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Testimony

The Abu Dhabi Preclearance Facility:
Implications for U.S. Businesses and National Security

Statement of Nicholas E. Calio
President and CEO, Airlines for America (A4A)
before the
Subcommittee on Terrorism, Nonproliferation and Trade
of the
House Committee on Foreign Affairs

Thank you for the opportunity to testify on behalf of Airlines for America (A4A). Our members transport more than 90 percent of all U.S. airline passenger and cargo traffic. Airlines are the physical internet; we connect people, goods, and places together, all to the benefit of the U.S. and global economy and our competitive place in it.

A4A would like to briefly raise six issues that should frame the Committee's and the Congress' thinking and action with respect to the Administration's agreement with the United Arab Emirates (UAE) to place a U.S. Customs and Border Protection (CBP) preclearance facility in Abu Dhabi, a location to which no U.S. airline flies.

- First, some context. The U.S. airline industry drives more than 10 million jobs and $1.2 trillion in economic activity, which is more than 5 percent of U.S. GDP.

Between September 11, 2001 and 2010, U.S. airlines lost $55 billion and 160,000 jobs, one-third of our workforce. The industry has turned a small "profit" the last three years, roughly 37 cents per enplaned passenger in 2012, largely resulting from necessary and painful restructuring, and capacity and pricing discipline.

Moreover, the last three years' meager profits have come despite U.S. airline passengers being one of the most highly taxed businesses in the United States. We and our passengers pay more than 17 separate taxes and fees. Those taxes can amount to about 20 percent of the cost of a typical round trip ticket. We are also among the most highly regulated "de-regulated" industries in the United States. The environment in which we do "business" is not conducive to the type of sustained profitability that allows for reinvesting in our customers, employees and equipment.

- Second, the international routes that U.S. airlines fly are the most profitable part of our business and essentially subsidize many of our domestic routes.

Our success on these international routes is dependent on our ability to compete with non-U.S. airlines that, likewise, have international routes which are their most lucrative. We are also dependent on the ability of the U.S. government, through CBP, to facilitate the flow of passengers and cargo in and out of our borders.

- Third, it is common knowledge that CBP's ability to process traffic at our borders has been in crisis for years, and the consequences of the failure are significant for returning U.S. citizens, foreign visitors, the U.S. economy, and A4A's members.

Little progress has been made to better the situation. Entering the United States, either returning home or as a visitor, is highly inefficient with travelers commonly facing delays of one hour and sometimes up to three to four hours.

The U.S. Travel Association (USTA) and Consensus Research group released a survey finding that 43 percent of overseas travelers who have visited the United States said they would advise others to avoid traveling here because of the lengthy entry process. USTA estimated that at least 100 million travelers have received the message to avoid travel to the U.S., costing the economy $95 billion in total output and more than half a million jobs***.***

CBP and the Department of Homeland Security (DHS) know these lengthy processing times are a significant economic problem and have been working with A4A for more than two years to make improvements by determining which U.S. ports of entry have the highest traffic levels and need additional staffing. This approach is the right one – putting resources where they are most needed and most beneficial to our citizens and our economy. A4A strongly believes that no U.S. taxpayer dollars should be invested outside the U.S. before we correct the mess at our own ports of entry.

- Fourth, while U.S. airlines operate in a policy environment relative to taxes, regulation, and infrastructure, among other things, that are inhospitable at best, our foreign competition is in a much better position.

These airlines, a number of which are state-owned, such as Etihad in the UAE, are viewed by their governments as strategic assets which can be used to diversify and expand their local economies and employment. These carriers and their governments are quite clear in their intent. Their goal is to make their airports, like Abu Dhabi, THE world-wide hub. An integral part of the plan is to skim the cream – international passengers – from U.S. carriers.

- Fifth, the establishment of a preclearance facility in Abu Dhabi is a competitive game changer that is advantageous to foreign competitors.

It significantly tilts the competitive playing field against U.S. airlines toward a government and a carrier that <u>currently</u> fly few passengers into the United States. No U.S. carrier flies to Abu Dhabi. Granting the UAE a preclearance facility makes it easier to enter our country if you fly through Abu Dhabi than it is if you fly directly into JFK, Houston, Miami, Chicago or Dallas – or any other U.S. city. This accommodation, as acknowledged by Etihad's CEO, will encourage travelers to book their travel connecting through Abu Dhabi to avoid the lines in the U.S. airports***.*** Not only does this take passenger traffic away from U.S. airlines, it also takes the collateral economic benefit derived from those passengers spending money in transit to Abu Dhabi airport.

- Sixth, the Administration's agreement with the UAE directly contravenes Congress' directive that DHS not enter into any CBP reimbursable agreement for any international CBP preclearance facility.

The timeline of decision-making is important relative to congressional prerogatives. In late 2011, DHS announced its intent to pursue a preclearance facility in Abu Dhabi. A4A voiced its objections to such a pay-for-play scheme as selling U.S. security functions to the highest bidder – in this case, a foreign government – as inappropriate, both in its own right, and because CBP is failing to adequately process passengers at major U.S. ports of entry.

A4A, along with the Air Line Pilots Association and others, also voiced our objections to Congress. DHS simultaneously asked Congress that it be permitted to enter into a preclearance agreement with the UAE. The result was that the Consolidated and Further Continuing Appropriations Act of 2013, H.R. 933, refused to authorize the UAE agreement. Instead, it authorized only a very limited reimbursement pilot program at five <u>domestic</u> ports for a limited period of time.

Despite this, the Administration clearly proceeded to negotiate a deal with the UAE. Just weeks before the agreement was announced, the Administration still had not filed the requisite national security justifications with the relevant congressional committees. Meanwhile, construction of the Abu Dhabi facility was underway the entire time and was virtually complete before the announcement was even made.

At a time when U.S. carriers and airports are fighting to maintain our global competitiveness, the U.S. government should not be signing a deal with the UAE that benefits a foreign emirate and its wholly-owned national carrier. This deal clearly puts U.S. airlines and U.S. international hub airports and their employees at a competitive disadvantage, and it will only get worse.

Etihad almost immediately began marketing "preclearance" into the United States. Just nine days after the U.S.-UAE agreement, Etihad announced it was buying a 24 percent stake in Jet (an Indian airline) that will create a substantial hub at Abu Dhabi with flights into Newark and Chicago.

A telling quote appeared a few weeks ago regarding the deployment of the A380, the world's largest airplane, by another Middle Eastern competitor. An aviation analyst stated: "with the USA being at the forefront of Emirates' expansion, it was only ever a matter of time before the A380 was deployed to the highly lucrative city of Los Angeles – indeed, it and at least a dozen other U.S. cities are prime candidates for the future A380 services as **Emirates outflanks its weak and near irrelevant U.S. airline competitors."**

According to DHS officials, plans exist to open several more preclearance facilities in the Middle East shortly after the planned opening of Abu Dhabi. The U.S. Government is essentially facilitating our foreign competitors' strategy!

To be clear: we are not anti-foreign competition. We are envious of the support from their governments. We understand the strategy of the UAE to make their emirates global hubs of commerce, travel and tourism. The UAE understands what their airlines can do for jobs and the economy. And they treat their airlines accordingly. We would very much like our government to recognize aviation's importance to the national economy and job growth by enacting affirmative policies in taxation, regulation, global competitiveness and infrastructure.

These policies would be included in a National Airline Policy that would enhance the economic viability and global competitiveness of our industry and make flying better for our customers.

There should be no doubt as to the immediate and longer term impact on the U.S. if we continue to create advantage to our international competitors. The combined fleets of sovereignly owned carriers of Middle East governments (Emirates, Etihad and Qatar) have nearly doubled over the past six years, from 195 in 2007 to 387 planes today. They have 399 widebody aircraft on order, which is twice what the combined U.S. passenger carriers have ordered. The relatively small populations of these countries do not support this kind of growth, and their business model, already successful, is to skim the cream off of the aviation revenue, international traffic and connect international travelers over their hubs.

As we stand today, we face off in the market with foreign airlines that compete against us as if they are private companies. But they are not. They are instruments of their government and are intent on capturing market share, regardless of profitability, to accomplish their broader goal of their government shareholders – providing economic growth for the UAE.

The ability of U.S. carriers to compete on a level playing field for these international markets is critical. As noted earlier, our higher yields on international traffic are what enable us to provide subsidized (read, unprofitable) service to small- and medium-size communities that so many Members of Congress want served.

Make no mistake: Etihad will not be providing service to Des Moines, Cleveland or Pittsburgh. And yet, with this facility, our own government is effectively picking winners and losers in the global market.

Even more objectionable is the U.S. plan to foot the bill for these services. DHS officials admit that taxpayers will fund 20 percent of the operation of this facility. This diversion of taxpayer dollars to assist wealthy foreign airlines cannot be justified. DHS must first provide adequate services and staffing at U.S. airports, before establishing facilities overseas. Simply stated: fix it here first.

More than 150 Members of Congress signed onto a letter to Sec. Napolitano asking for an explanation as to why DHS is allowing a foreign government to pay for core security functions. They have yet to receive an answer.

Only you can stop this. We are asking you to enforce the direction the Congress has already given to DHS and put an end to DHS efforts to open facilities in foreign countries and instead commit to work collaboratively with the U.S. airline, airport and travel and tourism industries to resolve lengthy wait times at U.S. airports.