Future of Aviation Advisory Committee
Subcommittee on Competitiveness and Viability
Record of Meeting
August 24, 2010
United Air Lines, Inc., Headquarters
Chicago, Illinois

Public Announcement

The U.S. Department of Transportation (DOT), Office of the Secretary of Transportation, told the public of this Future of Aviation Advisory Committee (FAAC) Subcommittee on Competitiveness and Viability meeting in a Federal Register notice published August 11, 2010 (75 FR 48739).

Subcommittee Members in Attendance

Name	Affiliation(s)	
Glenn Tilton, *Subcommittee Chair*	Chairman, President, and Chief Executive Officer	UAL Corporation (UAL)
Susan Baer	Director, Aviation Department	Port Authority of New York & New Jersey (PANY/NJ)
Severin Borenstein*	Professor	Haas School of Business, University of California, Berkeley
Patricia Friend	International President	Association of Flight Attendants (AFA)-Communication Workers of America (CWA), American Federation of Labor–Congress of Industrial Organizations (AFL–CIO)
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.

Subcommittee Members Not in Attendance

Name	Affiliation(s)	
Bryan Bedford	Chairman, President, and Chief Executive Officer	Republic Airways Holding, Inc. (Republic Airways)
Jack Pelton	Chairman, President, and Chief Executive Officer	Cessna Aircraft Company
Chris Williams	Chairman, Founder, and Chief Executive Officer	The Williams Capital Group

* By Phone

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Other Officials Present

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

Other Persons Present

Name	Affiliation(s)	
Mark Anderson	Vice President, Government Affairs	United Air Lines, Inc. (United)
Aleta Best	Transportation Industry Analyst	DOT
Chris Brown	Senior Advisor	United Air Lines, Inc. (United)
Kenneth Button*	Professor	George Mason University
Patty Clark	Senior Advisor to the Aviation Director	PANY/NJ
Jim Dann	Deputy Director, Office of Aviation Analysis	DOT
Paul Feldman	Vice President for Government Affairs	General Aviation Manufacturers Association
Dan Lynch	Government Affairs	United Air Lines, Inc. (United)
Neil Modzelewski	Director, Regulatory Affairs	PAI Consulting
Robert Peterson	Technical Fellow, Air Transportation Industry Infrastructure Research, Aviation Security	Boeing Aircraft Corporation
Lisa Piccione	Senior Vice President, Government Affairs	National Business Aviation Association (NBAA)
Rick Pittaway	Air Carrier Fitness Division	DOT
Chris Rittberger	Manager – Continuous Improvement	United Air Lines, Inc. (United)
Ross Rocklin		United Air Lines, Inc. (United)

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Name	Affiliation(s)	
Sue Sabow	Managing Director, Corporate Strategy	United Air Lines, Inc. (United)
Gulsen Sanyer	Director, Financial Analysis	United Air Lines, Inc. (United)
Steve Van Beek	President, CEO	Eno Transportation Foundation
Kristi Warden	Program Manager	FAA
Jeffrey Wharff	Senior Economic Advisor	FAA

Welcoming Remarks

Mr. Glenn Tilton, Subcommittee Chair, UAL, welcomed the participants and outlined the agenda for the meeting. He stated that the subcommittee would hear presentations by Professor Kenneth Button, George Mason University, on taxation in the air transportation sector, and Dr. Steve Van Beek, Eno Transportation Foundation, on intermodalism and airports.

Mr. Tilton stated that the subcommittee would then review three “themes,” which are intended to capture the thoughts conveyed at the prior meeting on August 4, 2010. He added that the subcommittee would discuss assignment of members to teams responsible for each theme and then develop reporting positions with respect to each. Mr. Tilton suggested that the subcommittee would then be in a position to determine which recommendations should be presented to the full FAAC.

Mr. Tilton reviewed the three themes, which were laid out in a draft discussion document prepared for the subcommittee:

- The Ticket to U.S. Airline Industry Viability: Ensuring Unfettered Access for U.S. Airlines to the World’s Largest and Fastest-growing Markets,
- The Primary Challenges to U.S. Airline Industry Viability: Jet Fuel Price Volatility and the Growing Aviation Tax Burden, and
- Air Passenger and Community Access Challenges in a Highly Competitive Domestic Marketplace.

Dr. Severin Borenstein, University of California, Berkeley, commented on the draft discussion document. He acknowledged that the document is not intended to be final statement but expressed his opinion that its presentation of issues lacked neutrality and appeared to advocate on behalf of air carrier interests. He expressed disagreement with a portion of the topic headings in the document and the presentation of many of the fact bases contained in it. In response, Mr. Tilton observed that Dr. Borenstein would be afforded an unimpeded opportunity to ensure that his viewpoints are included in the recommendations to be presented to the FAAC.

Mr. Tilton then turned the meeting over to Mr. Todd Homan, subcommittee DFO.

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. Mr. Homan added that only subcommittee members and their alternates were entitled to vote on subcommittee business. He reminded everyone 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*). He noted that 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***.

Mr. Homan stated that corrections to the draft minutes of the June 30, 2010, meeting of the subcommittee had been received, and the corrected minutes had been circulated, ratified, and certified. Noting that draft minutes of the August 4, 2010, meeting had been circulated to the subcommittee members, he requested that any comments or corrections be submitted by close of business, August 31, 2010. He added that a revised draft of the minutes would be circulated by close of business, September 3, 2010, and, barring any further comment, that draft would be ratified and certified on September 10, 2010.

Discussion

Presentations by Experts

Aviation Tax Burden—Professor Kenneth Button, Ph.D., George Mason University

Mr. Tilton invited **Dr. Button** to present his conclusions on taxation of aviation to the subcommittee.

Dr. Button began his presentation with a discussion of the impact of taxation on the aviation industry. He stated that an appropriate level and structure of taxation is necessary to public policy objectives and stated the challenge is in managing the effect of taxation both on the industry and, downstream, on consumers.

Dr. Button also noted that, in the United States, many collections characterized as user fees are, in reality, taxes. User fees can be an effective means of funding a facility when a direct charge for services is impractical and, when applied appropriately, can influence efficient use and allocation of a facility's capacity, offer guidance on the need for adjustments to capacity, and provide revenue for capacity maintenance or expansion.

Dr. Button further observed that user fees collected with respect to air travel in the United States are largely revenue generation devices that fail to achieve the purposes described above. He noted that ticket taxes bear little direct relation to the allocated costs of the facilities to which they contribute, while segment taxes bear a closer relationship to numbers of takeoffs and landings, which are the most resource-intensive phases of flight.

Dr. Button opined that the failings of the current user fee system could be remedied by a more direct charging of air carriers for use of facilities and services, but noted that this solution is not easy to implement. He pointed out that air carriers and general aviation operators, for example, have very different needs and neither may make full use of all of an airport's facilities. Likewise, different air carriers may make different use of facilities at the same airport. As a result, it is difficult to devise a scheme that charges operators for the facilities they actually use.

Dr. Button concluded that the implication of this suboptimal taxation is inefficient use of airports by large commercial air carriers. He stated that, because they are not rationally tied to marginal costs of operation, fees fail to drive allocation of resources and leave some communities underserved while others have excess service. He noted that case studies in Florida and elsewhere have indicated taxation may sufficiently distort economic forces to impede economic growth in an entire region.

Dr. Button said that this state of affairs raises the question of how to move forward. While one frequently suggested option is to temporarily freeze fees, he noted that two difficulties arise: (1) such manipulation often results in consequences difficult to foresee, and (2) freezing fees may have the effect of perpetuating environments that already represent a distortion of natural circumstances.

Dr. Button noted that, in terms of international competitiveness, a key question is whether economic distortions caused by taxation are greater or worse than those in other countries. He stated that, in general, distortions in the United States are greater than those in countries that rely less on taxation and more on true user fees and private capital markets. Additionally, he pointed out that countries such as Canada, New Zealand, and Australia employ direct user charges, and air traffic control (ATC) is run on a nonprofit basis. Because fixed costs are recovered through a portion of collected fees, he noted that a sudden downturn in traffic, such as occurred following the terrorist attacks of September 11, 2001, can reduce revenues sufficiently to cause a shortfall.

Dr. Button shared his belief that, by and large, systems more closely approximating true user fees are superior to tax-based systems like that of the United States. He observed that there is a need for government revenue, and acknowledged that air traffic is responsible for providing a fair share of that revenue. He questioned, however, whether existing levels of taxation of the airline industry are equitable. Mr. Button noted that it is easy to levy taxes on air carriers, because the structure of the industry and availability of information makes the industry look, from a fiscal point of view, like a good source of revenue for general government purposes. From an efficiency standpoint, however, he asserted that the airline industry is not an attractive revenue source because of the impact of economic distortion in other economic sectors.

Dr. Button noted that these impacts are of particular importance from both a social and economic standpoint. In his view, the United States has one of the most flexible labor markets in the world, air transportation plays a vital role in facilitating labor mobility, and these factors are of particular importance now during recovery from economic recession. Dr. Button concluded that the government must exercise extreme care in taxing the industry and recommended that user charges and taxes be clearly and transparently delineated.

Mr. Tilton thanked Dr. Button, and requested that he respond to questions from the members of the subcommittee.

Dr. Borenstein asked that Dr. Button provide some further clarification of his statements regarding international competitiveness. In particular, he asked if Dr. Button had concluded that U.S. air carriers are at a disadvantage to, for example, French air carriers on a given route because of differences in collection of fees. Dr. Button's response was that if a U.S. network air carrier has higher costs in one area, those costs will be reflected across the entire network. He stated that if domestic costs for services such as ATC are inflated by suboptimal taxation, then this taxation will affect the overall competitive efficiency of U.S. air carriers.

Dr. Borenstein questioned whether inefficient taxation truly places air carriers at a disadvantage or simply represents a poorly run system that drains value. He characterized Mr. Button's analysis as saying that taxation issues have the effect of making network air carriers' domestic networks smaller and less efficient. Dr. Button agreed with this characterization, and stated that a network air carrier with a smaller network cannot enjoy full economies of scale across a global network. In response, Dr. Borenstein stated that the domestic network of a major U.S. air carrier dwarfs those of Air France, British Airways, or Qantas. He added that, while inefficient taxation might have the effect of lessening the U.S. air carriers' competitive advantage, it should not actually place them at a disadvantage when compared with foreign air carriers. Dr. Button noted that margins in the airline industry are small, and even small cost differences can, in the aggregate, have significant impact on profitability. Dr. Button also observed that costs are not the sole issue, but misaligned pricing of, for example, ATC services, results in inefficient use of infrastructure, meaning an air carrier's network may be not only smaller than it should be but configured suboptimally.

Dr. Button stated that the real problem facing scheduled U.S. air carriers is lack of demand and adequate revenue to cover costs. He stated that this is compounded by an inability to raise revenues in a competitive market. He noted the need to advertise and offer service for booking far in advance means air carriers must commit to costs approximately 6 months in the future. Dr. Button added that if two or three offer competing service, price competition will be fierce, and revenues available to any individual air carrier may not be sufficient to cover fixed costs; the air carrier will lose money.

Mr. William McGee, Consumers Union, observed that in other sectors of the travel industry, particularly in the rental car industry, significant portions of taxes or user fees are not reinvested into the relevant infrastructure, but are committed to funding other initiatives, such as sports stadiums. He asked what portion of taxation of aviation is actually invested in the aviation infrastructure, and what portion is diverted for other use. Dr. Button stated that this example illustrated another facet of the blurring of user fees and taxes. He stated that a user fee should reflect actual use of the infrastructure, while money collected for an unrelated purpose should be clearly designated as a tax. He noted that government has a tendency to confuse taxes and fees, and stated that there should be a clear distinction between the two. He added that the actual magnitude of diversion to other uses varies from location to location.

Mr. Daniel McKenzie, Hudson Securities, Inc., asked whether Dr. Button had, in his research, developed a sense of the cost of government funding of air traffic control (ATC) in other countries as compared with ATC funding costs in the United States. Dr. Button stated that he had participated in a study of ATC in 11 countries and would provide it to the subcommittee.

Mr. McKenzie also asked if there were any taxes that Dr. Button would recommend cutting. Dr. Button stated that some cutting – in conjunction with restructuring of taxes – might have a positive impact. He added that some fixed fees levied in the United States are not appropriate. For example, he noted that there is a single fee for security nationwide, despite the fact that costs for security differ significantly from airport to airport. Dr. Button recommended movement away from uniform, system-wide fees and towards a system like that used in the United Kingdom, where actual costs are charged to air carriers, who then pass the cost on to passengers in the form of increased fares.

Dr. Button also questioned the magnitude of fees collected at some locations. He stated that many airports have facilities that are not warranted by their operational profiles and could be more efficient. He further noted that competition between airports for air carrier traffic also plays a role in fees and taxes. He stated that charges and taxes must be examined as a package, and the more transparent they are, the easier it is to determine what is the actual cost of operation, and what is a tax being sent elsewhere.

Mr. McKenzie asked whether Dr. Button would recommend reducing local taxes, rather than Federal ones. Stating that the objective is a set of total charges that reflects actual use of facilities, Mr. Button replied that he could not recommend one or the other in a vacuum. He noted that many airports employ average cost pricing, when, in reality, marginal cost pricing encourages efficient use of facilities and encourages service providers to reduce costs to an optimal level.

Mr. Tilton stated that he understood Dr. Button's central point was to endorse pursuit of an efficient tax regime with calculated, rather than unintended, consequences. He noted that Dr. Button makes a case for reform but has not recommended specific actions. He then asked what advice Dr. Button would offer a group such as the subcommittee, which contains diverse viewpoints regarding taxes and fees. Dr. Button stated that his first advice would be to isolate user fees from taxes. Because the government has a responsibility to provide a number of services to the nation at large, he believed that some level of taxation to fund those services is appropriate for all parties, including the airline industry. He added that services used by a discrete population, such as ATC services used by aircraft operators, should be charged as directly as possible.

Dr. Button also recommended that providers of direct services make use of private financing, in particular because the strength and flexibility offered by private lenders should permit reduction of the tax burden. He further observed that, while air carriers had been deregulated for over 30 years, airports and ATC had remained largely regulated, resulting in horizontal efficiency between air carriers but not in other sectors. He again recommended a move toward user fees reflective of actual costs and away from taxation.

Mr. Tilton thanked Dr. Button for his time and introduced **Dr. Van Beek.**

Intermodalism and Airports, Steve Van Beek, Ph.D., Eno Transportation Foundation

Dr. Van Beek began his presentation by setting out three goals: (1) to discuss the concept of intermodalism in the context of the transportation system as a whole and in the context of aviation and airports particularly; (2) to introduce a model for thinking about intermodalism and aviation with reference to topics such as high-speed rail service and airport access; and (3) to review a number of issues that must be resolved if airports and aviation are to become more intermodal and fit into a national transportation policy.

Dr. Van Beek first discussed intermodalism concepts. He drew on legislative and scholarly sources on intermodalism to make two key points: (1) the ultimate goal of transportation is movement of goods and people to desired locations, and the actual modes employed are secondary to the goal; and (2) the most important thing to keep in mind when considering intermodalism is ensuring the transition from one mode to another is as efficient as possible.

Dr. Van Beek stated that, with airport capacity saturated, especially in areas where it is not possible to build new airports, initiatives to maximize traffic volume increasingly makes sense. Emphasizing intermodalism as one of those options, he observed that, over the past several years, there has been a conscious effort at the Federal level to incorporate intermodalism into U.S. transportation policy. In addition, enthusiasm at the State and local level, while slow to take root, is now growing.

Dr. Van Beek stated that intermodalism has gained a foothold faster in Europe than in the United States. He noted development of transportation in the United States has historically lacked a national transportation plan; development has been from the bottom up, within modes, and with little coordination between modes. He stated that organization and funding remains divided along modal lines. In particular, he noted that use of Federal funding for system purposes, rather than for a designated mode, is severely restricted.

Dr. Van Beek also noted that the U.S. transportation system is supply-centered, and little effort is made to optimize networks. He noted that in areas with limited capacity, this mindset must change, or demand will greatly outpace supply, resulting in extreme price increases.

Dr. Van Beek discussed a new performance-based way to approach transportation planning. He stated that this approach examines what mix of modes and the connections among them is likely to be most efficient in moving people and goods.

Dr. Van Beek next discussed intermodalism in the context of airport access. He made the point that, at many U.S. airports, intermodalism is limited to private automobiles and shared vans. He stated that, in some congested areas, alternatives to highway access have been driven largely by the need to reduce surface congestion and, in some cases, by a desire to reduce environmental impact.

Dr. Van Beek stated that high-speed rail has the potential to extend existing airport markets; he offered some examples of high-speed and other rail projects being considered in southern California. He noted that concepts such as these break away from previous paradigms, in which high-speed rail and air travel have been viewed as competitors rather than partners.

Dr. Van Beek noted that, in addition to acting as an intracity feed to air traffic, surface modes and intermodalism hold promise as a replacement for or supplement to intercity air traffic as well. He stated, in many cases, planned high-speed rail will serve cities and regions expected to experience air traffic capacity limitations. He noted that surface modes may represent a viable, cost-effective alternative to shorter leg (less than 600 miles) air travel currently serving those locations. He noted Amtrak currently carries 50 percent of the total air/rail market between Washington, DC, and New York.

Dr. Van Beek noted the greatest challenge to using high-speed rail as a feed to air travel is integration of rail into the airport environment in such a way that transition from rail to air service, or vice versa, is convenient. He stated that an important factor for the subcommittee to consider is the fact that existing policy in the United States fails to encourage and, in some cases, actively discourages intermodal integration. On a request from Mr. Tilton, Dr. Van Beek elaborated by presenting an example from the Washington, DC, area. He noted that a rapid transit project under consideration would extend the Washington Metropolitan Area Transit Authority subway system (Metro) either to or beyond Washington Dulles International Airport (Dulles). He noted that if the Metro line ends at Dulles, 100 percent of the rail infrastructure can be funded by the airport under FAA requirements, but if the line extends beyond Dulles with stops in Loudon County, it would make the project ineligible for contribution because some passengers would be nonairport users.

Dr. Van Beek discussed criteria necessary to an intermodal approach involving aviation. First, he stated the DOT and FAA need to work toward an integrated intercity transportation policy, not a collection of policies each limited to a single mode. Second, he stated airport planning and

State and local transportation planning must be more closely coordinated. Dr. Van Beek noted there is no current requirement for an airport master plan to line up with other planning in the region. Third, he stated the paradigm of aviation and rail being in direct competition must be abandoned. Fourth, because infrastructure trust funds and general funds are both under significant strain, new sources of funding must be found, Finally, the FAA must modify its funding restrictions on projects that provide benefits to nonairport passengers to permit proration benefits and funding.

Dr. Van Beek solicited questions from the subcommittee. **Mr. Tilton** asked Dr. Van Beek to draw mutual conclusions from his presentation and Mr. Button's presentation on taxation. Dr. Van Beek stated, for both cases, the key question is identifying the market. In the case of intermodalism, passengers being fed to the airport on surface transport represent an aviation benefit, and fees or charges collected should reflect the cost of those facilities.

Mr. McGee stated that Dr. Van Beek's presentation appeared to present two possible models with respect to rail and air travel: (1) a cooperative model in which rail service complements and feeds air travel, and (2) a noncooperative model in which rail service and air service compete for passengers on the same segments. He acknowledged that from a broader perspective, a shift toward rail traffic may make more sense in some cases, but he noted that the subcommittee is concerned with strengthening aviation from a competitive standpoint. He sought Dr. Van Beek's thoughts on how to reconcile these two models. Dr. Van Beek acknowledged there will be cases where rail and air service compete directly, particularly in cases where public rail service exists. He added that policy should be analyzed as an enabling factor and not a deciding one. He stated that in markets with congested airports, air carriers may be willing to turn a portion of feeder service over to rail in favor of additional, more profitable long-haul or international capacity. Dr. Van Beek stated that such markets could be identified, and governance measures fostering a synergistic relationship could be defined and implemented.

Ms. Susan Baer, Port Authority of New York and New Jersey, echoed the point that ground transportation can permit a shift in the mix of air service in an at-capacity market toward more valuable long-haul traffic. She noted the success of Continental Airlines, Inc.'s code-share program with Amtrak in the New York market. She also asked if nonrail surface transportation has been examined as an intermodal feed where heavy rail is not logistically possible. Dr. Van Beek stated that nonrail service has tremendous potential in less congested areas. He referred to proposals that would incorporate bus service segments from remote markets into essential air service in Denver. He noted however that existing rule barriers, including U.S. Department of Homeland Security requirements, tend to limit the ability to implement such solutions.

Mr. McGee stated that the FAA and DOT have historically had a dual role in both regulating and supporting various modes of transportation and observed that overcoming the paradigm to break down some of the barriers between different modes may be a challenge. Dr. Van Beek agreed and presented anecdotal evidence of resistance to progress in intermodal integration. He noted however that the DOT has implemented some tools, including the Transportation Investment Generating Economic Recovery (TIGER) grant program, which can further the value of intermodalism. He expressed hope that these efforts would garner the full support of Congress, which has greater ability to effect change in these areas.

Mr. McKenzie asked Dr. Van Beek if any available studies compare the costs of intermodal development with the costs of expanding the air transportation system. Dr. Van Beek replied there are some studies, but they must be carefully scrutinized. He stated one important factor is examining whether comparison is limited to direct costs or includes external costs relating to, for example, congestion and environmental impacts. He noted, for example, that rail service only compares favorably in congested metropolitan areas where it can actually influence such factors as cost of labor and emissions. He went on to state the difficulty in drawing meaningful comparisons between public and private sector models. He also stated the validity of estimates is highly dependent on variables that may be difficult to predict accurately, such as load factor.

Ms. Baer asked if Dr. Van Beek had any proposals for how high-speed rail development and implementation should be funded. Dr. Van Beek noted that, unlike other infrastructure areas, there is no trust fund set aside for high-speed rail. He noted that rail plans are put together at the State level, and suggested that a good deal of reliance should be placed on State departments of transportation. He further noted that States often are in the best position to make judgments regarding tradeoffs between rail and highway infrastructure.

Mr. Tilton opined that communities are highly cognizant of the relevance of transportation to economic development, and asked if Dr. Van Beek had seen any reaction from communities to the possibility that intermodal evolution might involve loss of hub or spoke air service status. Dr. Van Beek stated that reaction is highly dependent on the factors facing a community. He noted markets such as Los Angeles, California, tend to be preoccupied with issues such as noise impact, while markets such as Denver, Colorado, are much more focused on their hub status and the value of air service. He stated that in the past 10 years, the smallest airports have lost about 30 percent of their air traffic and suggested that such communities should be receptive to the economic opportunities offered by intermodal connections to the national aviation network.

Prioritization of Topics

Following a brief break, **Mr. Tilton** turned to discuss three topic areas or themes upon which the subcommittee would be developing its recommendations. He noted that he had made preliminary assignments of subcommittee members to teams for each theme; he sought input on those assignments, as well as on substantive issues associated with each theme.

Mr. Tilton suggested that the subcommittee first discuss topic 3, ***Air Passenger and Community Access Challenges,*** because it relates, in part, to the presentation from Dr. Van Beek. He stated that **Mr. McGee** had been tentatively named team lead, with the team members tentatively assigned being Ms. Baer; Mr. Bryan Bedford, Republic Airways; Dr. Borenstein; Ms. Ana McAhron-Schulz, ALPA; Mr. McKenzie; Mr. Jack Pelton, Cessna Aircraft Company; and Mr. Chris Williams, Williams Capital Group.

Mr. McGee expressed his willingness to serve as team lead. He noted that three potential recommendation areas had been proposed:

- Essential Air Service (EAS) program reforms, including freezing the communities that are currently eligible for EAS subsidies, and limiting eligibility by increasing the minimum distance between the communities and the nearest medium/large hubs;

- Ensuring that DOT consumer regulatory initiatives balance the Department's statutory mandates to protect consumers and ensure a viable and globally competitive U.S. airline industry; and

- Intermodal passenger policy and airports: Improving airport-surface connections.

Mr. McGee stated that, although the three areas appear disparate, there are connections between them. He expressed his belief that the treatment of EAS that Dr. Borenstein developed approaches a complete recommendation proposal. Mr. McGee stated he is preparing remarks relating to the second area. With respect to the third area, Mr. McGee stated that condensing the information presented by Dr. Van Beek into a policy recommendation will be a challenge for the team. Mr. McGee recalled Secretary LaHood's instruction that recommendations presented by the FAAC be actionable in the relatively near term. He noted that recommendations relating to intermodalism might not meet that criteria, but could be among the most important. Mr. McGee also mentioned that recommendations relating to intermodalism may involve breaking down barriers between oversight of different modes. He noted some apprehension in presenting recommendations regarding departmental structure to the Secretary.

Mr. Tilton stated that the nexus between the potential obsolescence of EAS and future intermodalism is clear. He noted that if discussion of these topics could be tied into a discussion on oversight of the regional air service market, the team would have a large grouping of related issues with which to work.

Ms. Baer suggested topic 3 be broadened to comprehensively address access to congested airports. She noted that while congestion is currently a critical issue at only a few airports, she predicted it would become an issue at other airports in the future. She stated consideration must be given to reforming methods of controlling access to capacity, such as slot allocation.

Ms. Baer suggested the team specifically address the role of general aviation (GA) with respect to communities currently served under the EAS program. She also suggested treating the discussion of EAS service to Alaska as a separate topic, because of its unique challenges. Mr. McGee noted that Dr. Borenstein had spoken to that issue in his treatment. Mr. Tilton observed that both Dr. Borenstein and Mr. Pelton were on the team and would likely address Ms. Baer's suggestions.

Ms. Susan Kurland, Assistant Secretary for Aviation and International Affairs and FAAC Chair, agreed with Ms. Baer on the importance of GA and suggested that it be considered in the discussions. Mr. McGee stated there may be differing public perceptions of GA and noted that GA encompasses a diverse range of operations and activities. Mr. Tilton observed that GA could very well be included within the broad context of intermodalism. Ms. Baer noted the need to accommodate GA, especially in the face of closing airports, while keeping it from impeding commercial access to facilities.

Mr. McKenzie indicated he was willing to serve on the team.

Ms. Pat Friend, AFA-CWA, expressed interest in serving on the topic 3 team instead of the topic 2 team. She expressed interest in the concepts presented by Dr. Van Beek, and suggested that the subcommittee might consider focusing on surface transportation as an option for small communities, rather than on modifications to the EAS program. She noted that, although such recommendations might require significant time to implement, they are worthwhile. Mr. Tilton directed that Ms. Friend be moved from the topic 2 team to the topic 3 team.

Ms. McAhron-Schulz agreed that reducing the emphasis on the EAS program is worthy of discussion but noted that action on recommendations may be limited by a conflicting Congressional stance on the issue. Ms. Friend clarified that she contemplates a discussion of intermodalism as a complete replacement to the EAS program, not simply a reduction of its role. Ms. McAhron-Schulz and Mr. McGee expressed agreement. Mr. McGee noted there previously had been discussion of treating the EAS program and small community service as a second tier issue, but the introduction of the role of intermodalism might once again elevate its importance. He also expressed some concern that such renewed importance might overshadow consideration of the second recommendation area.

Ms. McAhron-Schulz noted that any discussion regarding funding of intermodal initiatives would necessarily tie into work by the Subcommittee on Financing and suggested there be communication between the two subcommittees to divide areas of responsibility. Mr. Tilton observed that Dr. Van Beek had cited financing as a challenge to intermodal efforts.

Dr. Borenstein reiterated his viewpoint that the discussion draft document lacks neutrality and expressed a desire that it be revised. In particular, he expressed disagreement with the characterization of the domestic marketplace as "highly competitive." Mr. McGee noted that he perceived the discussion draft document to be an internal working document, and expected that the subcommittee's recommendations would be couched in more neutral language. Mr. Tilton agreed with this characterization, and stated that Mr. McGee, as team lead, has complete discretion regarding the topic, including its title.

Dr. Borenstein also expressed agreement with Ms. Baer's concern with providing GA access to congested airports and suggested the issue be expanded to address access to such airports by new entrant air carriers.

Dr. Borenstein expressed enthusiasm regarding the discussion of intermodalism. He noted some concern, however, that the subcommittee would not have the time or resources to develop proposals beyond a broad recognition of the importance of intermodalism and a recommendation for an integrated national transportation policy.

Mr. Tilton moved discussion to topic 2: ***Challenges to Airline Industry Viability: Jet Fuel Price Volatility and Aviation Taxation.*** He stated that Mr. Bedford had been recommended as team lead and Dr. Borenstein, Mr. McKenzie, Mr. Pelton, Mr. Williams, and he had been tentatively assigned to the team.

Mr. Tilton noted that Mr. McKenzie had previously presented material on taxation, and the subcommittee heard a presentation on taxes and fees from Dr. Button. Mr. McKenzie stated that, like intermodal funding issues, any discussion of taxation would have to dovetail closely with work by the Subcommittee on Financing. He also noted that the DOT would be offering a presentation on budget and funding at the full FAAC meeting the following day.

Ms. Baer expressed interest in joining the topic 2 team, in preference to serving on the topic 1 team. She noted that the thrust of Dr. Button's presentation appeared to argue for user fees that transparently reflect the cost of services provided. She expressed the view that this supports a case for passenger facility charges, which were created to foster competition at airports. She expressed interest in developing language to convey that taxes and fees on air travel should be differentiated as appropriately borne by passengers or air carriers. She noted this also ties into topic 3 and Dr. Borenstein's interest in examining low-cost air carrier access to congested airports. Mr. Tilton noted for the record that Ms. Baer would be moved from the topic 1 team to topic 2 team.

Dr. Borenstein recommended the second potential recommendation area be eliminated, because development of alternative fuels is likely being addressed by the Environment Subcommittee and seems outside the scope of the Subcommittee on Competitiveness and Viability. Mr. Tilton stated that decisions on eliminating items from discussion would be the prerogative of each team. He emphasized that potential recommendation areas were presented for discussion purposes only, and there is no mandate or limitation with respect to each team's discussion of them.

Ms. McAhron-Schulz expressed interest in leaving the topic 3 team to serve on the topic 2 team. Mr. Tilton noted for the record that this change would be made.

Mr. Tilton then directed the discussion to topic 1, ***Ensuring Access to Global Markets***. He noted he had designated himself as team lead, and that Ms. Baer, Ms. Friend, Mr. McGee, and Ms. McAhron-Schulz had been tentatively assigned to the team. Mr. McKenzie expressed interest in leaving the topic 3 team to join the topic 1 team. Mr. Tilton noted for the record that this change would be made.

Mr. Tilton noted that at the full FAAC meeting the following day, former DOT officials Mr. Pat Murphy and Mr. Randy Bennett; Mr. Kevin Knight and Mr. Graham Atkinson of United; and Mr. Robert Lekites of UPS Airlines would present on behalf of the subcommittee information on the current state of domestic and global airline competition and challenges looking forward. He noted these presentations would be informative and not viewed as work product of the subcommittee.

Mr. Tilton stated the work of the topic 1 team would move the discussion from the domestic to the international marketplace. He described the theme of the discussion as "beyond Open Skies." He noted the theme is highly topical, especially in light of the recently announced cross-border merger between LAN Airlines of Chile (LAN) and Tam SA of Brazil (TAM), as well as other recent mergers and similar business arrangements. He noted that LAN and TAM are in different alliances, and stated this played into a broader discussion regarding the form, role, and significance of alliances and other cooperative efforts in the future.

Ms. McAhron-Schulz expressed an interest in addressing labor issues and the allocation of flying opportunities in international business arrangements. She also recognized the importance of China as a market under Open Skies, and noted that it does not subscribe to the International Labor Organization Convention, nor does it have any recognizable labor laws. She stated that there is a lack of clear delineation between air carriers and the government as an employer and market participant, and noted that a similar situation exists in many Middle Eastern nations. She urged that care be taken to ensure that agreements reached with such nations puts U.S. air carriers and their employees on an even playing field.

Mr. Tilton stated that he expects issues such as those raised by Ms. McAhron-Schulz to make the discussion a robust one. He noted there are fundamental differences in the business models and ownership structures of U.S. air carriers and many foreign air carriers in the Middle East, Latin America, and Asia, and that serious questions are raised with respect to how to fairly compete with such entities.

Dr. Borenstein noted that the draft discussion document makes the point that many foreign air carriers are growing faster than U.S. air carriers, and several foreign air carriers have surpassed U.S. air carriers as the largest in the world. He questioned the relevance of these statistics and encouraged the topic 1 team to focus on issues relating to a level playing field, and not the relative growth of specific air carriers. He stated that there is room for a valid argument that some air carriers should be growing faster than U.S. air carriers because their economies, measured in terms of gross domestic product, are growing faster. Mr. Tilton noted that he could not entirely agree in light of the irrelevance of the United Arab Emirates economy to the growth of the air carrier Emirates, and welcomed a robust discussion.

Mr. McGee noted that the issue of foreign ownership was raised during the previous subcommittee meeting and asked if it was being eliminated from consideration as a topic. Mr. Tilton noted his belief that the fact set would raise the question of whether or not current legislative limitations will make the United States anachronistic. He noted, with respect to the LAN-TAM merger, that both Chile and Brazil impose foreign ownership caps, which are being reserved. He stated, however, that if other sovereign entities begin eroding ownership limitations, the question of U.S. policy may warrant consideration.

Mr. McGee noted that, although debate on the issue of foreign ownership might well be robust, it was unlikely that any recommendation by the subcommittee would be actionable. Mr. Tilton agreed, but noted the extent of the impact on competitiveness would warrant a factual discussion. Ms. Friend stated that the Labor and World-class Workforce Subcommittee is discussing similar issues, and the general consensus is that any recommendations it might make on these issues would not fall within the scope of the FAAC. Ms. McAhron-Schulz expressed the view that such discussions should be included in the subcommittee’s report. Mr. Tilton agreed and reiterated that, despite the actionability of recommendations, an issue that significantly impacts the subcommittee’s area of discussion should be addressed.

Future Meetings and Work Plan

In response to a question by Mr. McGee, **Mr. Tilton** stated the subcommittee’s next two meetings had been scheduled for Friday, October 15, 2010, in Denver, Colorado, and Thursday, November 18, 2010, in Washington, DC. He stated an expectation that by the October 15 meeting, each team will have developed at least two discrete recommendations on its topic that are actionable, relevant, and meaningful. He stated the subcommittee would decide at that meeting which recommendations would be presented to the full FAAC.

Ms. Friend posed a question to Ms. Kurland regarding how the work of different subcommittees on similar subjects would be merged or reconciled. **Ms. Kurland** stated that addressing such parallel work is a plan in progress. She noted an intended objective of the following day’s third full FAAC meeting was to gain broad consensus on the subject areas selected by each subcommittee for development of recommendations. She stated that each subcommittee would be expected to refine its options before the fourth meeting, and present final recommendations at the fifth meeting. She stated that discussions at the third and fourth meetings would inform the need for intersubcommittee dialogues.

Mr. McKenzie asked Ms. Kurland whether consensus would be interpreted literally, for the purpose of decisionmaking by the full FAAC. Ms. Kurland stated that it was not expected that a formal voting process would be employed at the third meeting with respect to the subcommittee's selected topics.

Mr. McGee observed that, at the subcommittee level, as discussions progress, it will become increasingly likely that individual members will be dissatisfied with the consensus conclusions reached by the subcommittee. He suggested the subcommittee may need to consider the creation of a mechanism for reflecting dissenting opinions registered by subcommittee members.

Mr. Tilton pointed out that coordination across subcommittees is facilitated, to some extent, by the fact that FAAC members serve on multiple subcommittees and can therefore communicate the efforts of one subcommittee to the members of another. He noted where two subcommittees are discussing the same topic, the one that had not progressed as far in its discussions should defer to the other. Ms. Kurland agreed, but noted the perspective of the deferring subcommittee should be reflected in the other subcommittee's recommendations. She also noted the subcommittees would, within the limitations of the rulemaking process, be advised if their discussions addressed work already in progress at the DOT, and the DOT would, if desired, provide personnel to brief the subcommittees on that work.

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 11:20 a.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: 3 November 2010