

AIRLINES COMMITTEE OF HAWAII



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LATE TESTIMONY

Honorable J. Kalani English, Chair
Honorable Donovan Dela Cruz, Vice Chair
Senate Committee on Transportation and International Affairs

Honorable Will Espero, Chair
Honorable Rosalyn Baker, Vice Chair
Senate Committee on Public Safety, Intergovernmental and Military Affairs

**Re: SCR 121/SR 84 – REQUESTING HAWAII'S CONGRESSIONAL DELEGATION
TO PROPOSE AMENDMENTS TO THE AIRLINE DEREGULATION ACT TO
EXEMPT HAWAII FROM THE UNITED STATES' PREEMPTION OF STATE
ECONOMIC REGULATION OF INTERSTATE AIR TRANSPORTATION -
COMMENTS**

Conference Room 224– 1:15 PM

Aloha Chairs English and Espero, Vice Chairs Dela Cruz and Baker, and Members of the Committees:

The Airlines Committee of Hawaii* (ACH), which is made up of 21 signatory air carriers that underwrite the State Airport System appreciates the opportunity to comment on SCR 121/SR 84.

The ACH appreciates the intent of this resolution, but we do have concerns that the proposed exemption from the Airline Deregulation Act for interstate air transportation in Hawaii will cause unintended consequences to neighbor island air travel.

Before Congress passed the Airline Deregulation Act in 1978, the industry resembled a public utility because the Civil Aeronautics Board determined which routes each airline flew and the fares that it could charge. Today, principally the market drives the industry, with customer demand, total cost of operation and airline network competition determining prices and the level of service.¹

Increased competition unleashed by the Airline Deregulation Act spawned discount fares and the proliferation of new service, which travelers found to be the most important benefit of airline deregulation. The appearance of new airlines, combined with

¹ Airlines 4 America, Airline Deregulation.

the rapid expansion into new markets by many of the established airlines, resulted in domestic fares having declined more than 40 percent in real terms since 1978.²

This same deregulation has forced a very competitive market to determine the price for air seats. U.S. airlines have lost \$62.9 billion from 2001-2010. While the airline industry is slowly recovering from the Great Recession, one could hardly argue that airlines are in the black with average earnings of 0.2 pennies per dollar of revenue in 2012.

The primary purpose of Hawaii's Public Utilities Commission (PUC) is to ensure that regulated companies efficiently and safely provide their customers with adequate and reliable services at just and reasonable rates, while providing regulated companies with a fair opportunity to earn a reasonable rate of return.³ In FY2011-12, the PUC reported an authorized rate of return of 10.25 percent for intrastate water carriers and 8.11 percent for an electric utility company.

If intrastate air transportation is regulated by the state PUC, establishing fair rate of return will most likely drive up the cost of interisland air travel. There are other unintended consequences this change could bring to the intrastate air market that would affect the price of air cargo transported within the state.

For these reasons, we respectfully urge members of the Committees to hold these resolutions.

Sincerely,

Blaine Miyasato
ACH Co-chair

Matthew Shelby
ACH Co-chair

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

² Airlines 4 America, Airline Deregulation.

³ Hawaii Public Utilities Commission Annual Report--Fiscal Year 2011-12