

AIRLINES COMMITTEE OF HAWAII



Honolulu International Airport
300 Rodgers Blvd., #62
Honolulu, Hawaii 96819-1832
Phone (808) 838-0011
Fax (808) 838-0231

March 14, 2012

Honorable Joseph M. Souki, Chair
Honorable Linda Ichiyama, Vice Chair
House Committee on Transportation
Hawaii State Capitol, Honolulu, HI 96813

**Re: SB2237 SD1 – Relating to Transportation – Comments
Hawaii State Capitol, Room 309 – 9:00 a.m.**

Aloha Chair Souki, Vice Chair Ichiyama, and Members of the Committee:

The Airlines Committee of Hawaii* (ACH), which is made up of 20 signatory air carriers that underwrite the State Airport System appreciates the opportunity to alert the committee to unintended consequences that may arise with this bill.

As you discuss the merits of this bill, please consider that any offset of lease costs may be passed along to the ACH member airlines that, as signatory carriers, would have to make up revenue shortfalls experienced by the state airport system. We appreciate the impetus to provide rent relief stems from the fallout of the economy, and natural and manmade disasters. But, the ACH member airlines also experienced the brunt of that impact.

Air carriers have adapted their business models to meet customer demand and rising costs. Constantly, we are faced with balancing our operations against a highly volatile oil market. Oil prices that once represented less than 10 percent of our operational costs now are now about 20 percent – nearly as high as personnel costs.

Because any offset of lease costs may be passed along to signatory air carriers, this bill has the potential to make it increasingly difficult for airlines to operate and ultimately hurt the consumer. Offsetting rising expenses by raising prices is difficult because it chokes demand – if tickets are too expensive, travelers will make alternate plans.

Background:

More than any other state, Hawaii is dependent on air transportation. Airways are our interisland highways. Airlift is essential to our state's tourism-dependent economy.

The Hawaii state airport system is unlike anywhere in the world, where 15 airports on six islands operate as one monopoly. Airlines must accept rates and charges on a system-wide basis. As a result, signatory air carriers help support and stabilize the airports system and help to under-write capital revitalization costs.

The airports system is a self-sustaining operation under Federal Aviation Administration mandate. Revenues from airlines, concessionaires and others, as well as federal grants, must cover all developmental and operational costs of all airports.

Potential Impact:

As signatory airlines, the ACH entered into a partnership with the State Department of Transportation – Airports Division (DOT-A) to guarantee the financial viability of the airports system for each fiscal year. To that end, carriers pledge to pay whatever amount is required to ensure the payment of all expenses. This residual agreement dictates that any rent abatement to allow airport concessionaires to “breakeven” at the expense of DOT-A will be passed on to the airlines.

Simply put, every dollar of rent abatement provided to concessionaires will increase airline costs by a dollar.

The ACH member airlines and the State partnered to develop Phase I of a \$1.3 billion program to modernize and improve airports throughout the state. The economic stimulus of these construction projects is significant and especially needed to boost jobs and expand the capacity of each of the airports throughout Hawaii. Passage of this bill may materially impact the DOT-A’s capital improvement program by necessitating deferral or cancellation of a significant number of projects at every airport.

Recommendation:

Like airport concessionaires, the airline industry is also struggling financially. In fact, neither the concessionaries nor the airlines are unique in their struggles. We are among a number of corporations and businesses that face financial hardships due to a number of pressures. This is a reality that we all must navigate through to stay afloat.

Thus, there is no additional cushion for the ACH member airlines to subsidize other airport tenants while maintaining its support to an operations and capital improvement program in Hawaii. Therefore, we respectfully ask your consideration of the potential impacts this bill may have upon the airport system.

As always, we are grateful for the opportunity to provide input on this matter.

Sincerely,

Blaine Miyasato
ACH Co-chair
Hawaiian Airlines

Matthew Shelby
ACH Co-chair
United Airlines

**ACH member airlines are Air Canada, Air New Zealand, Air Pacific, Alaska Airlines, All Nippon Airways, American Airlines, China Airlines, Continental Airlines, Delta Air Lines, Federal Express, go! Mokulele, Hawaiian Airlines, Japan Airlines, Korean Air, Philippine Airlines, Qantas Airways, United Airlines, United Parcel Service, US Airways, and Westjet.*