S. HRG. 109–231

# THE IMPACT OF HURRICANE KATRINA ON THE AVIATION INDUSTRY

## HEARING

BEFORE THE

SUBCOMMITTEE ON AVIATION

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

SEPTEMBER 14, 2005

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ONE HUNDRED NINTH CONGRESS

FIRST SESSION

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# THE IMPACT OF HURRICANE KATRINA ON THE AVIATION INDUSTRY

**WEDNESDAY, SEPTEMBER 14, 2005**

U.S. SENATE,
SUBCOMMITTEE ON AVIATION,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 10:03 a.m. in room SD–562, Dirksen Senate Office Building, Hon. Conrad Burns, Chairman of the Subcommittee, presiding.

## OPENING STATEMENT OF HON. CONRAD BURNS, U.S. SENATOR FROM MONTANA

Senator BURNS. I am going to call this Committee to order, and we have other Members coming. We also have an 11 o'clock vote. So we are going to hold your statements down as much as we can and get to hear from our panel this morning, and I want to thank the panel for joining us.

We have a lot of ground to cover. Ever since Katrina decided to pay a visit to our southern shores, we have been in a situation where it is going to take some real work and working together to get us out of it. As you know, it is our responsibility as a Subcommittee to start evaluating ideas on how we can assist the region and the affected industries in the coming days ahead.

I am hopeful that the panel today can provide suggestions on how their respective industries can be aided by cutting through some red tape using waivers or possible legislative proposals. I know at times like this we have a tendency to think legislation is necessary when sometimes it is not. It is just doing the things that we should be doing in order to assist those who have been impacted by this storm to recover.

The greatest concern to the industry now is fuel prices and supplies. The Gulf Coast region accounts for about 23 percent of the U.S. jet fuel production. We witnessed a dramatic spike in fuel prices in the direct aftermath of the storm. Fortunately, they have started to come down now but, unfortunately, they are still at record levels, and we are only starting to see the onset of tropical storm season which could have increasingly dynamic effects on jet fuel prices for some time to come. So we have got some tough months ahead for this industry regardless of what Congress does or does not act upon.

Both United and US Airways are in bankruptcy. And reports show that Delta and Northwest are heading into Chapter 11 also, and that may be closer than we think. If fuel prices maintain these levels, more will certainly follow.

On a final note, I would like to commend those in the aviation industry for their response to Katrina and its victims. The airlift operations were tremendously helpful to the region, and our thanks goes out to the entire community: Commercial carriers, business aviation, airports, and general aviation alike. And I would like to thank this panel for coming today. We appreciate your time.

Senator McCain.

**STATEMENT OF HON. JOHN McCAIN, U.S. SENATOR FROM ARIZONA**

Senator McCAIN. Well, thank you, Mr. Chairman, and thank you for the timeliness of this hearing. As we see and are greeted by this morning's headlines that two airlines are likely to go into bankruptcy and perhaps some of our witnesses, particularly, Mr. May, might describe to us what he feels is the future of the aviation industry with or without Hurricane Katrina, because the price of fuel had gone up dramatically prior to the hurricane, which is what has brought two additional airlines to the brink of, or actual, bankruptcy.

I notice that Ms. McElroy has a proposal to declare a moratorium on various taxes and fees that are imposed on the airlines. I do not think we should ignore any option. I guess that when those fees are suspended we would have to make up for that shortfall, and I would be interested in ideas as to how we would do that.

So, Mr. Chairman, I come here this morning with a lot more questions than answers, and I am sure that our witnesses share our deepening concern. I think that the airlines have been in crisis in the past, but I am not sure I have seen anything quite approaching this and so maybe we ought to try to get some different ideas.

So, I thank you, Mr. Chairman. I thank the witnesses for being here today.

Senator BURNS. Senator Stevens.

**STATEMENT OF HON. TED STEVENS, U.S. SENATOR FROM ALASKA**

The CHAIRMAN. Mr. Chairman, if we are going to have a vote at 11 o'clock, I would like to get through all these things if we could. Thank you very much.

Senator BURNS. And, thank you, Senator.

We will roll right along this morning and get into this discussion.

I think the panel before us is a very important panel. We have Dr. Howard K. Gruenspecht, Deputy Administrator, U.S. Energy Information Administration; and Mr. James May, who is President and CEO of the Air Transport Association; and Frank Miller, Airport Director, Pensacola Regional Airport; and Deborah McElroy, President of the Regional Airline Association.

By the way, I got an e-mail this morning from my regional airline in Montana. They send you their regards.

If we could call on Dr. Howard Gruenspecht, this morning. He is the Administrator of the U.S. Energy Information Administration.

**STATEMENT OF DR. HOWARD K. GRUENSPECHT, DEPUTY ADMINISTRATOR, U.S. ENERGY INFORMATION ADMINISTRATION**

Dr. GRUENSPECHT. Thank you, Mr. Chairman and Members of the Committee.

I appreciate the opportunity to appear before you today to discuss recent developments in energy markets and the impacts of Hurricane Katrina on jet fuel supply and prices.

The Energy Information Administration is the independent statistical and analytical agency within the Department of Energy. We do not promote, formulate or take positions on policy issues.

As we all know, Hurricane Katrina has wrought incredible devastation on the central Gulf Coast, most importantly in terms of human suffering, but also in terms of economic impacts that have spread well beyond the stricken area. The oil and gas industry, with many facilities in the direct path of the hurricane, incurred significant losses in production and processing capacity, of which some were temporary, but others will continue to affect output for many months to come.

As Senator McCain alluded to, even before Hurricane Katrina struck on August 29th, crude oil and petroleum prices were setting records. On August 26th, the near-month price of crude oil on the New York Mercantile Exchange closed at over $66.00 per barrel, which was $23.00 per barrel or more than 50 percent higher than a year earlier.

Over the same 1-year period, retail gasoline prices had risen 74 cents per gallon; retail diesel fuel prices 72 cents; and spot jet fuel prices between 69 and 77 cents per gallon. Oil prices worldwide have been rising steadily since 2002, due in large part to growth in global demand, which has used up much of the world's surplus production capacity. Refineries have been running at increasingly high levels of utilization in many parts of the world, including the United States.

Hurricane Katrina shut down virtually all offshore oil production in the Gulf of Mexico, along with eight major and several smaller refineries, import facilities, including the Louisiana Offshore Oil Port, and several major crude oil and petroleum product pipelines. At its peak impact, over 25 percent of U.S. crude oil production, 20 percent of crude oil imports, and 10 percent of domestic refinery capacity was shut down.

Many of these facilities have since restarted, but about 860,000 barrels per day of crude oil production remains offline, along with four major refineries with a total distillation capacity of 880,000 barrels per day. At their historical yield, these four refineries produce, approximately, 120,000 barrels per day of jet fuel, accounting for 8 percent of total U.S. gas fuel production of about 1.6 million barrels per day. Jet fuel consumption, measured as product supplied, also averages about 1.6 million barrels per day. So there is a relatively close balance between production and consumption of jet fuel in the United States.

With 42 gallons in a barrel, a 50-cent-per-gallon change in jet fuel prices translates into a change of more than $30 million in daily jet fuel expenditures for the Nation as a whole, not including the ameliorative effects of hedging and long-term contracts. So, that is a pretty significant issue.

In the immediate aftermath of Hurricane Katrina, crude oil prices rose briefly to over $70.00 per barrel, up more than $4.00 in less than 48 hours, but in less than a week had fallen below their pre-storm levels. The impact on crude oil prices was undoubtedly lessened by the relatively robust inventory levels before the storm, by quick assurance that refiners unable to obtain adequate crude would be able to borrow, by way of time exchanges, from the Strategic Petroleum Reserve, even before the coordinated release of stocks by the United States and other members of the International Energy Agency was announced on September 2nd.

The more significant price impact, however, was on finished petroleum products. Spot prices, the level at which large volumes are sold by refiners, importers, and traders, for gasoline rose as much as $1.40 a gallon east of the Rockies within 3 days, while spot diesel fuel prices rose 35 to 40 cents, and spot prices for jet fuel rose around 50 cents a gallon. The sudden increase in product prices was the primary driver of an increase in the so-called "crack spread," defined as the difference between the petroleum product price and the underlying price of crude oil. Crude oil prices did not change nearly as much as product prices did.

The seemingly disproportionate change in finished product prices reflects the severity and expected persistence of Katrina's impact on refining operations in the Gulf. Additionally, the shutdown of the Capline, a major crude oil pipeline from Louisiana to the Midwest, reduced crude supplies for refineries there, causing several to temporarily reduce operations. And there was also a temporary closure of Colonial and Plantation pipelines that halted the distribution of products from the Gulf Coast to the lower East Coast, as far north as Baltimore, in the aftermath of Katrina.

While recent movements in crack spreads were heavily influenced by Hurricane Katrina, crack spreads were trending upwards well before the storm struck. This is true not just for jet fuel, but for other petroleum products. As U.S. refineries have operated increasingly close to full capacity, and product demand continues to rise, the balance of demand must increasingly be made up from imports. This, in turn, requires a price differential between the United States and other world markets to attract the needed imports. This does not increase the cost of refining products in the United States, but it does tend to increase the market value of finished petroleum products relative to crude oil.

Wholesale petroleum product prices, like those of crude oil, have fallen back from their peak levels, and as of yesterday, were near their levels before Hurricane Katrina. Spot prices for jet fuel have dropped by 54 cents per gallon on the Gulf Coast and 44 per gallon in New York Harbor, and stand about 1 cent under and 6 cents over, respectively, their levels on August 26, before Katrina struck. Other petroleum product prices have shown similar trends; although gasoline prices have not receded as much as prices for distillate products.

Availability was another issue of some concern in the wake of Katrina. While there were rumors, or while there were reported rumors, of imminent outages of jet fuel at certain airports—I think you will hear about Pensacola—to EIA's knowledge, no major airports actually ran out of jet fuel.

Inventories are in reasonably good shape. They did decline in the week after Katrina. We are going to release more inventory data today after 10:30. So if the questioning goes on, I'll discuss it, but I cannot before then.

The near-term outlook for oil markets depends on a number of factors, the rate at which refinery capacity affected by Katrina can be brought back online in the major factor affecting petroleum product markets. Although full damage assessments for the four refineries shut down have not yet been possible, early estimates indicate that several of them may be down for several months.

Even if things are fully restored by December, prices for all petroleum products are likely to remain elevated. Last week, we released our monthly Short-Term Energy Outlook. We looked at several cases, fast recovery, slow recovery, and medium recovery. In the medium recovery scenario, we expect the average price for refinery sales of jet fuel to be about $2.25 per gallon in September, which is 32 cents above the August level. We do expect it to decline by the end of the year to the neighborhood of $2.10. These prices are significantly above the year ago levels.

Again, we expect some of this Gulf Coast refining capacity to remain offline well into the fourth quarter, and we probably will have a need for greater imports of jet fuel in the remainder of 2005.

That concludes my statement, and I would be happy to answer your questions.

[The prepared statement of Dr. Gruenspecht follows:]

PREPARED STATEMENT OF DR. HOWARD K. GRUENSPECHT, DEPUTY ADMINISTRATOR, U.S. ENERGY INFORMATION ADMINISTRATION

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you today to discuss recent developments in energy markets and the impacts of Hurricane Katrina on jet fuel supply and prices.

The Energy Information Administration (EIA) is the independent statistical and analytical agency in the Department of Energy. We do not promote, formulate, or take positions on policy issues.

Hurricane Katrina has wrought incredible devastation on the central Gulf Coast, most importantly in terms of human suffering, but also in economic impacts that have spread well beyond the stricken area. The oil and gas industry, with many facilities in the direct path of the hurricane, incurred significant losses in production and processing capacity, of which some were temporary, but others will continue to affect output for many months to come.

Even before Hurricane Katrina struck on August 29th, crude oil and petroleum product prices were setting records. On August 26, the near-month price of crude oil on the New York Mercantile Exchange closed at over $66 per barrel, which was $23 per barrel, or more than 50 percent, higher than a year earlier. Over the same one-year period, retail gasoline prices had risen 74 cents per gallon, retail diesel fuel prices 72 cents, and spot jet fuel prices between 69 and 77 cents per gallon. Oil prices worldwide had been rising steadily since 2002, due in large part to growth in global demand, which has used up much of the world's surplus production capacity. Refineries have been running at increasingly high levels of utilization in many parts of the world, including the United States.

Hurricane Katrina shut down virtually all offshore oil production in the Gulf of Mexico, along with eight major and several smaller refineries, import facilities including the Louisiana Offshore Oil Port, and several major crude oil and petroleum product pipelines. At its peak impact, over 25 percent of U.S. crude oil production, 20 percent of crude imports, and 10 percent of domestic refinery capacity was shut down.

Many of these facilities have since restarted, but about 860 thousand barrels per day of crude oil production remains offline, along with four major refineries with a total distillation capacity of 880 thousand barrels per day. At their historical yields, these four refineries produce approximately 120 thousand barrels per day of jet fuel, accounting for 8 percent of total U.S. jet fuel production of 1.6 million barrels per day. Jet fuel consumption, measured as product supplied, also averages about 1.6 million barrels per day, so there is a relatively close balance between production and consumption. With 42 gallons in a barrel, a 50-cent-per-gallon change in jet fuel prices translates into a change of roughly $30 million in daily jet fuel expenditures for the nation as a whole, not considering the ameliorative effects of any hedges or long-term contract arrangements.

In the immediate aftermath of Hurricane Katrina, with the extent of actual damage still largely unknown, crude oil prices rose briefly over $70 per barrel, up more than $4 in less than 48 hours, but in less than a week had fallen below their prestorm levels. The impact on crude oil prices was undoubtedly lessened by the relatively robust inventory levels before the storm, and by quick assurance that refiners unable to obtain adequate crude oil supplies would be able to borrow by way of time exchanges from the Strategic Petroleum Reserve, even before the coordinated release of stocks by the United States and other members of the International Energy Agency was announced on Friday, September 2.

The more significant price impact, however, was on finished petroleum products. Spot prices (the level at which large volumes are sold by refiners, importers, and traders) for gasoline rose as much as $1.40 per gallon east of the Rockies within 3 days, while spot diesel fuel prices rose 35 to 40 cents, and those for jet fuel around 50 cents. Even prices on the West Coast were affected, though by lesser amounts. The sudden increase in product prices was the primary driver of an increase in the so-called "crack spread," defined as the difference between a petroleum product price and the underlying price of crude oil.

The seemingly disproportionate change in finished product prices reflects the severity and expected persistence of Hurricane Katrina's impact on refining operations in the Gulf. Additionally, the shutdown of the Capline, a major crude oil pipeline from Louisiana to the Midwest, reduced crude supplies to refineries there, causing several to temporarily reduce operations. Finally, the temporary closure of the Colonial and Plantation product pipelines virtually halted distribution of products from the Gulf Coast to the lower East Coast, as far north as Baltimore, in the aftermath of Katrina.

While recent movements in crack spreads were heavily influenced by the effects of Hurricane Katrina, crack spreads were trending upwards well before the storm struck. As U.S. refineries have operated increasingly close to full capacity, and product demand continues to rise, the balance of demand must increasingly be made up from imports. This, in turn, requires a sufficient price differential between the United States and other world markets to attract the needed imports. Although this does not increase the *cost* of refining products in the United States, it does tend to increase the *market value* of finished petroleum products relative to crude oil.

Wholesale petroleum product prices, like those of crude oil, have fallen back from their peak levels, and as of yesterday (September 13) were near their levels before Hurricane Katrina. Spot prices for jet fuel have dropped by 54 cents on the Gulf Coast and 44 cents in New York Harbor, and stand about 1 cent under and 6 cents over, respectively, their levels on August 26, before Hurricane Katrina. Other petroleum product prices have shown similar trends, although gasoline prices have not receded as much as prices for distillate products.

Availability of fuels was another issue of some concern in the wake of Hurricane Katrina. While there were widely reported rumors of imminent outages of jet fuel at certain airports in the days following Katrina, to EIA's knowledge, no airports actually ran out of fuel.

Jet fuel inventories, which were in relatively good shape before the storm, did decline, but have remained adequate in all regions so far. In the week ending September 2, U.S. total jet fuel inventories dropped by an estimated 1.6 million barrels, or slightly less than one day's demand. The East Coast, the region most affected due to the pipeline shutdowns and its reliance on supplies from Gulf Coast refineries, accounted for nearly 1.4 million barrels of the decline, equivalent to more than two days of demand in that region. It should be recognized that supplies of all petroleum products, including jet fuel, will remain tight in the coming weeks, and possibly months, although increased imports may make up some of the overall product shortfall.

While the near-term outlook for oil markets depends on a number of factors, the rate at which refinery capacity affected by Katrina can be brought back on-line is the major factor affecting petroleum product markets. Although full damage assessments for the four refineries remaining shut down have not yet been possible, early estimates indicate that several of them may be down for months.

Even if the energy system is fully or near fully restored by December, prices for all petroleum products are likely to remain elevated. Last Wednesday, we released our monthly *Short-Term Energy Outlook.* For this *Outlook,* we considered three cases based on the speed of recovery of the energy system from the effects of Hurricane Katrina—Slow, Medium, and Fast Recovery scenarios.

In the Medium Recovery scenario, we project an average price for refiner sales of jet fuel of roughly $2.25 per gallon in September, up about 32 cents from the August level, which declines to about $2.10 per gallon by December. This September price would be about 94 cents per gallon higher than the same month a year ago, while that in December would represent a year-to-year increase of about 79 cents per gallon.

In line with the impacts seen already in September, and a significant portion of Gulf Coast refinery capacity expected to remain offline well into the fourth quarter, EIA's Short-Term Energy Outlook also reflects our expectation for lower refinery production, lower inventories, and a need for greater imports of jet fuel in the remainder of 2005.

This concludes my statement, and I will be happy to answer your questions.

Senator BURNS. Thank you very much.

Now, we will hear from Mr. James May, President and CEO of Air Transport Association Incorporated. Thanks for coming this morning, Jim.

**STATEMENT OF JAMES C. MAY, PRESIDENT AND CEO, AIR TRANSPORT ASSOCIATION OF AMERICA, INC.**

Mr. MAY. Thank you, Mr. Chairman.

For the airlines, the most immediate impacts from Katrina were reduced fuel supplies as you have heard; some airport closures; and, of course, dramatically increased fuels prices. Having lost, roughly, 13 percent of refining capacity and the two major pipelines that serve the East Coast, we were forced to manage our way through potential shortages in order to avoid service interruptions. Again, this is something you have heard a little bit about already this morning.

We, basically, tankered extra fuel where needed, and that is the process of loading greater amounts of fuel in the airports so that we would not be drawing down at those most supply restricted airports. We set up a daily conference call working with the pipeline folks, the refiners, all the carriers, and other suppliers to the process so that we could identify those areas where we had problems, move fuel in. And, I think the Federal Government did a good job of giving us some waivers on the Jones Act. IEA had an opportunity to do some releases.

We moved some tankers around, and while supplies are tight at some of the airports, I think we are well past that immediate crisis. We, obviously, were impacted by airport closures, principally Gulfport/Biloxi, New Orleans. Service in the region has, largely, been restored with the exception of New Orleans, which has got commercial service that kicked in yesterday on a limited basis, and I think we will begin to ramp up for a period of time.

The more lasting impact from Katrina, however, is the dramatic increase in the price of jet fuel, which has been talked about this morning. Unfortunately, it was already at record highs. Let me put it into perspective for you from the parochial side of the airlines industry. In January 2002, the price of jet fuel on the spot market averaged nearly 56 cents a gallon. Shortly before Katrina, that price stood at $1.87 a gallon, and today spot is about $1.92. That was yesterday's price. That is a 243-percent increase over 4 years.

Driving the price of jet fuel is the cost of crude oil, now hovering in the mid-$60s a barrel, and of the additional premium that refiners charge to produce jet fuel, the so-called "crack spread." Now, this premium has grown dramatically in recent years and it exploded after Katrina.

In 2002, it averaged $3.63 a barrel. Shortly after Katrina, it peaked at $30.00 a barrel.

So, for all of 2005 we estimate that premium, that crack spread, will exceed $15.00, a 400-plus percent increase over 4 years. Now, no business model at any airline can survive with sustained jet fuel prices in what amounts to a $90.00 to $100.00 per barrel range.

The future is not bright. Our latest forecast shows that we are going to pay $9.2 billion more for fuel in 2005 than we did in 2004, and in 2005, we burned roughly 19 billion gallons of jet fuel and spent, roughly, $30.6 billion for that fuel. No wonder this industry is now projecting a nearly $10 billion loss for 2005 on top of the $32.3 billion we have already recorded over the last 3 years.

Now, to cope with this unprecedented situation, this industry has not simply sat back. We have taken and continue to take aggressive measures to mitigate fuel consumption, just as we were doing before Katrina. From 2001 to 2004 alone, thanks to newer fleets, single-engine taxi, lower cruise speeds, onboard weight reduction, access to more direct ATC routings, and a host of other measures, our fuel efficiency jumped nearly 20 percent, and it has tripled since 1971.

We responded by sharply reducing or limiting control costs in our business; revising long-standing collective bargaining agreements; streamlining operations; refining and, in some cases, even reducing hub operations; improving employee productivity; and overall productivity has risen a little less than 20 percent since the year 2000, up almost 2.2 million available seat miles per full-time employee.

We are parking less efficient airplanes. The big six passenger airlines reduced their operating fleets by over 500 aircraft from December 2000 to present and, unfortunately, these efforts have resulted in the loss of some 135,000 jobs in this industry alone. Now, for the same group, capital expenditures fell by $10 billion over the last 4 years. Likewise, unit operating costs, excluding fuel, fell from 10.3 cents per available seat mile to 9.2 cents, a 6-plus percent improvement. These efforts, truly, have been nothing short of astonishing, and it is clear that if not for the price we must pay for jet fuel, the airline industry would be profitable today. In fact, we remain at the mercy of oil markets and the Federal Government.

Gary Chase of Lehman Brothers is one of the top analysts for this industry and he said, and I quote, "The airline industry has moved aggressively to reduce costs in the face of unprecedented challenges. On a non-fuel basis, operating profitability is as good as it was in the late 1990s. Now, while these facts are exciting, they may also be moot. If oil prices do not return to historic normals, we see a materially greater chance for oil above $50.00 than below $40.00 for the next several years. Unfortunately, high fuel prices are consuming what would otherwise be an up cycle for this industry."

Now, it must also be recognized that at the end of the day, Katrina's impact is not limited to the airline industry. Every dollar increase in the price of a barrel of crude puts another 5,500 airline jobs at risk. This industry drives almost $1 trillion in economic activity here in the United States, 10 million jobs. Now, unfortunately, the harm to this industry caused by Katrina and continuing high oil prices will work its way into the broader economy, and in that sense we are somewhat like the mine and the canary for the economy.

What, if anything, can be done to respond? As I said in my written statement, we have a couple of suggestions. First, we hope that this Congress will move to grant a 1-year holiday from what was supposed to be a temporary gas tax imposed during the previous administration in 1993. That tax was intended to be dedicated to deficit reduction that was later moved to the Airport and Airways Trust Fund, and I would hope the Congress will favorably entertain suspending it for 1 year, while at the same time ensuring that the trust fund, the Aviation Trust Fund, remains whole.

Second, I think we should find and produce more domestic oil in the United States, including reserves from the Arctic National Wildlife Refuge, and the outer continental shelf. Other environmentally concerned nations are tapping into their offshore oil and natural gas reserves. We must do the same if our aviation network, indeed our entire transportation system, is to remain sound and competitive in the face of worldwide demand.

Third, we must add refining capacity in the United States. In the long term, if we do not build new refineries and grow overall refining capacity, we are fated to suffer even higher prices for refined product, including, home heating oil. The government should encourage the location and development of refineries across the United States, not just in the Gulf Coast region.

And, finally, Congress and appropriate federal regulatory bodies should exercise their oversight responsibilities to ensure that markets are driven by consumer demand and market forces, not speculation. Even prior to the run up of oil prices after Katrina, there was call for the GAO to examine the Commodity Futures Trading Commission's oversight of domestic petroleum trading. Consideration should be given to whether or not the measures in place to limit the impact of speculative trading are adequate. Likewise, the dramatic growth in the premium charge for refining crude into jet fuel, the crack spread, merits review.

Last, I would like to take a moment to touch on the industry's support of relief efforts after the hurricane struck. In the days immediately following, we moved into the New Orleans Airport with an operation dubbed "Operation Air Care." We moved some 13,000 to 14,000 people over 130 flights, and what is important about that is this was a fully volunteer operation, the pilots, the crews. We even had to carry our own mechanics and ground crews in, and it was a terrific effort. We were delighted to be part of it.

Mr. Chairman, Katrina serves as a reminder of the central role that this industry plays not only in our economy, but society at large. If our nation is to continue to grow and prosper, the importance of this potent capability that responded so well in a time of crisis must be recognized and served by rational policies that foster economic well-being in growth in the airline industry. This country needs a stable airline industry capable of providing diverse passenger and cargo services in good times and bad.

Taxes and fees imposed on the industry should be brought under control, and the government must adopt an energy policy that expands this country's oil production and refining capacity while respecting environmental concerns.

Thank you for your attention.

Senator BURNS. Thank you, Mr. May.

[The prepared statement of Mr. May follows:]

PREPARED STATEMENT OF JAMES C. MAY, PRESIDENT AND CEO, AIR TRANSPORT ASSOCIATION OF AMERICA, INC.

Thank you, Mr. Chairman for inviting me to talk about the effects of Hurricane Katrina on U.S. air carriers and their employees. The Air Transport Association is the trade association for the leading U.S. airlines. ATA members transport more than 90 percent of all passenger and cargo traffic in the United States.

Our nation has never experienced a natural disaster of the economic scope of Hurricane Katrina. Hurricane Camille in 1969, the San Francisco earthquake in 1989 and the terrorist attacks of four years ago have served as the unfortunate benchmarks of devastation in recent history . . . until Katrina. Beyond the human suffering and the loss of life and property, the common thread from each of these disasters is the ripple effects they send beyond the directly affected areas and into the national and international economies. While terrorists targeted their attacks on governmental and financial centers in an intentional effort to destroy our way of life, Hurricane Katrina, a random act of nature, will have a similarly disruptive effect on our economy, because it crippled a significant portion of our nation's energy infrastructure. Today we are much more dependent upon oil produced from the Gulf of Mexico and refined in Texas and Louisiana than we were in 1969 when Camille struck. And even small disturbances in the Gulf can have measurable impacts on the prices that consumers pay for gasoline and airlines pay for jet fuel.

Long before the devastation of Katrina, the airline industry was struggling under the economic and societal consequences of the attacks of 9/11, the resultant growth in federal taxes and fees, and, of course, already record-high oil prices. Air carriers are always among the sectors of the economy most affected by the soaring price of oil. While our members and the manufacturers of their aircraft have made remarkable gains in energy efficiency, it has proven impossible for conservation measures and technology to outpace the growth in the price of a barrel of oil. Unlike many industries, we have no alternative fuel source.

Anyone who follows the news knows that even before Katrina *all* U.S. airlines were facing an extremely challenging commercial and policy environment, with few signs of material improvement. Over the last four years, the industry—in total—has recorded over $32 billion in net losses (including federal reimbursements for the shutdown and a portion of our security costs). In this post-Katrina economic environment of higher fuel prices and lost revenue from Gulf Coast tourism we are projecting additional losses of *at least* $9 billion in 2005—up from earlier projections of $5 to $7 billion.

These losses have led us to borrow huge sums to survive, with few assets left to pledge as collateral. For the nine largest airlines, including Southwest Airlines, net debt stood at $81.3 billion at the end of 2004, resulting in a staggering net debt-to-capital ratio of 110.1 percent. Compare this to $64.2 billion and 71.7 percent at the end of 2000. Eleven of the 12 passenger airlines rated by Standard & Poor's are considered "speculative" investments, also known as "junk bond" quality. Only Southwest Airlines is considered investment grade.

Meanwhile, fares are running at late 1980s levels—a fourth of all domestic passengers now pay $200 or less including taxes for a roundtrip ticket; two-thirds pay $300 or less. Airline passenger revenue has plummeted from its historical average of 0.95 percent to 0.70 percent of U.S. GDP—a gap of $30 billion based on today's $11.7 trillion economy.

Long before Katrina, I learned that just when you think it can't get any worse it does, at least in the airline business. In January 2001, the price of jet fuel on the spot markets averaged 85.8 cents per gallon. On August 17, as Katrina was building in the Gulf of Mexico, the price stood at $1.87. Today it is hovering around $2.05 per gallon, a 239 percent increase over four years. In 2004, the industry paid

$21.4 billion for jet fuel. That tab would have been $5.5 billion lower at 2003 jet fuel prices and a whopping $8.0 billion lower at 2002 jet fuel prices.

Moreover, the differential between what refiners pay for a barrel of oil and what they are able to sell the same amount of refined product has grown dramatically in recent years, and been driven higher since Katrina. In 2002 this refining premium, referred to as the "crack spread" in the industry, stood at an average of $3.63. In 2003 it rose to $5.90 and then to $9.24 in 2004. This year we estimate a 12 month average in excess of $15.00, which represents a 414 percent increase over four years.

It is not unreasonable to argue that without the doubling of oil prices over the past three years the industry would not be in the economic crisis we find ourselves. But the future doesn't look any brighter. Our forecast shows that we will pay $9.2 billion more for fuel in 2005 than in 2004. If these projections prove accurate, the industry will have faced a 103 percent increase in its fuel costs from 2001 ($14.8 billion) to 2005 ($30.6 billion). When you understand that the industry has been hit with more than $30 billion in additional fuel costs and $15 billion in taxes, fees and unfunded mandates for security since 9/11, and compare those uncontrollable costs to the $32 billion the industry has lost over that period, it easy to see where the problems lie. No industry could improve its efficiency and cut its costs fast enough to keep up with this kind of growth in their uncontrollable costs.

On Monday of this week, the 12-month forward curve of future prices stood at $66.19 a barrel for crude oil and $1.98 per gallon of jet fuel ($83.16 per barrel). Now keep in mind that this industry consumed 18.6 billions gallons of jet fuel last year. That means that every penny increase in the price of a gallon increases our annual operating expenses by $186 million. Viewed from an employee perspective, every $1 increase in the price of a barrel of crude puts another 5,500 airline jobs at risk. Indeed, the airlines have shed 135,000 jobs from the payrolls since August 2001. That's a loss of one out of six employees and more cuts are likely.

When people say to me, "But every time I fly the plane is full." I respond, "They're full, alright. Full of cheap fares and expensive fuel." At today's fares and jet fuel prices, the average breakeven load factor for the industry would need to approach 85 percent, including all the low-cost carriers. Compare that to 65 percent in the mid-90s. That means that every single flight on average must be at least 85 percent full of paying passengers to avoid losing money—not to make a fortune!

So how are we coping? First, we obviously are taking all possible steps to reduce or mitigate fuel consumption, just as we were doing before Katrina. From 2001 to 2004 alone, thanks to newer fleets, single-engine taxi, lower cruise speeds, onboard weight reduction, access to more ATC lanes in the sky, and a host of other measures, our fuel efficiency jumped 18 percent to 45 passenger miles per gallon.

For this same group, capital expenditures fell from $13.1 billion in 2000 to $3.1 billion in 2004 (up slightly from $2.7 billion in 2003), while unit operating costs *excluding* fuel fell 6.2 percent from 10.36 cents per available seat mile (ASM) in 2002 to 9.72 cents per ASM in 2004.

I think that's pretty impressive. But you don't have to believe me. As Gary Chase of Lehman Brothers observed on March 15:

> "The airline industry has moved aggressively to reduce costs in the face of unprecedented challenges . . . On a non-fuel basis, operating profitability . . . is as good as it was in the late 1990s. While these facts are exciting . . . , they may also be totally moot if oil prices do not return to [historical norms] . . . [W]e see a materially greater chance for oil prices above $50 than below $40 over the next several years. *Unfortunately, high fuel prices are consuming what would otherwise be an upcycle for the industry.*"

Let me reiterate this point, were it not for fuel costs the industry would be profitable.

I'm often asked, "Why don't your members just raise fares and pass through high oil prices?" Well, it's this simple—if we could, we would. To cover the costs of fuel increases from 2003 to 2004, passengers would have to pay, on average, an additional $28 per ticket. Yet fares during this period continued to fall because of the intensely competitive nature of the industry. Indeed, only recently have carriers had even modest successes in raising fares in certain markets. These fare increases are hardly enough to cover the cost of crude oil rising from $26 a barrel in 2002 to over $66 in 2005. And as Standard & Poor's Phil Baggaley testified before the House Aviation Subcommittee this last year:

> "Fuel represents a roughly comparable proportion of expenses for railroads and many trucking companies . . . , but they have not been hurt by higher fuel prices to nearly the same degree . . . Part of the difference is due to more ac-

tive hedging programs by these freight transportation companies, but most is due to the fact that many of their contracts with corporate customers allow them to pass through higher fuel costs in the form of surcharges. Airlines have tried repeatedly to raise fares in response to high fuel costs, but with little success. [T]he problem comes back to a lack of pricing power in a very competitive market."

The unfortunate truth for most airlines today is that the economic principles of supply and demand still apply. If we could raise prices to cover the soaring cost of jet fuel or the many new taxes and fees that have been placed on the industry in recent years we would. But what many of our customers discovered in the post-9/11 world is that they don't *have* to fly. Business travelers choose teleconferences or e-mail instead of a face-to-face meeting if they aren't able to find a rock-bottom fare. Families will vacation near home as opposed to flying to Florida's beaches, Colorado's ski slopes or grandma's house. For short-haul flights, the addition of the TSA "hassle factor" has made taking the car a more viable option. It's important to remember, airlines don't just compete against each other. They compete against movie theaters, e-mail, video conferencing, automobiles, trains, corporate jets and even the local amusement park . . . anything that can substitute for a vacation or a face-to-face sales call. The loss of several popular vacation destinations along the Gulf Coast for the foreseeable future, including New Orleans, will only worsen this trend.

So where does that leave U.S. air carriers? Frankly, we will remain at the mercy of oil markets and the Federal Government. If the price of oil stays high and our taxes along with it, I expect more jobs lost, more flights cut and more airlines in crisis. In the international arena, our global competitiveness will continue to suffer because our airlines are paying disproportionately more than their foreign flag competitors, due to the relative weakness of the dollar. My CEOs will continue to find ways to wring costs from those areas they can, and that includes further fuel conservation. But you can only be so efficient. As I said when I started, the airline industry is one of the most severely hurt by the soaring price of oil. Since we have no other options, airplanes will be burning refined oil long after other modes of transportation have moved beyond it. Not because we want to but because the principles of aircraft design rule out alternatives.

So, will oil stay above $60? For business planning purposes it is prudent to assume that it will. And while there is nothing that can be done in the short term to reverse the continuing damage that high fuel prices are having on the industry, the government can take step to help—**grant a one-year holiday from the 4.3 cents-per-gallon jet fuel tax.** This tax, imposed in 1993 was intended to be temporary and dedicated to deficit reduction. It was later redirected into the Airport and Airway Trust Fund, but remains on the books to this day while similar taxes on other transportation have been repealed.

For the medium and long term, the solution to the problem is to do more . . . more of everything. And by more I mean more conservation and more production—including here at home. I am proud of the efficiency gains that the aviation sector has made over the past 30 years. If other industries throughout the world had kept pace, we would not face nearly the crisis we face today. Yet conservation and efficiency are only part of the equation. We must find and produce more oil in the U.S. including from the Artic National Wildlife Refuge and the outer continental shelf. Other nations that many consider to be more environmentally conscious than the United States such as Norway, Great Britain and Japan are tapping into their off-shore oil and natural gas reserves for both national security and economic reasons. Yet in recent years, the United States has moved to expand restrictions on this kind of energy production, including in the recently passed "Energy Policy Act of 2005." Our nation possesses the most advanced oil production technologies in the world and these areas can be produced in an environmentally safe manner. In fact Hurricane Katrina proved how environmentally safe they are, since there was little or no leakage from the hundreds of off-shore platforms that were in the path of the storm, including those that were knocked from their moorings and set adrift.

Specifically, the administration should immediately begin the process of leasing for oil production in the remaining area of the eastern Gulf of Mexico known as Lease Sale 181. Furthermore, Congress should direct that revenues derived from these new leases be dedicated to Hurricane Katrina recovery and reconstruction efforts.

As I alluded to earlier, the rapid economic expansion in countries like China and India will demand more and more oil and keep pushing prices higher. The "more of everything" approach can work there, too. The United States should encourage those nations to find and produce more of their own energy as well as help them use it more efficiently by providing them with technologies to reduce waste.

More of everything also means that as a nation we must be willing to build new refineries. I know that this issue is outside of this Committee's jurisdiction, but our nation's stagnant refining capacity has created a bottleneck in the distribution chain that further increases prices, as noted above. Hurricane Katrina immediately knocked out 19 percent of U.S. oil refining capacity and 13 percent of our jet fuel refining. Had Katrina made landfall further west, the toll on the refiners would have been even greater and fuel prices would likely be even higher. While in the short term it is critical for our economy that these refineries be restored to full operational capacity as quickly as possible, in the longer term, if we do not begin to build new refineries and grow overall refining capacity I fear that we are fated to suffer even higher prices.

New refineries, just like new oil production, should not be concentrated in one place, leaving them unnecessarily vulnerable to natural disasters and terrorist attacks. We now know the price we can pay for putting so many of our energy eggs into one basket—the Gulf Coast region.

Also, I encourage Congress and the Administration to ensure that forces are not working within western energy markets to unnaturally inflate prices. There are simply too many unnatural influences in global oil markets to allow market speculators to contribute to the problem. I encourage Congress and the appropriate federal regulatory bodies to exercise their oversight responsibilities to ensure that markets are driven by consumer demand and not speculation. Even prior to the run up of oil prices after Katrina, there were calls for the Government Accountability Office (GAO) to examine the Commodity Futures Trading Commission's (CFTC) oversight of domestic petroleum trading. I believe this to be even more appropriate today.

Some have attacked the airline industry for not being fast enough to adapt to market changes. I strongly disagree with this view and point the past three years of aggressive cost-saving moves taken by all airlines to stay competitive. I also point to the past 30 years of aggressive efforts by the industry to save fuel and improve efficiency. We have been and will continue to be leaders in each of these areas.

In regard to the hurricane's impact on airport infrastructure and the National Airspace System, airports in areas affected by Hurricane Katrina have recovered relatively quickly from an operational perspective. There were varying degrees of damage to both airport facilities and Federal Aviation Administration (FAA) navigational aids, but in general, airports with commercial service are fully operational. New Orleans International Airport (MSY) in particular, suffered some significant damage to the airport roof and adjacent facilities, but temporary measures have enabled the restoration of commercial service on September 13. All other commercial airports in the region are fully operational.

Since I have talked to you about the impacts of the hurricane on the airlines, I'd now like to tell you of the impact the industry has had on the relief and recovery operation. In the days immediately following the disaster, ATA and its member airlines conducted an airlift of Hurricane Katrina victims out of New Orleans to multiple evacuee sites around the nation. Known as "Operation Air Care," ATA coordinated the scheduling of the aircraft and crews contributed to this vital effort. Over a six-day period beginning August 30, "Operation Air Care" evacuated more than 13,000 people on more than 130 flights to at least nine locations. I would like to make clear that this effort was industry-wide, including carriers that currently are operating in bankruptcy, and many flight crews that volunteered their time to help out. I have never been so proud of our industry and our employees.

In addition to stepping up to help in the relief efforts in the days after Katrina hit, the airlines also were focused on ensuring that there was sufficient jet fuel available at all commercial service airports to allow for uninterrupted service. With 13 percent of jet fuel refining capacity shut down and the two major pipelines that serve the East Coast out of commission, swift action was required on the part of airlines and fuel suppliers. This allowed for the industry to quickly identify which airports faced potential jet fuel shortages and to take measures to prevent service interruptions, including disruptions to relief flights. The airlines, out of necessity, had to take the Draconian measure of "tankering" fuel, which simply means placing extra fuel on planes going into those airports identified as facing shortages. This Hobson's choice successfully prevented those "at risk" airports from running out of fuel but resulted in those airplanes flying with greater onboard weight, which increased fuel consumption, i.e., burning more fuel to get fuel where fuel was needed. Of course, carrying this extra fuel displaced revenue generating payloads such as cargo and passengers, making this stop-gap measure extremely expensive.

This effort also necessitated close monitoring of those airports from where we were drawing fuel, so as not to create shortages there. This was a first-stage crisis-control measure that allowed us to meet our schedules and keep our commitments to our customers. Unfortunately, with jet fuel prices hitting record highs at the same time, it came at an incredible cost. As we return to our normal operations, we continue to face jet fuel prices that were incomprehensible only a few months ago, and unexpected fuel bills for our efforts to keep the system running during the past two weeks.

As I look back at "Operation Air Care," I hope that it serves as a reminder of the central role that the airline industry plays—not only in our economy but within our society. Using the same people and machines that allow for our "just-in-time" economy to function, that bring buyers and sellers together, and that reunite grandparents with grandchildren, air carriers were able to bring much needed bottled water and relief workers in, and get evacuees out. This massively potent capability that served the devastated Gulf Coast areas so well serves an important role every day as the economic and transportation engine that quickly connects the expanses of our nation to each other and the rest of the world.

To conclude, for the airlines the saying "It is always darkest before the storm" is reversed. We now face an even darker period than we did before Katrina brought her 160 mile-per-hour winds and flood waters to the Gulf Coast. Even higher fuel prices and the loss of tourism to the impacted areas were, not nor could have, been planned for. Let me be very clear about this. No business model at any airline can sustain such a rapid increase in fuel prices.

So, in the immediate term, repeal of the 4.3 cents-per-gallon tax on commercial aviation fuel will help protect airline jobs, sustain service to smaller communities, foster competition that benefits consumers and allow for this industry, which is so critical to the health of our economy, to begin its recovery.

In the longer term we must take the lessons learned from Katrina and diversify our nation's oil production and refining so that no single natural or man-made disaster can have such a broadreaching impact of our vital energy infrastructure. If we do not, prices are certain to continue to climb and the record-high gasoline and jet fuel prices we see today will be remembered fondly by consumers and airlines as the "good old days," rather than the darkness after the storm.

Thank you.

Senator BURNS. Now, we will hear from Mr. Frank Miller, Airport Director at Pensacola Regional Airport of which Senator McCain is, probably, pretty familiar.

## STATEMENT OF FRANK MILLER, AIRPORT DIRECTOR, PENSACOLA REGIONAL AIRPORT

Mr. MILLER. Thank you, Mr. Chairman. Pensacola Regional Airport is a small hub airport with 1.6 million total passengers and with a staffing level of 50 employees. On September 16, 2004, we——

Senator BURNS. Is your microphone on? Push the button.

Mr. MILLER. I am sorry.

Pensacola Airport is a small hub airport with 1.6 million total passengers and with a staffing level of 50 employees. On September 16, 2004, we were in the path of Hurricane Ivan, one of four hurricanes to strike the State of Florida in a 6-week period.

Pensacola Regional Airport closed its airfield on Wednesday, September 15th, at 3:30 p.m. due to tropical force winds coming in advance of Hurricane Ivan, a Category III hurricane. The hurricane made landfall in the early morning hours of September 16, with 130 mile-per-hour sustained winds. As the hurricane force winds subsided in the midmorning hours of September 16th, airport personnel inspected the airfield operating environment, made repairs, and by 12:45 p.m. reopened the airfield for emergency relief aircraft only. Roads and highways leading into Escambia and Santa Rosa Counties were impassable due to fallen trees, debris, and damaged bridges. In response to this, Pensacola Regional Airport was designated as the primary staging area for disaster relief supplies, filling this role for the first 4 days of disaster relief operations.

During these 4 days, a mixture of C–17 and C–130 military aircraft began major relief operations, and 24 various civilian and military helicopters conducted numerous missions from the airport on an around-the-clock basis. With temporary flight rules in place over the airport, Pensacola Regional Airport operations personnel assumed control of the airfield and issued 219 aircraft landing authorizations.

Consumable materials, such as unleaded and diesel fuels, were a critical component for recovery vehicles and equipment, but due to the airport's limited storage capacity at the fuel farm, the airport quickly became dependent on outside suppliers after exhausting its internal reserves. This put us in direct competition with all the other requesting agencies working through the local emergency operations center.

Competing with these other agencies for a finite supply of fuel was challenging, given the continuous need for fuel to support electrical generators for the airfield and buildings, for tenant-operated aircraft servicing equipment, and personal vehicles for key personnel such as police officers, operations and maintenance personnel, and air traffic controllers to ensure their ability to get to and from the airport.

Seven airports in the southeast United States sent 27 airport-trained personnel to provide immediate assistance to Pensacola. The personnel were electricians, HVAC technicians, building maintenance technicians, airfield operations personnel, dispatchers, law enforcement officers, and fire fighters. The amount of time these personnel stayed in Pensacola varied, but one team stayed for a full 7 days.

Hurricane Ivan disrupted commercial power and water to the airport for a total of 8 days. Nearby hotels that were open were filled up to capacity with displaced Pensacola residents. Immediately following the hurricane, there was an ongoing demand to provide a safe and sanitary off-duty environment for the response teams for sleeping, showering, and eating.

The airport has an integral role in the recovery of a community, providing the airfield infrastructure to support airlift relief operations. Hurricane Ivan's toll on Pensacola Regional Airport made it apparent that airports affected by hurricanes would be dependent upon assistance from other airports for personnel, supplies, and building materials to recover and begin commercial operations. Community-wide disaster relief efforts made it difficult, if not impossible, to rely upon local assistance. Any local assistance would not be airport-knowledgeable and unable to work independently of local airport personnel.

Initiated by the Savannah/Hilton Head International Airport, a mutual aid network is being established that recognizes the need for other airports to provide disaster relief to affected airports and thereby minimize the time to resume commercial operations. Pensacola's experience with Hurricane Ivan also highlighted the need for a single outside point of contact or a clearinghouse for assistance. This clearinghouse coordinates the assistance to the damaged airport and thereby relieves the affected airport personnel from taking numerous phone calls offering assistance, and to assure relief efforts were coordinated and controlled.

Savannah/Hilton Head International Airport accepted the role as the clearinghouse, to receive requests for aid and to disseminate those requests to the airports in the mutual aid network.

Although not fully established when Hurricane Katrina hit the Gulf Coast, the Southeast Airports Disaster Alliance Group initiated its relief efforts with Savannah/Hilton Head providing the agreed upon clearinghouse services. As the relief efforts evolved, Pensacola Regional Airport, as the closest fully operational airport to Gulfport/Biloxi, became the logistical hub for the airport response teams going into Mississippi. We provided final briefings for navigating anticipated road detours, topped off fuel tanks, procured and loaded additional supplies, and coordinated housing with local hotels for rotating teams. Similar activities were occurring in Houston for aid to the New Orleans Airport.

The first lesson learned with Hurricane Katrina: One airport must serve as the clearinghouse to coordinate mutual aid assistance, while a second airport becomes the logistical hub for the response teams. During the first 2 weeks following Hurricane Katrina, the Airports Disaster Alliance Group has worked through a learning curve as it provides relief assistance to Gulfport/Biloxi.

Lessons learned: The airport clearinghouse needs a direct FEMA point of contact. This point of contact must be identified 72 hours prior to the forecasted landfall and be available immediately after the storm to work with the clearinghouse to provide mission numbers for each airport sending response teams into the affected area. Mission numbers are critical to ensure teams are able to access the affected area through any ground checkpoints that may be present, to ensure aircraft can transit the Temporary Flight Rule, TFR, area established over the airport, and to ensure reimbursement protocols are established for the costs incurred by the responding airports.

During the Gulfport/Biloxi relief effort, airports were delayed while awaiting official calls for assistance. The Gulfport/Biloxi Airport Director was required to contact his state EOC to request support from a particular airport. His state EOC then called the responding airports' state EOC to officially initiate the request for assistance.

FEMA can and should intervene to make direct requests to the airport clearinghouse, initiating specific relief requests without going through multiple state contacts, and providing the necessary mission numbers at the time of the request. Hurricane response equipment and supplies generic to any storm event should be purchased and stored in trucks at a location in the southeast U.S., ready and available to be dispatched immediately after a storm. These trucks should be dispatched and report to the nearest airport identified as the logistical support airport and which shall serve as the base for responding teams. An ongoing FEMA presence at this airport would serve as the facilitator for the airport relief efforts. Examples of supplies to be stored in these trucks would include emergency generators, water, MREs, satellite telephones, and building supplies. Temporary housing for the responding teams is needed to provide the safe and sanitary off-duty living environment. Response teams cannot rely on the availability of local housing. Trailers capable of housing five to seven people with an independent water supply should be stored at the same location as the relief supplies and trucks and be a part of the supplies and equipment sent into the area for airport relief efforts.

As the Airports Disaster Alliance Group evolves, it is clear that we have the technical expertise to provide onsite and immediate relief that will help an airport recover and resume operations, but it is also clear that our efforts require Federal support to provide the necessary coordination with state and local relief efforts, and to provide the necessary supplies, equipment, and materials necessary to conduct disaster relief operations. Thank you for the opportunity to speak this morning.

Senator BURNS. Thank you.

[The prepared statement of Mr. Miller follows:]

PREPARED STATEMENT OF FRANK MILLER, AIRPORT DIRECTOR, PENSACOLA REGIONAL AIRPORT

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Competing with these other agencies for a finite supply of fuel was challenging given the continuous need for fuel to support electrical generators for the airfield and buildings, tenant-operated aircraft servicing equipment, and personal vehicles of key personnel such as police officers, operations and maintenance personnel, and air traffic controllers to ensure their ability to get to and from the airport.

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The first lesson learned with Hurricane Katrina: One airport must serve as the clearinghouse to coordinate mutual aid assistance while a second airport becomes the logistical hub for the response teams.

During the first two weeks following Hurricane Katrina the Airports Disaster Alliance Group has worked through a learning curve as it provides relief assistance to Gulfport/Biloxi. Lessons learned:

- The airport clearinghouse needs a direct FEMA point of contact. This point of contact must be identified 72 hours prior to the forecasted landfall and be available immediately after the storm to work with the clearinghouse to provide mission numbers for each airport sending response teams into the affected area. Mission numbers are critical to ensure teams are able to access the affected area through any ground checkpoints that may be present, to ensure aircraft can transit the Temporary Flight Rule (TFR) area established over the airport, and to ensure reimbursement protocols are established for the costs incurred by the responding airports.
- During the Gulfport/Biloxi relief effort airports were delayed while awaiting the official calls for assistance. The Gulfport/Biloxi Airport Director was required to contact his state EOC to request support from a particular airport; his state EOC then called the responding airport's state EOC to officially initiate the request for assistance. FEMA can and should intervene to make direct requests to the airport clearinghouse, initiating specific relief requests without going through multiple state contacts, and providing the necessary mission numbers at the time of the request.
- Hurricane response equipment and supplies generic to any storm event should be purchased and stored in trucks at a location in the southeast U.S., ready and available to be dispatched immediately after a storm. These trucks should be dispatched and report to the nearest airport identified as the logistical support airport and which shall serve as the base for responding teams. An on-going FEMA presence at this airport would serve as the facilitator for the airport relief efforts. Examples of supplies to be stored in these trucks include emergency generators, water, MREs, satellite telephones, and building supplies.
- Temporary housing for the responding teams is needed to provide the safe and sanitary off-duty living environment. Response teams cannot rely on the availability of local housing. Trailers capable of housing 5–7 people with an independent water supply should be stored at the same location as the relief supplies and trucks and be a part of the supplies and equipment sent into the area for airport relief effort.

As the Airports Disaster Alliance Group evolves it is clear that we have the technical expertise to provide on-site and immediate relief that will help an airport recover and resume operations; but it is also clear that our efforts require federal support to provide the necessary coordination with state and local relief efforts, and to provide the necessary supplies, equipment and materials necessary to conduct disaster relief operations.

Thank you for the opportunity to speak this morning.

Senator BURNS. And now we will hear from Ms. Deborah McElroy, President, Regional Airline Association. Thank you for coming this morning.

## STATEMENT OF DEBORAH C. MCELROY, PRESIDENT, REGIONAL AIRLINE ASSOCIATION

Ms. MCELROY. Thank you, Mr. Chairman, Members of the Committee. I will begin by briefly giving some information about the Regional Airline Industry. These carriers use 9 to 108 seat airplanes, and last year they transported one out of every five domestic passengers. We serve 655 of the 664 airports in the United States with scheduled commercial service. At 479 or 72 percent of these communities, regional airlines provide the only source of scheduled air transportation. Of those communities, 99 in the lower 48 States, as well as 3 in Hawaii and 33 in Alaska, receive subsidized air service through the Essential Air Service Program, EAS. The majority of regional airline service is provided in partnership with the major carriers under co-sharing agreements.

In 2004, 99 percent of 135 million passengers transported by regional airlines traveled on co-sharing airlines. These partnership agreements, which provide benefits for passengers and the airlines, have two broad methods of revenue sharing. The first, prevalent among larger regional carriers operating regional jets, occurs when a major and a regional carrier enter into a fee for departure, or capacity buy agreement, where the major fully compensates the regional airline at a predetermined rate for flying a specific schedule.

The second arrangement, common to smaller, turboprop operators, occurs when the major pays a portion of the passenger ticket revenue. This is referred to as “pro-rate” or “shared revenue” flying.

While regional airlines with pro-rate agreements are most vulnerable to cost increases and the recent fuel cost crisis, it is important to note that the fee for departure carriers also suffer when fuel costs increase this dramatically. Even if the regional airline is fully compensated by the major carrier for fuel costs, the majors must take into account those increased costs and the markets profitability into consideration when route and capacity decisions are made.

Major carriers have no choice but to eliminate small community routes that lose money for long periods, even if those routes contribute some connecting revenues to the mainline system.

My colleague, Jim May, has provided excellent data on the increase in jet fuel costs, so I will not repeat this important information, but I would like to point out the regional carriers, like their major counterparts, have taken steps to minimize fuel burn by lowering cruise speeds, safely altering approach paths, and reducing onboard weight. We also have worked in cooperation with the Air Transport Association in tankering fuel to airports were supplies are limited. Nonetheless, fuel now ranks as the second highest cost for regional airlines just behind labor.

Regional carriers with both types of compensation arrangements are clearly feeling the strain, but essential air service carriers, whose rates are set at 2-year levels by the Department of Transportation, are seeing major troubles as well. There were problems before Hurricane Katrina devastated the Gulf region, but that tragedy has made a bad situation even worse. As part of the EAS application process, carriers must project costs and profits over this 2-year time frame. It is no easy task in today's volatile cost environment.

Historically, in cases of unexpected cost increases, essential air service carriers have had to enter into the unpalatable process of filing notice to terminate service in 90 days to begin the process of working cooperatively with DOT to seek compensation rates that cover the increased costs. This inevitably caused ill will between an airline and the community, and the process also forced an airline to operate at a loss for 180 days while DOT reopened the competitive bidding process. This is true despite a cornerstone of the original EAS law which provides that no carrier should be forced to serve a community at a loss.

Under the leadership of this Subcommittee, Section 402 of Vision 100 was enacted, providing DOT flexibility in its rate-making process in instances where carriers experienced increased costs, defined as a 10 percent increase or more, consistent for two or more consecutive months. Unfortunately, DOT has declined to use this tool Congress afforded it to reconcile fuel cost increases and EAS subsidy rates, citing the need for a specific appropriation. As a result, carriers are losing money every day on EAS routes and this service is in jeopardy.

RAA stands ready to help Congress further enact EAS program reforms as the next FAA Preauthorization takes place. We join our ATA colleagues in requesting that Congress provide appropriate relief from the 4.3 cent-a-gallon tax on jet fuel.

But there is another issue unique to regional carriers that we would like Congress to consider. The jet fuel tax change included in the Highway Bill now requires airlines to pay 24.4 cents up front for fuel purchases and file for a rebate from the IRS. This system which places the burden on airlines to apply and wait for a refund of the difference is causing a severe cash crunch for this nation's smallest airlines. These airlines, unlike the major carriers, do not have any ticket tax payment to offset the fuel tax payments, because in modern code-sharing relationships, we do not issue the tickets. We urge you to amend the law and, in the interim, to require IRS to refund the taxes on a monthly basis.

Finally, we urge you to work with your colleagues on the Appropriations Committee to educate them on the need to appropriate the full, authorized amount of $127 million to prevent service loss at many communities across the nation.

Thank you for the opportunity to testify and I will look forward to responding to your questions.

Senator BURNS. Thank you.

[The prepared statement of Ms. McElroy follows:]

PREPARED STATEMENT OF DEBORAH C. MCELROY, PRESIDENT, REGIONAL AIRLINE ASSOCIATION

**Introduction and Background**

Good morning. Mr. Chairman and Members of the Subcommittee, on behalf of the 45 airline members of the Regional Airline Association, thank you for inviting me to appear before you today to discuss escalating fuel costs and impacts on regional airline operations and Essential Air Service in the wake of Hurricane Katrina.

I am Deborah McElroy, President of the Regional Airline Association, or RAA. RAA represents regional airlines providing short and medium-haul scheduled airline service connecting smaller communities with larger cities and hub airports operating 9 to 68 seat turboprops and 30 to 108 seat regional jets. Of the 664 commercial airports in the nation, fully 479 are served exclusively by regional airlines. This means, at 72 percent of our nation's commercial airports, passengers rely on regional airlines for their only source of scheduled air transportation.

Of those communities, 99 communities in the lower 48 states as well as three in Hawaii and 33 in Alaska receive subsidized air service by regional carriers through the Essential Air Service Program, or EAS, which was enacted as part of the Airline Deregulation Act of 1978. The EAS program was crafted to guarantee that small communities served by certificated air carriers before deregulation would maintain a minimum level of scheduled air service after deregulation.

The program has been in effect each year since 1978 at various funding levels and through several eligibility criteria adjustments that take into account distance from nearby hub airports and other factors. Most recently, in Fiscal Year 2005, the EAS program was funded at $104 million. The House appropriation for FY06 was $105 million and the Senate Appropriation at present stands at $110 million. RAA estimates the program will need a full $127 million in order to function as enacted during FY06 and we remain committed to working with Congress to ensure that the larger EAS appropriation—critical for the program—is enacted.

With your permission, I will return to this topic. First I would like to discuss some characteristics of regional airline service. Many of you already know that the majority of regional carriers operate in partnership with the major airlines under codesharing agreements. In fact, in 2004 99 percent of the 135 million passengers transported by regional carriers traveled on code sharing airlines. Code sharing agreements, which provide benefits for passengers, regional and major airlines, have two broad methods of revenue sharing. The first, prevalent among larger regional carriers operating regional jets, occurs when a major and regional airline enter into a "fee for departure" or "capacity buy" agreement where the major compensates the regional airline a predetermined rate for flying a specific schedule. Within this arrangement are mandatory standards for customer service, on-time performance and baggage handling requirements and incentives rewarding excellent performance.

A second arrangement, common to smaller, turboprop operators, occurs when major airlines pay regional airlines a portion of passenger ticket revenue. This is referred to as "pro-rate" or "shared revenue" flying.

While regional airlines with pro-rate agreements are most vulnerable to cost increases and the recent fuel cost crisis, it is important to note that fee-for departure carriers also suffer when fuel costs increase this dramatically. Even if the regional airline is compensated by the major airline for fuel costs, the majors must take those increased costs and the market's profitability into consideration when route and capacity decisions are made. Major carriers have no choice but to eliminate regional routes that lose money for long periods, even if those routes contribute some connecting revenues to the mainline system. As you know, most of the major airlines are experiencing some of the most daunting challenges in the history of the industry. They cannot afford to continue unprofitable routes and when this service is discontinued, regional airlines and passengers in small communities suffer as well.

With jet fuel costs expected to rise by more than $9 billion this year, regional airlines are being hit hard. In July 2005, jet fuel averaged $1.66 per gallon—52 cents more than in July 2004. According to one RAA member, this meant that the 592 gallons of fuel required for a 40 seat regional jet to fly approximately 600 miles cost $1,024 in July 2005 compared with $600 just one year before. The effect of Katrina has produced an even more dramatic jump in fuel costs so that even with load factors at an all-time high, the U.S. airline industry collectively is struggling financially due to the unprecedented jump in oil prices and an even more dramatic increase in the price of jet fuel.

Regional airlines are providing critical service to smaller communities with airplanes that use much less fuel than larger aircraft. Turboprop aircraft are among the most fuel efficient aircraft for short-haul routes and RJs have some of the most modern, fuel efficient engines in the airline industry. Like our major airline counterparts, regional carriers have sought to minimize fuel burn by tankering fuel, lowering cruise speeds, safely altering approach plans and reducing onboard weight, making every effort to manage escalating fuel costs with an eye toward conservation. Nonetheless, fuel now ranks as the second highest cost for airlines, ranking just behind labor.

Regional airlines with both types of compensation arrangements are certainly feeling the strain. But Essential Air Service carriers, whose rates are set at two-year levels by the Department of Transportation (DOT), are seeing major troubles as well. There were problems before Hurricane Katrina devastated the gulf coast on August 29, 2005, but that tragedy has made a bad situation even worse.

**Hurricane Katrina**

Fuel costs were already devastatingly high for U.S. carriers before Hurricane Katrina crippled oil and gas operations in the Gulf Coast and shut down most of the output from the region. Because my colleague from the Air Transport Association went over these numbers in detail, I will focus on service impacts, except to underscore the fact that Katrina initially wiped out 19 percent of domestic refining capacity, including 13 percent of the nation's daily jet fuel production. Further, oil imports are down 10 percent because of Katrina's extensive damage to Louisiana's major oil-import terminal.

By September 1, jet fuel prices had risen 49 cents per gallon to $2.36, from $1.87 on August 17. While recovery efforts and action by various federal agencies have led to the price of jet fuel being $2.00 per gallon today, this cost remains untenable for major and regional carriers alike.

Some lawmakers have suggested that carriers pass along fuel increases to passengers. But competition has not become less intense just because fuel prices have skyrocketed. In fact, regional airlines compete not only carrier to carrier. In short-haul markets, we compete with the automobile. Data from the most recent DOT Inspector General's "Aviation Industry Performance" report indicates that scheduled flights in markets of 249 miles or less declined 26 percent when you compare July 2005 to July 2000. For regional airlines, significant fare increases can mean significantly fewer passengers.

Business passengers, who constitute more than 65 percent of regional airline travelers, have embraced advances in communications technology, making traveling more elective than ever and highly price-sensitive. Airlines may be able to enact fuel surcharges, but these surcharges would still fail to recoup the losses incurred due to the recent spike in fuel costs. Further, given the numerous differences in pro-rate agreements for smaller regional airlines, it is likely that the increase in revenue from their pro-rata portion of the fuel surcharge would not fully compensate them for their increased fuel costs.

**Essential Air Service**

The Essential Air Service program is administered by the Department of Transportation, where "best and final" competitive proposals are submitted by regional carriers. The Department selects carriers and establishes EAS subsidy rates based on that bidding process.

If a carrier is the only airline serving an EAS eligible community and wishes to exit the market, DOT regulations require it to file a 90 day service termination notice. DOT may hold that carrier in the market during this period, while a subsidy eligibility review or competitive bidding process is undertaken. Likewise, carriers operating EAS subsidized routes must also file a 90 day service termination—subject to even more onerous hold-in policies—in order to trigger a renegotiation of rates if costs increase significantly during the lifetime of the rate agreement.

As part of the EAS application process, carriers negotiate in good faith with DOT on subsidy rates that remain in effect for two years. As part of the competitive bidding process, EAS carriers must project costs and profits over this two-year timeframe—no easy task in today's volatile cost environment. In cases of unexpected cost increases, EAS carriers have no tool to renegotiate rates and must instead enter into the unpalatable process of filing notice saying that the carrier intends to terminate its service in 90 days to begin the process for seeking compensation rates that cover their increased costs. This inevitably causes ill-will between an airline and community, in some cases fostering a sense of unreliability that ultimately undermines the use of the air service and further drives up subsidy rates (as fewer passengers traveling causes air fares to climb). And the process also forces carriers to operate at a loss for 180 days while DOT reopens the competitive bidding process. This is true despite a cornerstone of the original EAS law which provides that no carrier should ever be forced to serve any community at a loss.

During deliberation of Vision 100, the most recent FAA Reauthorization bill, Congress noticed the destructive effects of rising fuel costs on the EAS program. Under the leadership of this Subcommittee, Section 402 of Vision 100 included a provision giving DOT flexibility in its rate-making process in those instances where carriers experienced "significantly increased costs." With an eye to preventing deliberate cost underestimation, Congress included an index where "significant increase" is defined as a 10 percent increase in unit costs that persists for two or more consecutive months. Unfortunately, DOT has declined to use the tool Congress afforded it to reconcile fuel cost increases and EAS subsidy rates, citing the need for a specific appropriation. As a result, carriers are losing money on EAS routes in unprecedented numbers.

As just one example, in July 2004, the fuel cost for a Beech 1900 on a one-hour (block time) flight was $133.41. In July 2005, the fuel cost had increased to $202.12, nearly 52 percent higher. Only two months later, for the week ending September 2, fuel costs for that flight were $272.51, up 35 percent from July. These figures utilize jet fuel purchasing formulas commonly employed by regional airlines, based on cost data tracked in the Energy Information Administration's Weekly Petroleum Status Report. It is important to note that these figures calculate base fuel cost only—they do not include "into plane fees" and federal, state and local fuel taxes. The overall losses across all EAS carriers are staggering and the program, as we know it, is in jeopardy.

In fact, we estimate that current fuel cost increases for all carriers in the program will drive up program costs significantly even if not one more community becomes eligible in the next fiscal year. Yet, according to the DOT website, there are currently 60 EAS-eligible, single-carrier markets which could come into the program. (While more than 60 communities are technically "eligible" I am referencing those that received service pre-deregulation and do not meet other disqualifying factors such as distance to nearby airports). Of those 60 communities, anywhere from 15 to 30 could begin to require subsidy should the carriers file termination notices. Given the significant reductions in small community service and substantial cost increases affecting the airlines, it is reasonable and responsible to plan for more than half of all eligible communities to soon require subsidy. Under even the most optimistic scenario, therefore, the DOT will need at least $127 million in Fiscal Year 2006, to run the program. This Appropriation should also contain a line-item directing DOT to utilize the rate-adjustment tool afforded by Vision 100 to accommodate dramatic fuel cost increases.

Early versions of a Senate appropriation sought to fix this problem by prohibiting newly eligible communities from collecting subsidy; yet such a prohibition runs counter to the original intent of the law, which guarantees air service to eligible communities.

RAA stands ready to help Congress enact further EAS program reforms as the next FAA reauthorization takes place. We are eager to discuss a rewrite of the eligibility criteria, realizing that some rules set nearly three decades ago no longer apply. Nonetheless, the most important thing Congress could do right now to help passengers in EAS communities and the airlines is to release the full authorized amount of $127 million for the EAS program in FY06 and to require DOT's cooperation in making real-time rate adjustments for cost increases.

**Request for Congressional Action**

- Considering the staggering impact that increased fuel costs have brought for U.S. regional and major airlines alike, RAA requests, along with our colleagues at the Air Transport Association, that Congress provide a tax holiday on the $4.3 cents-a-gallon tax on jet fuel. Further, we request that any fuel surcharge charged by carriers be exempt from the existing 7.5 percent passenger ticket tax.
- We further request that Congress reconsider changes to the jet fuel tax rate that were made as part of the American Jobs Creation Act enacted last year and the additional proposed change included in the Highway bill that would require airlines to pay 24.4 cents up front for fuel purchases and file for a rebate from the Internal Revenue Service (IRS). This system, which places the burden on airlines to apply and wait for a refund of the difference, with tax on jet fuel at $4.3 cents per gallon, is causing a severe cash crunch for smaller regional airlines. Changes already implemented by the American Jobs Creation Act brought the upfront costs to 21.4 cents per gallon with the highway bill poised raising the burden even further. Regional airlines do not have any ticket tax payments to offset the fuel tax payments because, in modern code sharing relationships, we do not issue the tickets. We urge you to amend the law and, in the interim, to require IRS to refund the taxes on a monthly basis. This tax

and refund procedure places a tremendous burden on airlines and impacts cash flow at a time when carriers are already struggling mightily from fuel costs.

- Finally, we urge you to work with your colleagues on the Appropriations Committee to educate them on the need to appropriate the full, authorized amount of $127 million dollars to keep the important EAS program afloat during this period of dramatic fuel cost increases. The fuel cost increases resulting from Hurricane Katrina have further injured the financial state of EAS carriers who, without rate adjustments and compensation for increased fuel costs, cannot continue to sustain service at a loss. Only a full appropriation of $127 million can prevent service losses at multiple EAS points across the nation.

**Conclusion**

Thank you for the opportunity to testify on this important issue today. I look forward to responding to your questions at the conclusion of the panel.

Senator BURNS. And I have one question that I want to ask of Mr. May and then I have some more follow-up questions. Mr. May, are your members right now paying higher fuel prices on their international flights and where they purchase fuel at foreign airports?

Mr. MAY. Excuse me. Mr. Chairman, the $9 billion increase year-over-year from 2004 to 2005 is both domestic and international. So the answer is, yes, we are indeed.

Senator BURNS. Did we hit such a spike on our international airports as we did domestically?

Mr. MAY. The answer is no, because of the weakness of the dollar. Fuel is more affordable, if you will, not as expensive in Europe as it is here in the United States.

Senator BURNS. Senator McCain.

Senator MCCAIN. Thank you, Mr. Chairman.

Mr. May, you would like to see some relief from some of the taxation, is that correct?

Mr. MAY. Yes, sir.

Senator MCCAIN. Then your first priority is the 4.3 cents jet fuel taxes, is that correct?

Mr. MAY. Senator McCain, we think that tax was intended originally to be temporary, used for deficit reduction, but has remained on the books, albeit in favor of the Aviation Trust Fund, is the best candidate for short-term immediate relief with the understanding that it is equally important that we keep the trust fund whole. It scores at about $600 million, and I think we would hope that the Congress would entertain a one-time supplemental to the trust fund to keep it whole.

Senator BURNS. Are you calling for a permanent or temporary suspension of the jet fuel tax.

Mr. MAY. Mr. Chairman, we pay $15 billion a year in taxes and fees. I would like to reduce that level across the board. I think in the 2007 Reauthorization, the seven fees that we currently pay to the Trust Fund ought to be consolidated into one, and we ought to find a better way to do it. But for the immediate term, I think a temporary holiday, if you will, of a year would be the most appropriate course of action.

Senator MCCAIN. I would like for you to stop by the next time we have an Amtrak hearing and hear the Amtrak people complain about how much we subsidize the airlines as opposed to our much needed Sunset Limited.

Let me ask you: Now we have got two airlines going into bankruptcy. When an airline is in bankruptcy, it no longer has to fulfill certain requirements, right?

Mr. MAY. The airline has certain leverages that——

Senator MCCAIN. Or any organization that goes into bankruptcy——

Mr. MAY.—it does not have outside of Chapter 11, right.

Senator MCCAIN. Among those are payments in the pension fund.

Mr. MAY. That is correct.

Senator MCCAIN. So—and how many airlines do we have in bankruptcy now?

Mr. MAY. Sir, we have got United Airlines, U.S. Airways, and ATA of my membership that are currently in bankruptcy. We have the prospect of two more today or within a short period of time, which would mean that some 47 percent of capacity in the United States is in Chapter 11.

Senator MCCAIN. And all of those airlines are no longer paying into their pension funds?

Mr. MAY. Senator, I am not sure that is correct, but I am not the expert on the pension issues.

Senator MCCAIN. I think it has been reported in the media. I worry about that. Does that mean that you are—that the airline industry has taken a position on increasing retirement age of pilots?

Mr. MAY. We have as ATA held a position that the retirement of 60 ought to be maintained.

Senator MCCAIN. That is remarkable. Just out of curiosity, on what basis? That these pilots, if they stay until the age 62, are too old?

Mr. MAY. No, I do not think it is based on age or incompetence at age 60. It has been a standard in the industry for some period of time.

Senator MCCAIN. So do not change it. It is interesting. I am sure other members of the Committee have the same experience; I am approached by pilots in the airports all the time, and I can tell by looking at them whether they are in favor of increasing retirement age or whether they are in favor of keeping it the same.

Mr. MAY. Well, as the Senator points out——

Senator MCCAIN. The younger ones feel the same.

Mr. MAY. There is a dispute among the pilot community as to which way to go.

Senator MCCAIN. Yes, that is what I tell them in response. Twenty percent—twenty-six percent of the total ticket price that is paid by a passenger now goes in some form to fees or taxes, is that correct?

Mr. MAY. On an average $200 ticket, which is close to the average today, yes, sir.

Senator MCCAIN. If we do nothing—suppose the Congress and the Federal Government do nothing. What is going to happen in the airline industry? Consolidation; airlines going out of business; limp along and go in and out of bankruptcy as we have seen; further restructuring and, finally—well, go ahead and respond to that.

Mr. MAY. Senator, I think that the industry has taken extraordinary steps for self-help over the past couple of years and, as I said in my testimony, were it not for fuel right now, I think this would be a profitable industry. At the same time, I think it is unrealistic to suggest that there is not going to be additional consolidation in this industry.

Both domestically and if Congress changes the law, I think there will be international consolidation. We, live, work, fly in a world economy, if you will, but our hope is that this Congress will take a hard look at not only the overall tax and fee structure that we have but the impact of fuel, in particular, on the industry.

Senator MCCAIN. Well, I hope we do, Mr. May, because I, among others, rely on the board of experts who believe that the price of fuel is never going to go down significantly due to increased demand on the part of other nations. Would you submit to the Committee specific changes that you would like to see and, as far as any other relaxation—would just the jet fuel tax do it for you?

Mr. MAY. No, sir. It is only a small step in the right direction. I think that Congress needs to revisit the entire tax and fee equation that applies not only to this industry, but that is tied inextricably to the appropriate growth and change necessary at FAA and the overall air traffic control system.

Senator MCCAIN. I would ask that you would submit to the Committee a detailed position as to what you would like, what kind of relief you would like to see——

Mr. MAY. I would be happy to do that, sir.

Senator MCCAIN.—take place.

I thank you, Mr. Chairman.

Senator BURNS. Senator Stevens—oh, Senator Lott has joined us. Do you have a statement, Senator Lott?

Senator LOTT. I will wait until after Senator Stevens.

Senator BURNS. OK. Thank you. Go ahead.

The CHAIRMAN. Thank you very much, Mr. Chairman.

Mr. May, one of the things we are doing on the Committee is reviewing all of the laws that apply that have come out of this Committee and determine whether there are roadblocks in them that prevent our making waivers and doing things which give us a chance to have some application of current revenues and current preparations to the recovery, and use current authorities without having massive new legislation.

Have you examined any of the laws present about conditions or requirements under those laws that are currently preventing the airlines from taking steps that are necessary in view of the disaster and recovery from the disaster?

Mr. MAY. Mr. Chairman, I have noted a couple things in my testimony and, certainly, relief on the 4.3-cent tax is one. We suggested to the Department of Transportation that we be permitted to impose fuel surcharges separate and apart from the actual ticket price. They took some action yesterday to put out for a notice of comment in rulemaking whether or not to eliminate those rules altogether, and we appreciate the direction that Secretary Mineta has taken on that point.

I think there are a number of areas that Ms. McElroy has identified this morning that are specific to the regional side of this business, part of which is owned and operated by my carriers, part of which operates on a separate basis.

We would be happy to reexamine some specific areas in the regulatory process that may be of some benefit and submit that to the Committee as Senator McCain has suggested.

The CHAIRMAN. Now, for last year the airlines that altogether paid $15 billion into Federal taxes?

Mr. MAY. Yes, sir.

The CHAIRMAN. But they lost $10 billion overall. Have you looked, again, now, at these taxes? You have asked us to suspend the one.

Mr. MAY. Yes, sir.

The CHAIRMAN. The airlines are the only entity in the country that collect from their customers the costs, or at least partially the costs, of security.

Mr. MAY. Yes, sir.

The CHAIRMAN. Have you looked at that? Should we reduce that or in any way find some way to reduce the cost of the security program in order to free up more area for your increase in fares?

Mr. MAY. Senator, we pay, as you have just noted, a little bit north of $15 billion a year in taxes and fees. That includes some $3 billion to $3.5 billion a year directly to DHS/TSA. I think we are one of the only industries that directly undertakes funding of TSA and DHS. We do it through five different taxes and fees. We have seven different taxes and fees that underwrite the lion's share of the Aviation and Airport and Airways Trust Fund.

I think it would be fully appropriate for this Committee to take a long, hard look at that entire funding equation and make a determination as to what ought to remain, what ought to be jettisoned, and how we can help reduce the overall impact of 26 percent on an average $200 ticket, which is far greater than any other industry in the United States pays in taxes and fees, greater even than alcoholic beverages and tobacco products where taxes are used as a disincentive to consumption.

The CHAIRMAN. We have provided that some of the airports could take over their own security if they desire to do so. To my knowledge, only one did. Have you had any contact with the airports to see whether they could take over the security and reduce the costs?

Mr. MAY. I think that the airports have had a long working relationship with TSA on that very issue. I think the Senator is correct that there was only one airport that took advantage of that opportunity to date. I am not sure, Senator, that there is a huge dollar difference if it is privatized or federalized. I think the dollar impact is roughly the same.

The CHAIRMAN. Well, what about your costs—the airlines' costs of the modernization of airports for, say, the passenger portion? That is substantial, is it not?

Mr. MAY. We find that the hassle factor, if you will, opposed by TSA is having a direct impact on our potential customers. A number of people are driving or using other modes of transportation as opposed to going through the hassle factor.

At the same time, there are significant costs that get imposed on the carriers, sort of the end reimbursed costs from catering security to direct security at airports, to cost of inline EDS, et cetera. We have suggested for some time that we need to take a hard look at how TSA is funded and make a determination as to whether or not it ought to be through the carriers themselves, either through fees imposed in taxes or un-reimbursed expenses, or airport derived expenses, or through general tax revenues.

The CHAIRMAN. It just seems to me there is a lot of chefs stirring this stew, and I wonder if we have to go into debt when the overall structural relationship of government to airlines, and part of it is in the tax base and that is hard to deal with, but I do think we ought to take a real long look. We do not have the time now during this disaster period, but I think we ought to take a long look at totally revamping the relationship of government to the airline system and deal with some of those taxes in a way of trying to find some way to reduce the redundancy and the management that comes from county and local and airport executives, and entities themselves, but the ownership concept. All of those things are leading to problems.

I know I am taking a little bit more time. I would like to ask Mr. Miller about the problem.

You said that one of the problems was, as I understand it, you had to go to too many entities to deal with disasters and you would like some way to go directly to the coordinator and you suggested, I think, that we should go into some concept of regional prepositioning of disaster equipment. Could you enlarge on that a little bit?

Mr. MILLER. Yes, Mr. Chairman. What we found out is that during the immediate times following that natural disaster, that there is a need for a lot of equipment, building materials, supplies, but that we have to work through multiple state agencies in order to get those supplies in there. The airports that are responding want to respond to that airport. They want to get there as quickly as they can, but there are protocols that have to be followed. As I stated, Bruce Fraylik was required to contact the Mississippi EOC, which would then contact either the State of Florida or Georgia or South Carolina to initiate a request for a specific airport.

We feel that if we had one point-of-contact within FEMA, they could be making those contacts for us. They could be asking those airports to respond. They could be issuing the mission numbers that would allow those airports to respond as quickly as possible. The State Emergency Operations Centers are so involved in all the community-wide disaster relief that we do tend to get overrun. We do feel that to make it easier for them and for us, that a direct point of contact within FEMA would help to facilitate the response from the other airports.

The CHAIRMAN. We will follow up on that.

Last, Ms. McElroy, all of us are not—at least, I am not familiar with this 24-cent Highway Act provision you were talking about.

Ms. MCELROY. What I heard from the carriers, Senator, is that there was—thank you. What I have been informed from the carriers is, because of concerns about jet fuel which head the lower tax rate, concerns about that being fraudulently purchased by other consumers, the change was made to increase that tax rate, and then the airlines filed for a return of the overage that they paid, if you will, over the 4.3 cents.

It is my understanding from talking to the major carriers, that they have been able to use ticket tax revenues owed to the government to offset those fuel payments and, as a result, it has not caused the cash crunch it has for some of the very smaller regional airlines. I would certainly be willing to provide you additional information specifics.

The CHAIRMAN. That is good. Can you get us a one-pager?

Ms. MCELROY. Yes, sir.

The CHAIRMAN. Or we can talk with the tax people at the Finance Committee and Ways and Means about that.

Ms. MCELROY. Yes, sir. We would very much appreciate that.

The CHAIRMAN. Thank you very much.

Thank you, Mr. Chairman.

Senator BURNS. Senator Lott.

**STATEMENT OF HON. TRENT LOTT, U.S. SENATOR FROM MISSISSIPPI**

Senator LOTT. Thank you, Mr. Chairman, for having this hearing so quickly to address the problems and the needs of a very critical part of our economy, the aviation industry.

I hope that you, as Chairman of the Subcommittee, and you, Mr. Chairman, will continue as you have been to identify specific things that, maybe, can be done very quickly to provide some relief and some help and, as in the case of my own state, and probably Pensacola has experienced this, too, there is not enough—the state is only eligible for, like, $5 million for repairs through AIP. Just some little modification in the existing law would allow us to get more like $35 or $40 million, which is what we will need to do the repairs at our airports in the aftermath of Hurricane Katrina, and there are other areas where I think we can take some small actions or quick actions that would make a big difference.

I want to thank the industry for the expeditious handling and management of the effort to get our airlines and our airports back up and operating. FAA, I think, should be commended for their efficiency in getting our Mississippi airports back up and running. Gulfport/Biloxi Regional is fully operational. Jackson International is only temporarily shut down. Even Stennis International Airport has been open.

In all of this negativity and complaining, I do think that the effort that has been made by the Administration, by FAA, by the airports, and by the airlines deserve credit. We particularly appreciate, in my state, the fact that Delta and Northwest and Continental American, they are all back in there, and they are back very close to a full service. That is very, very important.

Also, even though you are struggling financially as an industry, many of your companies have been generously involved in providing transportation, and supplies, and contributions. And we do, we recognize that, and we thank your industry. And I put a list of companies that have done that sort of thing beyond the call of duty in the Congressional Record when I first returned last week. And the list is there and it includes some of the airlines.

Now, with regard to energy: Sir, are we still releasing oil from the SPRO in view of the disaster decline and supply, and the spike in price?

Dr. GRUENSPECHT. I think the bids on the SPRO release were received last week and they are under evaluation in the Department, and I think you will hear from the Secretary of Energy in the very near future on that.

Senator LOTT. I would have hoped he would have moved quickly. It has been 2 weeks——

Dr. GRUENSPECHT. Well, we already have——

Senator LOTT.—and the problem was there before the hurricane.

Dr. GRUENSPECHT. Right. And we have a couple things. One, there have been loans of oil that have already taken place to the refiners. In terms of the release of SPRO, there is a process that has to be followed.

Senator LOTT. Cut the process in half, please, sir. Get rid of bureaucratic crap and rules and I mean we need supply. My hometown refinery, which has the capability of refining 365,000 barrels a day, is shut down. We have got the channel open so we could bring in oil as soon as they are able to go back into being operational, but they also had the jet fuel and gasoline in their tanks which they immediately started distributing but they have about done all they can there.

I can just—I want the Administration, the Energy Department, that people are emotionally very distraught by what they have seen from the hurricane. They do feel very tense about Iraq obviously, but the thing that is making the people the maddest has been when they go to the pump to fill up their tanks. Now, you can give me a lecture about freeing up, supply and demand, and all that other stuff. It is not good enough. We had better realize there is a problem with certain farmers, small businessmen and women——

Dr. GRUENSPECHT. I understand——

Senator LOTT.—with children, and we, at least, need to improvise. Can we at least say, "This is bad. We know it is bad" and take a look, like we care and we are doing something about it? And I think the Energy Department needs to be a little bit more aggressive in jawboning the industry as a whole; and I do not know—I am not prepared to take irrational actions. But if we do not get some change in energy prices and supply and all of that, the American people are going to demand that we do something and it may not be good. So, pass that back to the Secretary and the Administration. Cut the baloney in half. Let us get some action, please, sir.

You know, I have tried very hard to be helpful to the aviation industry, enjoyed being Chairman of the Subcommittee. We did pass some specific funding after we went into Iraq. Of course, we did have specific action after 9/11. We have passed a temporary pension change a year or so ago. We did quickly move a new, broad and, I think, good FAA reauthorization. So, we have made some real efforts, and yet the difficulties continue or get worse.

And I know that you are in this situation because of bad laws on the books that we passed in terms of how you handle labor negotiations, bad management decisions over a period of years that have now come to roost with the current management team at the aviation industry. And I think you have some good people in place now, but decisions that were being made 5 to 10 years ago are now just devastating to industry.

I know that we have unaffordable labor contracts. I know we have unrealistic pension laws. I know that you have heavy fees and taxes that are a real drain, and now you have been hammered with the rising fuel costs and, to cap it all off, Katrina. It caused millions of dollars of loss by flights that were shut down and flights that are not flying yet. So, jiminy, it is a big problem.

Now, I just got very concerned about everybody going into bankruptcy. I do not see how we can stand to let it happen. We need more common sense by the industry people, broadly; and we need to do more in Congress to deal and to have a realistic plan for the future of aviation.

So, I am hoping that we will do three things: One, that the Chairman of the Subcommittee and the full Chairman will quickly pass some changes in the laws that could have quick effect on helping the industry, everything from the airports and regional airplanes and the industry as a whole. Two, what broader things can we do that will have a positive effect? And, three, what is the long-term plan?

You know, in my own area, which is devastated, we are not just looking at this as recovery and reconstruction, but we want renaissance. We want this to be an example that will really make it a shining recovery and one that we can all benefit from and the country can learn from. I hope the industry will be thinking about that too, because we need the aviation industry.

There are just so many things—I have so many problems with TSA. You know, I have so many problems with the indefensibility of your ticketing pricing arrangements. Being from a rural state and flying into Kentucky a lot, sometimes I do not understand why you can fly for $200 here and $1,100 somewhere else but we will get into that another day. I know all the answers.

Senator BURNS. You ought to live in Montana, Senator.

[Laughter.]

Senator LOTT. I know the arguments, but now, here is the second part of that equation. What could we do that maybe would have a bigger impact? Not just little tweaks, but there are two things: One, you suggested, Mr. May, the 4.3-cents-a-gallon. Now, last year or the year before, right at the end of the session the year before, I guess, last year, we repealed the 4.3-cent-a-gallon tax on railroads and barges.

Mr. MAY. That is correct.

Senator LOTT. Are you the only people now that are still paying the old 4.3-cent-a-gallon tax we put in place for deficit reduction?

Mr. MAY. I think there are variations of that tax that are still paid by other industries, but we are the only transportation-related business that——

Senator LOTT. Now, this one we put in place for deficit reduction back in the nineties——

Mr. MAY. Yes, sir, 1993.

Senator LOTT. OK. That money though——

Mr. MAY. It was supposed to be on a temporary basis.

Senator LOTT. Temporary. Well, temporary in the eyes of the Chinese could be hundreds of years, so——

[Laughter.]

Senator LOTT. That money does go in the Trust Fund, though, right?

Mr. MAY. Aviation Trust Fund, yes, sir.

Senator LOTT. Well, we need all the money we can get in that trust fund.

Mr. MAY. Senator, I would encourage—I think we have seen a great deal of support on this Committee but as you, better than most, know, there are other Committees of the Congress, including the Finance Committee, who have jurisdictional priority on many of these taxes, and there has been some resistance on that front. We would encourage you to help communicate your views in that direction, as well.

Senator LOTT. What did you say the dollar amount is of the 4.3? $600——

Mr. MAY. $600 million on a 1-year basis, we are advised.

Senator LOTT. One other question: We have met very little discussion at all about the pension bill. Now, I know your members are, maybe, divided on this issue. We clearly need pension reform and we clearly need to correct some of the stupid things in the pension law where it is turned on its head, where if you are doing well, you pay less; if you are doing poorly, you pay more.

The CHAIRMAN. Could you let me interrupt you?

Senator LOTT. Yes.

The CHAIRMAN. You said it would be profitable without that tax, but you were not talking about the payments you would owe the pension fund. And can you quantify the pension fund obligation of the airlines?

Mr. MAY. No, sir. I would be happy to collect it and provide that information to the Committee. We would be profitable were it not—this year we are already going to lose about $10 billion this year, between $9 billion and $10 billion. The fuel—additional fuel costs impact is $9 billion of that $10 billion. And then there is a component in there for Katrina. Our operating results would be significantly better if it were not for fuel.

Senator LOTT. Do we need to find a way to pass this Pension Reform Bill that has been reported out of the Finance and Help Committee in the next week?

Mr. MAY. Mr. Chairman, there are a number of companies that are in my membership that would love to have me say yes. I am not taking a position on the Pension Reform issue as you are well aware because I have got companies on both sides.

Senator LOTT. Yes. You sound very senatorial.

[Laughter.]

Senator LOTT. You have friends on both sides and you are with your friends?

Mr. MAY. That is exactly correct, sir.

Senator LOTT. Let me ask somebody else, then. Mr. Miller, do we need to pass this pension reform? Are you going to take the same position?

Mr. MILLER. I will take the same position, sir.

Senator LOTT. How about you?

Ms. MCELROY. Our Association has not taken a position either, predominately because the regional carriers have 401k programs.

Senator LOTT. Yes.

Ms. MCELROY. We are younger companies. So it is not an issue.

Senator LOTT. OK. Thank you very much.

Senator BURNS. To put a footnote to that, if none of you have taken positions on pensions, how come we are in such a big problem with pensions? Somebody has not been taking positions in the past, I would assume.

Senator MCCAIN. There is a difference in the way they were funded by company.

Senator BURNS. Yes, I know, and I think it behooves us, though, Senator, to pass that pension package and get it out there. I really do. When you get right down and talk it on the street, well, that is the way it is.

Senator MCCAIN. Yes.

Senator BURNS. I am not real sure there is a lot of legislation that we can pass, but I tell you that there are some things that we can do. We can cut through some red tape, and ask the DOT and the FAA and a lot of people who are involved in this thing to work with us and to make it work.

Ms. McElroy, how many members have started filing the 90-day termination? Are there any starting to file those 90-day termination notices with the regionals?

Ms. MCELROY. In the aftermath of Katrina?

Senator BURNS. Yes.

Ms. MCELROY. No one has filed yet, but there are several carriers that are looking at it because of the increase in fuel costs.

Senator BURNS. And, the other day we had a hearing in Energy Committee about gouging. Would the crack spread indicate some of that, Dr. Gruenspecht?

Dr. GRUENSPECHT. Yes, I think the crack spread, mostly which has increased for all products and then has fallen back to the pre–Katrina type of situation, primarily indicates the supply and demand balance in the market.

Senator BURNS. Well, I am not real sure that—I am, sort of, hesitant to—I am kind of like Senator Lott, on this market driven and spread and this type of thing. I have a hard time understanding this, but I would imagine when I looked at this form right here as far as the crack spread is concerned, I mean, that is a drastic spike. That is an upturn like we have never seen before in the history of the refining or fuel business.

The CHAIRMAN. Senator?

Senator BURNS. Yes, sir.

The CHAIRMAN. Let me interrupt you. We have got to go vote. David Russell here is our general counsel. We are putting together a package now that goes to the leadership——

Senator BURNS. That is right.

The CHAIRMAN.—assessment group, and that they are going to review and try to get joint clearance on both sides of these rifle shots that Senator Lott's talking about. Individual things that we can do within the jurisdiction of this Committee to make it easier for people to deal with this disaster and the recovery that we would like to see the airlines have, if you have any suggestions at all, get them to David Russell. Those will be discussed, now, next Monday, and it is going to be a package that moves pretty quickly, we hope. We do not know, yet, but we hope that we will get some support on it, but I urge you to let us know if you think there is anything we can do to help you get through this period.

Senator BURNS. My notes—and that is the reason we had this hearing today. I think we have gotten all the information that we need that is out there, private consultation with each one of you with regard to the legislation that is going to move and that will be a part of a larger package of a lot of things that has to happen and be done by Monday. If you would work with our staff, with our staff counsel and with our offices individually the next couple of days or so, we would certainly work on those.

The CHAIRMAN. One last comment: The ANWR Bill was vetoed in 1996. If we had that pipeline filled now, we would have at least 1.2 million barrels of oil today than we have. That is coming up now, again. I would urge the industries that are affected by this lack of supply to help us convince the Congress to go ahead and do what Congress said it would do in 1980, and that is let us explore that one and a half million acres on the Arctic slope. At the time of the last major disaster, we had 2 million barrels a day in that pipeline. There is less than a million barrels a day right now. It is a national crime in my opinion.

Mr. MAY. Mr. Chairman, you would note that we included ANWR in our testimony for the first time.

Senator BURNS. Yes, sir.

Mr. MAY. And we will be happy to share our ideas with both you and Co-Chairman Inouye and his team.

The CHAIRMAN. Thank you.

Senator BURNS. Thank you very much. And we will close this hearing. But also if you have extra comments or anything like that, make them known to the individual Members and to the Committee. Thank you very much. We are adjourned.

[Whereupon the hearing adjourned.]

# A P P E N D I X

Prepared Statement of Hon. Daniel K. Inouye, U.S. Senator from Hawaii

The effects of Hurricane Katrina will impact our nation for a long time, and the decisions made by this Congress in the coming months will provide critical support to the country as we recover from this disaster.

There is no question that our aviation system is critical to the success of the American economy and our capacity to compete in the global marketplace. However, this industry was struggling long before Katrina made landfall. The storm made a bad situation worse. Make no mistake, this Congress will not let our aviation system collapse. Our actions in recent years—from direct financial bailouts to generous loan guarantees—demonstrate our commitment to keep the planes flying. I have followed this issue closely, and given Hawaii's reliance on air service, I consider it one of my leading priorities.

While I strongly support a thorough examination of Katrina's impact on the aviation industry, I hope this Committee will also consider the litany of pressing issues that this catastrophe has raised. Our citizens are hurting and their confidence in government is deeply damaged. They have many questions, and so do I.

Why it is that our first responders still cannot communicate with one another? What are we doing to ensure that our cities can evacuate the tens of thousands of residents without transportation? How can we reign in gas prices and eliminate attempts to gouge consumers? What are we doing to address our growing, long-term dependence on oil? These questions get at the heart of national public policy and the very purpose of government, and all of the issues they raise are in our jurisdiction.

This Committee needs to scrutinize these issues, because they directly impact the livelihood and physical security of every American:

**Gas prices and attempts to gouge customers:** As of Monday, gas prices officially reached an all-time high, even as adjusted for inflation. There is no doubt that these astronomical prices are having a sustained, detrimental impact on our economy, not to mention the finances of every American household. We need to work with the Federal Trade Commission (FTC) to ensure that there is no price gouging involved—during this disaster or any other.

**Transportation assets for mass evacuation:** Tens of thousands of New Orleans' most needy residents did not have resources to flee the city, and yet assets like trains and motor carriers were not dispatched in advance to aid the evacuation. We learned that Amtrak trains, which were poised to evacuate 600 people per trip, along with other assets marshaled by the Department of Transportation, sat idle, falling victim to the Federal Emergency Management Agency's (FEMA) disorganization.

**Communications interoperability:** Four years after the September 11 attacks on America, our first responders still cannot communicate with one another in a crisis. This is almost unfathomable. It is a problem that must be solved immediately if we are to effectively manage the chaos of either a large-scale terrorist attack or the next natural disaster.

**Coast Guard's exemplary, and independent, performance:** The Coast Guard proved to be one of the few agencies that rose to the challenges Katrina presented, rescuing over 30,000 victims in the early stages of the aftermath. The Coast Guard maintains a level of independence that proved critical in its response efforts. In fact, Homeland Security Secretary Michael Chertoff appointed Coast Guard Vice Admiral Thad Allen to direct the Katrina recovery efforts. FEMA, which was an independent agency before being merged into the Homeland Security Department, is now 3 appointees removed from the President, despite its life-and-death, highly time-sensitive functions.

**Fuel-efficiency standards:** Katrina has demonstrated, yet again, our economy's inherent dependence on oil, both foreign- and domestically-produced. It may very well be our country's Achilles heel, but it should not be this way. One of the most immediate and effective things we can do to remedy this dependence is to increase the fuel efficiency standards of our automobiles in a meaningful way. The technology currently exists to double our oil efficiency, and employing this technology would not only reduce our national dependence, it would reduce fuel costs for every American. The time has come to make this happen for the sake of our long-term economic strength, not to mention our long-term foreign policy.

**Insurance coverage:** As the President discovered first hand on Monday when he toured the Gulf region, insurers are not coming through for Katrina's victims. This industry, which is so quick to come to Congress for help when times are tough, is not doing the same for its premium-paying customers, who are in desperate need of assistance. We need to take a serious look at the way property and casualty insurers are living up to the agreements they make with their customers. This Committee has examined disaster insurance before, and we need to do so again.

Given the gravity and long-term impact of Katrina's aftermath, our Committee must address these issues. Government's central purpose is to protect the physical and economic security of every American, yet Katrina has exposed numerous failures and vulnerabilities at all levels of government that need to be corrected immediately. We must do our part to resolve these problems before another catastrophic natural disaster or, even worse, a large-scale terrorist attack.

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PREPARED STATEMENT OF HON. FRANK R. LAUTENBERG,
U.S. SENATOR FROM NEW JERSEY

Mr. Chairman, thank you for calling this hearing and giving us an opportunity to discuss this important issue. The cost of aviation fuel is soaring like a rocket. Airlines are being hit hard by high fuel costs, just as American families are getting slammed by the high price of gas.

In 1993, aviation fuel cost twenty nine dollars ($29) per barrel. Last year, the cost more than doubled—and it is still rising. In the wake of Hurricane Katrina, jet fuel prices soared 22 percent in two days!

Every time the cost of aviation fuel increases by one dollar a barrel, it costs the worldwide airline industry one billion dollars! Those costs are ultimately paid by travelers in the form of higher fares or service cuts, or by labor in the form of cuts in wages or pensions.

U.S. airlines lost some nine billion dollars ($9 billion) last year. The outlook this year is just as bleak. We all understand that the price of oil is subject to fluctuations in supply and demand. And we all realize that events like Hurricane Katrina can disrupt the supply chain.

But I am concerned that the current price of aviation fuel is not simply a reflection of free market forces. According to the International Air Transport Association, the refinery margins for aviation fuel have almost tripled in the past two years—from six dollars ($6) in 2003 to seventeen dollars ($17) today. We cannot allow the oil companies and refineries to take advantage of a natural disaster like Hurricane Katrina by gouging consumers.

Another major factor behind rising fuel prices is the cost of crude oil, which is propped up by the OPEC cartel. The whole reason OPEC exists is to set quotas on the production and export of oil, which drive up the price by artificially limiting the supply. These quotas are a burden on airlines and everyday families.

But they are prohibited by the rules of the World Trade Organization. In other words, the Administration is not helpless in the face of OPEC's cartel. There is something we can do about this. Six members of OPEC are already members of the WTO, and Saudi Arabia is seeking to join. I have called on the Administration to take immediate action to bust up the OPEC cartel by filing a complaint through the WTO.

I have introduced a bill that would instruct the Administration to file a complaint against OPEC through the WTO. But President Bush doesn't have to wait for my bill to pass—he should act immediately to put pressure on OPEC.

Finally, our national transportation system is especially vulnerable to disasters that disrupt the supply of oil because of our overwhelming reliance on automobiles and aviation, and under-utilization of passenger rail.

This is just one more reminder that we must develop a balanced national transportation system—and that includes passenger rail.

I'm proud that the full Commerce Committee overwhelmingly approved an Amtrak bill before the recess that would help correct this imbalance. That is a step in the right direction.

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