GROUNDED: HOW THE AIR TRANSPORTATION CRISIS IS HURTING ENTREPRENEURS AND THE ECONOMY

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GROUNDED: HOW THE AIR TRANSPORTATION CRISIS IS HURTING ENTREPRENEURS AND THE ECONOMY

Thursday, June 26, 2008

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:10 a.m., in Room 1539, Rayburn House Office Building, Hon. Nydia M. Velázquez [Chair of the Committee] Presiding.

Present: Representatives Velázquez, Shuler, Larsen, Altmire, Ellsworth, Chabot, Akin, Buchanan.

OPENING STATEMENT OF CHAIRWOMAN VELÁZQUEZ

Chairwoman VELÁZQUEZ. Good morning, everyone. And to the witnesses here, I am sorry for being so—this is not our committee room, but this is Washington. So our committee room is under renovation and it was supposed to be finished, but it will take much longer. So I call this hearing of the House Small Business Committee to order.

Commercial air travel has been a mainstay of the economy since the 1940s. As the industry has evolved, businesses in both small towns and big cities have gained access to markets previously thought unreachable. Today air flight continues as the mainstay of our country's trade and business travel. It not only drives the Nation's $740 billion tourism industry, but it also sustains the economy. Virtually every sector depends on the speed, reach and relevant convenience. Without airplanes, commerce as we know it will very simply cease to exist.

But now in the face of grave industry challenges, air travel has come to be as much of a hindrance as it is a help. Today we are facing what can only be described as an air travel crisis. Last year, flight delays alone accounted for 20 percent of total air travel time and, according to the Travel Industry Association, proved to be far more than just an inconvenience to travelers. In fact, TIA estimates that delays dealt a $41 billion blow to an already struggling U.S. Economy. It accounted for $12 million in lost productivity.

It seems airport waiting areas have become virtual black holes for business travelers and it gets worse. These delays, when paired with soaring fare rates and exorbitant new passenger fees, are costing the economy an additional $26.5 billion. With prices skyrocketing and convenience plummeting, millions of Americans are turning away from the airlines altogether.

Just last year, travelers opted out of 41 million domestic flights. These avoided trips are costing the U.S. economy billions of dollars, the brunt of which has been borne by our entrepreneurs. Small firms make up 97 percent of the travel and tourism industries which drive a multi-billion dollar sector of the national economy and have been hard hit by declining air travel. Perhaps not surprisingly, close to one-third of the economy's $26.5 billion setback has been shouldered by the entrepreneur driven hospitality sector.

The fallout of America's air travel crisis has reached beyond the travel and tourism sectors to threaten a myriad of other related businesses. In 2007, industries that relied on air travel suffered losses close to $10 billion. For these small business dominated sectors of the economy, the future effects will be twofold. On the one hand, tourists may decide to forego certain trips altogether. The other possibility is that travelers will simply scale back their travel expenditures, taking a chunk out of the entrepreneur driven hospitality industry. Already we are seeing hotels slash room rates in an attempt to attract these increasingly cost conscience travelers.

But consumers are not the only party suffering from our broken air travel system. A lack of runway capacity and regulations has forced many small airlines into bankruptcy and as these businesses fail, passengers are faced with fewer or more expensive choices. This means that small firms in certain regions will have less access to diverse markets and clients.

Entrepreneurs currently make up 97 percent of exporting businesses. In our increasingly global economy, the last thing we need to do is create new roadblocks for them.

There is not one single solution to these problems and anyone who suggests otherwise is oversimplifying a very complex set of issues. Before attempting to tackle these challenges, there are a series of concerns we must address. Not least of all is a severely deteriorated and inefficient infrastructure. As a result of this, airports are unable to accommodate today's volumes of planes and passengers. If we are to it ease the congestion and curb delays, then we must first focus on improving and expanding airport infrastructure both on the ground and in the sky.

America's airline travel system is broken. Massive delays and rising ticket prices are pushing the problem beyond the point of inconvenience. It is now a serious threat to both small businesses and our national economy.

In today's hearing, we will discuss the current air travel system's effect on small businesses and explore potential solutions for what has truly become a crisis in our skies.

I want to thank all the witnesses in advance for their testimony. The committee is pleased they could join us this morning and looks forward to their insights on these issues. With that, I now yield to the ranking member, Mr. Chabot, for his opening statement.

OPENING STATEMENT OF MR. CHABOT

Mr. CHABOT. I thank the gentlelady for yielding and for holding this important hearing on the impact of rising air travel costs. I would also like to thank all of our witnesses who have taken the time out of their very busy schedules to provide testimony to the committee here today, and I want to extend a special welcome to a fellow Cincinnatian, Terry Segerberg, who I will introduce in a little while.

Record high oil prices are causing airlines to downsize capacity, eliminate destinations and raise fares, even as demand for their services remains high. In 2000, passenger and cargo carriers spent $16 billion on jet fuel. That was back in 2000. Last year they spent $41 billion and they are expected to pay $61 billion this year. So from 16 to 61 in the course of 8 years. This rise in jet fuel will ground millions of travelers.

The full impact of the service cuts and increased costs won't be felt until 2009 because most aren't slated to go into effect until this fall. By this time next year there could be as many as 20 percent fewer seats available. That would be like shutting down a carrier the size of American Airlines.

Rising costs and reduced access of air services is impacting the entire economy. Small businesses consistently rank as one of the hardest hit sectors when it comes to fluctuating costs and remain particularly vulnerable to the continuous rise in the cost of air travel and cargo. At the same time, these small businesses are coping with a near recessionary economic environment coupled with an increase in the overall cost of doing business.

In particular, small companies are being hit with rising energy costs and rising employee health insurance costs. Because these firms often have razor thin margins and very competitive pricing, passing on the cost increase to the customers could result in loss of sales. Over the long term, it could cost them their business itself. They could literally go out of business.

The impact of high cost of jet fuel and air service for companies such as airlines and resorts and hotels is particularly significant. Unless action is taken by Congress, conventional oil supplies will remain tight in the years ahead. Fuel is currently the largest expense for airlines.

By authorizing exploration and production on the Outer Continental Shelf, for example, and Alaska, including the Arctic National Wildlife Refuge, or ANWR, with reasonable environmental safeguards, we would increase domestic production. This would keep the cost of oil from rising as fast and make us less dependent on foreign oil. It would also give the Nation needed time to develop diversified fuel sources, including clean coal and nuclear energy, and develop and implement a balanced coherent national and global energy policy.

A majority of Americans now support opening up areas to drilling. A recent Gallup poll shows that 57 percent of Americans support opening up these and other new territories to drilling, while a Wall Street Journal-NBC News poll conducted this month said it was up to 59 percent, and the most recent poll available from Fox News said it is 76 percent. That was as of just a couple of days ago. They say essentially drill now. And I think it is absolutely critical that we do that if we are going to benefit this industry which has been hit so hard because of the rising costs and everything, as I said, from health care costs to fuel costs, et cetera.

So, Madam Chair, I look forward to working with you as always on this very important issue, and we want to thank all the panel members for providing their testimony that we are looking forward to here today, and I yield back the balance of my time.

Chairwoman VELÁZQUEZ. Thank you, Mr. Chabot. And it is my pleasure to welcome Mr. Roger Dow, who is the President and CEO of the Travel Industry Association. Prior to joining TIA, Mr. Dow was Senior Vice President of Global and Field Sales at Marriott International. TIA is the national umbrella organization representing all segments of the $740 billion U.S. travel and tourism industry.

Welcome. And you have 5 minutes.

STATEMENT OF MR. ROGER DOW, PRESIDENT AND CEO, TRAVEL INDUSTRY ASSOCIATION

Mr. DOW. Thank you, Chairwoman Velázquez and Ranking Member Chabot, and all the distinguished members of the committee. I appreciate the opportunity and the honor to testify before you this morning.

The Chairwoman has described the Travel Industry Association. I will skip that and really get down to what the point is, that all businesses in the U.S. depend on reliable and efficient air travel to conduct their business, to stay connected to both their customers and their suppliers. Many economic studies show that access to an airport is one of the most important factors in creating an environment where small businesses can flourish.

Entrepreneurs depend on reliable air service to raise capital, to make sales, to develop their supply chains. It is no accident that a significant technology corridor has developed right here in our hometown in Washington, right in the Dulles International Airport corridor, because the airports feed business and business feeds airports.

I know that both the chairman and the ranking member appreciate the importance of airports, whether it be in greater New York airports or Cincinnati, to the vibrancy of your communities and to your businesses. The bottom-line is, though, all businesses of all types depend on air travel.

The problem America faces today is not just about airlines, it is really about the whole air travel system, which is in steep decline. It is not a problem solely for the aviation community, but for businesses all across America.

TIA represents the breadth of the travel community from travelers to hotels, to restaurants, airlines, theme parks, destinations, many others. While less than 1 percent of our membership is the airline aviation community, all members are really feeling the pinch of this deteriorating system.

That is why we partnered with two of the Nation's premier political polling firms to do some research to understand travelers' concerns with the air travel process and what effect, if any, those concerns are having on their decisions to fly.

While much attention has been on recent days in the media on high fuel prices and new fees, we believe the air travel problems are more fundamental and longstanding. A survey that we had did not focus on the price of fuel or on the recent cost increases. We looked at the systemic issues that have only been amplified by these rising costs and the cuts in capacity.

The survey was conducted between May 6th and May 13th of this year by Peter D. Hart Research and by the Winston Group. They interviewed a random sample of 1,000 air travelers. These are Americans who take at least one ground trip per year during the past 12 months and the results are surprising. We found there is a deep frustration that led them to avoid an estimated 41 million flights. We estimate that reflects a direct loss to the economy of $26 billion, 9 billion to the airlines, almost 6 billion to hotels, 3 billion to restaurants, and 4 billion to tax revenues, both Federal, State and local.

As you know, Senator Schumer and Congresswoman Maloney also issued a study there from the Joint Economic Committee and on the direct—indirect impact of this and they looked at wasted time, wasted fuel, lost productivity and they put up a number of $40 million. So when you combine our direct costs, loss and the indirect cost, we are talking about a $70 billion problem to the U.S. economy.

Today's news said that we are not in a recession yet, but when we are talking about $70 billion, these kind of numbers, they are very serious to the impact of our economy.

Our survey further revealed that businesses suffer from an unreliable and inefficient air system. Most important, frequent flyers said they are most dissatisfied with the system. The opportunity costs of lost—of not making that sales call, not going to a meeting, not making that site visit are incalculable. It is a frustrating and unreliable system, and it is really the sand in the gears of American entrepreneurship, and this is a very real and growing problem.

The traveling public said that it is unlikely that they see this solved in the near term. More important, frequent flyers are more frustrated and doubt that it can be solved.

One of the more surprising findings is that the frustration is not primarily directed at the airlines. Despite the avalanche of negative publicity the airlines have received, surveys shows that air travelers are most frustrated with the process, inefficient security system, flight delays due to our antiquated air traffic control system. This is important because the air traffic control system and security system are government functions that need to be focused on. The travelling public is very dissatisfied with both of these areas and hopes that Congress will act to seek improvement.

Another interesting result is these are all voters. 90 percent of these people are voters, and this issue is going to be percolate to be one of the key issues in upcoming elections.

At TIA we are hearing this loud and clear. We don't have all the answers by any means. We do know that America needs an urgent and serious commitment to fixing this problem. I think we all need to work together to not have a second class system but to have a world class system.

Attached to my testimony is an overview of the survey and our survey results, and I will be happy to answer questions later. Thank you.

[The prepared statement of Mr. Dow may be found in the Appendix on page 31.]

Mr. CHABOT. Madam Chair?

Chairwoman VELÁZQUEZ. Yes.

Mr. CHABOT. I would ask unanimous consent to speak out of order for a moment.

Chairwoman VELÁZQUEZ. Sure.

Mr. CHABOT. Thank you. I just thought people might like to know that the United States Supreme Court just issued their decision on the D.C. gun ban or the law that does not allow Washington residents to have a gun in their home. And they struck it down. So I don't know if it was 5-4 or what the numbers were. But it was struck down by the U.S. Supreme Court. They just announced it.

Thank you.

Chairwoman VELÁZQUEZ. Sure. We are going to wait a second here to fix the timer. Okay. Thank you.

Our next witness is Mr. Paul Ruden. Mr. Ruden is Senior Vice President of Legal & Industry Affairs of the American Society of Travel Agents. With 20,000 plus members, the American Society of Travel Agents is the world's largest association of travel professionals.

Welcome.

STATEMENT OF MR. PAUL M. RUDEN, SENIOR VICE PRESIDENT, LEGAL & INDUSTRY AFFAIRS, AMERICAN SOCIETY OF TRAVEL AGENTS

Mr. RUDEN. Thank you, Madam Chairwoman, Ranking Member Chabot and distinguished members of the committee. We thank you for holding this hearing on a topic of great interest to small business consumers and the travel agents who serve them.

All ASTA travel agency members from the small, traditional storefronts to the major on-line retailers, meet the travel counseling and planning needs of the full gamut of travelers from individuals through small companies, to the large managed travel accounts of our country's largest corporations.

The subject matter of today's hearing is familiar to nearly every American. Everyone has a story to tell about disrupted travel plans. The disruptions that the airlines call irregular operations play no favorites. Tourists, business travelers, first-time flyers, frequent flyers, young and old, healthy and infirm are all affected at one time or another.

The symptoms of a systemic crisis are clear. Last year was the worst year on record for flight disruptions. On-time performance during the first 4 months of 2008 was the second worst in 14 years that this data has been collected. The demand for air space and runway space simply exceeds the supply, and the imbalance is not going to get better very soon.

Economics textbooks tell us that an excess of demand over supply produces a price increase, and so it does. But in the present context, the price increase is manifested in a multitude of ways. The air travel system and the vast tourism network that depends on it are beset with unprecedented fuel prices, airspace and airport congestion, consolidation, environmental issues and now also fare unbundling.

Unbundling is the practice of separately pricing travel elements once thought to be an inherent part of the services covered by the air fare. In addition to fuel surcharges, we get almost daily announcements of new fees for baggage, charges for soft drinks and add-ons for aisle seats.

While tarmac flight delays capture most of the headlines, they are only one result of the systemic problems the industry and the country face. The defeated expectations of travelers have economic implications far beyond the immediate inconvenience. These effects extend to tourist attractions, cruises, restaurants, hotels, rental car businesses and myriad other service firms in the travel supply chain, most of which are, as has been noted, small businesses. The travel supply chain is a very complex, networked regime of interacting parties who work to fulfill the travel goals of consumers while earning a reasonable profit.

Every unplanned travel event, every irregular operation compels many parties in that supply chain to respond. The damage caused by flight delays, cancellations and diversions is difficult to quantify because while it cannot be predicted with precision, it affects virtually everything. Budgeting for it is almost impossible.

The consequences of such disruptions include canceled meetings, unfilled hotel rooms, meals not served, transfers left unused, deals not consummated, tours not taken, catering not performed, conference schedules disrupted, and absent family members from once-in-a-lifetime events.

In the background, additional uncompensated work must be done by travel agents and others in the supply chain to rearrange travel plans, reschedule meetings, lodging and so on.

Small business travel agencies, like other small businesses, are acutely affected by these disruptions. The economic fallout of these unexpected yet very familiar events impacts everyone in random and unmanageable ways.

In addition to the immediate economic and personal effects, the repetition of these types of events over time erodes consumer and business confidence in the air transportation system, resulting, as has been noted, in decisions to avoid traveling altogether. The impacts trickle down and they trickle up throughout the economy.

Decisions to avoid travel are reinforced by the well-documented failure of the airlines to respond to consumer needs for information and services when these unplanned yet foreseeable irregularities occur.

As the 10th anniversary of the airlines' 1999 passenger service commitments approaches next year, most of the 12-point promises made then remain unmet. Efforts are underway to change that, but much remains to be done.

The air transportation system that is a mainstay and principal stimulator of the American economy is indeed in very serious trouble. The Secretary of Transportation, Mary Peters, introduced earlier this year some new measures, which we support, that will deal with things like inadequate passenger protections and congestion. We support those. DOT is trying to require the airlines to publish new data on flight delays, which have been missing from the data that has been quoted to this committee and other committees of

Congress many times to suggest that these problems of flight delays are not quite so serious and perhaps not even important.

The short-term outlook, however, is not encouraging. These unbundling practices are coming at a time when they will confuse consumers even more and alienate them even further from the system on which they are dependent. We also now are seeing the reintroduction of minimum stay requirements, and these and other practices are going to spread and further erode the goodwill between consumers and the air travel system.

I see that my time has expired. Thank you very much.

[The prepared statement of Mr. Ruden may be found in the Appendix on page 34.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Ruden.

Our next witness is Mr. Mike Gallagher. Mr. Gallagher is the President of CityPass in Napa, California. Mr. Gallagher has over 36 years experience in tourism, marketing and the theme park business. Mr. Gallagher co-created CityPass. CityPass combines 5 or 6 of a city's top visitor attractions into a discounted pay-one-price ticket book.

Welcome.

STATEMENT OF MR. MIKE GALLAGHER, PRESIDENT, CITYPASS, NAPA, CALIFORNIA

Mr. GALLAGHER. Thank you. Thank you, Chairwoman Velázquez and Ranking Member Chabot and other distinguished members. My name is Mike Gallagher. I am the co-CEO and founder of CityPass, which is a small business which has a natural reach offering foreign and domestic travelers the best attractions in America at one package price. And this is the first time I have been in—come to Congress. I flew yesterday 3,000 miles to do this, and I really appreciate you making me feel at home. I feel like I am in coach. And I am used to that as a small business owner. Anyway, thank you also for allowing me to testify. It is particularly on behalf of small business and the travel sector that are at risk for being impacted by America's deteriorating air travel system.

I am particularly pleased to be here today because in 1997, when we started CityPass, we started with a Small Business Administration loan which got us going. So I want to tell you about that. About 12 years ago we came up with the idea for CityPass. As a startup business, the banks are just not interested in loaning us money. And so my business partner and I received and applied for a loan with the Jackson State—an SBA loan through Jackson State Bank in Jackson, Wyoming, where our operations were headquartered. And if it wasn't for the SBA, we would not have been able to start CityPass. So we are very grateful for that. But it is interesting because even though with the SBA loan, even though the Federal Government guarantees 80 percent of that loan, the bank still required both of us to put up our houses. And you can imagine it was an interesting discussion with both our wives to get them to do that. I appreciate it.

All is well now because CityPass has been very successful. And within a few years we not only paid that loan off with interest, but we have grown to 11 cities. And most importantly, our wives are now very happy. So CityPass now serves 72 major North American attractions in 11 cities, including the chairwoman's hometown of New York City. Several other members are represented in our cities, including Atlanta, Boston, Philadelphia, Seattle and Chicago. We just started Houston about a month ago.

CityPass has become a national brand for city vacations and for identifying top attractions in major cities. I appreciate the SBA loan. It helped us get started. And in a sense we are still in business with the SBA because every year we share 35 percent of our profits with you in Federal taxes. When our profits increase, so do your revenues.

So I am here today to speak up for the more than 95 percent—I think you said 97 percent of the travel industry that makes up small businesses just like me, companies that are less than 100 employees. And there are hundreds of thousands of us in every nook and cranny in this great country of ours. These are small businesses that rely on travelers for some percent of their revenues.

Let me explain the importance of that percent and particularly what happens when fewer people travel by air. With CityPass, for example, virtually all of our customers are tourists to a city. We estimate that over 50 percent are flying to their destination. Actions that make it difficult for people to fly or which affect the ability of travelers to fly have a very immediate and negative impact on our business.

Before founding CityPass, I managed an outdoor attraction in northern California. As with many small businesses in the travel sector, we are significantly a fixed-cost business. Our cost to serve a thousand visitors in a day are basically the same if it is 800 or if it is 1,200 people that show up. At a thousand people, we can pay our staff and cover all our costs. Almost everything after a thousand visitors fall directly to the bottom line and is our profit. If more than 1,200 people come through the door, it is a great day. We are very profitable. But obviously if only 800 people visit us, we lose our shirts. We bleed red ink. We still have to pay the staff and we still have to pay all of our costs. But we don't have the money, so we quickly run out of money. We would be unprofitable and at the end if this continues we would go out of business. It was clear to us that it was those last few people that come into the entrance each day that made up our profit. It was the difference between success and failure.

Most businesses in the travel industry serve both locals and tourists. The biggest source of our business was from the locals and from regional travelers, but it was apparent that 200 to 400 visitors a day were long distance travelers. So even though they represented only 10 to 30 percent of our business, these long distance travelers who usually traveled by air were the critical difference between profit and loss, success or failure.

CityPass depends on reliable, efficient air travel to bring travelers to the cities and attractions we serve. When air travel hassles rise to the level that Americans avoid taking a trip, that hurts our bottom line and that of thousands of small businesses that make up the travel industry. It also hurts the economies of the cities where CityPass is sold and where it also benefits from tourism.

So this is the summer season. This is the harvest time. It is the busiest time because this is when vacations are taken by families. And if travel is down this summer because people don't want to fly, our profits will be down and this will make for a long, cold winter. It is a long, cold winter for the travel industry.

So I want to thank you for letting me speak as a business owner. I appreciate representing other small businesses because they are everywhere in this country. And you know what? You can do something about this. What is great is the travel air system is run by the Federal Government. You guys oversee that. So it is a great opportunity to do something about it, and we appreciate you having this meeting to talk about it.

[The prepared statement of Mr. Gallagher may be found in the Appendix on page 46.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Gallagher.

Our next witness is Mr. Edward Faberman. Mr. Faberman is the Executive Director of Air Carrier Association of America. He is also a partner in the law firm of Wiley Rein. Previously he was Assistant General Counsel and VP of Government Affairs of American Airlines. Before he served for 18 years at the FAA. Founded in February 1997, ACAA works to eliminate barriers that block meaningful competition by low fare carriers.

Welcome.

STATEMENT OF MR. EDWARD P. FABERMAN, EXECUTIVE DIRECTOR, AIR CARRIER ASSOCIATION OF AMERICA

Mr. FABERMAN. Good morning, Chairwoman Velázquez and Ranking Member Chabot and distinguished members. I am pleased to be here today to talk about issues that are critical to the Nation's air carriers, communities throughout the country, businesses of all sizes and to the traveling public.

Our low fare carrier members are dedicated to providing affordable air fare options to travelers in communities that receive significant economic benefits when those options are available. As to Mr. Gallagher's comment about being in coach, we will collect for the charge for the bottled water shortly.

We thank this committee for holding the hearing and for highlighting the importance of a strong transportation system.

As a result of air congestion, delays and elimination of service, we are at a point in time that if steps are not taken to promote competition and address rising costs, we may see the disappearance of travel options for millions of travelers. These are not new issues. Let me read you this short statement:

There was strong indications that the airport and airway system was on the verge of saturation, especially between New York and Washington. Flight delays were far beyond mere annoyance and inconvenience.

That statement was made in 1968 40 years ago. Deja vu all over again. Delays impact aviation and they are a threat to the economy and our future. We have gone through the TIA's recent study, and it does show frustration with passengers and travelers. We applaud them for making that study available.

The airline industry is at a defining point in our history. We have seen several low cost carriers go out of business and file for bankruptcy. We have proposals that will increase consolidation, and airline costs are out of control. Every airport in New York is now closed to additional service and competition.

While we address these issues, we must also take steps to make sure that competition and deregulation do not become only memories of a system that used to exist. Multiple studies in addition to the TIA studies and reports prepared by the Federal Government, local governments and airports and independent groups set forth the enormous benefits of low fare competition. In 1993, DOT invented the term ″Southwest effect.″ As one article mentioned in 1999, the biggest economic boom you can bring to an area is to improve your transportation, and a cheaper price is important.

We also note an Allegheny County Airport Authority study that showed when low fare service came to Pittsburgh, an additional—over 100,000 people visited the region in 2006. And that study says without low fare service and with the disappearance of options, passengers will either pay a lot higher fares, drive to distant airports, use other modes of transportation or just not travel. Akron-Canton Airport, Flynn Airport have all shown the benefits of new and low fare service.

It is time for the Department of Transportation to take some important steps, and we urge this committee to make sure that they do that. They need to preserve competition. They need to make sure that airline deregulation is not just a memory. Therefore, we ask you to ensure that they do address air traffic delays. 40 years is enough. Take some steps, even if minor, to improve the system. Don't close an airport and say, well, we are going to fix this. Well, we were told that 40 years ago. Let us make sure that competitors have some options to grow so that when you wake up in 2 months, 6 months, a year, you don't look at your travel agent's recommendations and find only one recommendation because there is only one option to fly.

We also need to address fuel costs and some international issues. The Greater Miami Convention and Visitors Bureau yesterday advised me of major problems with the U.S.A. entry process. This committee has an opportunity to play an active role in improving the Nation's system, and we thank you for holding this hearing. We are anxious to work with you and consumers, and we need to make a system that makes flying easier and safer and continues to promote deregulation. And that is all important to us. And we are not suggesting that only one or two parts of it be done.

We look forward to working with the entire committee to preserve a competitive travel industry that will continue to provide economic benefits for businesses and communities.

[The prepared statement of Mr. Faberman may be found in the Appendix on page 49.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Faberman.

Our next witness is Mr. Kevin Mitchell. Mr. Mitchell is the Chairman and Founder of the Business Travel Coalition in Radnor, Pennsylvania. The mission of the Business Travel Coalition is to bring transparency to industry and government policies and practices relating to travel.

Welcome.

STATEMENT OF MR. KEVIN MITCHELL, CHAIRMAN, BUSINESS TRAVEL COALITION, RADNOR, PENNSYLVANIA

Mr. MITCHELL. Thank you for inviting the Business Travel Coalition to appear before you on a subject of the gravest importance to our industry, communities and country.

The U.S. aviation industry is in a full-blown crisis that if left unchecked will devastate entrepreneurs, small and mid-sized communities, the economy and our American way of life. Robert Crandall, former Chairman of American Airlines, stated in today's Christian Science Monitor, quote, unless something is done to move toward some kind of fix we are going to see every one of our major airlines in bankruptcy.

He continues, if that isn't enough of a crisis to alert everybody, then I don't know what it will take.

With oil in a sustained $130 range, the consensus estimate among analysts is that the airline industry will have to shrink by 20 to 22 percent. Recent cuts in capacity for implementation this fall only amount to 12 to 13 percent. So it is likely that additional very difficult decisions will have to be made toward Labor Day to increase the overall reduction of the industry.

This, together with the financial condition of the airlines and airport specific characteristics, has led BTC to identify 150 airports that are at risk of losing commercial air services. Virtually all airlines will be out of cash by early 2009 if oil stays in its current range. The conundrum that the airlines faces is that in each of the past 4 years they were only able to raise fares and fees by $2.7 billion on average. The top 10 carriers this year face a $25 billion increased oil bill or fuel bill. When you deduct the fuel hedges of 6 billion, that is $19 billion additional. Well, that is a huge gap to meet between 2.7 and 19 billion.

Even the high growth leader, Southwest Airlines, with the best hedging oil program and balance sheet in the industry, told a Merrill Lynch conference last week that at $135 a barrel, it would have to cut routes hundreds at a time. So you can imagine what that portends for the other larger legacy carriers with higher fuel and other costs. If as Goldman Sachs and others predict, oil reaches $150 a barrel by July 4th, then the industry will need to shrink further. At $200 a barrel, the industry would need a 40 percent reduction.

A major concern is that there is no assurance that the industry can successfully downsize without collapse given the bunching up of several airlines whose equity will be wiped out in the same relative time frame assuming $130 oil.

Now, failure of a single large airline with 15 percent market share would have huge local effects and substantial impact nationally. But multiple failures would be a catastrophe and as impactful and demoralizing to the Nation as a terrorist attack.

There are steps Congress can take to help turn this dire situation around. The three most important steps I hope you and others will focus on in the near term are: One, policies that would crack down on excessive speculation and possible market manipulation in oil futures; two, moves to strengthen the U.S. dollar against foreign currencies; three, U.S. government pressure on OPEC to increase oil supplies. In addition to these general policies, BTC respectfully asks Congress to consider immediately suspending Federal taxes and fees on U.S. airlines until March of 2009 so long as oil prices remain above $100 and conditioned upon individual airlines opting in to a series of reforms.

U.S. taxpayers should not be asked to yet again bail out the airline industry, broken on so many levels, without true reforms being agreed to. Yes, the national air transportation grid is as critical a national infrastructure as is the electrical grid, but additional taxpayer investments should not be considered without a return on taxpayer investment. BTC's proposal is that individual airlines be given the opportunity of opting into a tax suspension program if they commit to the following three reforms:

First, passenger protections. Participating airlines would agree to be bound by passenger protections based upon recently enacted EU consumer protection laws and air transport that are very clearly written, serve as a global best practice, and have generated data that quantify their effectiveness. Such agreement would be codified in the airlines' contracts of carriage.

Two, maintenance standards. Participating airlines would agree to provide the U.S. DOT in a legally binding agreement a commitment timetable, reporting mechanism and auditing process for establishing a single standard for aircraft maintenance and security, whether aircraft maintenance is accomplished in the United States or around the world, whether in-sourced or out-sourced.

And third and finally, participating airlines would commit to providing the U.S. DOT in a legally binding agreement a commitment timetable reporting mechanism and auditing process for implementing full content availability and a distribution channel of choice for travel agencies and corporate travel departments.

Thank you for the opportunity to share my perspective with you today.

[The prepared statement of Mr. Mitchell may be found in the Appendix on page 60.

Chairwoman VELÁZQUEZ. Thank you, Mr. Mitchell.

And now I recognize the ranking member for the purpose of introducing our next witness.

Mr. CHABOT. I thank the chairwoman for recognizing us and I would like to announce our witness here from Cincinnati. As I mentioned, she is a fellow Cincinnatian. Terry Segerberg is the Chief Executive Officer and Chairwoman of the Board of Directors of Mesa Industries, and it is a small business located at Lunken Airport in Cincinnati, Ohio. Founded by Terry's father in 1967, Mesa manufactures and distributes items for the petroleum industry and the construction industry. Mesa employs approximately 75 people. The company is proud of the fact that the average employee remains with the company over 10 years.

Terry has been a very active member of the Cincinnati Chamber of Commerce. Mesa was the Chamber's Small Business Award of

Excellence runner-up for 2008 this year. Terry was mayor of Hercules, California, from 1997 through 2001 and also served as a city council member from 1994 through 2001. She holds a Bachelor of Business Administration Degree in accounting from Armstrong College in Pasadena, California. And we welcome you here this morning and look forward to your testimony.

STATEMENT OF MS. TERRY SEGERBERG, CEO, MESA INDUSTRIES, INC., CINCINNATI, OHIO

Ms. SEGERBERG. Thank you. Good morning, Chairwoman Velázquez, Ranking Member Chabot, and distinguished members of the Committee on Small Business. And, gentlemen, thank you.

I think if we are in the coach section, I am on the window with no window. I think that costs extra.

You have given my family history beautifully. I am honored to be here and to represent my company. It is a nontraditional role for a female, as you can appreciate. My father founded the company in 1967 to support our family. And I have had the honor to go out on my own, come back after politics, and come back into the family business, and now I lead it as the CEO and Chairwoman.

Mesa is currently composed of four different companies: Mesa Rubber Company, Gunite Supply and Equipment, Airplaco and Mesa Laminated Fabrics. With a diverse corporate mix of products and companies, that puts us both in the petroleum industry as well as in new construction and renovations. We operate out of three locations, Cincinnati, Houston and Los Angeles. Initially, our goal was quite simple, provide a product in an industry that we knew well so that our own family could support itself, clearly a true example of the American dream as ever could be.

We don't get the press that the mega corporations get and we don't get the resources that they have either. What we do have is the integrity and desire to support our family and the families of our employees. Over the years, we have faced many challenges, yet we have managed to eke out a profit in every one of our 40-plus years. And those things in which we have control, we have successfully navigated Mesa.

The demands of operating our business have grown significantly, especially since 2002 when we have essentially doubled our activities. Clearly to operate and manage such a diverse set of companies and products, communication and travel are integral parts our routines. For example, I have flown over a million miles in just the last few years, with a window. The average cost in the last 2 years for me to fly from Cincinnati to L.A. And back in 2 years has risen from $390 to $630. That is a 62 percent increase with the luxury of advanced planning.

Clearly the airline industry has struggled to keep their costs down, and yet with the escalating cost of fuel they are out of cost saving options. The constantly increasing costs are being passed on to us passengers by reduced flight options, elimination of travel comfort items and windows, and now we must pay to travel with a suitcase.

As a business owner, I fully understand their dilemma. In order for me to afford my airline ticket today, we must increase our sales and generate more profit. Not such an easy solution.

Now when you multiply these increased costs by 20 to include my traveling staff, the impact is thousands and thousands of dollars each month. Conducting business over the phone and via the Internet is fine, but it is not a realistic solution for my business. It is not a solution for cutting travel costs. The complexities of many of our products require customization on a case-by-case basis, the nuances of which are magnified when you consider the cases where we are dealing with environmental protection systems for the petroleum industry itself.

In order to manage my business, operating out of three States, travel is not a perk. It is a requirement. It is essential that the continuity of Mesa in our operations and our long-term stability that we have the flexibility to travel. Nonetheless, we have been forced to reduce our intracompany travel.

Earlier this week, I had an employee tell me that he was feeling the pinch, too. It is not just the airline industry and it is not just Mesa. It is my employees. And when I said what kind of pinch are you feeling, he said I feel like my kids are robbed. I said what do you mean your kids are robbed. I wasn't quite sure what he meant. And he said we have to pinch and save money so much now, that we don't have any more family outings and we canceled our family vacation.

Well, that is a pretty sad statement. I have had other employees talk about cutting costs and economizing in the grocery store, and perhaps the most frightening story I heard was one employee finally voiced up that this winter in Ohio he turned his heat off save money for gas. This spring, we instituted a gas card reward program for employees. We give four cards away a week just to help them because their pocket money is gone. We just doubled that to eight cards a week. And why do we do this? Our employees need relief and otherwise are out of options. We pride ourselves on the quality of our employees and the benefit programs that we offer and the living wages we pay.

The other area hit hard by gasoline is our shipping costs, where we see gas surcharges that are now ranging from 26 to 51 percent. And when something is shipped by air freight, it is exorbitant and often unimaginable. While in theory we can pass these actual costs on to our customers, the realities hit once again and we must remain competitive in our industries. Our vendors are facing the same increases and therefore our raw materials are going up and the freight to receive our products is going up. It is nearly a daily occurrence that we receive a letter from a vendor telling us about another price increase. We have limited reactions. We can raise our prices to maintain our margins and hope our customers will tolerate the increase, or we can lower our margins and hope we can survive these times.

So where does that leave us? We see a bifurcated solution as the only viable course of action. As a nation, we have got to require higher yielding engines for our vehicles, we must utilize our oil resources that are fallow, and we have to come up with a realistic energy plan.

It may appear that I have digressed a little, but in my opinion the core issue for the airlines is the same that I am facing as a small business owner; the cost of oil is simply too much.

Thank you very much.

[The prepared statement of Ms. Segerberg may be found in the Appendix on page 67.]

Chairwoman VELÁZQUEZ. Thank you, Ms. Segerberg.

Mr. Dow, according to a recent study conducted by TIA, 41 million trips were avoided in the previous year because of problems with the air travel system. That figure doesn't reflect the one trip that I avoided just this Monday when I decided not go to LaGuardia. And even today when I go home, probably I will go directly to Union Station. Were you able to identify the primary reasons why people are avoiding trips?

Mr. DOW. Yes, we were, Madam Chairwoman. This study was one of the few times where a correlation was made between dissatisfaction and people's actions. And keep in mind we did the study before this big spike in oil and before many of the price increases. So when people said it is the hassle factor. People just said the whole process curb to curb is so challenging, they don't know whether to allow 15 minutes or 3 hours to get through security, they don't know whether when they get through security whether their flight will be delayed because of air traffic control backup and they will be sitting there, and they don't know if they will make their destination. On close appointments, they cancel the trip because of saying I may not even get there in time for the meeting.

So that is a factor and it is one of the few situations where we see the most frequent customer is the most dissatisfied. I cannot think of a business that I know of where your largest users are the people that are the most dissatisfied.

Chairwoman VELÁZQUEZ. Thank you. Mr. Ruden, the major airlines are imposing new fees on passengers and almost like every week there is something different. You say one bag, a second bag.

What role do travel agents play in making sure that consumers understand these new fees and what challenges are you facing in educating consumers about all these changes?

Mr. RUDEN. I think the essential value that travel agents continue to bring to a marketplace in which everyone virtually has access to the Internet is their ability to counsel and advise people about budgeting for travel and about the uncertainties that we have all talked about here. And we expect and I think most travel agents, if not all travel agents, are acutely aware that their customers need to know this, that they want to know it, that they expect to be told. The problem is that the methods by which airlines communicate some of these changes are not well calculated to get the information into the hands of travel agents in a usable manner and in a timely manner and certainly not into the hands of the consuming public.

I mentioned the confusion factor in my testimony, and it is a very real phenomenon. When people are uncertain, they tend to pull back and to avoid travel or to do other things that are not going to be healthy for the economy of the country. We are trying to address these issues to the airlines so they will understand that they can't just issue press releases and expect the public and travel agents to understand this. We try every day to compile lists for our members to make them aware of the new changes. But as you said, it is a daily phenomenon and it is very difficult to keep up. There are new things I am sure coming that we haven't even anticipated yet that they will be charging for. I don't think we are critical of them in one sense, but we also have to understand that they are in a desperate situation.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Gallagher, can you please talk to us about how has your business been affected by higher air fares in recent months? And are there any cities that you anticipate will be hit particularly hard by the rapid increases in these air fares?

Mr. GALLAGHER. Well, a lot of what is going on is happening now. This research that just came out with Roger. So our business, 60 percent it of happens in June, July and August, which is coming up. So I can't tell right now exactly what is going to happen this summer. But anybody, we have got to believe, if you are a family and you are a leisure traveler, which is where our business is, you are just going to make changes. You are just not going to travel this summer by air anyway. And the research proves that out.

So I can't tell you numbers wise until October, which I am happy to come back and tell you. But I hope it is good news when I come. But my fear is it is not good news and that the travel is going to be down in these cities and those cities that rely most on—like New York—on leisure travel will be the ones that are going to be hit the hardest.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Faberman, American Airlines recently announced that it is cutting many flights to LaGuardia New York. Will discount carriers be able to fill that void?

Mr. GALLAGHER. Well, I think we have to ask Secretary Peters about that because, you know, tomorrow if a carrier cancels a flight, it doesn't necessarily mean that someone else can come in and start utilizing that flight. It is important that those requirements and restrictions be looked at very closely and that in addition to looking at the long term and as the Department of Transportation has proposed auction options, we need to look at some things that would immediately allow some new levels of competition.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Mitchell, the higher prices have been a major challenge to the airlines. This week several energy analysts testified before the Energy and Commerce Committee that limiting speculation will cut or could cut all prices significantly. Do you believe that speculation is contributing to the costs of jet fuel and the troubles of the airline industry and, if so, how?

Mr. MITCHELL. Well, I am not an expert in this area, nor do I have a whole lot of confidence in the experts that are out there because they have been wrong over time in so many ways and times. The hearing that was held last week, I think the experts that were of the view there was a speculative premium, put that premium between 25 and 50 percent of the current price of a barrel of oil. I think what is very important, and as the Congress is doing, is to actually get to the answer of whether this is a supply and demand imbalance or indeed there is excessive speculation and/or manipulation going on in the market. If it is an oil imbalance, then we should take that piece of information and understand that as a critical infrastructure at 130 or 120 or 140, the model doesn't work. We will not have a national transportation infrastructure at that cost of input.

If it is a matter of speculation or manipulation, that needs absolute full attention, immediate attention, because it is not just crippling the airline industry, it is hurting every single American, and it is outrageous if it is happening.

Chairwoman VELÁZQUEZ. Thank you.

Now I will recognize Mr. Chabot.

Mr. CHABOT. Thank you very much, Madam Chair. And first of all, Mr. Mitchell, you mentioned a couple of things that you thought we needed to do. You mentioned speculation. I tend to agree. I disagree with the administration on this, who has tried to pooh-pooh that whole speculative issue. I think that is one of the issues that is at play here. And I agree with the strength of the dollar being an issue and I do agree also that we ought to put pressure on OPEC. I agree with you on all those things.

I would just add on to some of the things you mentioned and I also believe that we have got a short-term and a long-term problem relative to supply where we have essentially handcuffed ourselves in this country and said we are not going to go into ANWR, we are not going to go into the Outer Continental Shelf, and we know there are huge resources in both. So that is part of the picture. And I think that is related to the speculation because you have some ″okay, ifs″ that say even if we drill in ANWR now, if Congress passed legislation saying we could drill in ANWR now, we are not going to see that oil for 3 years or 5 years or 10 years or whatever, and that certainly is true. We won't see that particular oil. That is why we should have passed this many years ago, which I consistently voted to do. But we can't go back and undo that. But what we could do, I think it would affect the speculative nature of the problem because it would show that we are serious, that we are going after that oil now, and think you would see that reflected.

Because a barrel of oil went up from $58 to $135 in a year's time. You can't tell me that there aren't speculative factors involved in that. So I agree with all the points you made.

I would go beyond that and say we need to go after supply that we have available to us and we need conservation and we need alternative renewable sources. It has to be a comprehensive plan.

Does anybody want to comment on that?

Mr. MITCHELL. In defense of the speculators, they are able to leverage this concern that America can't solve its own problems anymore and that we are sitting idly by while the Chinese and Indian and other economies expand so rapidly.

So I 100 percent agree with you that it is the psychology of the futures market that we need to attack, and that means looking like we are doing things, and doing things. You know, at least opening the debate on offshore drilling, talking about things like strengthening the dollar, opening up the oil reserves. These are things that the marketplace needs to know we are not going to sit around and just be victimized by them.

Mr. RUDEN. Mr. Chabot, if I might, Mr. Dow and I were talking about this very subject before the hearing.

It is impossible—and I am no expert, either, but it is impossible for an intelligent person to get their mind and arms around the idea that this imbalance in supply and demand has moved from the condition it was in a year ago, when we had an imbalance, too, to the condition it is allegedly in today such as to produce a more than 100 percent increase in price of oil. It just doesn't make sense in basic economic terms.

So this issue—again, I am not expert, but it seems to me this is one of the primary pressure points that could have short-term effects. And right now our industry, and I think the whole economy, needs some kind of short-term encouragement, some sign that something is going to change this pretty quickly before businesses simply say, I am not going to lose more money; I will just fold up right now and go away.

Mr. CHABOT. Ms. Segerberg, did you want to comment?

Ms. SEGERBERG. Yes. Oddly, one of our biggest customer bases is the petroleum industry; and in the last 4 to 5 years the sales that we have done to China and India are something as crazy as the gas prices are today.

What we are seeing is aboveground storage tanks in China, for example, that are probably larger than anywhere in the world. Each individual tank, it is frightening to know how much petroleum product is in some of these tanks, millions and millions of gallons.

And I don't think I help the speculation, but all I know is our company is running as fast as we can to sell them products as they are building these new tanks. When those tanks are built, the oil that they plan on putting in these tanks isn't going to come here. They are going to get it.

So I think we have future shortages yet that we can't anticipate just by looking at the design and activity that is happening both—and the same is happening in India. It is a couple of years behind, but we are there in those refineries talking to those engineers. We have never seen anything like what we are seeing the growth there, and that oil is going to come out of our pockets one way or another.

Mr. CHABOT. Mr. Dow, I think you were trying to—

Mr. DOW. Yes, sir.

I think you all hit it on the head. We have got to peel the onion in 100 different ways, and we have to get some significant commitment. There is no shortage of ideas. There is a shortage of leadership.

This has been isolated to an airline issue only by the media, and it is not an airline issue. It is a travel industry issue, it is a small business issue, and an American freedom to travel issue. And if we don't elevate this to a critical crisis for America and take it beyond an airline fuel issue, we are going to have a problem.

Mr. FABERMAN. That is why all the other airline associations and other groups have joined in supporting the PUMP Act that is out there. We think that is an important step.

Also, a lot of the airlines are using more fuel-efficient aircraft that are using less fuel; and maybe one of the small—if there is a word—"benefit" that goes with retiring aircraft is that some of the older aircraft will no longer be consuming fuel.

Mr. CHABOT. Thank you.

Mr. Gallagher, let me ask you a different question, if I can. I think your concept and your business is very interesting, and you go to a number of cities. Cincinnati is not one of those cities right now, correct?

Mr. GALLAGHER. That is correct.

Mr. CHABOT. Let me just mention some reasons why I think it should be, and I would like to talk to you about that.

We have one of the best zoos, for example, in the country. We have the Cincinnati Reds, the first professional baseball team; Cincinnati Bengals. We have great, great symphony, Pops. We have got Kings Island; many really world-class museums; Tall Stacks, which is really unusual, where the riverboats literally come, and we have thousands and thousands of people come.

Let me put in a plug also for the Delta Queen at this time, which is the last of her kind, that we need to save. I will continue to have that discussion with Mr. Oberstar whom we have battled on the floor, whom I have great respect for, but on the issue we just differ. In November, its exemption runs out; and that would be the end of the Delta Queen. And we can't let that happen, and I hope Congress doesn't.

And I mentioned Kings island. We have fine restaurants. We have got fine hotels. We have got great arts opportunities. We have the second-largest Octoberfest in the world after Munich. And at that Octoberfest, among other things, we have had the largest, greatest number of people doing the chicken dance at the same time in the entire world as well; and we are proud of that, of course. And one of the largest fireworks displays at Riverfest that we have in the world.

So it is a great place for families to come. It is very convenient. The population is from all over the place. So how could Cincinnati become one of the cities that you would—that your company would bring folks to?

Mr. GALLAGHER. How this works is we are invited to a city by the Convention and Visitors Bureau. We don't ask anybody for any money, but we do need a promotional organization to help support bringing more people. So we look at the number of leisure travelers. We look at the attractions. We assess the deal.

We haven't heard from Cincinnati for quite a while. They initially talked to us, but then there was Newport across the street there, and there was a conflict between those two bureaus, and so we backed away. Because you do need one promotional entity that is there to help promote this thing. And the real thing about CityPass is it helps extend length of stay and put more heads in beds is what it does.

But could I take one moment? Here is something you can do. There is a Travel Promotion Act that many of you may know about that is on the table right now, and it is sponsored by a majority of the House and almost a majority of the Senate. That is something that you can do right away that will really help you and help Cincinnati and every one of these cities.

We are the only country in the world that does not promote itself, the only one. France does it. Australia does it. Canada does it. Are we so arrogant to think that we don't have to do that? It is like a politician saying, I don't have to promote myself. I am just going to get re-elected.

It doesn't happen that way. It is not going to take any taxpayers' money if we can get this passed. Some of you are already sponsoring it, which is great.

It is a small deal, but having more people come to our country—Australians come here and spend on the average of 22 and a half days. They visit multiple cities. I can sell them a bunch of CityPasses.

Mr. CHABOT. I will certainly have a discussion with our Convention and Visitors Bureau, and we would love to have Cincinnati included as one of the of locations you bring folks to. It is a great city.

Mr. GALLAGHER. We will come take a look.

Mr. CHABOT. Thank you, and I thank the panel. It has been an excellent panel.

Chairwoman VELÁZQUEZ. Mr. Shuler.

Mr. SHULER. Thank you, Madam Chair.

Ms. Segerberg, I think you are exactly right. When you look at some of the growth of some of the other countries throughout this world—China, India, Japan—the dollar continues to fall. And it is kind of embarrassing.

I had my children up this week. They are in Washington. And whether it has been in committees or on the House floor, I see the lack of maturity, quite frankly, in this House of Congress where Members are actually—parties are fighting against one another for their own political posturing or political gain of power when we are allowing other countries to surpass us. And until this House - until we change the dynamics of this Congress, on both sides of the aisle, we are only going to continue to fall further and further behind.

I am on the Natural Resources Committee and whether we are talking about drilling in ANWR or we are talking about offshore drilling, we have got 68 million acres that are available for drilling today. That would be 81 percent of all estimated, oil and gas. We would actually produce, just on the 68 million acres, 4.8 million barrels of oil a day, 44.7 billion cubic feet of natural gas a day. That would double our capacity of petroleum, and it would increase just in oil production. It would increase 75 percent of our natural gas.

But yet we stand on the House floor and people try to become Hollywood stars, if you will, because of C-SPAN; and they talk about this and talk about it. When we actually need to unite together as a body, the People's House, and say what can we do to better our country and to make sure that we remain at the top and we remain at the top for not only my children but for generations to come.

So I think you are exactly right. When other countries are surpassing us because it has been—it has been this way for a long time. I am a new Member here, and so I think you are right.

I do have a couple of questions.

Ms. SEGERBERG. Could I respond briefly?

If you need a lesson, I am old enough to give you one, which is, when I was elected to city council—I am a Republican in the San Francisco Bay area—I served on every transportation body there was available to me. It is because it was practicality and not what party I belonged to.

So you are right. We all have to work together. It is the truth. We all work for one another, and we are all the citizens.

The other place have to not overlook is Canada. The oil sands projects today is generating extraordinary amounts of oil and revenue for Canada, and we are their number one consumer. But it is the new technologies that they are using because years ago they thought it was impossible to extract that oil, and today they are doing it successfully.

So there are also new technologies for those that are afraid of the environmental impacts. Clearly, we sell the product because we care about the environment, too. But there are new technologies that we should be looking at as well.

Mr. SHULER. And also, just to clarify that, what country do we send more of our refined gasoline to? Canada. So I think we have about 3 million barrels a day of refined gasoline and diesel fuel that goes to Canada.

One more question. Mr. Faberman, if you look at—how did the airlines calculate this? And I am going to tell you my story for the week of—everyone has that story. But you are charged $25 for a bag. So what does everyone then try to do? They want to take it on board with them to the overhead luggage space.

We were here at the airport. Every single person carried on every bag they possibly could, to their limit. There wasn't enough space. They had to check 25 bags. We were delayed to get en route.

So then we sat at the end of the tarmac, and they said because we are delayed out of the terminal, then we were delayed. I missed my flight, my connecting flight, so—which normally would take about, door to door, about 4 hours to get home. I could have driven 8 hours by that time.

Why do the airlines—didn't they see that this was going to be a problem of everybody trying to—there wasn't enough overhead space before these $25 prices. Of course people are going to try to save money and take as much as they can on board. Did they not take that into consideration?

Mr. FABERMAN. Unfortunately, I think it is an airport-by-airport scenario; and people who will carry on bags at a National Airport or La Guardia Airport are a lot different than those who will try to carry on bags in Orlando or Las Vegas or other places. And I think the airlines are now beginning to look at that and see, at least before the planes are boarded, look at how much carry on bags are going to come on and try to see if there is a better way of perhaps putting some of those bags somewhere else.

But, you know, we have a great airport, airline system in this country, with hundreds of airports; and, unfortunately, every single one of them is so dramatically different and carries different types of passengers.

But you are right. National and La Guardia are particular issues for carry on bags.

Mr. SHULER. Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. Mr. Ellsworth.

Mr. ELLSWORTH. Thank you, Madam Chair.

I don't have too many questions. I would just like to associate my comments with Mr. Shuler, getting down to honest debate.

Both sides of the aisle throw out facts and figures. And I know I have charged my staff with, you know, getting to the truth so when I go back home to Indiana that I can tell the folks back home what is real, how much oil is under that 68 million acres. Are they drilling? Do they have the equipment? Do they not? We get inundated with talking points from both sides. That is confusing.

And again, when I was in my former life, how many times you had to raise your right hand and promise to tell the truth, the whole truth, and nothing but the truth, so help you God. There are people who haven't taken that oath or forgot, and that is what we really have to get down to.

Thank you, Ms. Segerberg. You said one of the most important things in what you are doing in your business and what is going to happen in the future and these other countries that are getting ready to buy that oil. And regardless of what we do right now, we have to look in the future, what is going down the road.

And I didn't hear it mentioned here—I came in late—but also our future military needs. And I know we all want a strong defense, besides small business, but a lot of these military contractors are small businesses but on the large end that we protect our country. And what we are going to fuel our military jets, our military tankers if we don't have anything to put in the tanker. I guess it is a whole different story.

But this honest debate on what our future holds. Because no matter how you look at that—do we drill ANWR, do we not, Outer Continental Shelf, all those options—there is a finite amount of oil on this planet.

I look at the guzzler at the local convenience store. It looks like too much to drink. But if enough people start drinking out of it, it goes away; and by the end of the trip it is not there anymore.

There is finite oil under this, and we have to move in a manner that we find the alternatives so that oil that we do have left—planes are only going to fly on certain things. So if we can find and run other things on different types of fuel it will leave that oil for the day we have to drill ANWR, we have to go into the Outer Continental Shelf, whatever it is. That we start picking and choosing where we are going to put these fuels and what we can do.

Whether it is coal to liquids, nuclear, we have to look at all these tools in the tool chest so we can reduce in some areas to save it for the other. Because it is not unlimited no matter—it may be 50 years. But I would kind of like my grandkids to know what it is like to drive a car or fly a plane, and it is not that far away when you think about it.

Not a lot of questions. I appreciate the testimony. It seems like every hearing I have been in, no matter—my hearings all go back to this subject. It is mission critical for us right now, and I know the American public want us to continue to discuss it in an open and honest way.

Thank you all for your testimony. It has been very helpful.

Thank you, Madam Chair. I yield back.

Chairwoman VELÁZQUEZ. Mr. Faberman, I would like to address the following question to you.

The FAA states that the construction of new runways is critical to addressing the root of the flight delay problem, which is congestion at the airports. Delayed flights cost an already struggling airline industry as much as $19 billion, and jet fuel consumed as a result of delay costs more than $1.6 billion. Do you agree that we need to build more runways and that this will reduce congestion?

Mr. FABERMAN. Well, there are two types of congestion. There is, obviously, specific airport congestion; and there is airspace congestion. In certain parts of the country adding another runway at an airport and having dozens of additional aircraft go to an airspace system that is not equipped to move the traffic would create more problems.

In the New York area, for example, delays and congestion at the three New York airports and Philadelphia are creating problems for airports like Westchester and Stewart and other Upstate New York airports. But in other parts of the country—and we are soon going to see a new runway open in Chicago at O'Hare airport, certainly that will help congestion there and would allow some additional flight activity at that airport.

Chairwoman VELÁZQUEZ. But in the sense that if we have congestion in New York you have a ripple effect in the rest of the Nation, so how much is infrastructure contributing to these delays? That is my question.

Mr. FABERMAN. Well, it contributes particularly on days where there are weather issues and days when aircraft may break down or some other problems may occur.

Chairwoman VELÁZQUEZ. And more and more we are seeing.

Mr. FABERMAN. We are seeing that. Right. So I would say it has 30 percent impact on it.

Chairwoman VELÁZQUEZ. I will come back.

Mr. Chabot.

Mr. CHABOT. Thank you.

One thing that we did mention since we have gotten into energy here was nuclear, which we basically stopped building nuclear plants in this country about 20 years ago. We have over 100 of them. We stopped building them back then.

Countries like France has 80 percent of their electricity produced by nuclear. They are building them like gangbusters in China, India and Russia and all over the world, but we haven't done that in the United States.

Now, obviously, we are not talking about nuclear-powered planes and cars and things like that. That is not the point. But the point is that many of our plants, if they are not powered by coal, well, it is natural gas and oil and other things. So all that is in competition. So that ought to be one of those things, I believe, that is out there.

And, you know, we had a couple of comments. One of then was about the 68—when we talk about talking points, that was one of the talking points that we hear—and I think it was last week—was the 68 million acres that aren't being drilled out there so we don't need to go to ANWR because we have that out there. The fact is—

Chairwoman VELÁZQUEZ. If you allow me, if you yield.

Mr. CHABOT. I would be happy to yield to the gentlelady.

Chairwoman VELÁZQUEZ. It is just that ANWR is apparently the answer for everything. And I guess that if we drill in ANWR, my allergies will go away. That is not going to happen.

We need some short relief, and what we are saying is combine the 68 million acres with preservation and other energy policies. But the fact of the matter is that for the last 12 years we didn't have an energy policy.

Thank you for yielding.

Mr. CHABOT. Absolutely. And reclaiming my time, relative to preservation and conservation, we are for that, but it is one of those things where I think, as a Nation, we ought to do this. As the gentleman from Indiana mentioned, it ought to be in a bipartisan manner. We ought to work together on this one.

And we need to do all of the above. We need to do conservation. We do need the alternative and renewable sources which the folks on the other side of the aisle have stressed but have also said we are not going to do ANWR. And I am not saying every person on the other side of the aisle saying that, but enough were that it stopped it. So we didn't do ANWR. We didn't do the Outer Continental Shelf.

And the gentleman mentioned down there that we should have, you know, those available for the day when we need them. At $4 a gallon, we are way past that day. I think that we have to go after those resources.

And to get back to the 68 million acres that are out there that are out on lease, what happens is when people bid and purchase those leases for 5 years or 10 years, they have a certain amount of time to drill and explore and then it lapses and then it goes back and—but it doesn't mean that there is oil on all those. They purchase them with the hope that maybe there is oil there. And, over time, they do ultimately explore and drill if they discover oil.

In ANWR, we know it is there. We don't know if it is 10 billion barrels or if it is 16 billion barrels. But we know it is there, and we know there is a lot of it.

We also know that this isn't a place where Americans go up and vacation. It is in a place where about 8 to 10 months of the year it is essentially frozen tundra.

Now the photographs that you see from the more extreme environmentalists that have put that off limits over the years, they will show you the couple of months when there is some greenery up there. But most of the time it is a barren wasteland.

And in the Outer Continental Shelf it is an area that we do need to have great care when we go out there. We certainly don't want to harm the environment. But it is an area where we can go out there without harming the environment.

Look at all the oil wells we have down in the gulf. We had one of the worst hurricanes of all time sweep through that area and take out a number of oil wells, and there weren't environmental spills of any significance, and that was about the worst storm ever that went through there.

So we do need to do it in an environmentally safe manner, and we can do that. But I think we are way beyond the time when we can afford to put this off limits. Even if we don't have that oil right now, I think because of the speculation that is inherent in the market I think you would see the oil costs come down dramatically and very quickly if Congress would just act and give us a vote and let us vote on this again.

Because even though it did pass in the House, we couldn't get it through the Senate. As high as the costs are now, I think it would pass. But we can't have it pass if we can't have a vote on it; and, right now, we haven't had a vote in this Congress.

I yield back.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Dow, I would like to ask—maybe Mr. Dow or Mr. Ruden would like to comment on this question; and it is the weak dollar should be attracting more tourists, more foreign travelers to come to our Nation. And what we have seen is that in 2007 compared to how we did in 2000 we actually had 2 million less foreign visits tourists coming to our Nation. Why has the number of foreign travelers to the U.S. declined and how can we make travel to the U.S. more appealing?

Mr. DOW. You are exactly right. We had 2 million fewer travelers, but, to aggravate the situation, the rest of the world was up 35 million during the exact same period. Not only we didn't get one of them, we lost 2 million when we were totally on sale.

The problem is threefold. One, the difficulty in getting a visa. If you come from Brazil, it will take you 100 days to get your interview, and you have to bring your whole family for a 5-minute interview, and we have lost half a million Brazilian travelers. And it goes on and on.

Second is the perception and reality of the difficulty of getting through customs and border protection, and people feeling if you make one wrong statement you are going to be sent back or put in a room for 3 hours. And the foreign press is beating us like crazy on this, saying America doesn't want you.

And the third thing, Mr. Gallagher spoke to, is we do not in any way share all the policies of change. We do not go out and tell people why we are doing these things, and we are just getting pushed. So we need to promote America. We have not said anything to bring people to America, and that is one of the huge things and why this Travel Promotion Act is so critical.

Mr. RUDEN. I think Mr. Dow said it pretty well.

Mr. GALLAGHER. You see, in Australia, they have commercials. In the United States—and France. People assume the United States does that, and they don't. We don't. There is no welcoming campaign, no explaining our procedures, and this Travel Promotion Act would do that. So I put in another plug for that.

Chairwoman VELÁZQUEZ. Yes, Mr. Dow.

Mr. DOW. Another very important factor is this is our, you might say, stealth public diplomacy. If we can get more people coming here instead of going elsewhere, when they come to America and they see the diversity of our country and they see our freedom, they go back home and say they are not so bad; they are really great. We should be pushing this as a great deal of our public diplomacy in the State Department, the Department of Defense. If we get more of this going on, we wouldn't have to have a lot of these dollars, because this is how American is seen. They are seeing all of us.

Chairwoman VELÁZQUEZ. Okay, gentlemen and lady, thank you so very much for being here today. This has been quite an insightful hearing.

I ask unanimous consent that members will have 5 days to submit a statement and supporting materials for the record.

Without objection, so ordered. This hearing is now adjourned.

[Whereupon, at 11:33 a.m., the Committee was adjourned.]

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington DC [illegible]

STATEMENT

of the Honorable Nydia M. Velázquez, Chairwoman
United States House of Representatives, Committee on Small Business
Full Committee Hearing: "Grounded: How the Air Transportation Crisis is Affecting Entrepreneurs and the Travel Industry"
Thursday, June 26, 2008

Commercial air travel has been a mainstay of the economy since the 1940's. As the industry has evolved, businesses in both small towns and big cities have gained access to markets previously thought unreachable. Today, air flight continues as a linchpin of our country's trade and business travel. It not only drives the nation's $740 billion tourism industry, but it also sustains the economy. Virtually every sector depends on its speed, reach and relative convenience. Without airplanes, commerce as we know it would, very simply, cease to exist.

But now, in the face of grave industry challenges, air travel has come to be as much of a hindrance as it is a help. Today, we are facing what can only be described as an air travel crisis.

Last year, flight delays alone accounted for 20 percent of total air travel time and, according to the Travel Industry Association, proved to be far more than just an inconvenience to travelers. In fact, TIA estimates that delays dealt a $41 billion blow to the already struggling U.S. economy. In 2007 alone, delays accounted for $12 million in lost productivity. It seems airport waiting areas have become virtual black holes for business travelers.

And it gets worse.

These delays, when paired with soaring fair rates and exorbitant new passenger fees, are costing the economy an additional $26.5 billion. With prices skyrocketing and convenience plummeting, millions of Americans are turning away from the airlines altogether. Just last year, travelers opted out of 41 million domestic flights. These avoided trips are costing the U.S economy billions of dollars, the brunt of which is being borne by our entrepreneurs.

Small firms make up 97 percent of the travel and tourism industries, which drive a multi-billion dollar sector of the national economy and have been hard hit by declining air travel. Perhaps not surprisingly, close to one third of the economy's $26.5 billion setback has been shouldered by the entrepreneur-driven hospitality sector.

The fallout of America's air travel crisis has reached beyond the travel and tourism sectors to threaten a myriad of other related businesses. In 2007, industries that rely on air travel suffered losses close to $10 billion. For these small business-dominated sectors of the economy, the future effects will be twofold.

On the one hand, tourists may decide to forgo certain trips altogether. The other possibility is that travelers will simply scale back their travel expenditures, taking a chunk out of the entrepreneur-driven hospitality industry. Already, we are seeing hotels slash room rates in an attempt to attract these increasingly cost-conscious travelers.

But consumers are not the only party suffering from our broken air travel system-- A lack of runway capacity and regulation has forced many small airlines into bankruptcy. And as these businesses fail, passengers are faced with fewer and more expensive choices.
This means that small firms in certain regions will have less access to diverse markets and clients. Entrepreneurs currently make up 97 percent of exporting businesses. In our increasingly global economy, the last thing we need to do is create new roadblocks for them.

There is no one single solution to these problems, and anyone who suggests otherwise is over simplifying a very complex set of issues.

Before attempting to tackle these challenges, there are a series of concerns we must first address. Not least of all is a severely deteriorated and inefficient infrastructure. As a result of this, airports are unable to accommodate today's volume of planes and passengers. If we are to ease the congestion and curb delays, then we must first focus on improving and expanding airport infrastructure, both on the ground and in the sky.

America's air travel system is broken. Massive delays and rising ticket prices have pushed the problem beyond the point of inconvenience—it is now a serious threat to both small businesses and our national economy. In today's hearing, we will discuss the current air travel system's effect on small businesses, and explore potential solutions for what has truly become a crisis in our skies.

I want to thank all the witnesses in advance for their testimony. The Committee is pleased they could join us this morning, and looks forward to their insights on the issue.

U.S. House of Representatives

SMALL BUSINESS COMMITTEE

Thursday, June 26, 2008

Representative Steve Chabot, Republican Leader

Opening Statement of Ranking Member Steve Chabot

Grounded: How the Air Transportation Crisis is Hurting Entrepreneurs and the Economy

Good morning. Thank you, Madam Chair, for holding this hearing on an important topic for small business – the impact of rising air travel costs. I'd like thank each of our witnesses who have taken the time to provide this Committee with their testimony. I'd like to extend a special welcome to fellow Cincinnatian Terry Segerberg, whom I will introduce later.

Record high oil prices are causing airlines to downsize capacity, eliminate destinations, and raise fares even as demand for their services remains high. In 2000, passenger and cargo carriers spent $16 billion on jet fuel. Last year, they spent $41 billion. They're expected to pay $61 billion this year. This rise in jet fuel will ground millions of travelers.

The full impact of the service cuts and increased costs won't be felt until 2009, because most aren't slated to go into effect until this fall. By this time next year, there could be as many as 20 percent fewer seats available. That would be like shutting down a carrier the size of American Airlines.

Rising cost and reduced access of air services is impacting the economy. Small businesses consistently rank as one of the hardest-hit sectors when it comes to fluctuating costs, and remain particularly vulnerable to the continuous rise in the cost of air travel and cargo. At the same time, these small businesses are coping with a near recessionary economic environment coupled with an increase in the overall cost of doing business. In particular, small companies are being hit with rising energy costs and rising employee health insurance costs.

Because these firms often have razor-thin margins and rely on very competitive pricing, passing on the cost increase to their customers could result in loss of sales. Over the long term, it could cause them to go out of business. The impact of high costs of jet fuel and air service for companies such as airlines, resorts, and hotels is significant.

Conventional oil supplies will remain tight in the years ahead. Fuel is currently the largest expense for airlines. By authorizing exploration and production on the outer continental shelf and Alaska including the Artic National Wildlife Refuge with reasonable environmental safeguards, we would increase domestic production. This will keep the cost of oil from rising as fast and make us less dependant on foreign oil for national defense. It would also give the nation needed time to, one, develop diversified fuel sources including clean coal and nuclear energy, and, two, develop and implement a balanced, coherent national and global energy policy.

A majority of Americans now support opening up new areas to drilling. A recent Gallup poll shows 57 percent of Americans support opening up new territories to drilling, while a Wall Street Journal-NBC News poll conducted this month shows 59 percent of Americans think Congress should take the lead on responding to high gas prices.

Madam Chair, I look forward to working with you on this important issue. Again, I thank each of you for being here today and I yield back.

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Travel Industry Association

TESTIMONY
OF

ROGER DOW, PRESIDENT AND CEO OF THE TRAVEL INDUSTRY ASSOCIATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES

HEARING ON

"GROUNDED: HOW THE AIR TRANSPORTATION CRISIS IS AFFECTING ENTREPRENEURS AND THE TRAVEL INDUSTRY"

JUNE 26, 2008

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Chairwoman Velazquez, Ranking Member Chabot, and other distinguished Members of the Committee: It is a privilege and honor to appear before you today on behalf of the Travel Industry Association (TIA) and our strategic partner the Travel Business Roundtable (TBR) to discuss the impact a troubled air travel system is having on travel and tourism in America and to share with you the results of the air travel survey TIA released last month.

TIA is the national, non-profit organization representing 1,700 travel and tourism public and private entities across the country. TIA members encompass every sector of the diverse, $740 billion travel community and our mission is to promote and facilitate increased travel to and within the United States.

Businesses all across the United States depend on reliable, efficient air travel to conduct business and stay connected to customers and suppliers. Economic studies show that easy access to a major airport is one of the most important factors in creating an environment where innovative small businesses can flourish. Entrepreneurs depend on reliable air service to raise capital, develop supply chains and make sales. It is no accident that a significant technology corridor grew up around Dulles International airport. Obviously, Chairwoman Velazquez and Ranking Member Chabot, you understand how important the airports of greater New York and Cincinnati are to the economies of your districts. The bottom line is that businesses of all types depend on air travel.

The problem America faces today is that our air travel system is in steep decline. This is not a problem solely for the aviation community, but for business across America. TIA's members feel the impact directly. TIA represents the breadth of the travel community, including travelers, hotels, restaurants, theme parks, destinations and many others. Less than one percent of our membership is in the aviation community, but all of our members are feeling the pinch of a deteriorating air travel system. That is why TIA recently partnered with two of the nation's premier political polling firms to garner a better understanding of travelers' concerns with the air travel process and what effect, if any, those concerns have on their decision to fly.

While much of the attention is on high fuel prices and new fees, we believe the air travel problems are more fundamental and longstanding. The survey we commissioned was not focused on the price of fuel or recent air travel cost increases. We chose to look at the systemic issues that have only been amplified by rising costs and cuts in airline capacity.

Between May 6 and May 13, Peter D. Hart Research Associates and The Winston Group interviewed a random sample of more than one thousand air travelers – Americans who had taken at least one round trip by air during the preceding 12 months. The results were surprising.

The survey revealed that deep frustration among air travelers led them to avoid an estimated 41 million trips during the 12 months preceding the survey. TIA estimates that represents a $26 billion loss in consumer spending to the U.S. economy, including $9.4 billion in lost airline revenues, $5.6 billion in lost hotel receipts, $3.1 billion in lost restaurant income and $4.21 billion in lost federal, state and local taxes. As you know, Senator Charles Schumer and Congresswoman Carolyn Maloney of the Joint Economic Committee recently released a report which estimated that the indirect costs of wasted time, wasted fuel and lost productivity caused by flight delays is more than $40 billion per year. Taken together, the direct and indirect costs of a broken air travel system approach $70 billion per year. A U.S. economy that may be tipping into recession simply cannot afford this level of disruption.

The survey further revealed that businesses suffer most from an unreliable and inefficient air travel process. The most frequent travelers, typically business travelers, are the most dissatisfied with the air travel system and the most likely to avoid trips. The opportunity costs of the sales call forgone, the meeting cancelled and the site visit avoided are incalculable. A frustrating and unreliable air travel system is sand in the gears of American entrepreneurship. This is a very real and growing problem.

The traveling public recognizes that the problem is growing. Nearly 50 percent of air travelers surveyed think it is unlikely that the air travel system will improve anytime soon, while nearly 60 percent of frequent travelers – travelers who take five or more trips a year – express that level of pessimism about the future.

One of the more surprising findings from the survey is that travelers' frustration is not primarily directed at the airlines. In fact, despite all the bad publicity airlines have received, the survey results show that air travelers are most frustrated with the air travel process, including inefficient security screening and flight delays and cancellations, which we believe are largely caused by an outdated air traffic control system. This is important because airport security screening and air traffic control are both government functions. The traveling public is deeply dissatisfied with these two areas and we hope Congress will act to make improvements here.

The other interesting result is that travelers vote. More than 90 percent of the survey respondents identified themselves as likely voters. What that says to me is that there is an opportunity for political leadership here. Voters are looking for a champion to stand up for the traveling public.

We at TIA heard this message loud and clear. While we don't have all of the answers, we know that America needs a fresh approach to the problem. That's why TIA is working to bring the entire travel community together to seek a path forward to constructive solutions. We want to work with you, your colleagues on this Committee and Congress as a whole to reform America's air travel system, shore up American small business and get the U.S. economy growing again. This is not about helping any single industry, it is about fundamental improvements to the heart of the American economy.

Attached to this testimony, I have included a one-page overview of the survey results along with more detailed survey toplines.

Thank you Chairwoman Velazquez, Ranking Member Chabot and other distinguished Members of the Committee for inviting me to testify today. I would be pleased to answer any questions you may have.

TESTIMONY OF THE

AMERICAN SOCIETY OF TRAVEL AGENTS, INC.

BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON SMALL BUSINESS

"Grounded: How the Air Transportation Crisis is Hurting Entrepreneurs and the Economy"

Presented by:

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June 26, 2008

Good morning, Madam Chairwoman, Ranking Member Chabot, and distinguished Members of the Committee. My name is Paul Ruden, and I am Senior Vice President of Legal and Industry Affairs for the American Society of Travel Agents (ASTA). Thank you for conducting this timely hearing on an important topic of great interest to travel agents.

ASTA is the world's largest association of travel professionals. ASTA's 20,000-plus members include travel agents and the companies whose products they sell, such as tours, cruises, hotels, and car rentals. ASTA is the leading advocate for travel agents, the travel industry, and the traveling public. According to the Small Business Administration, 98% of all travel agencies are small businesses.

The subject matter of today's hearing is familiar to nearly every American. It seems that everyone has a story to tell about having been inconvenienced in some way by the air travel system, whether it be an unexpectedly long wait at the gate or being bumped from a flight at the last moment before a scheduled departure. Disruption in air service plays no favorites— tourists, business travelers, those flying for the first time, and frequent flyers are seriously affected.

These anecdotal reports are borne out by the facts. According to the Department of Transportation's Inspector General, the summer of 2007 was part of the worst year on record for flight disruptions. In 2007, over 1 out of every 4 flights—29 percent—were delayed or cancelled. Delays were up 15% over the previous summer; cancellations were up 28%. Adding to the frustration of many travelers is the form these delays take. The DOT's Bureau of Transportation Statistics reports that last summer, over 2 million passengers endured on-board tarmac delays of 1 to 5 hours or even longer—a 25%

increase over the summer of 2006. According to the DOT Inspector General, these disruptions directly affected 163 million passengers. All indications are that this year's summer travel season will be even worse.

While the acute frustration and inconvenience experienced by passengers during and immediately following a cancelled or postponed flight are the most immediately apparent effect of these disruptions, it is important to note that their effects are wide-ranging and have a detrimental effect far beyond the airline. In the case of vacation travel, these effects extend to tourist attractions; cruises; restaurants; hotels; rental cars; and other retail outlets. Less easily quantified, but no less unfortunate, are the pain of missed weddings, graduations, funerals, and other significant occasions. Family reunions or drives through state parks are replaced by days spent at the gate or on the tarmac. All the while, small business travel agents are scrambling to rebook their customers on alternate flights, to make new lodging arrangements, and to try to prevent further disruptions to existing travel plans.

The effects of disrupted business travel are similarly devastating. In addition to the effects of missed meetings, interviews, and conferences, one must take into account the ripple effects of missed court appearances, contract negotiations, or site visits. Again, these are difficult to quantify, but the mind reels at the scope and the scale of lost opportunities brought about by an air travel industry that has shown itself time and again to be unresponsive to consumer needs in delay, diversion, and cancellation situations.

Unsurprisingly, negative experiences with the passenger air system colors passengers' impressions of the industry and leads them to make alternate travel arrangements on future trips—or, worse, to avoid travel altogether. According to a study released last month by the Travel Industry Association, 28% of air travelers avoided at least one trip over the past year due to problems in the air travel process. A staggering 41 million trips were avoided over the past 12 months—112,000 trips per day. Of these, 29 million were business trips, and 12 million were for leisure purposes.

These avoided trips represent a massive cost to the U.S. economy. Over the past year, they have resulted in a $26.5 billion loss, including $5.6 billion to hotels, $3.1 billion to restaurants, and $4.2 billion in uncollected federal, state, and local tax revenue. These losses, enormous as they are, represent only the economic impact of flight cancellations. When combined with the cost of air travel delays—estimated in a recent report by the Joint Economic Committee to be $41 billion—the total cost of current disruptions in the air travel industry exceeds $67 billion per year. By way of comparison, this total exceeds the annual Gross Domestic Product of the State of Hawaii.

Small business travel agencies, like other small businesses, are acutely affected by these disruptions. Trying to service aggrieved passengers requires a commitment of time that few agencies can easily redirect from other duties. Time that travel agents are forced to spend salvaging a trip that has been thrown off course by a delayed or cancelled flight is time that is not spent helping others plan trips, marketing the services of their agency, growing their business, or researching new destinations and industry practices.

Next year will mark the 10th anniversary of the airlines' 12-point customer service commitment. In this 1999 document, the airlines jointly pledged to take a series of steps to improve customer service by enhancing transparency and responsiveness. These commitments remain largely unfulfilled.

In their 1999 commitment, the airlines committed to notify customers of known delays, cancellations, and diversions. "Each airline," they pledged, "will notify customers at the airport and on board an affected aircraft, in a timely manner, of the best available information regarding known delays, cancellations and diversions. In addition, each airline will establish and implement policies for accommodating passengers delayed overnight. A clear and concise statement of airlines' policies in these respects will also be made available to customers."

In 1999, ASTA regarded this as one of the most important of the airline's commitments, because it is in the terminal that passengers have the best, and perhaps only, chance to make alternative plans. We noted then, in 2007 testimony before the House Transportation and Infrastructure Aviation Subcommittee, and now, that this commitment is hedged – it does not include an unqualified obligation to truthfully explain the reasons for delays, yet we believe this is the main customer grievance – failure to tell the whole truth about what is going on so consumers can make informed decisions. And it does not require any airline to do anything substantive for any passenger even if the delay is chargeable to the airline. Each airline should be prepared to make necessary investments that will assure communication between the airline components responsible for rational decision-making and execution in crisis situations, as well as airports and other ancillary support services that could be called into play in an emergency.

The airlines also pledged to meet customers' essential needs during long on-aircraft delays. This commitment, too, remains unfulfilled. To date, the airlines have not even come to an agreed-upon standard for what constitutes a long delay, and the "trigger" for meeting passengers' essential needs varies widely. The standards range from one hour to three hours, with some carriers maintaining that they are not bound to permit passengers to deplane before four or even five hours have passed. The DOT Inspector General notes that it is "unlikely that passengers' definition of an extended period will vary depending upon which airline they are flying." We agree, and we endorse the Inspector General's view that a consistent policy across carriers would be helpful to passengers.

On May 16, 2008, Secretary of Transportation Mary E. Peters announced new aviation measures intended to address such longstanding issues as flight groundings, congestion, inadequate passenger protections, and limited consumer choice. ASTA applauds these measures. ASTA also welcomes the new DOT rule requiring that airlines provide complete on-time and tarmac delay data concerning flights that may depart from a gate more than once; flights that are cancelled after having left the gate; and flights that are diverted to another airport after departure.

While these are praiseworthy incremental steps, the unfortunate truth is that the short-term outlook for passenger aviation is not encouraging. Two recent examples illustrate the troubling direction of the industry. First, since May 1st, nearly every major carrier has made significant changes to its fees on checked baggage. Most have imposed new fees for checking a second bag, and some have begun charging for a first bag. These policies are in flux, and are likely to continue to change over the peak travel season. Many industry observers point to this practice as an example of so-called "revenue enhancements" or service "unbundling" that is likely to accelerate as airlines search for new ways of addressing rising fuel charges and other costs. From the perspective of travel agents, such practices come with an added burden: that of monitoring and mastering a Byzantine set of new and overlapping policies and policy revisions so as to be able to apprise customers of what to expect when traveling. ASTA and the Interactive Travel Services Association (ITSA), the trade association for online travel companies and online distribution systems, recently sent a joint letter to the Department of Transportation to express their shared concern about the manner in which air carriers are disclosing (or failing to disclose) the terms of these new policies. A copy of this letter is attached to this testimony as an appendix.

Another troubling practice is that of creeping ticketing restrictions. United Airlines has announced that, beginning October 6, it will apply minimum-stay requirements on "almost all" domestic flights, with lower-cost fares to be subject to the most stringent restrictions. This move, too, is being closely watched by industry observers as possibly heralding an industry-wide policy shift. As these practices continue, so, too, will the already dire erosion in goodwill and trust between carriers and the traveling public. Viewed in light of what the FAA projects to be an increase in the number of U.S. passengers from the current 689 million to 1.1 billion per year in 2025, the convergence of these industry practices paints a frankly bleak picture.

It is clear that the system as it stands is not able to accommodate current passenger levels to a satisfactory degree of service, and is far from equipped to keep pace with these projected increases. Moreover, amid the current economic slowdown, a preventable loss to the economy of $67 billion is nothing short of scandalous. ASTA has been at the forefront of calls to reform the passenger air system for years. We believe that the case for reform has never been more urgent or more plainly warranted than it is now. We urge the distinguished Members of the Committee and your colleagues in the Congress to rise to this considerable challenge and to set in place reforms that will inject some measure of good sense and accountability to the current system before it worsens further.

Thank you for the opportunity to testify before the Committee, and I welcome any questions you may have.

Appendix

Joint ITSA / ASTA Letter to U.S. Department of Transportation:
DOT Guidance on Disclosure of Policies and Charges Associated with Checked Baggage

June 12, 2008

INTERACTIVE TRAVEL SERVICES ASSOCIATION

Mr. Sam Podberesky
Assistant General Counsel for
Aviation Enforcement and Proceedings
United States Department of Transportation
Office of Aviation Enforcement and Proceedings (C-70)
1200 New Jersey Ave., SE
Washington, DC 20590

June 12, 2008

Re: DOT Guidance on Disclosure of Policies and Charges Associated With Checked Baggage; Notice (May 13, 2008)

Dear Mr. Podberesky:

The Interactive Travel Services Association (ITSA)[1] and the American Society of Travel Agents (ASTA)[2] have reviewed the Department of Transportation's notice referred to above (the "Notice"), with respect to disclosing airline policies and charges applicable to checked baggage. ITSA and ASTA commend the Department for taking steps to ensure that the traveling public is aware of significant changes to airline policies and the increased costs imposed by air carriers on checked baggage.

However, both ITSA and ASTA are concerned that the Notice imposes the same disclosure requirements on ticket agents as are applicable to air carriers, without ensuring that ticket agents receive timely and accurate notice of new policies or revisions to air carriers' checked baggage policies. Despite the availability of e-mail, some airlines have chosen to communicate policies to travel agents by simply posting the changes on their websites or in reference files in GDSs. This is tantamount to "no notice" and in the present case especially is likely to create results contrary to the Department's intentions.

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[1] ITSA is the trade association for online travel companies and global distribution systems, and is their voice on matters of public policy. ITSA regularly responds to notices of policy changes with substantial potential impacts contemplated by the Department. The change announced in this notice will have such an impact, as indicated above, that we urge be promptly addressed.

[2] ASTA is the world's largest association of travel professionals. ASTA's 20,000-plus members include travel agents and the companies whose products they sell such as tours, cruises, hotels, and car rentals. ASTA is the leading advocate for travel agents, the travel industry and the traveling public.

www.interactivetravel.org
1156 Fifteenth Street, NW, Suite 900, Washington, DC 20005 • Phone 202.955.0089 • Fax 202.223.9741

The Department clearly notes in the Notice that the disclosure guidelines apply to "ticket agents", which we understand means "ticket agents" as previously defined by the Department, and which would include the members of ITSA and the retail seller of travel members of ASTA. The Notice includes detailed guidelines on disclosures in Internet advertisements, in print advertisements, and by reservations agents, including a requirement that disclosures include "a full description of the carrier's baggage policies." Note, however, that these are not policies that ticket agencies control and the fees are not charges that any ticket agency collects. They are collected by the air carriers at the time of check-in.

We are concerned that the Department has not ensured that ticket agents receive new policies of air carriers (or revisions to existing policies) by requiring the air carriers to provide such new policies or revisions in a timely and consistent manner reasonably calculated to actually communicate the policies to ticket agents. For example, absent guidance from the Department, air carriers may distribute such policies to ticket agents in any manner they desire, including by fax, e-mail, regular mail, telephone, or posted notice or not at all.

This leaves ticket agents with the unmanageable and costly responsibility to monitor every airline's public communications about its policies and charges. Further, there is no requirement that the airlines provide ticket agents with timely notice, which would be required by ITSA and ASTA members in order to update their advertisements and websites and to communicate with relevant staff.

The lack of guidance on the required manner and timeliness of disclosure puts an untenable and unfair compliance burden on ticket agents. When combined with potential liability for failing to properly and timely disclose such policies and charges, the exposure of members of ITSA and ASTA, through no fault of their own, is unacceptable.

We, therefore, respectfully request that the Department work with air carriers and ticket agents to establish practical and affordable requirements that would require air carriers to disclose new baggage policies and policy changes to the ticket agent community in the same manner that air carriers provide other fare information to travel agents. Until such requirements are agreed to and in place, we further respectfully request that the Department suspend the applicability of the Notice to ticket agents. Further, we recommend that the Department consider a "safe harbor" that would protect a travel agent from liability for failing to comply with the Department's guidance, if such failure were caused by the air carrier's failure to provide timely or effective notice of new policies or policy revisions to the travel agent.

ITSA and ASTA also wish to note that air carriers are in the midst of changes in their business models and pricing structures. Specifically, air carriers have begun to "unbundle" various services that had previously been considered part of the air fare. The removal of free transportation of two pieces of checked luggage from the "bundle" of services the consumer receives with any ticket is only one example of this larger trend. Some air carriers are now also charging for meals, and some have begun charging for advanced seat assignments and in-flight entertainment. All of these had previously been understood by the public, correctly, to be included in the price of air tickets.

ITSA and ASTA anticipate that more airlines will "unbundle" more services in the near future. The unprecedented cost of fuel and other factors will accelerate the pace of these changes in the marketing of air travel. Therefore, ITSA and ASTA are respectfully requesting the Department to coordinate with air carriers and ticket agents before the Department imposes new disclosure requirements. Without such coordination, the result could be a tangle of regulatory and disclosure requirements, which would confuse the public and lead to significant costs to air carriers and ticket agents.

ITSA and ASTA support the Department's mandate to ensure that the traveling public is protected from deceptive practices and unfair methods of competition. Consequently, we look forward to working with the Department on this important issue. To this end, both ITSA and ASTA would be pleased to meet with the Department to discuss disclosure issues related to checked baggage fees and other unbundling measures.

Thank you for considering our concerns

Respectfully submitted,

Paul M. Ruden
Senior Vice President
Legal and Industry Affairs
American Society of
Travel Agents

Arthur B. Sackler
Executive Director
Interactive Travel Services
Association

TESTIMONY
OF

MICHAEL GALLAGHER, CO-CEO AND CO-FOUNDER OF CITYPASS, INC.

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES

AT A HEARING ON

"GROUNDED: HOW THE AIR TRANSPORTATION CRISIS IS AFFECTING ENTREPRENEURS AND THE TRAVEL INDUSTRY"

JUNE 26, 2008

CITY PASS
MIKE GALLAGHER
CO-CEO AND FOUNDER
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Chairwoman Velazquez, Ranking Member Chabot and other distinguished Members of the Committee: I am Mike Gallagher, Co-CEO and Co-Founder of CityPass, a unique small business with a national reach that offers foreign and domestic tourists the best attractions in America's favorite cities at one packaged price.

Thank you for inviting me to testify today on behalf of an innovative small business in the travel sector at risk of being severely negatively impacted by America's deteriorating air travel system. I am particularly pleased to testify before this committee because we started CityPass in 1997 with the help of a loan from the Small Business Administration (SBA).

About 12 years ago, we came up with the idea for CityPass. As a start up business, no banks were interested in lending us money. My business partner and I applied for and received an SBA loan through the Jackson State Bank in Jackson, Wyoming where our operations were headquartered. If it wasn't for the SBA, we could not have started CityPass. We are grateful, but it was interesting because even though the Federal Government guaranteed 80% of the loan, the bank still required both of us to put up our houses. As you can imagine, getting our wives to agree to this was an interesting discussion.

All is well now because CityPass has been very successful and within a few years we paid off our loan with interest. Today we have grown to serve 11 cities, and most importantly our wives are very happy!

The CityPass program serves 72 major North American attractions in 11 cities, including the Chairwoman's hometown of New York City and several cities represented by other Members of this Committee such as, Atlanta, Boston, Philadelphia, Houston, Seattle and Chicago. CityPass has become a national brand for "city vacations" and for identifying the top attractions in major cities.

I appreciate that the SBA helped us start our business, and in a sense we are still in business with SBA since every year we share about 35% of our profits with you through our federal taxes. When our profits increase, so do the government's revenues.

I am here today to speak up for small businesses just like ours, companies with less than 100 employees which make up more than 95% of the travel industry. There are hundreds of thousands of us in every nook and cranny of our great country. These are small businesses that rely on travelers for a percent of their revenues. Let me explain the importance of that percent and particularly, what happens when fewer persons travel by air.

With CityPass, for example, virtually all of our customers are tourists to a city, and we estimate over 50% are flying to their destination. Actions which make it difficult for people to fly or which affect the ability of travelers to fly will have a very immediate negative impact on our business.

Before founding CityPass, I managed an outdoor attraction in Northern California. As with many small businesses in the travel sector, we had significant fixed costs. Our costs to serve 1000 visitors in a day were basically the same if 800 or 1200 visitors showed up. At 1000, we could pay the staff and cover all our costs. Almost everything after 1000 visitors fell directly to the bottom line and was our profit.

If more than 1200 people came in the door, it was a very profitable day. Obviously, if only 800 people visited us we would lose our shirts. We would still have to pay the staff and all our costs, but we would quickly run out of money. We would be unprofitable and if this continued, we would eventually go out of business. It was clear to us that it was those last few people that came in the entrance each day who made up our profit. They were the difference between success and failure.

Most businesses in the travel industry serve both locals and visitors. The biggest source of our business was from the locals and from regional travelers. But it was apparent that 200 to 400 visitors a day were long distance travelers. So even though they only represented 10% to 30% of our business, these long distance travelers, who usually traveled by air, were the critical difference between profit and loss, success or failure.

CityPass depends on reliable, efficient air travel to bring travelers to the cities and attractions we serve. When air travel hassles rise to the level that Americans avoid taking a trip that hurts our bottom line and thousands of small businesses who make up the travel and tourism industry. It also hurts the economies of the cities where City Pass is sold because they also benefit from tourism.

The summer travel season is particularly important because that's when families take their vacations. If travel is down this summer because people don't want to fly, our profits will also be down and this will make for a long cold winter! A long cold winter for all of us in the travel industry.

Thank you, Chairwoman Velazquez, Ranking Member Chabot and Members of the Committee for inviting me to testify before you today. Your interest in hearing directly from small business owners, like myself, that rely on an effective and efficient air travel system to stay in business assures me that you will do your best to find solutions to our nation's air travel problems. I would be pleased to answer any questions you may have.

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Testimony of Edward P. Faberman
Executive Director, Air Carrier Association of America

Before the

U.S. House of Representatives
Committee on Small Business

Regarding

"Grounded: How the Air Transportation Crisis is Affecting Entrepreneurs and the Travel Industry"

June 26, 2008

ACAA Statement
June 26, 2008

UNITED STATES HOUSE OF REPRESENTATIVES

Committee on Small Business

"Grounded: How the Air Transportation Crisis is Affecting Entrepreneurs and the Travel Industry"

June 26, 2008

STATEMENT OF EDWARD P. FABERMAN

EXECUTIVE DIRECTOR, AIR CARRIER ASSOCIATION OF AMERICA

Good morning Chairwoman Velázquez, Ranking Member Chabot, and Members of the Committee on Small Business.

I am very pleased to be here today to talk about issues that are critical to the nation's air carriers, communities throughout the country, businesses of all sizes and to the traveling public. My name is Ed Faberman and I am Executive Director of the Air Carrier Association of America. The ACAA and its low-fare carrier members are dedicated to providing affordable airfare travel options to travelers and communities that receive significant economic benefits when low-fare options are available.

We thank this Committee for holding this hearing, and for highlighting the importance of a strong transportation system. Unfortunately, as a result of airport congestion, delays and elimination of service, we are at a point in time that if steps are not taken to promote competition, we may see the disappearance of travel options for millions of travelers. If that happens, communities and business will be negatively impacted.

We appreciate the situation faced by the Federal Aviation Administration in addressing delay and congestion issues that are once again plaguing the industry and disrupting travel plans for thousands of passengers..

Unfortunately, these are not new issues.

Let me read a statement:

"Throughout the year, there were strong indications that the airport and airway system was on the verge of saturation, especially within the so-called golden Triangle --

Chicago, New York and Washington. Flight delays were far beyond mere annoyance and inconvenience. Time spent in holding patterns became all too frequent. For example, traveling between New York and Washington sometimes took as long as four hours. The airports serving all three of these cities and the airway system connecting them were simply congested during too many hours each day. This deplorable situation was uppermost in the minds of local and federal transportation officials, including DOT/FAA, and local airport operators. And in the minds of airline and their passengers. Everyone agreed that airport and airway capacity in critical areas of the nation needed to be increased, but there was no consensus as to how soon this could be accomplished, or exactly what to do in the meantime."

THIS STATEMENT DESCRIBED CONDITIONS IN 1968!!

During the fall of 1968, the Secretary and the Acting Administrator of the FAA expressed the belief that government action limiting operations at some of the busiest airports would probably become necessary. Unfortunately, those restrictions have now been in place for **40 years.**[1]

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[1] FAA has on multiple occasions in the past addressed growing congestion problems. Unfortunately, the fixes developed have closed markets and limited competition. In 1968, the Acting Administrator of the FAA (Notice of Proposed Rule Making and Notice of Public Hearing; 33 FR 12580, September 5, 1968) stated:

> Delays of varying magnitude are encountered at many terminal areas... Congestion at these terminals frequently requires the imposition of traffic flow restrictions creating backup delays throughout the air transportation system.
> A reduction in air traffic delays can be accomplished only by increasing the capacity of the system or decreasing the demands placed upon it. Certain changes in air traffic and airport procedures and practices are already planned by the FAA to increase aircraft handling capacity.

On November 9, 1969, as a response to the delays in terminal areas, the FAA established the high density rule. When the rule was promulgated, the FAA stated, "the rule should be considered to be only a temporary solution." Unfortunately, thirty-nine years later the high density rule remains in place at Ronald Reagan Washington National Airport ("National") and La Guardia Airport ("LaGuardia") and may have to be reinstated at other airports to prevent continued delays.

The FAA addressed delays/congestion in 1984 and 1987:

> There can be little doubt that our nation's air transportation system is currently facing a substantial delay problem. According to DOT, airlines and travelers suffered 39,000 delays of

ACAA Statement
June 26, 2008

While we agree that it is important to reduce delays and congestion throughout the system and create a method of distributing airport capacity for the long term, immediate steps must first be taken to ensure that airline competition and deregulation do not become only memories of a system that used to exist. If immediate steps are not taken to ensure that travelers and communities have travel options, leisure and business travel will face additional setbacks and we will forever lose those critical travel options. Such a result would not be in the best interest of the nation's economic future.

Safe and efficient and competitive air travel connects us with each other and certainly is what connects us with the rest of the world. We rely on our airlines and airports for leisure and business travel – and that in turn supports so many local industries and businesses in all of our various communities. The downturn in air travel has already affected many businesses and neighborhoods surrounding our nation's airports.

For a number of years, flight delays have significantly impacted the U.S. aviation system, posing a threat to our economic growth and future. And the problem is only getting worse. Last year, U.S. airlines experienced a lower rate of on-time flights than in 2006. We have also experienced bankruptcy filings by several airlines.

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more than 15 minutes in July of this year alone…It is premised on the view that a significant part of the delays stems from the hubbing practices of various carriers that results in the concentration of many flights within a short period of time every day…We tentatively concluded, however, that airline scheduling practices were a significant source of delays, since airlines appeared to be scheduling more flights at peak periods at major airports that could be accommodated by the available taxiways, runways, and airspace…Our show-cause order relied upon the excess schedules operated at Atlanta and Boston to show that airline scheduling practices cause much of the delay problem. [Docket 42410, "Application For Discussion Authority and Prior Board Approval of Carrier Agreements to Integrate Schedules," Order 84-8-129], "Order Granting Discussion Authority," August 31, 1984]

We find that the discussions are necessary to help alleviate the serious inconveniences caused the traveling public by the worsening delay problem, and that the discussions should therefore be approved and granted antitrust immunity. We are reluctant to authorize carrier schedule discussions, but the worsening delay problem demands that action be taken to help alleviate the problem. We believe that scheduling discussions are the only available alternative that can be {Docket 44634, "Discussion Authority For Carrier Agreements to Shift Schedules," Order 87-3-39, "Final Order Granting Discussion Authority," March 11, 1987]

Last month, the Travel Industry Association released a landmark survey[2] revealing that deeply frustrated air travelers avoided an estimated 41 million trips over the past 12 months, costing the U.S. economy more than $26 billion. Air travelers' primary concerns are delays, largely due to an antiquated air traffic control system, and inefficient security screening. The research also demonstrated that air travelers express little optimism for positive change, with nearly 50 percent saying that the air travel system is not likely to improve in the near future. We applaud the TIA for this study and recognize Jon Tisch for his work on these issues and for leading efforts to promote tourism in New York and around the country.

In addition, the Administration should address other issues that impact domestic and international travel. In this connection, I reference a Statement by Gene Prescott, Chairman of the Board, The Greater Miami Convention & Visitors Bureau
Miami, Florida USA.

> The USA entry process needs to be improved. As a result of problems with the system, international visitation to the USA is still down by 11% from pre-911 levels despite the weak dollar. This has cost hundreds of thousands of USA jobs.
>
> Two things need to be done:
>
> 1. Improve the entry process by proper staffing (and training) at gateway airport, by improving the visa filing process, including electronic visa filing.

[2] **Air Travelers: Travel Process is Bad and Getting Worse**

- 78% of air travelers believe the air travel system is either "broken" or in need of "moderate correction."
- 62% believe the air travel system is deteriorating.
- 33% of all air travelers are dissatisfied with the air travel system, and 48% of frequent air travelers (5+ trips per year) are dissatisfied.
- 39% of all air travelers feel their time is not respected in the air travel process, and among frequent air travelers that number surges to 51%.
- Travelers are most irritated about the air travel process, not the airlines. Issues the federal government can address are travelers' top concerns: delays, cancellations and inefficient security screening.

2. Passage of a Travel Promotion Act to establish a USA Travel Promotion Agency similar to ones in other countries.

The airline industry is at a defining point in its history. We have recently seen several low cost carriers file for bankruptcy and cease all operations. We also have before us proposals that would increase airline consolidation. At the same time, airline costs are out of control and they continue to rise. As a result of the significant increase in operations added at Newark International Airport, John F. Kennedy and LaGuardia Airport all New York airports continue to be closed to competition. After closing these airports, the Department of Transportation has not taken the necessary, corresponding steps to promote entry and competition.

Airports that are slot controlled have less low fare service and competition than most other airports in this country. Legacy carriers control 95% of the operations at LaGuardia and Newark. At LGA, small carriers are limited to 10 roundtrips.

The one "closed" airport that has low-fare competition is JFK because the Department took specific action to provide JetBlue (formerly New Air) with significant entry at the airport when it first started its operation.[3]

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[3] JetBlue has a major presence at JFK because in Order 99-9-11 (September 16, 1999), the Department granted New Air Corporation (now JetBlue) 75 slot exemptions at JFK. In that order, the Department clearly emphasized the importance of low-fare competition at airports dominated by legacy carriers:

> The GAO's 1996 study, Airline Deregulation: Barriers to Entry Continue in Several Key Domestic Markets (the GAO Report), stated that "control of slots by a few airlines greatly deters entry at key airports in Chicago, New York and Washington," We made clear our support for increased competition and our willingness to invoke available tools to promote competition when we stated in our January 6, 1997, response to the GAO Report that "the Department intends to be more receptive to considering competition as a factor in granting slot exemptions to new entrants under the exceptional circumstances criterion."
>
> * * * *
>
> As we noted earlier, many authorities, including members of Congress, have concluded that the High Density Rule is a serious barrier to entry, which has had a dampening effect on domestic airline competition.
>
> * * * *
>
> JetBlue's business plan is to bring to the New York metropolitan area and many of its short- and medium-haul communities of interest a route system of price-competitive transportation services comparable to those that Southwest Airlines has brought to other cities throughout the nation. It is indisputable that Southwest has had a singularly positive effect on fare competition in literally every market it has chosen to serve. In many other markets, other low-fare new entrants have also had a salutary impact on domestic fares. Wherever those carriers have gone, fare competition has followed and traffic has increased, in many cases dramatically.

At the NY Scheduling Meeting (October 23, 2007), Secretary Peters stated, "I am not in favor of a system that limits competition, nor do I want to reduce the ability of new entrants to fly into New York."

FAA and DOT have repeatedly emphasized the importance of increased competition and frequently stated that establishing a competitive environment is a priority.[4]

Multiple studies and reports prepared by the federal government, local governments and airports, along with independent groups, set forth the enormous benefits that low-fare airline competition provides to this country.

A 1993 DOT paper on the impact of low-fare service developed a phrase called the "Southwest Effect" that showed the characteristics of a low-cost carrier's market entry and the side-effects that come with it.

The "Southwest Effect" has been well chronicled and looked at by many journals, newspapers and industry magazines. Those stories outline the effects on air fares, passenger counts and even the economy of the surrounding communities when low fare service is added at an area airport. As one article mentioned in 1999 on the arrival of Southwest to the city of Hartford, Connecticut, "The biggest economic boom

[4] Promoting entry and competition is also an essential mandate placed on the Department by Congress when it enacted the Airline Deregulation Act of 1978 49 U.S.C. 1301 – which charges the Department with facilitating new entry and competition in the airline industry. Under 49 U.S.C. § 40101:

(a)...the Secretary of Transportation shall consider the following matters, among others, as being in the public interest and consistent with public convenience and necessity.

(7) The prevention of unfair, deceptive, predatory, or anti-competitive practices in air transportation and the avoidance of

A. unreasonable industry concentration, excessive market domination, and monopoly power; and other conditions;

B. that would tend to allow one or more air carriers unreasonably to increase prices, reduce services, or exclude competition in air transportation.

(9) The encouragement, development, and maintenance of an air transportation system relying on actual and potential competition to provide efficiency, innovation, and low prices, and to determine the variety quality, and price of air transportation services.

you can bring to an area is to improve your transportation, and a cheaper price is one aspect of that."

A study prepared for the Allegheny County Airport Authority on August 8, 2007 called "The Economic Benefit of Low Cost Carriers to the Pittsburgh Region" stated that the study estimates that an additional 110,000 people visited the region in 2006 as a result of low-cost carrier service at Pittsburgh International Airport. This low-cost carrier-related visitor activity, supported $43.3 million in economic output in the Pittsburgh regional economy.

The study praised the benefits that LLCs, including AirTran Airways, brought to Pittsburgh. The study added that if low-cost carriers were to leave Pittsburgh International Airport, the Pittsburgh business and leisure traveler would be left with four options, which were the same options Pittsburgh travelers had before low-cost carrier service gained traction at the airport. Those options were:

- Pay higher fares
- Drive to distant airports
- Use other modes of transport; and
- Forego traveling

Other airports have also praised the benefit of low-fare service. A June 2008 Air Service Update from the Akron-Canton Airport noted that CAK is the 19th lowest air fare market in the United States largely because of AirTran Airways' and Frontier Airlines' flights. The airport notes that a key advantage of having a low-cost carrier like AirTran Airways in its market has been that close-in bookings to key business markets like New York, Boston and Atlanta, are 30-70% less than similar nonstop flights offered from Hopkins, which saves business travelers hundreds of thousands of dollars annually.

Bishop International Airport has said in a paper, "How AirTran Airways Impacted FNT's Air Service Development," as AirTran Airways grew at FNT, other airlines spotted an opportunity for their network's growth. In order to compete with AirTran Airways, and to keep up with the traffic they have stimulated in the FNT market, Northwest Airlines increased their flights and upgraded their equipment to all net service FNT.

> Clearly, it is a benefit to all passengers when other carriers match new service and utilize larger aircraft.
> AirTran Airways spurred all of this growth, success and expansion. As a result, our airport has slowly changed from a largely turbo-prop facility, to a predominantly jet operation – and a viable airport. Passengers prefer jet service, and AirTran Airways provides area residents with all Boeing 717 and 737 service.

The Department of Transportation has emphasized that it can take steps to promote competition. The LaGuardia Airport Congestion Management NPRM highlighted that there is clear statutory authority to promote competition when allocating slots/operating authorizations:

> Keeping available a variety of adequate, economic, efficient, and low-priced air services; placing maximum reliance on competitive market forces and on actual and potential competition; avoiding airline industry conditions that would tend to allow at least one air carrier unreasonably to increase prices, reduce services, or exclude competition in air transportation; encouraging, developing, and maintaining an air transportation system relying on actual and potential competition; encouraging entry into air transportation markets by new and existing air carriers and the continued strengthening of small air carriers to ensure a more effective and competitive airline industry. (Docket FAA-2006-25709, 71 Fed.Reg. 51360, Aug. 29, 2006.)

It is time for the Department to take such steps.

We are not operating in an environment where costs are stable – rather costs, including fuel, security and facility expenses, continue to significantly increase. Smaller carriers are not in a position to take extra steps at all airports to manage costs because they may have limited operations and facilities at those airports. Therefore, the costs for smaller carriers are higher at many airports. To manage those costs, it is essential that these carriers are allowed to expand their presence at these critical airports.

As part of its "solution" to address congestion and entry at the New York airports, the Department has proposed a market approach that includes an auction. Many questions remain about the Department's auction proposal. An argument exists that this type of approach will increase the cost of travel. Before market approaches are considered, immediate steps must be taken to make sure competitive options survive the current situation faced by the industry. As large carriers announce a reduction in operations at major airports, the elimination of aircraft from their fleets and possible mergers, now is the time to withdraw some slots and facilities and make them available to carriers with small numbers of slots.

After first providing slots to smaller carriers, we do no object to the consideration of market mechanisms. Those approaches if adapted must enhance competition, and ensure that all carriers have a chance to obtain operating authorizations. There are immediate steps that can be taken to ensure that the competitive aviation system that has created substantial benefits to this country continues.

First and foremost, we ask this Committee to urge the FAA to take steps to improve the nation's airspace system to reduce delays and congestion that are significantly increasing costs and frustrating passengers. At the same time, we ask the Committee to urge the Department of Transportation to take immediate steps to preserve the competitive airline system that we have had in this country since Airline Deregulation. It is not in the best interest of this country for passengers to have limited travel options.

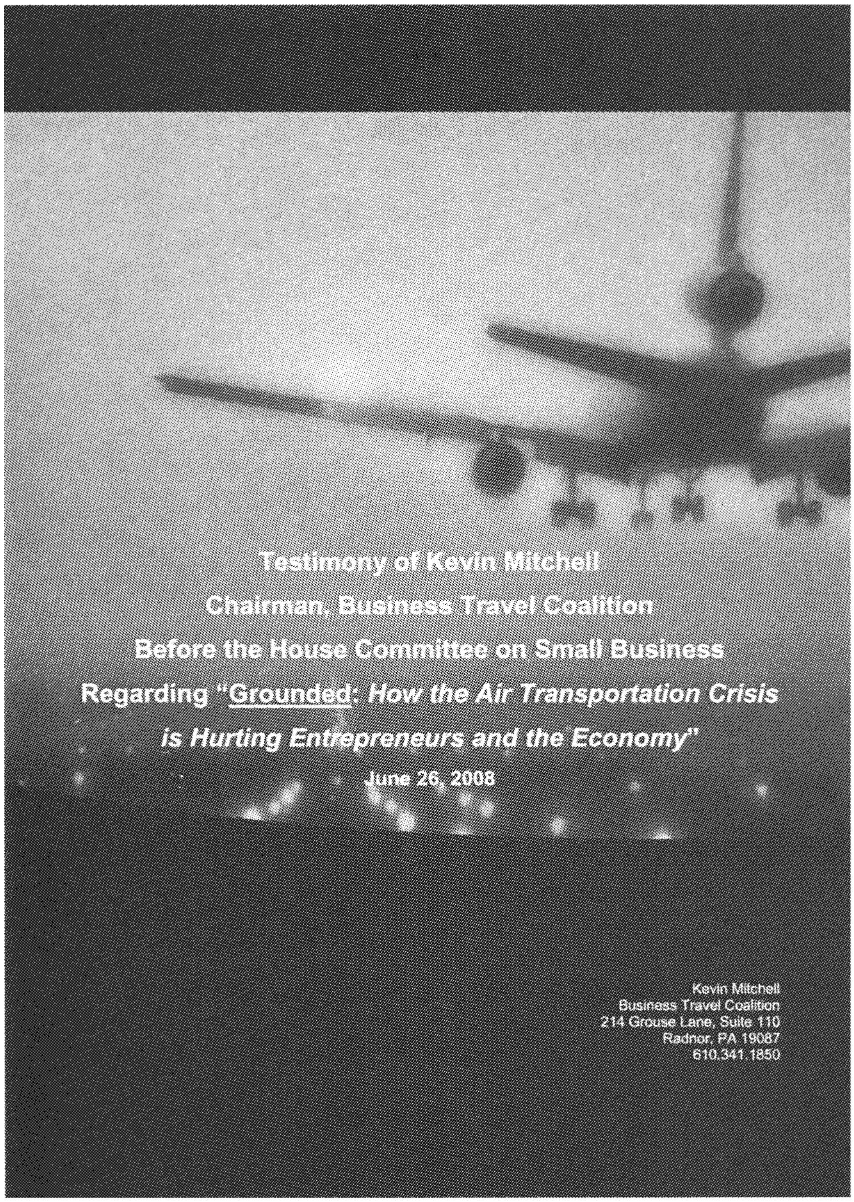
To accomplish this, the Department must allow smaller carriers to enter congested and closed airports.

Conclusion

This Committee has an opportunity to play an active role in improving the nation's aviation system and in expanding competition and travel options for consumers. We thank you for holding this hearing. We are anxious to work with the Committee to address issues that significantly impact carriers, passengers, communities and economic growth.

It is essential that we create a first rate system that makes flying easier and safer. At the same time we must continue the dream of deregulation. All actions taken must ensure that competition is not blocked. Some of the actions being taken to address delays and congestion could forever close the door on competition and prevent the growth of small carriers at major airports. Special care must be taken to ensure that this does not happen. Our dream of deregulation is to create a high tech, safe, "delay free" and secure system that maximizes consumer choices and ensures that low fares are available to all. Let's not make that dream just a memory. Instead, together let's make this dream become a reality.

Madam Chairwoman, we look forward to working with you and the Committee to preserve a competitive travel industry that will continue to provide economic benefit for businesses and communities on this and all matters. Thank you.



Testimony of Kevin Mitchell
Chairman, Business Travel Coalition
Before the House Committee on Small Business
Regarding "Grounded: *How the Air Transportation Crisis is Hurting Entrepreneurs and the Economy*"
June 26, 2008

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Madam Chairwoman and Members of the Committee, thank you for requesting that the Business Travel Coalition (BTC) appear before you to represent the interests of the business travel community on the subject of a U.S. commercial aviation industry in full-blown crisis and heading toward a catastrophe, and the impacts on entrepreneurs, small and mid-size communities, the economy and the American way of life.

I. Introduction

Let's start with a simple equation, without numbers or fancy formulas:

Record-high Fuel Prices +Major U.S. Airlines + Weakened U.S. Economy = A Catastrophe

The catastrophe would arise if one or more large U.S. airlines failed, something that experts say is likely if oil remains at $130 per barrel, and a certainty if oil climbs to the stratospheric levels that some industry experts have forecast (a top energy analyst at the investment firm Goldman Sachs is predicting $200/barrel oil within 24 months). Here is a sobering assessment from Ray Neidl, a respected airline analyst with Calyon Securities: "This is worse than 9/11. After the 2001 terror attacks, at least you knew passengers were coming back. Oil at $130 is unsolvable." This paper will explain how catastrophic multiple liquidations of legacy U.S. airlines would also have devastating impacts on many facets of the U.S. economy.

Airlines are paying about twice as much for fuel as they were just a year ago, and roughly four times as much as in 2000. Fuel as a share of total airline operating expense has jumped from about 15% in 2000 to more than 40% today, and is still climbing. It has become the largest single airline expense, now larger than either labor or aircraft leases. Roger King of CreditSights, a provider of credit research, summed up the situation: "The race is on to see if airlines can raise fares high enough to cover the fuel bills before they run out of cash" (*Wall Street Journal*, May 22, 2008). Of course, what makes this race an uphill climb is that oil prices continue to rise to previously unthinkable levels – and pushing air travel far beyond affordability for the vast majority of the traveling public.

Multiple U.S. airlines are poised to lose the race for survival, some perhaps before the end of 2008. Already-depleted cash reserves are dwindling fast, and unless the fuel crisis lessens, airlines face not the now-familiar protracted restructuring in bankruptcy, but outright and immediate extinction.

Why no Chapter 11? In the past two cycles of crisis, the early 1990s and the early years of this decade, airlines entered bankruptcy and continued operating. To the public, it seemed like business as usual. This time it's different because the credit crisis has dried up the interim, or "debtor in possession," financing that banks and investors used to provide to carriers that went into Chapter 11.

Without access to more cash, five smaller U.S. airlines – Aloha, ATA, Champion, Eos, and Skybus – have stopped operating since March. After Aloha ended service, Hawaii's largest wholesale bakery, in Honolulu, actually had to fly loaves and buns to the mainland on Delta, then back to Maui, Kauai, and the other islands. ATA's abrupt shutdown stranded thousands of customers, and the Hawaii Tourism Authority generously stepped in and spent about $500,000 to buy return fares on other airlines for more than 2,200 visitors who had worthless ATA tickets. The impact of major airlines failing would be a large multiple of this devastation.

In this report, we will present the probable impacts of the failure of one or more major U.S. airlines on the national and global economies. It would be not possible, fair or useful to predict which airlines might succumb; rather, it will be more instructive to present the full range of effects. Nine are most important: **1)** loss of tens of thousands of good jobs at airlines; **2)** indirect effects of this job loss on the economies of host communities; **3)** elimination of business for airline suppliers; **4)** decline in travel and tourism; **5)** disruption to supply chains from loss of cargo services; **6)** decline in overall business activity and economic development; **7)** loss of tax revenues; **8)** increase in public outlays for social services; and **9)** weakened U.S. competitiveness.

II. An Ugly Reality

At first glance, you might think that an airline failure would be no big deal – surely the impact would be limited and local, felt in that carrier's hubs and a few of its major markets, and that other airlines would pick up the slack. Airline employees would lose their jobs, local airports some rent, and the economy would barely notice.

Reality, however, would be much different, especially if multiple carriers failed in a short period of time. It would be the catastrophe in the equation above because airline networks are an integral part of the transport grid that supports the U.S. economy. It has become easy and a staple of stand-up comedy to complain about airlines, but they are absolutely essential to the well-being of our society. The failure of a single large airline with 15% market share would have huge local effects and substantial impact nationally, but multiple failures would be catastrophic and as impactful and demoralizing to the nation as a terrorist attack.

We usually associate the word "grid" with electricity supply, and it's a useful analogy here. In the U.S., we take reliable electric power for granted. We flip a switch and we get what we want. But once in awhile the power fails, and we quickly understand our dependence on the electricity grid. Power failures are so disruptive that years later we remember where we were when the lights went out, when our lives quickly and sometimes frighteningly ground to a halt.

Though few of us board a plane every day, we depend on the air transport grid. Aviation is the primary source of intercity transportation in the U.S., and it supports our prosperity and way of life. When we have business to conduct anywhere in the country or the world, or when holidays and vacations approach, we expect air service will take us where we want or need to go. We take for granted that supermarkets and restaurants will have their shelves and menus stocked with fresh food flown in from distant parts of the country and the world. We know that airlines will get our packages and mail to where we need them to go, often overnight.

Multiple major airline failures caused by unsustainable oil prices would tear a vast hole in the grid, and would have devastating effects on the quality of our lives. The hole would not be localized, but broad and gaping, spreading across the entire nation and around the world. Airlines move people, but also high-value, time-sensitive or perishable cargo. Failure of one large U.S. airline would disrupt the travel of 200,000 to 300,000 passengers per day and thousands of tons of goods. The almost-full planes of remaining airlines would not be able to absorb much of those volumes. Failure of multiple airlines would paralyze the country and our way of life, leaving us less productive, more isolated, less happy and more vulnerable.

III. What Would Happen?

If a single major airline failed, tens of thousands of well-paid, skilled airline employees would instantly be out of work, and the loss of their paychecks, those of workers that directly supply and support the airline and those of employees at businesses where laid-off workers shop would cause massive negative economic and social impacts. With multiple failures, the number could easily exceed 100,000. (For comparison, Enron, the nation's largest-dollar bankruptcy, led to the loss of 21,000 direct jobs.)

The indirect impacts would push hundreds of thousands of others who depend on the airline system through the hole in the grid – hotel maids in New York City, waiters and waitresses in Harrisburg, travel agents in Grand Rapids, construction workers in Miami, florists in suburban Denver, and many others.

VI. The Impacts

A. Direct Employment

Each of the seven largest U.S. airlines employs between 30,000 and 75,000, with an average of 44,000 workers across the nation and overseas (U.S. Department of Transportation, Bureau of Transport Statistics, March 2008). For 2007, salaries, wages and benefits for these 7 companies totaled more than $26 billion, ranging from $2.3 to $6.7 billion. The collapse of one of these airlines would thus cause large job losses, and multiple failures could lead to job losses above 100,000. In most cases, these well-compensated workforces are concentrated in each airline's headquarters city and hubs, and a small number of other places. Some of the city totals are large. For example, Delta employs about 21,000 in Atlanta, United's Chicago workforce is about 15,000, and 18,000 work for Continental in Houston. However, many well-compensated pilots live in small and mid-size cities and commute to the larger airports where they join the aircraft they are going to fly,

B. Communities and Indirect Jobs

To accurately assess local economic effect, indirect losses must be added to the loss of direct airline jobs. Economists who specialize in regional development have for many years built and refined models to estimate local impact using variants of the multiplier effect, which combines the value of direct employment, the value of employee spending in the community and a firm's purchases from nearby suppliers (discussed below). This indirect impact would be large, because airline employees earn – and thus spend – significantly more than the U.S. average. Total per-employee compensation (wages and benefits) at Continental, for example, was more than $85,000 in 2007; although pilot and senior-management pay skew this upward, even an adjusted per capita number would be far above the 2006 U.S. median household income of $48,200.

Although measuring methods vary and the size of the multiplier effect ranges by market and over time, each airline job creates large numbers of indirect local jobs offered by local retailers, service providers, construction, government, and elsewhere. Airlines, their employees and passengers are the drivers of economic activity at airports, which in turn support economic activity. For example, a recent study of DFW Airport in Texas estimated that it annually generated $16.6 billion in total economic output and 305,000 total jobs (data from 2005) – far more than the direct jobs that airlines provide Likewise, a 2002 study at Atlanta's airport estimated job creation at more than 640,000. Los Angeles World Airports calculated that while 59,000 people work at LAX, its aggregate employment totals than 400,000, with economic impact of $61 billion annually. But it's not just big airports – in many smaller communities, the local airport is vital to the local economy and to attracting business and jobs.

C. Purchases from Suppliers

Among major carriers, typically 50%-60% of total operating expenses goes to companies and public entities that provide the range of products and services a large airline uses: aircraft, jet fuel, landing fees, advertising and promotion, construction services, software, maintenance supplies, and many others. Both Boeing and Airbus recently noted the likely impact of the upward fuel spike on future aircraft orders, referring to reductions among surviving companies, not the impact of a failure, which would be even greater. In the public sector, failure would have far-reaching effects on hub-airport operators, up to and including default on bonds sold to finance airport expansion or renovation. In an effort to be good corporate citizens, many airlines have committed significant shares of their purchases to minority and women-owned (MWBE) firms, and these companies would also suffer in a collapse.

D. Tourism

Tourism has become a strong engine of economic development. Airline failures would devastate this sector, from large metropolitan areas to small resort towns, coast to coast, and abroad. In general, just more than half the passengers on U.S. airlines are traveling for leisure reasons, whether for pure vacation, to visit friends and relatives or for other non-business purposes. Moreover, business travel expenditure is rightly classified as part of tourism, and many hotels, car-rental firms, restaurants, and related service providers that cater to independent business travelers, as well as meeting and convention attendees, must be included.

Whether traveling for business or leisure, passengers stay in hotels or other accommodations, eat in restaurants, use taxis or rental cars for ground transportation and purchase a variety of other services away from home. The *Travel Industry Association* estimates (at its website *poweroftravel.org*) that total 2006 U.S. spending for travel was $700 billion and generated $110 billion in tax revenue at all levels of government (an effective tax rate of almost 16%).

These totals include automobile-based travel, but air transport is used for 55% of one-way trips longer than 750 miles, rising to 82% of trips longer than 1500 one-way miles (Department of Transportation, Bureau of Transport Statistics). And some vacation choices and destinations depend heavily or entirely on airlines such as cruise lines and the states of Hawaii and Alaska. It's also important to remember that as manufacturing jobs have declined, communities nationwide have turned to tourism to fill the gap.

The geographical impact of airline failures would be locally severe. United Airlines, for example, has historically provided the majority of "lift" into Hawaii, and has been indispensable to Colorado tourism via its Denver hub. Delta and US Airways have long been important to tourism throughout the Southeast. American delivers tens of thousands of vacationers to South Florida and other parts of the state. The closure of US Airways' hub in Las Vegas would instantly hurt that city. Every community that depends on air-based tourism would feel the effect of an airline industry collapse.

E. Logistics and Supply-chain Management

Although we tend to think of UPS and FedEx as the expert links in just-in-time supply-chain management, all major passenger airlines carry large amounts of cargo, ranging from high-value parts used in U.S. manufacturing to designer clothing to cut flowers to the fresh salmon that you enjoy at your favorite restaurant. Some U.S. airlines also have mail contracts with the U.S. Postal Service, and a few even subcontract with express operators to carry overflow. Airline failures would disrupt supply chains and raise prices for shipping and postage.

If we could "walk down the aisle" of an aircraft belly, we would see a remarkable range of products and materials, for example:

- Fresh and frozen seafood from Chile, Southeast Asia and Europe
- High-value tropical fruit from Hawaii and Asia; and temperate-zone fruit from Argentina and Chile
- Tulips from the Netherlands, flowers from Hawaii and roses from Ecuador and Colombia
- Ingredients for pharmaceuticals shipped to Puerto Rico, and finished product shipped back to North America
- Lightweight vehicle components made in Japan and flown to assembly plants in the U.S.
- Semiconductors manufactured in the Boston area shipped to China, and finished product returned to the U.S.
- Designer fashions flown from garment makers in India and China not only to Fifth Avenue and Rodeo Drive, but even to local Target stores
- Consumer electronics, from music players to made-to-order PCs
- Legal papers, currency and other original documents
- Mail from the U.S. Postal Service

Because we don't see the supply chain, we tend to take efficient logistics for granted. But air cargo is not something only a few use – it benefits everyone. We expect the florist to have fresh flowers, the chef to prepare seafood from far-off waters, the supermarket to stock ripe berries in winter, the new PC to arrive in days, the mail to arrive on time. We expect these things at affordable prices. All these and more depend on passenger aircraft.

F. Business Activity

Airlines are catalysts to national and global economic expansion. What we commonly call business travel is really the flow of human capital, which precedes or facilitates other flows, such as information and investment in the private sector, nonprofit organizations, and public institutions. Because of this catalytic role, an airline failure would disrupt this activity. Such disruption would range from mild to severe – imagine a time-sensitive large business transaction where the delay of even a few days would render unviable a deal that had been in the works for months. These effects would obviously be greater in hubs and major markets of the failed carriers.

G. Tax Revenues

Airlines and their well-paid employees contribute significantly to many tax coffers. Instant unemployment of thousands of workers and the loss of excise, use and other airline-paid taxes would be bad news for state and local governments already struggling with declining revenues from the softening U.S. economy. Here, too, the impact would be greatest in the failed carrier's headquarters city, its hubs and major markets and facilities. American Airlines, for example, is the largest private employer in Oklahoma, thanks to the almost 7,000 employees at its main overhaul base in Tulsa. In addition, as noted, visitor spending in destinations contributes significant revenues through hotel, use, and sales taxes. Furthermore, these revenues are often earmarked for city projects – stadiums, parks, police, and of course, tourism promotion.

H. Government Outlays

Concurrent with a decline in tax revenues, the impacted employees (and, in some jurisdictions, businesses) would immediately place demands on public funds, through unemployment compensation, retraining programs (where offered), and public hospitals and health-care resources. And these would be in the very cities and states least able to afford the expense because of the loss of tax revenues. Furthermore, significant job loss inevitably produces social dysfunction like rising crime, which in turn costs governments and taxpayers. Assuming the customary duration (26 weeks) and average benefit, unemployment relief for 100,000 jobless would cost almost $800 million.

I. U.S. Competitiveness

Most U.S. airline growth in the past decade has been in international markets, and today up to 40% of major carriers' operations are to and from foreign destinations. Thus, an airline failure would have economic and political implications overseas. One national priority is improving America's competitiveness in the global travel industry. At its heart is the effort to compete for a greater share of international visitors, who according to the U.S. Department of Commerce, directly spend $103 billion annually in the United States. More than undermining this goal, multiple U.S. airline failures would lead to a huge reduction in this spending, bringing an enormous negative financial impact. After September 11, international arrivals to the U.S. declined 17%. Another drop of this size would lead to a direct financial hit of over $17 billion annually from international travelers alone. Our increased isolation would damage national security, public diplomacy and America's image abroad.

V. Conclusion

Oil at $130 per barrel or more is unsustainable across many industries, and will be especially traumatic for airlines, which are critical to Americans' personal freedom and economic well being. The impact of unsustainable oil prices goes far beyond the airlines charging $2 for a can of Coke or $15 for a checked bag – two consumer annoyances that will have little impact on the airlines' prospects for survival and should not distract anyone from the catastrophe that is looming on the near horizon.

The equation at the beginning of this paper is not hyperbole. Left unchecked, these high prices will bring catastrophe.

To recap, the impacts that would arise from failures of major airlines are:

- The end of tens of thousands of good jobs at airlines
- Indirect negative effects of this job loss on the economies of host communities
- Loss of business at airline suppliers
- Sharp declines in travel and tourism in destinations
- Disruption to supply chains from loss of cargo services, leading to unavailability of or higher prices for a range of goods
- Declines in overall business activity and economic development
- Loss of tax revenues
- Increase in public outlays for social services
- Weakened U.S. competitiveness

Taken together, these effects would be devastating and widespread, with disproportionate effect in key employment centers and destinations reliant on air travel. This burden would further weaken a domestic economy coping with the prospects if not the reality of recession.

Given the precarious state of the domestic airline industry, multiple failures of major U.S. airlines are not a remote prospect. Even without failures, however, fuel-driven network retrenchment is already beginning to impact passengers and communities across the country. Thirty communities have already lost air service entirely in the past year. American, Continental, and United have all announced they will soon shrink by 10-15%, and others will surely follow. If oil remains at record prices, and fares rise to the levels they must, we will see a decline in air travel for the first time in many years, with impacts on travel and tourism businesses and many other companies.

Indeed, just last week at the Merrill Lynch transportation conference, Southwest Airlines chairman and CEO Gary Kelly made the point, according to the Dallas Morning News, that: "The carrier is going to be aggressive about winnowing out routes that aren't making money, perhaps hundreds at a time, he said. 'Unlike the previous 36-year history for Southwest where we were continuing to grow the route system, here we're going in and we're trimming out continuously flights that we don't believe will be successful with $135 crude oil,'" he [Kelly] said.

Herb Kelleher, the founder and former chairman Southwest Airlines, recently said in light of the fuel crisis, flying could become something that only business travelers or the affluent can afford, much as it was in the 1950s and 60s. "You may see a lot less air service across the United States, and that's really a shame," Kelleher said. "We are heading back in that direction." The easy, inexpensive mobility we have long taken for granted will begin to disappear, and that would be the ultimate catastrophe for our economy and our personal lives.

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United States House of Representatives
Committee on Small Business

Grounded: How the Air Transportation Crisis is Affecting Entrepreneurs and the Travel Industry

Testimony of:
Terry Sexton Segerberg
Chief Executive Officer
Mi Mesa Industries, Inc.

AIRPLACO GUNITE Supply & Equipment www.guniteasupply.com Mesa Rubber Company Mesa Laminated Fabrics

June 26, 2008

Good Morning Chairwoman Velázquez, ranking member Chabot, and distinguished members of the Committee on Small Business. Ranking Member Chabot, thank you for the invitation to present testimony today. I respectfully submit these remarks in an effort to share the concerns of Mesa and many other small business owners across our nation.

Mesa Industries is like many small businesses across America. Founded in 1967 by my father, it remains a family owned business. I represent the second generation of family leadership.

I first worked for Mesa while attending junior college but left to experience other opportunities. This ultimately led me to establish my own business consulting business and in 1995 into politics. I had the honor of representing the City of Hercules, California as Mayor for three terms and on the City Council for a total of eight years. During my tenure with Hercules I served on a number of local and regional committees whose focus was either small business or transportation. This included the honor of representing Contra Costa County on the Association of Bay Area Governments and as chair of several transportation committees and agencies. In 1997 I began my reintroduction into Mesa and through a series of promotions now serve as both the CEO and Chairman of the Board of Directors.

Mesa is currently composed of four divisions – Mesa Rubber Company, Gunite Supply and Equipment, Airplaco, and Mesa Laminated Fabrics. This diverse corporate mix places us in the petroleum industry as a supplier of seal systems for above ground storage tanks commonly used in refining, transporting and storing petroleum products. We also sell products used in new construction and renovations for both residential and commercial projects. Over the years we have expanded and now operate out of three locations – Cincinnati, Los Angels and Houston

Today we employ approximately 75 employees and the typical employee remains with Mesa for over 10 years.

Initially our goal was quite simple, provide a product in an industry that we knew well so that our family could support itself. As true an example of the American dream as there ever could be. We are one of the thousands of small businesses that are the backbone of the American economy. We don't get the press that the large mega corporations get. We don't have the financial resources that they have either. What we do have is integrity and a desire to support our families and the families of our employees.

Over all these years we have faced many challenges. We have managed to eek out a profit in every one of our 40+ years of business. We have worked for steady growth from year to year. In those things in which we have control, we have successfully navigated Mesa.

The demands of operating our business have grown significantly, especially since 2002 from which time we have more then doubled our activities. Clearly to operate and manage such a diverse set of companies and products, communication and travel are integral parts of our routines. For example I have flown well over 1,000,000 miles in recent years as have a number of my key employees.

The average cost in the last two years for me to fly from Cincinnati to Los Angeles and return has escalated from $390 to $630 on my most recent trip when I had the luxury of advanced planning. When

I don't have that option the same ticket can cost three times as much or more. Even with the advanced purchase we now pay 62% more for a ticket then and the past.

Clearly the airline industry has struggled to keep costs down and yet with the escalating costs of fuel they are out of cost saving options. The constantly increasing costs are being passed onto us as passengers by reduced flight options, elimination of travel comfort items and now we must pay to travel with a suitcase!

As a business owner I fully understand their dilemma. In order for me to afford my airline ticket today we must increase our sales and generate even more profit dollars. Not such an easy solution. We can no longer simple purchase tickets from the geographically logical airport. It may mean that the most affordable option will require a 150 or 200 mile round trip by car to another airport.

Now multiply this increase by 20 to include all of our sales staff and key administrative staff and the impact is thousands and thousands of dollars each month. It is rapidly becoming cost prohibitive to travel. Conducting business over the phone and via the internet is fine but is not a realistic solution for cutting our travel costs. Customers seek and deserve face to face meetings. The complexities of many of our products require customization on a case by case basis. The nuances of which are magnified when you consider that in many cases we are dealing with the containment of fugitive emissions and installation of other environmental protection systems for the petroleum industry itself!

In order to manage a business operating in three different states, travel is not a perk, it is a requirement. It is essential to the continuity of our operations and the long term stability of Mesa. Nonetheless we have been forced to reduce our intra-company travel.

All the while Mesa is struggling to maximize our travel dollar expenditures our employees are feeling the same pinch. We all know that the cost of gasoline has increased at rates that greatly outpace any person's reasonable expectations.

Earlier this week an employee told me that he feels like his children are being robbed. When I asked him what he meant he said that because they can barely afford the cost of gas to get him to work they have nothing left over for family outings. The family vacation had to be cancelled.

Another employee who has a 60 mile roundtrip commute to work noted that in order to find the extra money to pay for his gasoline he now has to buy off-brands and lower quality choices in the grocery store. I have heard similar stories from many employees. Unfortunately for one employee he opted to turn off his heater this winter – in Ohio – so that he would have the extra cash for his gas.

In California where two employees carpooled together to save money, they now squeeze four and five employees into that same Ford Probe because of the cost of gas. The employees are creative but at what cost?

This spring we instituted a weekly gas card reward program where employees are able to enter a raffle for $25 gas cards. We give four cards away each week and have recently decided to double that number.

Why do we do this? Our employees need relief and are otherwise out of options. The gas cards were the least complex solution we could craft. If for example we increased each employees pay by $25 per week it would cost over $120,000 when all of the related payroll taxes and burdens were calculated. That same $120,000 would require us to increase our gross sales by nearly $300,000. In a highly competitive market raising prices to such an extent could price us out of the market completely.

Some might then ask why our employees don't find employment closer to home. We pride ourselves on the quality of our employee benefit programs and the living wages we pay. Our employees would likely take a reduction in overall compensation if they elected to leave Mesa.

There are many factors that influence our compensation structure but most important to us is to attract and retain qualified personnel. We must remain competitive in the marketplace and we must retain our uniquely skilled workforce to assure quality products at a steady rate of production. When we adjust pay rates even just to match the cost of living increases the result is that our cost of doing business goes up and yet somehow we must remain competitive in our industries.

The other area hit hard by the cost of gasoline is our shipping expenses. Whether by air or land the costs have increased unimaginably. Our freight bills started arriving with "gas surcharges." These charges currently range from 26.5% to 51%. For airfreight the charges are even higher. While in theory we can pass these actual costs along to our customers the realities hit once again as we must remain competitive in our industries.

These same increases impact us via our vendors. Several of our raw materials have petroleum based components. Our suppliers are now including similar surcharges on many of the products we buy. In fact it is nearly a daily occurrence that we receive a letter from a supplier announcing a price increase. We have limited reactions. We can raise our prices to maintain our margins and hope our customers will tolerate the increase or we can lower our margins and hope we can survive these times.

So where does this leave us? We see a bifurcated solution as the only viable course of action. As a nation we must require higher yielding engines for our vehicles. We must also utilize our oil resources that remain fallow. And finally we must establish a realistic energy plan that will carry us forward into the next century.

It may appear that I have digressed but in my opinion the core issue for the airlines is the same as it is for Mesa, the impact of the excessive cost of oil.