Future of Aviation Advisory Committee
Subcommittee on Competitiveness and Viability
Record of Meeting

August 4, 2010
United Airlines Headquarters
Chicago, Illinois

Public Announcement

The U.S. Department of Transportation (DOT), Office of the Secretary of Transportation, informed the public of this meeting of the Future of Aviation Advisory Committee (FAAC) Subcommittee on Competitiveness and Viability in a Federal Register notice published July 21, 2010 (75 FR 42474).

Subcommittee Members in Attendance

Name	Affiliation(s)	
Glenn Tilton, *Subcommittee Chair*	Chairman, President, and Chief Executive Officer	UAL Corporation (United)
Susan Baer	Director, Aviation Department	Port Authority of New York & New Jersey (PANY/NJ)
Bryan Bedford[1]	Chairman, President, and Chief Executive Officer	Republic Airways Holding, Inc. (Republic Airways)
Severin Borenstein	Professor	Haas School of Business, University of California, Berkeley
Paul Feldman	Attending for Jack Pelton	Cessna Aircraft Company
Ana McAhron-Schulz	Director, Economic and Financial Analysis	Air Line Pilots Association, International (ALPA)
William McGee	Travel and Aviation Consultant	Consumers Union
Daniel McKenzie	U.S. Airlines Research Analyst	Hudson Securities, Inc.
Josh Williams	Attending for Chris Williams	The Williams Capital Group

Subcommittee Members Not in Attendance

Name	Affiliation(s)	
Patricia Friend	International President	Association of Flight Attendants (AFA)-Communication Workers of America (CWA), American Federation of Labor-Congress of Industrial Organizations (AFL-CIO)
Jack Pelton	Chairman, President, and Chief Executive Officer	Cessna Aircraft Company

[1] By Phone

Name	Affiliation(s)	
Chris Williams	Chairman, Founder, and Chief Executive Officer	The Williams Capital Group

Other Officials Present

Name	Affiliation(s)	
Susan L. Kurland, *FAAC Committee Chair*	Assistant Secretary for Aviation and International Affairs	DOT
Todd M. Homan, *Designated Federal Official (DFO)*	Director, Office of Aviation Analysis	DOT

Other Persons Present

Name	Affiliation(s)	
Mark Anderson	Vice President, Government Affairs	United Airlines
Russell Bailey		ALPA
Aleta Best	Transportation Industry Analyst	DOT
Chris Brown	Senior Advisor	United Airlines
Victoria Cox	Senior Vice President of NextGen and Operations Planning	Federal Aviation Administration (FAA)
Jim Dann	Deputy Director, Office of Aviation Analysis	DOT
Dennis DeVany	Chief, Essential Air Service (EAS) and Domestic Analysis	DOT
David Frenk	Executive Director	Better Markets
Scott Harper	Senior Aviation Analyst	PAI Consulting
John Heimlich	Vice President and Chief Economist	Air Transport Association (ATA)
Jeannette McDonald		DOT
Kevin Mitchell[2]	Chairman	Business Travel Coalition (BTC)

[2] By Phone

Name	Affiliation(s)	
John Moloney		The Boeing Company
Lisa Piccione	Senior Vice President, Government Affairs	National Business Aviation Association (NBAA)
David Traynham	Director, Regulatory Affairs	The Boeing Company
Kristi Warden	Program Manager	FAA
Stephen Welman	Principal Economics and Business Analyst	The MITRE Corporation
Jeffrey Wharff	Senior Economic Advisor	FAA

Welcoming Remarks

Mr. Glenn Tilton, Subcommittee Chair, United, welcomed the participants and stated that the Subcommittee will view presentations on, and discuss, four consensus topics and two possible consensus topics. He stated that the committee will determine if consumer protection and jet fuel price volatility/oil speculation should be added to the consensus topics. Mr. Tilton added that the Subcommittee must then identify two or three priority issues for Subcommittee presentations at the next full FAAC meeting on August 25, 2010, in Chicago, Illinois. He emphasized that the Subcommittee needs to ensure the topics brought forward to the full committee comport to the charter mission statement of the FAAC.

Mr. Tilton pointed out that while air traffic control modernization and funding fell under every Subcommittee's jurisdiction, he believed that 80 percent of it belongs to the *Subcommittee on Financing*. He suggested that, if its members are in agreement, the *Subcommittee on Competitiveness and Viability* may decide to contribute comments on the topic but would not take it on as one of its issues.

Mr. Tilton introduced Ms. Susan Kurland, FAAC Committee Chair and Assistant Secretary for Aviation and International Affairs at DOT. She stated she was delighted to attend the meeting and introduced the members of the FAA and DOT who were present at the meeting. She then turned the meeting over to Mr. Todd Homan, the DFO for the Subcommittee.

DOT Remarks on FAAC Procedures

Mr. Homan read the formal statement required under the Federal Advisory Committee Act. He noted that, although the meeting was open to the public, participation in the meeting was limited to Subcommittee members, their alternates, and Federal officials. He stated that interested people have the opportunity to submit comments before each meeting, either by email at **faac@dot.gov** or by submission to the regulatory docket at **www.regulations.gov** (Docket No. **DOT–OST–2010–0074**). Mr. Homan added that only Subcommittee members and their alternates were entitled to vote on Subcommittee business and the minutes of each meeting will be made available both in the regulatory docket and on the FAAC Web site at **http://www.dot.gov/faac**.

Next, Mr. Homan asked if any further comments or changes to the minutes of the previous meeting were needed, or if they could be ratified. Two Subcommittee members asked for more time to read the minutes. Mr. Homan requested that the Subcommittee members submit any comments to him by close of business August 9, 2010. Edited minutes would then be sent to the Subcommittee members by August 11, 2010, and, if no further comments were received, the minutes would be considered ratified on August 16, 2010. Mr. Tilton agreed with this timeline, and it was accepted by all members.

Discussion

Mr. Tilton began the meeting and introduced **Mr. John Heimlich, ATA**, who was invited to give a presentation on the state of the air carrier industry from the perspective of the ATA. Refer to ***Appendix A: U.S. Airlines: Global Competitiveness and Industry Viability*** of this record of meeting.

Mr. Heimlich expressed his appreciation for the invitation and summarized his background. He emphasized the importance of *Slide 2* and, in particular, the first bullet, which notes that DOT's statutory mission explicitly recognizes the importance of a viable, as well as a competitive, U.S. airline industry. Mr. Heimlich went on to discuss each of the bullets on *Slide 2*, stating that a healthy, competitive air carrier industry is good for the consumer and deregulation has worked in the domestic arena. Noting that air carriers are working to implement some of those ideas in the international arena, where economic liberalization is more of a recent phenomenon, he stressed that competing effectively in the global arena is essential, not only for the air carriers but for the United States and other stakeholders.

Mr. Heimlich then reviewed 49 U.S.C. 40101 (shown on *Slide 3*), pointing out that DOT's statutory mission specifically includes direction to encourage efficient and well-managed carriers to earn adequate profits and attract capital, promote a viable industry, and at least ensure equality in competing with foreign air carriers. He then discussed the contribution of the aviation industry to the national economy, as shown on *Slide 4*. As reported in December 2009, the aviation industry creates $1.2 trillion in economic activity per year; provides 10.9 million jobs, most of which are outside of aviation; and helps generate 5.2 percent of the U.S. Gross Domestic Product. He noted that improved financial strength of air carriers will make those numbers even larger.

Mr. Heimlich then discussed *Slides 5 and 6*, which further break out the economic impact. *Slide* 5 shows that the bulk of the 10.9 million jobs are associated with visitor expenditures, while *Slide 6* shows the numerous and varied stakeholders who benefit from a viable and competitive aviation industry. Mr. Heimlich noted that many people who benefit from the aviation industry, from hotel workers to those who receive flowers delivered by aircraft, never even fly.

Mr. Heimlich referred to a study conducted by former DOT officials (see *Slide 7*). He explained that the study demonstrated the importance of international markets to the carriers' finances and the importance of revenue from domestic portions of international journeys in sustaining their domestic networks, particularly service to small U.S. communities.

When discussing *Slide 8*, Mr. Heimlich explained that U.S. air carriers do not – and did not during the regulated period – enjoy the same returns on invested capital (ROIC) that other U.S. sectors receive. The equity market capitalization for various industries was shown on *Slide 9*. Mr. Heimlich pointed out that the capitalization of U.S. air carrier industry as a whole was smaller than that of a number of individual firms and a fraction the size of large companies like Apple and ExxonMobil. In *Slide 10,* he presented net profit margins for top global airlines for calendar years 2007-2009, noting that it was a misconception that some low cost carriers (LCC) are wildly profitable. Moving to *Slide 11*, which shows the credit ratings of North American transportation companies, Mr. Heimlich noted none of the U.S. air carriers has an AA- to A- Standard and Poor's credit rating (first column) and most were in the last column, representing B- to CCC- ratings. Mr. Heimlich suggested that an air carrier with a weak credit rating will find it more difficult to avoid prepayment to creditors and to borrow money to weather recession.

Slide 12 contains quotes about Southwest Airlines; these quotes demonstrate that Southwest cannot justify growth or reinvestment without substantial gains in ROIC. Mr. Heimlich also observed that some people in the aviation industry think that one profitable quarter means everything is fine, but the air carrier industry is always weathering the next storm.

Slide 13 shows market forecasts for Boeing and Airbus from 2009 to 2028. Mr. Heimlich noted that growth in the international market will far outweigh domestic growth over the next 20 years. He then discussed *Slide 14*, which presents airline energy costs over the last two decades and the predicted cost for 2010 and 2011. He noted the substantial forecasted increase for 2011 and added that the U.S. industry is the most aggressive in fostering the growth of an alternative energy sector.

Asking "Where Do We Go from Here?" Mr. Heimlich concluded his presentation with *Slide 16*. He emphasized several key points: (1) airlines need sustained, not intermittent, profitability to be successful and(2) U.S. airlines are less equipped than their foreign competitors to compete effectively on the global stage.

Mr. Tilton then opened the floor for discussion. Mr. Severin Borenstein, Haas School of Business, agreed with most of the content of the presentation. However, he stated that the air carrier industry faces overcapitalization, not undercapitalization. When an air carrier shows a profitable quarter, it "cranks up" by expanding capacity, which then leaves it vulnerable to economic downturns and thus periods of sizeable losses. However, Mr. Borenstein also stated that there is a huge differential in the cost of doing business among air carriers, with some LCCs exhibiting costs that are at least 30% lower on similar routes. Mr. Borenstein discussed the great variability in ticketing prices within the air carrier industry and offered several examples, particularly of high prices in markets not served by LCCs. He also described some consumer responses to this market power, including the purchase of a "hidden city" itinerary at huge savings. Mr. Borenstein agreed that the industry is losing money, but suggested that it is not difficult to argue that these losses are due to industry inefficiency and major investment mistakes. He argued that some carriers try to offset this inefficiency by increasing their market power rather than becoming more efficient.

Mr. Daniel McKenzie, Hudson Securities, Inc., agreed with Mr. Borenstein, but he also noted the air carrier industry is extremely competitive. A legacy air carrier would have to make tremendous cuts in operations like labor in order to reduce its ticket prices to compete with those of LCCs. Because an air carrier's network is a diversified portfolio of assets, including routes to small- and medium-sized communities and to international points, air carriers must try to balance overall profitability among their portfolio of assets.

Mr. Tilton reminded the committee that the task at hand is to make recommendations to the Secretary relative to the mission and not to create a debating society. As a network carrier that competes with LCCs in 85 percent of its markets, United has learned not to debate whether it is more efficient. It has to accept that the LCCs have a different business model that they execute well, while network carriers will continue to operate in their same way. Mr. Tilton noted that the market now finds itself with an abundance of choice and the consumers should decide which business model they prefer. He also stated that if there are any other data in addition to what is presented today, any Subcommittee member is welcome to bring it forth for presentation.

Mr. Borenstein expressed concern that these presentations were from the industry's point of view, setting forth the idea that the air carrier industry is in financial trouble and needs public policy changes to benefit it, and were not unbiased and public policy oriented. He stressed his alternative hypotheses that the air carrier industry is in financial trouble because of persistent over-investment and the continued operation of inefficient air carriers, whose business models may be different but are predicated on maintaining market power. Before the Subcommittee determines the air carrier industry needs help from the Government, he believes this view needs to be addressed. Mr. Tilton stated the Subcommittee was not requesting any assistance from the Government.

Mr. William McGee, Consumers Union, agreed that there is no question the air carrier industry faces financial troubles. He asked Mr. Heimlich if the cyclical nature of the air carrier industry, volatile fuel prices, and international competition mean this industry is not going to be profitable. Mr. Heimlich responded that the industry should be able to become profitable. He added that it is inevitable that inefficiently run air carriers will exit the market; air carriers will adapt to the market and some will survive, while others will fail. He stated that it will be difficult to get out of this cycle as long as there is a desire for more capacity than is financially sustainable. Mr. Heimlich further explained that his focus was to show the relevance of the increasingly global competitive landscape. Mr. McKenzie noted over the last decade, Boeing sold over $50 billion in aircraft to the U.S. air carrier industry despite the great losses the air carrier industry has endured. He added there are some markets that are very competitive and other markets that are not, with the latter subsidizing massive losses.

Ms. McAhron-Schulz agreed with Mr. Borenstein's points about over-investment in air carriers. However, she added that the air carrier industry is unique and includes aircraft for both growth and replacement purposes. She noted that, at some point, it becomes more cost-effective for a carrier to purchase new aircraft.

Mr. Tilton then turned the meeting over to **Mr. Bryan Bedford, Republic Airways**, who gave a presentation on analysis of taxation on the air carrier industry. Refer to ***Appendix B: Analysis of Industry Tax Policy*** to this record of meeting.

Mr. Bedford began his presentation by stating that he had been working with ATA to ensure the data in his presentation would be accurate. He also noted that **Ms. Patricia Friend, AFA-CWA,** participated in the preparation of the presentation, but she was unable to attend this meeting of the Subcommittee.

Mr. Bedford referred to the overview on *Slide 2* and noted the industry is doing its job by providing more flights to more places at an affordable price. He stated that this outcome was the goal of deregulation, which has met or exceeded everyone's expectations. He further stated that, while previous commissions examined the tax burden, the Department of Homeland Security (DHS) had not yet been established when those commissions were in session. Mr. Bedford added that he included the previous commissions' tax recommendations in his presentation and indicated it was no surprise that the Subcommittee's concerns were similar.

Because there is no relationship between the health and welfare of the air carrier industry and the taxes that continue to be levied on it, Mr. Bedford concluded that the industry and consumers are not benefitting from the taxes they are paying. He added that these taxes should have been used to enable the industry to grow, which has not happened. On a later slide (*Slide 12*), Mr. Bedford noted several proposals for new and increased taxes and commented that it would be a milestone if the Subcommittee could agree to at least oppose future taxes.

Mr. Bedford discussed the dramatic increase in the aviation industry's consumer base, concomitant with a corresponding decrease in fares over the past 20 years (see *Slide 3*). He stressed that these changes haven't come without sacrifice; the industry has experienced job losses, loss of pay and benefits, financial losses for investors, and many other losses. He also noted that, from the customers' perspective, the industry may not be serving them as well as it did in the past. While the air carrier industry is doing its job, with more people flying in a safe and less expensive system, Mr. Bedford asked if this is the best the industry can do and if the tax policies correspond to the services provided.

Mr. Bedford moved on to *Slide 4*, observing that previous commissions have agreed that there is a correlation between tax policies and aviation behavior and results. He reviewed the 2009 Federal tax breakdown shown in *Slide 5*, which indicates the industry paid over $16 billion in taxes in 2009. Mr. Bedford noted this total did not include any local or State taxes paid by carriers. Mr. Bedford discussed the air carrier industry's growing tax burden, shown in *Slides 6 through 11*, and noted that there seems to be a consistently high disconnect between the tax burden and the air carrier industry's financial health. He observed that the air carrier industry is the only transportation industry paying taxes to the DHS, and showed some of the proposals to further increase the air carrier industry's tax burden (see *Slide 12*). He indicated that air carriers seem to be fair game, because flying is viewed as a luxury and is therefore taxed like any other luxury. However, he added that the airline seat has become more of a commodity, at least domestically.

In *Slide 14*, Mr. Bedford offered some proposed recommendations that the Subcommittee could adopt. These recommendations include opposition to new taxes and fees, not discriminating against airlines vis-à-vis other transportation modes, and revisiting the recommendations of past commissions.

Mr. Bedford added that he did not have time to investigate whether current aviation fees extend to corporate aviation travel, business aviation travel, and general aviation. He also stated he had not researched the difference between U.S. tax fees and non-U.S. tax fees because of a lack of time and expertise, so this potential gap could be an area of further study (see *Slide 16*).

Mr. Tilton asked Mr. Bedford if his working group examined the reasons why work from the two previous committees on the tax burden (see *Slides 17 and 18*) was ignored. Mr. Bedford stated that, for the most part, the majority of the previous committees' work, not just their work on the tax burden, was ignored entirely.

Mr. McKenzie stated that he has always thought some of the taxes, such as the DHS security tax for the TSA, imposed on the air carrier industry should be shifted or subsidized by other general sources of funding from Congress given that security is a national issue not just an airline issue, and he would support the committee in encouraging DOT to move in that direction.

Ms. McAhron-Schulz asked Mr. Bedford if anyone in the Government had examined why taxes were placed on the air carrier industry and why they keep increasing. While he had not looked into that, Mr. Bedford believed that it would be a losing proposition to recommend any reduction of the tax burden. A more realistic question would be "how much more do you want?" He suggested a national aviation policy that would determine how the industry should develop and how to use taxes more efficiently and in the best interest of the public.

Mr. Paul Feldman, representing Jack Pelton of the Cessna Aircraft Company, agreed that although a few recommendations from the Mineta Commission were adopted, financing recommendations were not. He asked Mr. Bedford if the growth in taxes was found primarily in the security sector and if those taxes were used for funding of infrastructure. Mr. Bedford referred to *Slide 6*, which showed a seven percent sales tax for a ticket in 1972. While the overall sales tax rate was reduced in 1992, there is now a higher per-segment component. In addition, he noted that as airfare costs in the post-9/11 era have decreased, per-segment fees have increased. He added that the passenger facility charge (PFC) was adopted in the 1990s as a way to help airports fund capital spending, and it has become a permanent tax burden on the industry. Mr. Bedford also noted that, although the air carriers have always paid taxes for security, the DHS is seeking a substantial increase for air carrier users. He suggested the committee could use this opportunity to inform DOT and Secretary LaHood on the impact the current tax burden has on the air carrier industry and what effect increasing taxes could have.

Ms. Susan Baer, PANY/NJ, reminded the committee that the PFCs are used to help defray the cost burden to air carriers of airport projects. She noted the process includes an intensive air carrier consultation as part of the PFC application. She added that some projects are funded by bonds, which are repaid by the airport's customers but, by using PFCs for these projects, the airports reduce the air carriers' requirement to pay general aviation bonds. Mr. Tilton observed that, since 1992, the FAA has only refused 5 of the 1,788 proposed PFC-funded projects. Mr. McKenzie suggested that some of these PFC taxes can be shifted to foreign air carriers, at a different rate to ease the burden on U.S. air carriers given their much stronger financial position and ability to afford these taxes. Ms. Baer noted that PFC proposals are commonly revised during the approval process and that increasing taxes on tourists, who provide substantial financial benefit to the country, would not be in the nation's best economic interest.

Mr. Tilton reminded the Subcommittee that the aviation industry should be viewed as a means by which the country successfully competes. He noted this perspective is within the FAAC's mandate, and the aviation industry is fortunate to have a Secretary who wants to remove any barriers to competitiveness. Mr. Tilton added that the one thing the committee has agreed not to do, without direction from the Secretary, is to change its mandate.

Mr. Borenstein stated that there is an important distinction between inefficient expenditures of tax revenue versus tax collection being at the wrong level. He opined that the presentation was generalized and, without a more serious analysis of the tax structure, it would be difficult for this Subcommittee to develop any substantial recommendations. He then asked if security issues in other industries were being funded in the same way and if security expenditures should be a burden on the customers or borne by the general fund because of its general benefit to society. He stated there is a need for a more serious comparative analysis of U.S. taxation and foreign taxation, adding that it is hard to discuss competitiveness without some comparison of the tax burdens on foreign air carriers. Until this subject has been thoroughly researched, Mr. Borenstein stated that he would feel uncomfortable recommending lowering the tax burden.

Mr. Bedford stated that he did not disagree with Mr. Borenstein and he felt there was not enough information to determine whether taxes should be higher or lower. He noted the idea of financing the DHS through the general fund had been raised; if the Subcommittee thought it was a good idea, he would support it.

Mr. McGee wanted to know what kind of "bang for the buck" the consumer and industry are getting from these taxes. He suggested this point be clarified before the committee recommends raising or lowering taxes.

Mr. Tilton turned the meeting over to **Ms. Susan Baer, PANY/NJ,** who discussed the limited capacity of airports and how it affects competition. She noted that some airports lack sufficient infrastructure to support additional service to serve the market demand. This constraint, in turn, increases fares and prevents new entry, limiting competition. She stated new technology would help increase the efficiency of the air transportation system. Ms. Baer introduced **Ms. Victoria Cox, FAA**, who gave the Subcommittee an overview of the Next Generation Air Transportation System (NextGen). Refer to ***Appendix C: NextGen Overview*** to this record of meeting.

Ms. Cox began by saying she wanted to give the Subcommittee a broad overview of NextGen and to clarify what the program is about. Noting that the presentation contained a great deal of information on NextGen, she reviewed the highlights of current activity and steps the program will take through 2018.

Ms. Cox emphasized that NextGen affects the national economy and is intended to increase safety, efficiency, environmental performance, and the security of the system. She stressed that reducing the environmental impact of the aviation industry is a top priority for NextGen and for DOT.

NextGen was initially introduced as a program in 2007. The first investments were in the Automatic Dependence Surveillance-Broadcast (ADS–B) program and system-wide information management and, because these two systems represent a transformation of the existing system in which aviation operates, NextGen is different from previous modernization programs. Ms. Cox added that ADS–B will be the primary means of surveillance in the future, replacing ground-based radar, and system-wide information management will introduce Internet-centric information sharing to the system.

Ms. Cox referred to *Slide 4*, which depicts Government spending between fiscal year 2007 and the fiscal year 2011 request for NextGen projects. This spending represents investments in technology infrastructure, procedures, and standards changes. She noted that much of the investment is spent on development of systems requirements to ensure that the delivered technology is what is actually needed.

Ms. Cox explained that NextGen is a system of systems – technology, new ways of operating the system, new ways of working with people, and new safety tools that aid in data collection and analysis. It also offers environmental improvements by using more efficient routes to save fuel. Ms. Cox also stressed that NextGen will result in other investments, such as new airframes, new engines, and alternative fuels, which will reduce emissions.

Ms. Cox next referred to *Slide 6*, which examines NextGen 2018 capabilities and represents what realistically can be accomplished in NextGen by 2018. She added that *Slide 7* shows the estimated reductions in delays, CO_2 emissions, and fuel use, based on operators' predicted equipage rate, barring unusual circumstances. Ms. Cox stated that NextGen serves not only the commercial aviation industry, but also general aviation and the Department of Defense, which will insert remotely piloted aircraft into the system.

Ms. Cox explained that, to obtain the full benefits of the system, both aircraft and ground infrastructure will have to be equipped; as such, aircraft should be thought of as part of the overall infrastructure. She noted that there will be challenges in managing the system with "mixed-equip" aircraft. Because the benefits will increase as more aircraft are equipped, the FAA is looking at ways to incentivize equipage with a best-equipped / best-served policy. Ms. Cox noted that some programs, such as reduced vertical separation minimum, already have this policy in place. She then discussed *Slide 12*, which depicts the predicted costs of equipping aircraft with NextGen equipment.

Ms. Cox emphasized that NextGen will affect employees throughout the industry, resulting in transformation within the human-to-automation interface and a significant change in controller-pilot engagement. Because technology is available to increase automation, but studies show that removing people from the equation can have a negative impact on safety, Ms. Cox noted that the question is how far we should go in automating systems.

Ms. Cox discussed FAA's steps to develop a NextGen culture and start thinking about the transformation. She underscored the global collaborative efforts on NextGen technologies, noting that the FAA is working with ICAO and EUROCONTROL to ensure NextGen will be interoperable in the global market place (see *Slide 15*).

Reiterating that delivery of the system will occur over time, Ms. Cox emphasized the incremental approach to implementing NextGen through pilot projects across the country, shown on *Slide 16*. She noted that this slide demonstrates the multiple areas, including new capabilities, concepts, and procedures, as well as pilot trials, to be investigated. Ms. Cox discussed, as an example, the installation of Airport Surface Detection Equipment – Model X (ASDE–X) at John F. Kennedy International Airport. While this project began as a non-NextGen program, it was later enhanced to include the ramp area. This addition, as noted on *Slide 23*, reduced delays and fuel burn, among other areas.

Ms. Cox then referred to *Slides 17 and 18*, discussing the fuel savings and other benefits that NextGen is providing through gate-to-gate oceanic demonstrations, Tailored Arrivals (TAs), and Optimized Profile Descents (OPDs), all of which will be operational at select airports in 2011. She also provided examples of how Performance Based Navigation (PBN) enabled increased efficiency and access in Dallas, Texas and Atlanta, Georgia (see *Slide 20*). Ms. Cox noted that, as these programs are initiated and the aircraft are certified to fly these profiles, limited capacity airfields will gain additional capacity. She referred to *Slide 21* and discussed the Wide Area Augmentation System (WAAS) and Localizer Performance with Vertical Guidance Approaches (LPVs), which add the capability to fly instrument approaches to airports that have none.

Ms. Cox stated that she is often asked about new runway development. While new construction does not come out of the NextGen budget, the program does work closely with airports to determine where best to place the new concrete and has a goal of increasing the capability and flexibility of existing runways. She discussed the benefits of ADS–B, as shown in *Slide 25*, and mentioned that a trial program in Alaska demonstrated a great safety enhancement. She also noted that ADS–B ground transmitter placement will be complete by 2013.

The FAA asked the RTCA to form a task force in 2009 to help determine the needs of the aviation community. Ms. Cox summarized the results of a survey of 300 stakeholders (see *Slide 28*), adding that NextGen changed part of its 2010 budget to start delivering some of these programs as a result of the survey, Ms. Cox discussed several of the near-term NextGen activities shown on *Slides 28 and 29*.

Ms. Cox concluded her presentation by reviewing the ongoing Metroplex activities shown on *Slide 34*, noting that the FAA has incorporated industry needs in its NextGen Implementation Plan, which was published in March 2010 (see *Slide 35*).

Mr. McKenzie asked whether the $22 billion in benefits described on *Slide 7* included labor cost savings from air carriers flying less overtime; Ms. Cox replied that it did not. Mr. McKenzie then asked if air carriers could now add more flights because airports could handle increased capacity as a result of the reduction in delays. He wanted to know how NextGen measured expectations and what assumptions it had made. Ms. Cox noted NextGen could deliver more capacity but, because delays may actually increase, delay reduction was not the best metric to use. She added that the model of benefits assumed the current FAA forecast of demand for 2018 and beyond, but it did not incorporate any other increase in air carrier scheduling.

Mr. Tilton clarified that, even though this Subcommittee would participate in discussion of NextGen, the principal driver should be the *Subcommittee on Financing*. Mr. Feldman discussed the agenda for the next *Subcommittee on Financing* meeting, noting the topics will be the FAA budget, including revenue, airport improvement programs, and PFCs. He added that the *Subcommittee on Financing* then plans to have a briefing on NextGen, concentrating on the costs and benefits of business cases for the various investments. Finally, he stated that the *Subcommittee on Financing* will discuss incentives for equipage, particularly in the area of Federal support for equipage tied to broader social goals like environmental issues.

Mr. McGee asked about equipage and noted that, while there is obvious widespread support for NextGen, a discussion of NextGen that only addressed technology and did not include what the air carriers are putting in the air would not cover the whole issue. While the air carrier industry is clearly serving more passengers than it did 20 years ago, major air carriers have dramatically increased the flying they are outsourcing to general partners. Mr. McGee stated that a discussion of NextGen should include how the system is being used. Mr. Tilton responded that the air carriers are providing what the market demands, and, if the future lies in narrow-bodied NextGen aircraft with a capacity of 100 to 115 seats, then that equipment will be used.

Mr. McKenzie noted that there already is an incentive for air carriers to equip for NextGen; they can receive better handling and, therefore, dramatically reduce their fuel consumption. Ms. Cox stated that the FAA is also looking at redesigning airspace to enable aircraft equipped for NextGen to take advantage of the new, faster procedures. She also noted that NextGen is delivering access to secondary airports, which is of a great interest to general aviation.

Mr. Tilton turned the meeting over to Mr. McGee, who reminded the Subcommittee he discussed the Passenger Bill of Rights at the full FAAC meeting in Atlanta, Georgia, on July 13th. While his comments at that meeting were on the record, he wanted to highlight several points. Mr. McGee noted that some people wonder why there is a need for legislation specific to the rights of air carrier passengers, as opposed to consumers in other fields; because so much of the aviation industry's infrastructure is paid for with taxpayer dollars, it belongs to the citizens. He stated that, in many cases, there is not much of a choice for air carrier passengers and, on some routes, there is no choice because of the lack of competition. He also noted in terms of safety and security, air carriers have a greater responsibility to the consumers.

Mr. McGee contended that DOT should implement a unified passenger bill of rights modeled after the European Union system, which has been in place since 2005. He also suggested DOT should strengthen its Aviation Consumer Protection Enforcement Division by creating a passenger ombudsman who would help shape new passenger aviation policies Mr. McGee then introduced **Mr. Kevin Mitchell, BTC**, who read from a written statement (included as ***Appendix D: Business Travel Coalition, Statement Regarding Airline Passenger Rights*** to this record of meeting).

Mr. Mitchell noted that under current law, airline passengers lack the ability to bring traditional common law claims at the state level and do not have the protections afforded by the Federal Trade Commission that apply to virtually all other retail industries. DOT is the "sole guardian" of air traveler welfare and it, too, has limited powers. Yet, it can and should do much more, Mr. Mitchell stated, especially because the airline industry has historically taken advantage of the complexities in air ticket pricing and rules to frustrate consumers who are searching for the lowest airfare offerings. Finally, Mr. Mitchell opined that consumers are deepening in their dissatisfaction with airlines, particularly in connection with airline unbundling of fees and additions of perceived extra fees. A "government umpire" is necessary to ensure the transparency of these fees as well as to enable consumers to evaluate the full prices of their travel before they are locked into a purchase. Accordingly, Mr. Mitchell encouraged DOT to require airlines to make add-on fee data accessible and supported the establishment of a passenger rights ombudsman.

Mr. McGee followed up by reiterating the Secretary's position on passenger rights. Specifically, he noted that Secretary LaHood had said air carrier passengers have rights and should expect fair and equal treatment when they fly. Mr. McGee also noted that the regulations in the European Union have raised competition issues between the United States and foreign air carriers.

Mr. Borenstein agreed that it would be good to require full disclosure of all costs associated with air travel. He noted when crafting regulations, the goal from the economic point of view is to balance when the market will provide the best choice and when direct regulation of product quality is necessary.

Mr. Tilton observed that, if an issue like consumer rights is well advocated, it could be redundant for the Committee to do much more than comment. Mr. McGee stated that, although the Secretary has been supportive of consumer rights, the Committee's role was not limited to the Secretary's remarks.

Mr. Borenstein then discussed the Essential Air Services (EAS) program, noting that he and **Mr. McGee** had worked with **Mr. Dennis DeVany, DOT**, who was present at the meeting, to prepare their analysis. Refer to ***Appendix E: Summary and Proposal for Essential Air Services Program*** to this record of meeting.

Mr. Borenstein noted that he had served on the 1978 committee that created the EAS program, the purpose of which was to protect rural areas that might lose air carrier service during the transition to a deregulated domestic air carrier industry. He observed that Congress has since made EAS a permanent program to subsidize service to small communities. He added that, in reviewing the program, it has become clear that the impact of the program is not in line with its original intent and federal funds are not being spent in an efficient manner.

Mr. Borenstein referred to his paper and described the requirements for a community to be eligible for the EAS program. He stated that typically over 90 percent of the origin and destination passengers around these subsidized airports choose instead to use a more distant airport, because that airport offers a wider range of services and better prices. He described this as "leakage" and suggested it is difficult to argue that the federally subsidized air service in these communities is essential because the consumer is able to get better deals using unsubsidized service at other airports.

Mr. Borenstein felt it might be beyond the FAAC's manpower or timeframe to do a thorough review of each subsidized airport or of EAS program eligibility standards, but there is a clear need for change. He also noted the original program excluded smaller and larger aircraft from these airports, but now, because of technological changes, including them might be better.

Mr. Borenstein shared the two recommendations he and Mr. McGee had identified:

1. Freeze the communities eligible for subsidized service to those that receive service in 2010. This action would stop the expansion of the EAS program and establish a cap, which the program does not have at this time.
2. Recommend the creation of a panel tasked with establishing a set of new rules similar to those of a military base-closing panel. Ideally, the panel's work would take place in the absence of political pressure and would address the criteria that should be used in prioritizing communities for subsidies.

Mr. McGee added, for the record, that although there is a need for improvements in the EAS program, the Consumers Union believes the EAS program provides benefits and does not want to see the program eliminated.

Mr. Tilton observed that, although changes to the EAS program may not be one of the two or three main issues brought forward to the full committee, the Subcommittee can still take a position on this issue and make recommendations.

Mr. Tilton introduced the topic of excessive speculation in the oil market. He noted that, while Mr. Borenstein and Mr. McKenzie agree that the topic is robust, Mr. Borenstein believes it to be out of the Subcommittee's scope. However, Mr. Tilton noted **Mr. McKenzie** believes it is within the scope of the Subcommittee and had prepared a presentation on the topic. Refer to ***Appendix F: "Excessive" Speculation in the Futures Markets Impacts Oil Prices*** to the record of meeting.

Mr. McKenzie noted there has been a lot of "hype" about this debate. He stated that his presentation was not designed to criticize but instead to introduce additional information for consideration. Because he is not an energy expert, he consulted with experts while preparing his presentation. Mr. McKenzie also noted that **Mr. David Frenk, Better Markets**, was present to assist and answer questions. Mr. McKenzie outlined Mr. Frenk's background, noting he studied at Oxford University and New York University, and currently is a director at Better Markets. Mr. McKenzie added Mr. Frenk has advised governments regarding oil speculation.

Mr. McKenzie drew attention to his thesis on *Slide 3* - that energy price volatility perverts the industry's economics. For example, he stated that a 20 percent change in the price of crude oil could cost the air carrier industry $9 billion, which could be better spent elsewhere. He noted that air carrier management teams have a fiduciary duty to their shareholders to ensure that their fuel costs are not being driven by excessive speculation or manipulation.

Mr. McKenzie explained that one theory among economists is that supply and demand drive price volatility and speculation does not play a role. He asserted that this view uses simplistic assumptions to reach conclusions that, in this case, do not match the real world. Mr. McKenzie stated that a second theory, shared by the World Bank and many others, attributes high prices and price volatility to distortions caused by large investment flows in commodity indices. He added that traditional speculators are important, but they have limited capacity to absorb the price impact from index investor trades.

Mr. McKenzie noted on *Slide 5* that the U.S. Congress already has acted and that the second theory has won. He referred to the Dodd-Frank Act and stated that it is important for DOT to remain involved in this issue to ensure the air carrier industry has a stable infrastructure. Mr. McKenzie stated that the industry has to be wary of another "black swan" event, such as a run up in crude oil prices of $125/barrel which could force yet more carriers to file for chapter 11.

Mr. McKenzie referenced *Slide 6* and noted that there is a lot of confusion about the commodities market. He drew attention to the 28 public trading commodities listed and noted the index money is listed on the right hand side of the slide. He explained that this is the "fast money" that can quickly be traded in and out.

Mr. McKenzie noted the price of oil relative to supply on *Slide 7* and explained that demand does drive pricing. He stated that, over the time period shown on the slide (1987-2003), crude oil traded in a narrow price range and there was limited price volatility. He added, however, that this information excludes the first Gulf War. Mr. McKenzie then referenced *Slide 8*, which included the Gulf War, and noted the price of crude oil was then affected.

Mr. McKenzie overlaid numbers from 2004 on the previous numbers, as shown on *Slide 9*, and stated that, in 2004, market factors began to change and inventories were no longer a good indicator of price. He explained that *Slide 10* provides data for 2005 and noted that Citigroup stated the price of crude oil did not make sense when looking only at supply and demand. Even though there was an adequate supply, crude oil was $60/barrel, which is a stark deviation from the previous 16-year period.

Mr. McKenzie presented *Slide 11* and stated that, in 2006, prices rose despite adequate inventories, which he attributed to increased index trading. Evidence of an economic downturn appeared in 2007, as shown on *Slide 12*, with demand slowing from July 2007 onward. However, he noted this downturn did not affect oil prices, which continued to rise.

Mr. McKenzie noted *Slide 13* shows a downturn in the economy that had been underway for a year. He added, however, that fuel prices contradicted economic data points for that year.

Mr. McKenzie presented *Slide 15* and stated that there were some distorted perceptions in 2008. Noting that fear and greed frequently rule markets, particularly when investment information is incomplete or limited.

Mr. McKenzie noted markets are not always efficient and there are multiple reasons for market failures, as shown on *Slide 16*. He added that we live in a fast money society. Additionally, most portfolio managers are generalists, and the market cannot distinguish between buying from consumers and buying from speculators.

Mr. McKenzie then covered *Slides 17 through 21* and noted that market failures are more common than we think. At *Slide 23*, he pointed out that the creation of unregulated markets in 2000 ultimately led to an explosive flow of money into commodities, such that the paper demand for oil far exceeded the physical demand, and as concluded by most today, paper demand in the futures market does impact spot prices. There is a tremendous amount of information embedded in the price of a security - the problem is the quality of the price signal when investment information is limited. On *Slide 27*, Mr. McKenzie argued that the flow of funds into oil futures began in 2004 but took off in 2008, creating a speculative bubble that popped in the middle of that year. Mr. McKenzie posited that these speculative booms and busts in oil prices are due to their becoming "financialized," with passive investors trading heavily and with only generalized understandings of the true supply and demand dynamics of the market. Prices fell from $137 per barrel to $39 per barrel, and then in 2009 they rose back to $99 per barrel. Accordingly, Mr. McKenzie believed that governments must take steps to impose speculative position limits in the derivatives markets and restrict the passive investments.

Mr. McKenzie then presented *Slide 38* and noted that the problem with general macro economic analysis is that economists can justify just about any price for a commodity based on the elasticity assumption used. When a commodity is price inelastic, a very small change in the elasticity assumption can be used to justify huge swings in the price. But the basis for using a particular elasticity assumption is predicated on very imperfect data. And it is the elasticity assumptions used and accepted by the economic community that remain the weak link to standard oil volatility analysis. He added that there are too many elasticity variables to list. For example, he stated China's decision to either stock, or not, its strategic petroleum reserve is a great example of elasticity data point that traditional models used by economists do not capture. Yet China's decision to stock it strategic petroleum reserve has the potential to impact global crude prices. Mr. McKenzie added economic theory states there will be speculation when there is a lack of core learning, or an inability to understand the true state of supply or demand for a particular commodity.

On Slide 39, Mr. McKenzie discussed what DOT's role could be. He noted the Commodity Futures Trading Commission (CFTC) chairman was receptive to involvement from DOT. He asserted that DOT could play a valuable role in this process, by filing comments with the CFTC that called for restrictions in speculative trading, informally communicating its views to the CFTC, dedicating staff, and "staying involved."

Mr. McKenzie concluded his presentation by stating that the question of how much speculation is necessary has been around for 150 years. The answer is that there should be only as much speculative activity as is necessary to provide liquidity and price discovery for hedging.

Mr. Tilton noted this issue has changed dramatically in a few years. In the past, financial institutions and retail investors put a lot of money into this business when physical possession of the oil was required and investors had to establish they could lift the physical barrels. He noted for consideration that speculation is a huge wealth transfer and a siphoning of wealth away from consumers, shareholders, employees, and investors.

Mr. Tilton then turned the floor over to **Mr. Borenstein** for his views on oil price volatility. Refer to ***Appendix G: Summary and Proposal for Oil Price Volatility*** to this record of meeting.

Mr. Borenstein began his presentation by stating this is not an issue DOT can address. He referenced his written comments and drew a parallel to DOT addressing the global flu: while a global flu would have a huge impact on the aviation industry, DOT does not have the expertise to address that issue.

Mr. Borenstein stated that energy economists believe speculation had almost no effect on the spot price of oil and that the issue here is the actual price of oil and jet fuel, not the future price of oil, which is the object of speculation. Many leading economists do not believe the run up in the spot price of oil in 2008 was caused by speculation, and Mr. Borenstein explained the distinction is not an insider versus outsider argument.

Mr. Borenstein referred to one of Mr. McKenzie's demand curves and pointed out that the horizontal axis runs from a 250,000 to 400,000 barrel inventory of crude oil, which is an extremely small share of the world oil market.

Mr. Borenstein then explained that if the spot prices were not true market clearing prices, then difference between the price in the market and the true market clearing prices would create a supply/demand imbalance.

Mr. Borenstein further asserted that, if the price should have been $60/barrel during the period July 2007-June 2008, then at least 1.4 billion barrels of crude oil would have had to enter the market between July 2007 and June 2008 without being bought and consumed, and those barrels would have had to go somewhere. Because 1.4 billion barrels is twice the size of the U.S. strategic reserve and the entire tanker capacity is somewhere over 2 billion barrels, he stated that one explanation is that the oil stayed in the ground, which is possible. However, that situation reflects supplier market power, not speculation. He noted that Saudi Arabia was withholding its capacity and oil fields in other nations collapsed, but demand continued to expand in 2008. Mr. Borenstein explained that when there is a fixed supply, demand continues to expand, and if demand is price insensitive, there will be a run-up in prices. He argued that the advocates of the speculation theory have not explained where the missing 1.4-3 billion barrels of oil had gone.

Mr. Borenstein noted that the futures market is for delivery in the future and is tied to the spot market for near-term delivery. During this period, the future price of oil went up quite a bit; one interpretation is people saw this spot price elevation and thought it meant we were running out of oil. Instead, there was a short-run supply constraint that could be relieved if supply rose or demand fell. He added that that, when oil prices peaked, there was an expectation that they would stay high. As such, the future price of oil went up, but that turned out to be a faulty prediction..

Mr. Borenstein stated that the oil was being used. However, in July 2008 demand collapsed, the economy took a downturn, and speculators decided to leave the market. Mr. Borenstein therefore concluded that the root cause of the resulting price change was the demand shift. He noted that a number of researchers do not believe the speculation story, in large part because the amount of oil that would have to have been taken off the market is enormous and is not plausible. For that reason, he stated that he does not believe speculation drove up the spot price of oil.

Noting that there are a broad range of opinions on this subject, Mr. Borenstein added speculators do play a valuable role. For example, during the first Gulf War, the market responded to the risk of an oil shortage by taking oil off the market. He reiterated there is no convincing support for the premise that speculation is the primary problem, and did not believe the committee should support for the call for DOT intervention.

Mr. Frenk responded to Mr. Borenstein, contending that the Subcommittee does have the expertise to address this issue and that everyone can draw conclusions from the information presented to them. He reiterated that, if speculation led to a $1 increase in the price of crude oil, the resulting cost to the air carrier industry would be $500 million per year. Mr. Frenk stated this effect is critical to competitiveness. Mr. Frenk agreed that perhaps speculation during the first Gulf War was different. Mr. Frenk noted that, historically, if speculators wanted to distort the price of oil, they would keep it off the market. However, he noted that, beginning in 2003, a lot of money entered the market and, with that degree of speculation, it is possible to influence oil prices.

Mr. Frenk discussed how speculation affects the spot market rather than the futures market. When an air carrier buys oil, it purchases a long-term contract that references the price based on the futures market because the spot market assumes the futures market provides a good indicator of what the oil price will be. He stated this worked well until 2003. Subsequently, the futures market was distorted and, because the spot market takes its cue from the futures market, price volatility occurred. The Subcommittee then discussed elasticity in response to a remark by

Mr. Frenk that the futures market can affect the spot market in ways other than by taking oil off the market.

Mr. Tilton noted that the question really is whether the discussion is within the scope of the Subcommittee, regardless of the economic assessment. In other words, what is the role of the Subcommittee and DOT on this issue? He referenced Mr. McKenzie's recommendations as to what DOT might do. He noted that the issue of whether the Subcommittee addresses this issue could go to a vote before the full FAAC. Mr. Tilton added expertise of the Subcommittee isn't in question; it is whether the discussion is within the scope of the Subcommittee.

Ms. McAhron-Schulz stated that she believes the Subcommittee can agree that oil price volatility has caused huge losses in the air carrier industry and something needs to be done to prevent future losses. She expressed her belief that this volatility was caused by speculation, but she also noted that the new legislation passed by Congress addresses the issue. She added that DOT support for legislation to reduce volatility would be a positive step. Mr. Borenstein noted that the Subcommittee is not in a position to do the required cost-benefit analysis, but the CFTC is. He added that the Subcommittee agrees it does not want to completely eliminate speculation. Mr. Tilton then observed that, even if the Subcommittee decided this was outside the scope of its mandate, United would continue to advocate its view, which is contrary to Mr. Borenstein's. He believed that other organizations, like ATA, also would continue to advocate their views. He said that the important question before the Subcommittee is whether it should join that advocacy by investing its power in this issue and making recommendations.

Mr. McGee asked what the Subcommittee thinks DOT can do, and the Subcommittee referenced *Slide 39* from Mr. McKenzie's presentation. Mr. McKenzie reiterated his recommendations, noting that Secretary LaHood has worked with the CFTC before and it would be logical for him to do so again. He further noted that DOT's mandate to maintain a viable transportation industry means it could help shape rulemaking. Mr. Feldman noted that the CFTC's rulemaking schedule is unknown and may not coincide with the FAAC's issuance of recommendations. He added that while there is no dispute that DOT has an interest in the topic, it may need to decide how to interact with the CFTC on this legislation. Ms. McAhron-Schulz reminded the Subcommittee that, regardless of what it does, organizations are able to submit comments on the CFTC's rulemaking.

Mr. Tilton then moved to the next topic - enhancing the competitive position of U.S. air carriers in global markets. He noted that he and **Ms. McAhron-Schulz** had worked together to prepare remarks on this topic, which would be provided in written format to the Subcommittee members in the next few days. Refer to ***Appendix H*** to this record of meeting for the presentations that were subsequently distributed to the Subcommittee.

Mr. Tilton noted that the air carrier industry continues to lose market relevance and position in the global and long-haul marketplace with respect to new entrants, which he stated has enormous consequences. He further stated that, if U.S. air carriers are not competitive with these new global participants, the industry will lose market value and capital will flow to offshore carriers.

Ms. McAhron-Schulz commented that one focus has been on DOT's view of public interest and how DOT should take a broader view when carrying out its regulatory duties. She further noted a majority of the focus has been on fostering low-cost competition in an already hyper-competitive market.

Ms. McAhron-Schulz expressed her belief that public interest analysis should be rebalanced to promote a financially stable air carrier industry that protects and enhances U.S. workers and job opportunities and provides service to a wide range of communities. She added that attention in the domestic marketplace should be given to new entrant requirements. She also asserted that efficient domestic consolidation could strengthen industry viability, enhance global competitiveness, and serve consumers' long-term interests, but such consolidation should not be supported unless it provides for maintaining and enhancing the air carrier employees' wages, working conditions, benefits, and job security.

Ms. McAhron-Schulz then discussed growth in the international market, observing that there are several new international air carriers in Asia with the potential to bring millions of passengers to this economy, which would produce revenue. Given this growth, ALPA has encouraged its air carriers to join alliances and support antitrust applications and development of joint ventures. However, Ms. McAhron-Schulz cautioned that many of these arrangements now provide revenue and profit sharing. Under those arrangements, U.S. air carriers could earn revenue without having to do any flying. Ms. McAhron-Schulz noted that this approach is not supported by ALPA because it could lead to loss of U.S. air carrier jobs and job opportunities, as well as stagnation of domestic air carriers. She believed that there should be a close correlation between the portion of revenue the air carrier receives and the amount of actual flying in which the air carrier engages as part of an alliance agreement.

Ms. McAhron-Schulz next referred to DOT's 1995 *Statement of International Air Transportation Policy* and identified the need to update and affirm this policy. She noted that the Statement refers to a need to seek "changes to U.S. airline foreign investment law," an area the Committee should not support. She quoted another section, which states that the U.S. Government would consider "the effect of the proposed transaction on the U.S. airline industry and its employees. In this regard, we will ascribe greater value to code-sharing arrangements where U.S. airlines provide the long-haul operations." Ms. McAhron-Schulz added this position should be examined in terms of fostering international policy.

Mr. Tilton gave his opinion that domestic consolidation does not need to be promoted by the Subcommittee because it is already a very vigorous process. Rather, he suggested that the issue in question is whether it is important to consumers, investors, and employees that there is a competitively viable global air carrier industry. He concluded that no one would likely answer in the negative.

The practical recommendations from an industry perspective, Mr. Tilton stated, would be to ask for the continuation and enhancement of market liberalization, more open skies treaties, more alliances – and the assurance that alliances are reviewed by DOT, and retention of both Department of Justice and DOT involvement, as appropriate.

Ms. McAhron-Schulz commented that the importance of alliances is recognized because they allow growth for all parties. Because the development of these alliances is progressing, the Subcommittee should ensure that U.S. air carriers are growing and participating in the flying and sharing of revenue.

Mr. Tilton noted that, absent a level playing field, and if profits are not enhanced through the expansion of domestic air carriers into international market, the U.S. air carriers will not be buying Boeing 787s. Instead, he noted that the long-haul markets will be flown by offshore carriers that are more than likely being subsidized by their own governments. He concluded that he strongly believes this issue is important to overall viability and is connected to the air carrier industry's domestic goals.

Mr. McGee commented on the issue of foreign ownership and its ties to the Civil Reserve Air Fleet (CRAF) program for national security. He asked if these issues have expired and requested DOT comments.

Ms. Kurland replied that CRAF is still a very important program, but any change would require Congressional action. Ms. Kurland reminded the Subcommittee its charter was for actionable items for which the Secretary or the FAA has the authority to act. Because addressing foreign ownership would require Congressional action, it may not be something the Committee should address.

Mr. McKenzie stated his belief that employees could ensure their share of growth opportunities from joint ventures by holding the management accountable in making sure they have the lowest cost structure. Ms. McAhron-Schulz responded that not all of the joint flying ventures go to the lowest cost provider and complex formulas are incorporated within the agreements. She noted that, if a U.S. air carrier was generating revenue from these ventures, it should be doing at least some of the flying. Mr. Tilton stated the 1995 policy statement is a good baseline for the committee to review and consider enhancing.

Closing Remarks/Next Meeting

Mr. Tilton reviewed some of the conversations, suggesting that the Subcommittee think about them and develop recommendations for the next meeting. He also noted that while some of the items, such as the Passenger Bill of Rights and the EAS program may not be one of the three topics on which the Subcommittee will take action, the Subcommittee can provide comments on those topics in its paper.

After some discussion, the Subcommittee decided to meet on the morning of August 24, 2010, in Chicago, Illinois, to determine the topics it will bring to the full FAAC meeting on August 25, 2010.

For clarification, Mr. Homan listed the actions the committee can take that are not subject to the public notice requirements of the Federal Advisory Committee Act. He thanked United for hosting the Subcommittee meeting and the members of the public for their participation.

ADJOURNMENT

Mr. Homan solicited a motion for adjournment. On motion, duly seconded and approved by the majority of the FAAC members present, the meeting was adjourned.

The meeting adjourned at 5:23 p.m.

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.

Approved by: Todd M. Homan
Todd M. Homan, Designated Federal Official

Dated: 9.24.2010