Business Roundtable℠

Testimony for the Record

Governor John Engler
President, Business Roundtable

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Business Roundtable
300 New Jersey Avenue, NW
Suite 800
Washington, DC 20001

John Engler
Business Roundtable

Good morning, Chairman Shuster, Ranking Member Rahall. Thank you for the opportunity to join you this morning to testify on the operation and needed modernization of the nation's airspace.

I'm pleased to speak on behalf of Business Roundtable, an association of more than 200 CEOs of major U.S. companies. Business Roundtable's CEO members lead companies with $7.2 trillion in annual revenues and nearly 16 million employees. These companies comprise more than a quarter of the total market capitalization of U.S. stock markets and invest $190 billion annually in research and development – equal to 70 percent of U.S. private R&D spending. Our companies pay more than $230 billion in dividends to shareholders and generate more than $470 billion in sales for small and medium-sized businesses annually.

Aviation is critically important to all members of Business Roundtable. Today, civil aviation in the United States accounts for 5.4 percent of our GDP, contributes $1.5 trillion in total economic activity each year, and supports 11.8 million jobs. Business Roundtable's members include leaders of major U.S. aerospace companies, but more broadly, every one of our members relies on air transportation every day as customers of cargo and passenger airlines. For example, thirty to forty percent of all daily airline passengers are making trips for business purposes.

The CEOs of Business Roundtable are global leaders in their respective industries, and they recognize the value of American leadership in aviation. The United States was, of course, site of the Wright Brothers' historic first powered flight in a heavier-than-air vehicle. Commercial airlines developed in this nation, and so did air traffic control; begun initially by a nonprofit, federally chartered corporation, air traffic control was taken over by the federal government during the Great Depression. Following World War II, commercial and general aviation boomed in the United States. As the 20th century ended, our aviation system still set the standard as not only the world's largest but also the world's safest and most technologically advanced.

Sadly, our current leadership is no longer so clear and our future leadership is in doubt. The U.S. air traffic system remains the world's largest and the world's safest. But it is no longer the most technologically advanced, and it may no longer be the world's most cost-effective. The Business Roundtable recently conducted an analysis that superimposed Canadian rates for air traffic control services on U.S. flight data, and preliminary results suggest that, in aggregate, the Canadians are delivering services for lower cost than the FAA today. Canada's cost advantage may result partly due to a less-complex airspace than the United States' – and complexity drives cost – but one would expect that the U.S. larger-scale operation would also create its own efficiencies and lower costs.

Beyond the issue of global leadership, a modernized U.S. air traffic control system would produce significant benefits for all air travelers, including the huge numbers who are traveling every day on business. Advanced technologies and procedures will enable more planes to land and take off safely on existing runways, reducing delays. Likewise, more direct flight routes at

the altitudes with the most favorable tailwinds will speed up flights and also reduce delays. Earlier this month, President Obama estimated the potential reduction in airspace delays at 30 percent. Even if that number is a little high, I was glad to hear the President acknowledge the kinds of benefits a modernized system will provide.

From the standpoint of airlines and other aircraft operators, reducing delays will mean important savings in fuel and crew time, their two largest operating costs. And with intelligent consolidation of air traffic control facilities, enabled by 21st-century technology, the unit cost of services will be reduced, yielding further cost savings for aircraft operators. Retiring many obsolete facilities and ground-based navigation aids will produce additional cost savings.

Important environmental benefits will also result. More direct routings and optimized flight paths will reduce aviation fuel consumption and thereby cut CO_2 emissions. Shorter and more-precise landing paths (like those implemented recently in Seattle) will reduce noise exposure around airports, which may make it easier to add critically needed runway capacity around the country.

Beyond cost-savings and other efficiencies, a modernized air traffic control system would also advance America's global commercial leadership by expanding export opportunities. While the U.S. has been slow to implement next generation technology, other countries — again, most notably Canada – are starting to export upgraded 21st century air traffic control technologies to other countries around the world. Overseas sale of technologies developed and deployed in the United States would allow U.S. aerospace companies to expand their global market and increase domestic employment.

Unfortunately, business leaders cannot take the future health of U.S. aviation for granted. Like many other stakeholders, we are concerned about the slow and uncertain pace of the modernization effort represented by the Federal Aviation Administration's NextGen program. Like you, we read the numerous reports by the Government Accountability Office and the Department of Transportation Inspector General documenting cost overruns and late delivery of new systems. These reports identify underlying problems that have led stakeholders to question whether we have the best model – not just for delivering NextGen but also for the ongoing operation and management of what used to be the world's most advanced air traffic control system.

A few years ago, I put together an expert group to help Business Roundtable study this problem, including former FAA and Transportation Department officials and knowledgeable aviation policy advisors. These experts with government and private-sector experience identified a series of challenges that put America's leadership in aviation at risk. All related to funding, governance, and organizational culture. Let me say a few words about each:

Funding is the most obvious problem. Last year's sequester served as a wake-up call for aviation stakeholders, with its furloughs of controllers and the near-shutdown of 149 contract towers. And the current sequester law has eight more years to go. The FAA's current annual

budget for Facilities & Equipment is now $1 billion less than what it was projected to be five years ago. Alarmingly, a senior FAA official recently said the agency faces a $5 billion funding shortfall over the next seven years. With regard to NextGen, the FAA and stakeholders are currently engaging in triage, figuring out which few projects the agency can afford to pursue in the current highly uncertain funding environment.

FAA Administrator Michael Huerta, in a speech last month at the Aero Club of Washington, said: "There is simply no way the FAA can implement NextGen, recapitalize our aging infrastructure, and continue to provide our current level of services without making some serious trade-offs." The current funding system clearly does not provide the resources that are needed.

Our CEOs look at these issues from a business perspective, of course: What the FAA is trying to do is to fund a $20 billion capital modernization effort out of annual cash flow. This makes no business sense. Most other transportation sectors issue long-term revenue bonds to finance large capital modernization—including airports, pipelines, railroads, and even bridges and interstate highways. But bonding is something the FAA cannot do. Our federal government simply does not have a capital budget.

The second underlying problem is **governance**. Former FAA and Transportation Department officials tell me that the Air Traffic Organization answers to far too many disparate interests. It must respond to:

- the FAA Administrator
- the Secretary of Transportation
- the Office of Management & Budget
- the Government Accountability Office
- the DOT Inspector General, and
- 535 Members of Congress.

Responding to all these managing interests consumes a large amount of senior officials' time – time and attention that ought to be focused on serving aviation customers. No CEO could effectively run a business responding to such an array.

The third underlying problem is one of organizational **culture**. We need a culture of innovation that will continually modernize as technology continues to advance. Let me give you an example of what I mean:

The Chairman of Business Roundtable today is Randall Stephenson, the Chairman and CEO of AT&T. His first job working for the company that became AT&T was in 1982 working the late-night weekend shift while he was going to school, mounting magnetic tapes to back up the mainframe computers. By 2007, he'd worked his way up the ladder to become CEO. By then, AT&T was big in the world of cell phones, but "smart phones," which are ubiquitous today,

really didn't exist. AT&T spent six or seven years, according to Stephenson, to create a nationwide 3G network to deliver a mobile internet. Now, that's obsolete, supplanted by the 4G LTE network necessary to deliver data to mobile devices. But now, Stephenson says, "You look at our networks today, and well over half of the traffic that flows across our networks is coming from video." And AT&T bought DirectTV. That's a culture of innovation, of change, and AT&T is a global leader because of it.

Now compare that to what's happened with air traffic control at FAA. In the 1960's – 20 years before Randall Stephenson got his first job replacing data tapes – FAA was using a national network of ground-based radar combined with radio transmission from air traffic controllers who were monitoring that radar to control aircraft in the airspace immediately above them. Today, FAA relies on essentially the same technology – ground based-radar and voice radio transmission. A study published by the Hudson Institute early this year showed a strong status-quo bias within the air traffic organization at FAA — illustrated by slow progress on such innovations as controller-pilot data-link, global satellite-based aircraft surveillance, remote towers, and facility consolidation.

Others countries have charted a different course of action. Researchers have found that over the last two decades most other countries have restructured the way air traffic control is funded and governed—for example, in Australia, Canada, Germany, and the United Kingdom. In these and many other cases, the governments have decided that air traffic control is a high-tech service business that can be funded directly by its aviation users, who become customers, just as airlines are customers of airports. More than50 countries have separated their air traffic control systems from their transport ministries, leading to arm's-length regulation of air safety—just like that applied to airports, airlines, and all the other components of aviation.

The FAA's own Management Advisory Council during 2011 to 2013 studied the same set of issues. Their final report issued in January 2014 made three *unanimous* recommendations:

- First, remove air traffic control funding from the federal budget, so that aviation users would pay directly for air traffic control services, and that revenue stream would be bondable. This is much like the financing system long used by America's commercial airports.

- Second, create a governing board of aviation stakeholders—not just to *advise* on technology decisions but to actually set the priorities for operations and modernization. After all, these are the users of the system, and they know their own needs better than anyone else.

- Third, separate the operation of the air traffic control system from the FAA safety regulator, providing the same arm's-length safety regulation that applies to all the other actors in U.S. aviation.

While these principles are widely accepted in other countries, those would be major changes for U.S. air traffic control. Lots of questions on whether and how to do this must be thought through to assess whether similar restructuring would be feasible here. We have been holding discussions with the principal stakeholders over the past year, working to answer these many questions. As business leaders, it's particularly important to the Business Roundtable that the business case for any new structure be sound and well thought out. Other organizations are holding similar discussions. We all hope to have fleshed-out proposals for the committee to consider next spring as Congress begins work on FAA reauthorization.

Next year's FAA reauthorization offers a critically important opportunity to bring efficiencies and technological progress to air traffic control in the United States, reaffirming the country's global leadership. Business Roundtable looks forward to working with you to achieve these important goals.