYS. AFTER THE IG'S REVIEW, WHICH SHOULD BE COMPLETED IN THE NEAR FUTURE, WE WILL CONSIDER WHAT, IF ANY, FURTHER ACTION IS APPROPRIATE.

SO WHAT'S THE REAL SOLUTION HERE? IT PROBABLY IS NOT LEGISLATION MANDATING THAT CARRIERS RELEASE THEIR PASSENGERS AFTER A SPECIFIED NUMBER OF HOURS ON THE TARMAC.

WE MUST DEAL WITH THE FUNDAMENTAL PROBLEM. THE FACT IS, THE BASIC METHODOLOGY FOR CONTROLLING AIR TRAFFIC HAS NOT REALLY CHANGED IN FIFTY YEARS, IS NOW OUTMODED, IS NOT SCALABLE AS TRAFFIC GROWS, AND IS INCREASINGLY INEFFICIENT. IN THE UNITED STATES WE CAN ALREADY PREDICT THAT OUR SYSTEM WILL BE GRIDLOCKED IN THE NOT-TO-DISTANT FUTURE IF WE DON'T FUNDAMENTALLY ALTER ATC. WE MUST TRANSFORM OUR AVIATION SYSTEM AND OPTIMIZE AIR TRAFFIC CONTROL. THAT'S WHY WE NEED AN FAA REAUTHORIZATION BILL PASSED BY THE CONGRESS THIS YEAR THAT ALLOWS US TO BUILD THE NEXT GENERATION AIR TRANSPORTATION SYSTEM—NEXTGEN FOR SHORT – AS QUICKLY AS POSSIBLE. AT THE CORE OF NEXTGEN ARE INFRASTRUCTURE AND OPERATIONAL CAPABILITIES TO OPTIMIZE AIR TRAFFIC MANAGEMENT—WHICH, IN TURN, REDUCE CONGESTION AND DELAYS IN THE SYSTEM.

LASTLY, I'D BE REMISS IF I DID NOT DISCUSS THE ISSUE OF AVIATION GREENHOUSE GAS EMISSIONS. IT'S NOT AN EXAGGERATION TO SAY THAT GROWING PUBLIC CONCERN OVER EMISSIONS PROBABLY REPRESENTS THE MOST SERIOUS BARRIER TO GROWTH OF AIRLINE TRAVEL THAT WE FACE TODAY, APART FROM CONGESTED AIRSPACE ITSELF. IF YOU WANT PROOF OF THIS, JUST GLANCE ACROSS THE POND. THERE ARE PLENTY OF EXAMPLES IN EUROPE OF HOW PUBLIC

CONCERN ON THE ENVIRONMENT IS BEING USED TO STIFLE AVIATION GROWTH. IN THE U.K., AVIATION EMISSIONS HAVE BEEN CITED AS THE MAJOR FACTOR IN DETERMINING WHETHER THERE WILL BE NEEDED RUNWAY EXPANSION. ACROSS EUROPE, THERE ARE FACTIONS WORKING TO CURTAIL AVIATION GROWTH REGARDLESS OF THE BENEFITS IT OFFERS TO THE ECONOMY AND QUALITY OF LIFE. MORE AND MORE OFTEN ENVIRONMENTALISTS THERE FREELY LABEL AVIATION A “ROGUE INDUSTRY”, ALONGSIDE BIG TOBACCO. THE LARGEST RETAILER IN THE U.K. HAS DECIDED TO NO LONGER IMPORT COFFEE AND FLOWERS FLOWN IN FROM KENYA BECAUSE OF THEIR SO CALLED “CARBON FOOTPRINT.” BUT MOST OMINOUSLY, EUROPE IS MOVING QUICKLY TOWARD THE UNILATERAL IMPOSITION OF AN EU-DESIGNED AVIATION EMISSIONS TRADING SYSTEM.

ONE THING IS FOR SURE: THIS SHIFT IN THE EUROPEAN VIEW TOWARD AVIATION SEEMINGLY HAPPENED OVERNIGHT. WE SHOULD NOT BE SO FOOLISH AS TO PRESUME THAT IT CAN'T HAPPEN HERE IN THE U.S. AND I SAY THIS EVEN THOUGH THE FACTS ARE THAT AVIATION EMISSIONS ARE **NOT** GROWING OUT OF CONTROL. AVIATION STILL REPRESENTS A RELATIVELY SMALL 2-3% OF ALL GREENHOUSE GAS EMISSIONS. AND THE ENCOURAGING NEWS IS THAT WHEN COMPARED TO 2000, THE UNITED STATES LAST YEAR WAS MOVING SOME 12% MORE PASSENGERS AND 22% MORE FREIGHT WHILE PRODUCING **FIVE**

PERCENT LESS TONS OF CARBON GASES. SO WE ARE BECOMING MUCH MORE FUEL AND ENVIRONMENTALLY EFFICIENT IN THE U.S. WE CAN – AND WILL – DO MORE, AND THE UNITED STATES HAS LAUNCHED AN AMBITIOUS PLAN TO CONTROL GREENHOUSE GASES ATTRIBUTABLE TO AIRLINES THROUGH BETTER SCIENTIFIC UNDERSTANDING OF AVIATION EMISSIONS, PARTICULARLY AT HIGHER ALTITUDES....RESEARCH INTO ALTERNATIVES TO JET FUEL....RELENTLESS ATTENTION TO AIR TRAFFIC MANAGEMENT AND OTHER ENERGY-SAVING OPERATIONAL IMPROVEMENTS.... INNOVATION IN AIRCRAFT AND ENGINE DESIGN.... AND APPROPRIATE MARKET INCENTIVES.

LET ME CONCLUDE WITH THIS THOUGHT. AS WE IN GOVERNMENT FORMULATE POLICY ABOUT THE AIRLINE INDUSTRY, WE MUST ACCEPT THE FACTS AS THEY REALLY ARE, NOT AS WE WOULD WISH THEM TO BE. IF THE U.S. AIRLINE INDUSTRY IS NOT EXPERIENCING A ROBUST AND LASTING RECOVERY, AS HAS BEEN ASSUMED AND HOPED, THEN WE NEED TO UNDERSTAND WHY AND WHAT POLICY IMPLICATIONS IF ANY THE SITUATION PRESENTS. IF U.S. CARRIERS ARE LAGGING BEHIND FOREIGN AIRLINES, WE NEED TO LOOK AT MARKET-DRIVEN WAYS TO IMPROVE THEIR COMPETITIVENESS. WE NEED TO ACKNOWLEDGE THAT THE FEDERAL GOVERNMENT'S JOB IN ITS OVERSIGHT OF THE AIRLINE INDUSTRY IS MORE THAN SIMPLY KEEPING

PRICES LOW, ESPECIALLY WHEN THOSE PRICES FALL REGULARLY BELOW COST. AND WHEN WE EXAMINE AIRLINE FUNDAMENTALS, WE NEED TO CONSIDER THOSE COSTS IN THE CONTEXT OF THE DRAMATIC REDUCTIONS THAT HAVE TAKEN PLACE IN VIRTUALLY ALL DISCRETIONARY AREAS. AND FINALLY, WE SHOULD REMAIN OPEN TO AT LEAST THE POSSIBILITY THAT A LESS FRAGMENTED INDUSTRY WILL BENEFIT RATHER THAN HARM THE PUBLIC INTEREST.

THANK YOU FOR LISTENING, AND I'D BE HAPPY TO TAKE YOUR QUESTIONS.