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STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION  
869 PUNCHBOWL STREET  
HONOLULU, HAWAII 96813-5097

IN REPLY REFER TO:

April 18, 2008

TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION

HOUSE BILL NO. 2250, HD1

COMMITTEE ON TRANSPORTATION AND INTERNATIONAL AFFAIRS  
COMMITTEE ON COMMERCE, CONSUMER PROTECTION, AND AFFORDABLE HOUSING

We oppose this bill, which establishes a statutory scheme for State regulation of inter-island air carriers. The Department of Transportation (DOT) believes that regulating carriers is not in the best interest of either the airlines or the traveling public.

The federal Airline Deregulation Act of 1978 prohibits states from regulating the routes, rates, or services of airlines operating in interstate commerce. Under this Act, Hawaii is prohibited from regulating its inter-island carriers. In addition, the DOT does not believe that regulation will ensure affordable airfare in the inter-island market. In fact, before 1978, air travel was a luxury and prices steadily increased with regulation. It was competition within the airline industry that resulted in low inter-island airfares.

The bill will create a new state bureaucracy whose sole purpose will be to constantly examine the business and financial affairs of the airlines to see if the fares charged are reasonable to support their activities. Another level of bureaucracy means another level of decision-making and this may lead to more delays in providing essential services and improvement to our airport system.

This measure will have a negative impact on both existing carriers and airlines interested in establishing service in Hawaii. An existing airline carrier would need to obtain permission from the proposed commission every time the airline wanted to add new aircraft to upgrade its fleet, before retiring older planes. This requirement would make it difficult for airlines to expand operations in a timely, efficient manner. Also, carriers interested in starting service in Hawaii would be required to first obtain a certificate of public convenience and necessity. This could limit entry into the Hawaii market and less competition often leads to higher than average ticket prices.

The bill provides that the commission give prior approval before any person shall acquire control of any Hawaii air carrier. We believe this discretionary authority could be perceived as discriminatory, which is not permissible under federal regulations.

Finally, the bill requires the commission's approval for an air carrier to enter into leases of more than five years and limits lease terms to three years if the commission determines a longer-term lease may have an adverse effect on the carrier. This could result in the DOT being at odds with the commission because it is likely to be in the Department's interest to establish longer-term leases. Airlines are more likely to engage in capital investment when under long-term leases.

**TESTIMONY OF KEONI WAGNER ON BEHALF OF HAWAIIAN AIRLINES  
REGARDING H.B. NO. 2250, HD 1, RELATING TO TRANSPORTATION**

April 18, 2008

To: Chairmen J. Kalani English and Russell Kokubun and Members of the Senate Committee on Transportation and International Affairs and the Senate Committee on Commerce, Consumer Protection and Affordable Housing:

My name is Keoni Wagner and I am the Vice President for Public Affairs for Hawaiian Airlines presenting this testimony on behalf of Hawaiian Airlines regarding H.B. No. 2250, HD 1.

Hawaiian Airlines believes that informed debate regarding Hawaii's interisland air transportation system is healthy and important because of its pervasive impact on consumers and our state's economy. We know how much all of us in Hawaii depend on air transportation to commute and do business between the islands.

We understand the desire of the legislature to set forth legislation intended to support Hawaii's vital airline service. However, we are concerned that HB 2250, HD 1 in its attempt to regulate nearly every aspect of the inter-island airline industry through the establishment of an Air Carrier Commission will likely result in many unintended consequences. Regulating routes, services and fares, etc. would eliminate free market conditions that foster competition and the benefits that flow from it, such as cost efficiency, innovation and customer service.

The proposed statutory scheme for the regulation of Hawaii interisland air carriers would create complexities for business operations, and add restrictions and costs to an industry already beset with extremely high operating costs and a myriad of regulations.

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