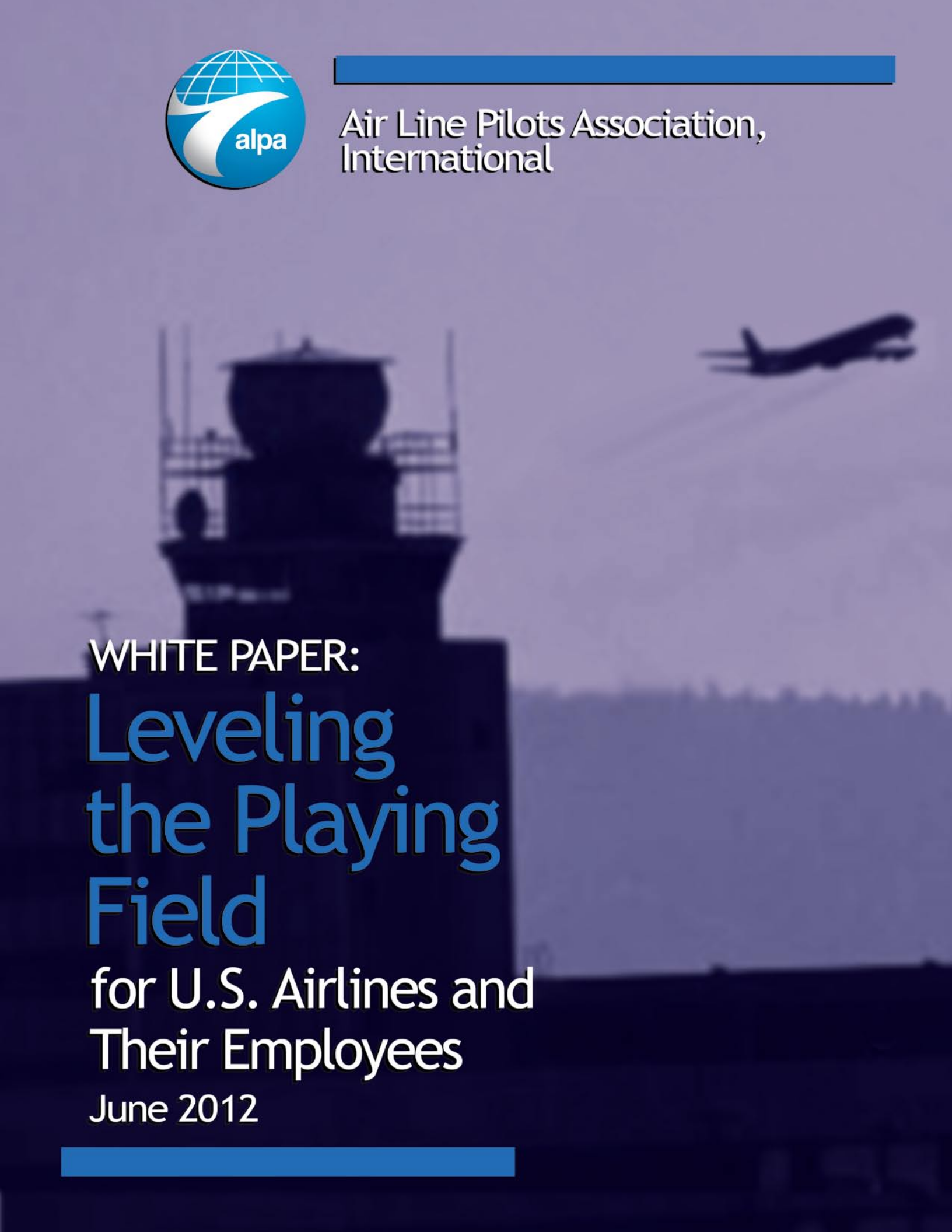

Air Line Pilots Association, International

WHITE PAPER:

Leveling the Playing Field

for U.S. Airlines and Their Employees

June 2012

ALPA WHITE PAPER

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Leveling the Playing Field for U.S. Airlines and Their Employees

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Introduction

The United States' airline industry and its employees operate in a hypercompetitive international marketplace. The U.S. airline industry has lost $53 billion since 1999, on a net basis. Only three years out of the last ten have been profitable. This is an industry that has been unable to meet its cost of capital and is known for not generating healthy margins, even in the best of times. It is very clear that the airline industry continues to face significant challenges. Competition from foreign airlines, which are often state owned or heavily state sponsored and vertically integrated, and operate from countries with low or nonexistent tax and regulatory burdens, is growing rapidly and impeding international growth for U.S. airlines. In addition, foreign airlines are expanding into markets previously dominated by U.S. airlines, threatening our carriers in their own backyard. U.S. airlines, as a result, find themselves in survival mode, adapting to the global marketplace that presents an uneven playing field for U.S. airlines.

Around the world, the expansion of airlines like Emirates and others with similar business models threaten U.S. carriers on international routes. Many foreign carriers do not encounter tax and regulatory burdens like by U.S. airlines. The current taxes and fees the U.S. airline industry endures are higher than nearly every other industry in the United States, adding to the financial burden on the airlines and the traveling public.

Today, the commercial airline industry leads all others in America with 17 unique taxes and fees from the federal government, resulting in 20 percent or more of the total airline ticket prices going to taxes. These taxes discourage commercial flying in the United States. Further, the tendency of the U.S. government to emphasize consumer interests at the expense of the financial viability of the industry has resulted in a series of passenger protection regulations that place a significant financial burden on U.S. airlines, exacerbating the cost disadvantages that U.S. carriers face in the international marketplace.

Leveling the Playing Field for U.S. Airlines and Their Employees

. . . it is important that the U.S. government promotes a business environment at home that allows a fair opportunity for U.S. carriers to compete and prevail in the international marketplace.

As taxes and regulatory burdens increase, airline revenue decreases. Given the record losses that U.S. airlines have experienced, this burden is only making the industry weaker and limiting its ability to thrive, thus having an adverse effect on employment and the careers of professional pilots.

Another advantage that foreign carriers have is their ability to buy new American-manufactured airplanes with below-market financing rates subsidized by U.S. taxpayers, and then use those same airplanes to compete against U.S. carriers on international routes with significantly lower capital costs.

This paper explores and offers policy solutions to create a better business environment for U.S. airlines and level the playing field in the international marketplace. Issues explored as ways to level the playing field for U.S. airlines and their employees include:

- the problem of excessive oil speculation;
- the low barriers to entry for new carriers, which can lead to undercapitalized and ill-prepared airlines that distort pricing before going out of business;
- the customer experience at the airport;
- the positive impact of tourism on U.S. airlines;
- and investment in NextGen.

Further, while the United States has historically led the world in setting aviation safety and security standards, much of the rest of the world is not keeping up with our high standards. When our excellent safety and security standards are not adopted by foreign competitors, U.S. carriers are left at a competitive disadvantage, and international air safety and security as a whole is compromised. This paper offers concrete actions to be taken through the International Civil Aviation Organization (ICAO), the international standards-setting body chartered through the United Nations, to level the playing field internationally with respect to airline safety and security.

The United States' airline industry's extreme financial volatility, numerous bankruptcies and airline shutdowns, extensive employee pay concessions, pension termination, job losses, and eroding infrastructure require that immediate and aggressive action be taken to change course and establish a road map for future industry and employee success. Given the strong competitive cost advantages of many foreign carriers, it is important that the U.S. government promotes a business environment at home that allows a fair opportunity for U.S. carriers to compete and prevail in the international marketplace. U.S. airlines and their employees can compete and win in the international marketplace, but to do so they need to compete on a level playing field. This paper offers a guide for getting there.

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Section 1: Enhancing the Business Environment in the United States

Given the strong competitive advantages that key state-owned foreign carriers have through vertical integration with their government, it is important that the U.S. government provides U.S. airlines and their employees a business environment at home that allows them a fair opportunity to compete and prevail in the international marketplace.

Promote Taxation Policy That Fosters the Airline Industry's Viability and Growth

The U.S. airline industry finds itself increasingly burdened with higher taxes and fees. Today, the aviation industry leads all others in America with 17 unique taxes and fees from the federal government. Airlines for America ("A4A," formerly the Air Transport Association of America) estimates a $300 ticket for a typical, domestic round-trip itinerary with a single connection in both directions, is taxed about 20 percent of the total ticket price. The federal tax rates paid by airlines are higher than federal "sin" taxes paid on alcohol, tobacco, and firearms, which were originally intended to discourage use. Federal aviation tax policy discourages the use of commercial air transportation and impedes the industry's ability to grow and expand the U.S. economy.

As taxes increase, airlines must either pass them along to consumers in the form of higher fares or expect to see their revenue decrease. In a pricing environment that is highly volatile and subject to competitive response and public outcry, this often is not possible. Given the record losses airlines have experienced, this tax burden is only making the industry weaker and limiting its ability to thrive, directly affecting employment and the careers of professional pilots and other airline employees.

Furthermore, the tax burden is anticipated to increase in the coming years. Twice recently, first as part of a proposal to reduce the federal budget deficit and then again as a part of the executive branch's 2013 budget proposal, the administration proposed a $100 per departure tax on every flight and proposed to triple the passenger security tax. Imposition of these additional taxes would have been devastating to an industry that is still trying to recover from years of losses. New or increased tax burdens on commercial aviation, which is already disproportionately taxed, threatens jobs in an industry that helps carry our economy. Airline fares cannot always simply increase to offset new taxes. New taxes, therefore, could lead to a reduction of service by airlines. Small communities could be particularly hard-hit, as service reductions often begin in less-profitable small and rural communities. This could have a direct impact on jobs, with airlines' reduced service bringing about a reduction in workforce.

In 2010, the Department of Transportation (DOT) Future of Aviation Advisory Committee (FAAC), which was appointed to develop recommendations on initiatives that would be of particular importance to the future health and

sustainability of the industry, highlighted the heavy tax burden borne by aviation. The FAAC noted that not only did this tax burden make travel and shipping less affordable, but also could very well inhibit airlines from making needed investments to achieve sustained profitability and competitiveness. The FAAC recommended commissioning an independent study to evaluate the federal aviation tax burden on passengers, airlines, and general aviation. The results of this evaluation could be used to pursue appropriate legislative and regulatory actions consistent with the findings of the study.

Unfortunately, the DOT is still "exploring options to conduct the study"—more than a year after the FAAC issued its recommendations.

Policy Recommendation: The current structure of the industry's taxes and fees needs to be reviewed and reformed to help make the industry financially sound and competitive in the international marketplace. Policy makers should strive to reform our aviation tax policy with a goal of leveling the playing field and increasing U.S. international competitiveness and advancing U.S. leadership in aviation safety.

The DOT should immediately conduct the FAAC-recommended independent study to evaluate the federal aviation tax burden on passengers, airlines, and general aviation. The results of this study should then be used as the basis for pursuing appropriate legislative and regulatory actions to reform aviation taxes in a way that will promote U.S. international competitiveness and advance U.S. leadership in aviation safety. In the interim, all new or increased proposed fees and taxes on the airline industry should be rejected.

Reform "Passenger Protection" Regulations

Since December 2009, the U.S. Department of Transportation (DOT) has promulgated a series of costly consumer rights protections for passengers. ALPA is committed to providing the flying public with a positive travel experience. The vast majority of the DOT's new consumer rights regulations, however, are misguided and provide little, if any, benefit to passengers. In a November 2011 study, the American Aviation Institute (AAI) found that new DOT passenger protection regulations and resulting enforcement actions cost airlines more than $1.7 billion—over four times the amount of last year's U.S. airline industry profits. With more than $50 billion in losses over the last decade, skyrocketing jet fuel costs, and a 0.3 percent profit margin in 2011—which amounts to three cents in profit for every $10 in revenue—the rising burden of such regulations is undermining the U.S. airline industry's ability to compete globally, become sustainably profitable, and expand its U.S. workforce.

The first set of rules, formally titled "Enhancing Airline Passenger Protections," were proposed in 2009 and took effect in April 2010 (74 Fed. Reg. 68983-01, Docket No. DOT-OST-2007-0022). A costly and burdensome element of the requirements, the so-called "tarmac delay rule," requires airlines to publish contingency plans to provide food and water to passengers after a two-hour tarmac delay, and allow passengers on domestic flights to deplane after a three-hour tarmac delay. Unfortunately, the rule does not address the many root causes for tarmac delays, most of which are beyond an airline's control, including inclement weather, air traffic control delays and technical problems, airport gate availability, inadequate customs and immigration staffing levels, and runway or taxiway closures.

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According to a September 2011 study by the U.S. Government Accountability Office (GAO), while the tarmac delay rule has nearly eliminated delays of more than three hours, the likelihood of cancellation increases with the time a plane stays on the tarmac. GAO found that airlines were 24 percent more likely to cancel a flight before leaving the gate during the most delay-prone months of the year. By simply fining airlines up to $27,500 per passenger for noncompliance with the rule instead of seeking to address the root cause of tarmac delays, the GAO found that DOT has effectively changed airline decision making to make cancellations more likely. According to AAI, the tarmac delay portion of the rule will cost airlines $250 million annually. This is not a positive outcome for passengers, airlines, airline workers, and the overall U.S. economy.

DOT issued a second set of rules, commonly known as "Enhancing Airline Passenger Protections II" (76 Fed. Reg. 23110-01, DOT-OST-2010-0140), in April 2011. These rules purport to increase transparency and remove sources of confusion for consumers by requiring airlines to (1) provide more frequent flight status notifications; (2) include federal taxes and fees in their advertised fares (commonly known as the Full-Fare Advertising rule); (3) provide enhanced denied boarding compensation to passengers; (4) stop post-purchase ancillary fee changes; (5) allow passengers to hold a reservation without payment for 24 hours; and (6) apply a modified set of tarmac delay requirements to foreign carriers. Notably, the cost and burden of tarmac delay compliance falls disproportionately on U.S. carriers versus foreign carriers, since U.S. carriers operate many more U.S. flights than foreign carriers do.

One of the most costly and troublesome components of the rule is the Full-Fare Advertising requirement. AAI argues that this requirement forces airlines to display the worst-case scenario for the taxes and fees that may apply to any possible routing for a trip before a passenger or travel agent has selected the routing to be flown (such display changes are costly to implement as well). Thus, according to AAI, the requirement makes the advertised price of a ticket artificially higher, which will dampen demand. Another part of the requirement stipulates that those taxes and fees not be displayed more prominently than the fare (which also involves costly reworking of displayed information), and thus masks the federal aviation tax burden. That burden has doubled over the last two decades to over 20 percent of the total ticket cost—putting airline tickets in the same tax bracket as alcohol, tobacco, and firearms. In this respect, the "Full-Fare Advertising" rule provides no consumer benefit and imposes enormous new costs on airlines—approximately $108 million in direct compliance costs and $10.2 billion in lost revenue from dampened demand—spanning 2011 to 2021, according to AAI.

Later this year, DOT is expected to issue a third set of passenger protection rules that would require airlines to report revenue information related to 19 separate items, including how much they collect for meals, drinks, and upgrades. In no other industry is this required. DOT may also require airlines to make all of their products available through global distribution systems—for free. The third passenger protection rule, combined with the aforementioned rules, represents unwarranted government intervention in airline business practices. U.S. airlines and their workers simply cannot afford the billions in additional costs that these rules would impose.

Policy Recommendation: The U.S. government should place a moratorium on new consumer regulations (except for safety-related rules) until DOT conducts a review of existing protections, submits its findings for peer review by neutral academic experts, and collects information from airlines about the cost of compliance. In conducting its review of existing consumer regulations, and when considering new consumer regulations, DOT should give greater weight to the economic impact the rule will have on U.S. airlines and their workers rather than focus exclusively on the impact on consumers.

It is not in the public interest to further impose financial burdens on an already beleaguered industry. Instead, the government should work together with industry and labor to develop collaborative solutions that tackle the root causes of problems.

Accordingly, when applying the "public interest" test, DOT should carefully consider all of the public interest factors specified in the aviation statutes and seek to promote a financially stable industry that benefits U.S. workers and service to communities. As DOT has acknowledged, "matters that maintain and improve the health of the aviation industry," including encouraging airlines to "earn adequate profits and attract capital," are in the public interest.

Reform Aviation Financing at the Export-Import Bank

Some of the transactions the Bank is undertaking related to wide-body aircraft financing, however, are having unintended consequences, including the loss of U.S. pilot and other airline jobs and job opportunities in the international marketplace.

ALPA supports the mission of the Export-Import Bank (Bank). ALPA is pro-U.S. manufacturing and wants the Bank to continue to finance export deals that make sense for American workers. Some of the transactions the Bank is undertaking related to wide-body aircraft financing, however, are having unintended consequences, including the loss of U.S. pilot and other airline jobs and job opportunities in the international marketplace. The Export-Import Bank Reauthorization Act of 2012 is a step in the right direction to reforming the Bank, and implementation of the reforms must be executed rapidly and effectively. However, still more needs to be done to ensure U.S. aviation jobs are not jeopardized by Bank financing.

During the past five years, the Bank has provided financing for dozens of wide-body aircraft to foreign airlines. This financing is provided at rates and terms that are not available to U.S. airlines, and many of these Bank-subsidized wide-body aircraft are being used on routes that are, have been, and could be served by U.S. airlines. U.S. carriers have found that they have needed to withdraw from or not enter routes that might otherwise be economically viable.

The effect on U.S. pilot and airline worker jobs has been significant. In response to the increase in seat capacity directly attributable to aircraft financing from the Bank to foreign airlines, domestic airlines have been forced to reduce capacity by nearly 2 percent, resulting in the loss of approximately 7,500 U.S. airline jobs. Given the amount of financing the Bank has provided foreign carriers ($34.5 billion in financing from 2005 to 2010 and another $11.4 billion in 2011 alone) and intends to provide in the future, the potential for further incursion into U.S. airline market share by these carriers using Bank-funded aircraft could result in significant loss of U.S. airline worker jobs. Each airline job supports some 36 jobs outside the aviation industry, so each U.S. job lost has a significant negative ripple on the broader U.S. economy. ALPA has joined with A4A in a lawsuit challenging the Bank's proposed financing of 787 and 777

Boeing aircraft for Air India, making the case that the Bank failed to undertake the required economic and job impact study required by the Bank's charter.

Policy Recommendation: As directed by Congress in the Export-Import Bank Reauthorization Act of 2012, which was signed by the president on May 30, 2012, the administration should immediately enter into negotiations with the European countries with export credit agencies that support Airbus aircraft sales in order to eliminate export credit agency financing of all wide-body aircraft. We continue to support a robust manufacturing sector in our economy, and we are confident that there are many transactions that can be financed that would not negatively impact U.S. workers. We do not expect the Bank to unilaterally disarm in the wide-body aircraft subsidy back-and-forth with Europe; however, both sides have an incentive to wind down this financing. Bank senior vice president for transportation, Robert Morin, said as much in March 2012 when talking about aircraft loans, stating: "Clearly it's not healthy in the long term for export credit agencies to be doing so much."

Congress has mandated that the Bank undertake an economic effects analysis of potential financings to ensure that, with respect to each transaction, the impact of wide-body aircraft financing for foreign carriers is in fact a net positive for U.S. industry and employees. If the required economic impact analysis reveals that a financing deal would result in a net negative impact on U.S. jobs, then the rational and congressionally mandated outcome is that the transaction should not be supported by U.S. taxpayers.

In the 2012 reauthorization act, Congress requires the Bank to operate in a more transparent fashion and provide an opportunity for the public and affected interests, including airlines and their employees, to review and comment on proposed airline financing deals in advance of their approval. To date, the process by which the Bank has reviewed and approved financing has not been transparent; there has been virtually no opportunity for an interested or potentially affected entity such as ALPA to have meaningful input into that process. Economic impact studies, which are required by Congress, should be done on every proposed wide-body aircraft financing deal beforehand to ensure that the impact on U.S. jobs is actually positive, and not just assumed to be so. This is consistent with the Bank's congressional charter. Congress requires the Bank to support foreign purchasers only after taking "full consideration" of "any serious adverse effect" that particular exports, such as aircraft, might have on other U.S. companies and their employees. *12 U.S.C. §§ 635(b)(1)(B), 635a-2; see also id. § 635(e)(1).* The 2012 Bank Reauthorization Act requires 25 days of public notice of pending transactions; the provision of more information on those transactions; and, most important, allows for public comment to the Bank's Board of Directors on all proposed transactions by interested parties like ALPA. This transparency is essential to ensure full consideration of any adverse effect Bank financing may have on U.S. industry and employment.

Finally, the reauthorization act requires the Bank to develop and publish "methodological" guidelines for conducting economic impact analyses. The Bank's method for calculating its impact on U.S. jobs is also to be critiqued by the Government Accountability Office (GAO). Further, the administration, Office of Management and Budget (OMB), and Congressional Budget Office (CBO) are to work together on new methodologies for economic and job impact studies. These analyses should be the cornerstone of the Bank's financing decisions as they should reveal whether these financing decisions actually put U.S. taxpayer dollars to work for American workers.

Strengthen New Entrant Requirements for Start-Up Airlines

The combination of relatively low barriers to entry, the availability of capital, and the ability to reach and sell products to consumers via the Internet has made it much easier for start-up airlines to enter the airline industry. This has led to new entrants that have been undercapitalized and ill-prepared to execute long-term business plans. These carriers have had a dramatic effect on industry pricing and have forced their established competitors to price irrationally in order to stay in the market. Over time, these new entrants have gone out of business, but their irrational pricing practices have left the industry in worse financial condition as they have forced other carriers to cut prices at the expense of profitability. Since deregulation, more than 200 air carriers have come and/or gone.

DOT should not be lax with new entrant requirements. New entrants should be required to be financially sound and to have well-thought-out business plans. Between 2000 and 2010, there were 50 bankruptcy filings by U.S. air carriers, with 29 of those carriers ceasing operations. An average of 12 percent of U.S. carriers' capacity was associated with a bankruptcy between 2000 and 2009, with a high of 32 percent in 2005. With AMR's recent bankruptcy filing and the nation's economic slowdown, it is clear that this industry is not yet on its way to sustained profitability.

New entrants should be required to be financially sound and to have well-thought-out business plans.

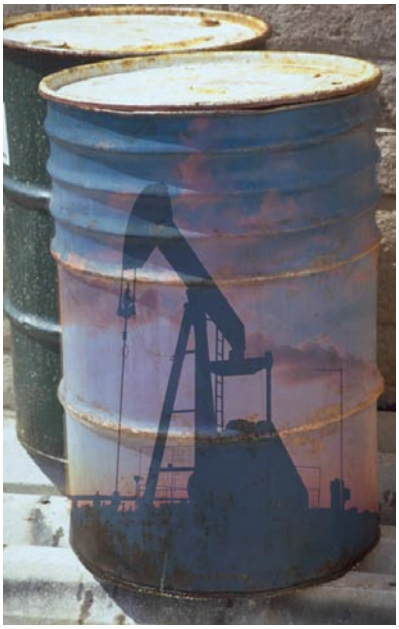
Many communities have been hurt when new entrants have gone out of business. Skybus, for example, began service out of Columbus, Ohio, in May 2007, and less than a year later shut down. During that time, Skybus was beset with a myriad of operational problems and economic challenges. Despite its unsustainable business model, the airline kept fares at $10 and was forced to cancel routes within five months of starting service. Once Skybus failed, Columbus no longer had a large carrier serving multiple destinations, and the company's former competitors were left with bruised balance sheets as a result of its disastrous pricing policy.

Policy Recommendation: The DOT should look to strengthen its requirements for new entrants. These requirements should set higher standards of viability for financial wherewithal (i.e., proper capitalization) and require that new entrant applicants have sound business plans.

Reduce Speculation in the Oil Market and Other Derivatives

Fuel is often the largest and certainly the most volatile expense item for the airline industry. Dramatic price swings have added significant stress to an already-beleaguered industry and make long-term planning almost impossible. In today's marketplace, the price of oil is increasingly driven by speculators, not by producers and consumers of oil.

In the last decade, the level of speculative trading in crude oil futures contracts on the New York Mercantile Exchange has risen by 600 percent. According to the Congressional Research Service, during 2008, the cost of oil doubled to more than $145 per barrel and then fell by 80 percent. In early 2011, there was a run-up of about 20 percent, sending gasoline prices to near 2008 highs. At the same, gasoline prices have skyrocketed from $1.56 per gallon to more than $3.65 per gallon, increasing costs for airlines and other industries. An analysis



Pilots have seen firsthand the destructive effect that oil speculation can have on the airline industry.

by Deutsche Bank estimates that every penny increase in jet fuel prices on an annualized basis equals additional fuel expense of $170 million for the U.S. airline industry. In turn, these costs are passed on to consumers or drive businesses into debt, or worse, bankruptcy.

Pilots have seen firsthand the destructive effect that oil speculation can have on the airline industry. Given what the airline industry already endured at the beginning of the decade, the oil speculation bubble compounded the financial woes of several airlines, forcing them to declare bankruptcy, liquidate, and lay off thousands of airline workers.

The U.S. government should increase oversight of and reduce speculation in the derivatives market without hindering legitimate hedging practices utilized by end users, such as airlines.

Policy Recommendation: Congress should pass S. 1598, the Anti-Excessive Speculation Act, which curbs oil speculation while allowing legitimate hedging. The legislation would clarify the Commodity Exchange Act to ensure that the commodity markets "accurately reflect the fundamental supply and demand for commodities." It establishes the deterrence and prevention of excessive speculation as an express purpose of the act, while also defining "excessive speculation" to allow legal interpretation. Importantly, the legislation also establishes individual statutory speculative position limits for energy futures, options, and economically similar contracts, wherever they are traded (on exchange or over the counter). The position limits would be set at 5 percent of deliverable supply in the spot month and 5 percent of open interest in the out months. The speculative position limits would not apply to bona fide hedging transactions like those that airlines engage in. No single trader could hold more than 5 percent of the oil futures market, thereby greatly reducing the risk that any trader will be able to corner, squeeze, or otherwise manipulate oil and gas prices.

The legislation also establishes aggregate speculative position limits in energy contracts that would apply to speculators as a class of traders, capping the overall level of speculation in the market at its historic 25-year average. This would reduce oil speculation from about 45 percent of the total market to 20 percent of the market. The aggregate speculative position limits would not apply to bona fide hedging transactions from airlines and other legitimate end users.

Pursue Foreign Tourist Visa Liberalization

The income from foreign visitors in the United States is counted as an export and can play a significant role in the U.S. trade balance. The U.S. travel and tourism industry represents 2.7 percent of GDP and approximately 7.5 million U.S. jobs. Foreign travelers to the United States fly on U.S. airplanes and help to support thousands of U.S. airline jobs. Increasing foreign travel to the United States is a tremendous growth market for U.S. airlines and their employees.

China, in particular, is a growth market for travel to the United States. Only 1 percent of all Chinese citizens who travel abroad come to the United States. This is in spite of the fact that, according to Air China, surveys show that the United States is the preferred travel and return destination for Chinese travelers. Additionally, according to the Department of Commerce, Chinese and Brazilian tourists currently spend upwards of $5,000 on average per trip when in the United States.

Among the key factors depressing the number of foreign travelers are U.S. visa procedures. For example, in China, visa processing centers are located in only a few major cities, and processing wait times have been deterrents to potential travelers. There are steps that can be taken to greatly facilitate the number of Chinese visa applications that can be processed and approved to increase the flow of Chinese business and tourist travelers to the United States.

The Obama administration recognizes the potential for growth in travel and tourism to the United States, and recently announced a plan to increase non-immigrant secure visa processing capacity in China and Brazil by 40 percent in 2012. Further, the plan will ensure that 80 percent of nonimmigrant visa applicants are interviewed within three weeks of receipt of an application, a significant improvement of the current prohibitive wait times.

Policy Recommendation: The U.S. government should promote U.S. tourism abroad and facilitate the issuance of foreign tourist visas. ALPA believes that President Obama's announced initiatives are an excellent first step toward increasing the number of foreign visitors to the United States. ALPA proposes a thorough GAO study and report to Congress on recommendations from government agencies on additional effective, expedient, and cost-efficient ways to increase the number of visas that can be issued to potential travelers from China.

Enhance the Airline Customer Experience at the Airport

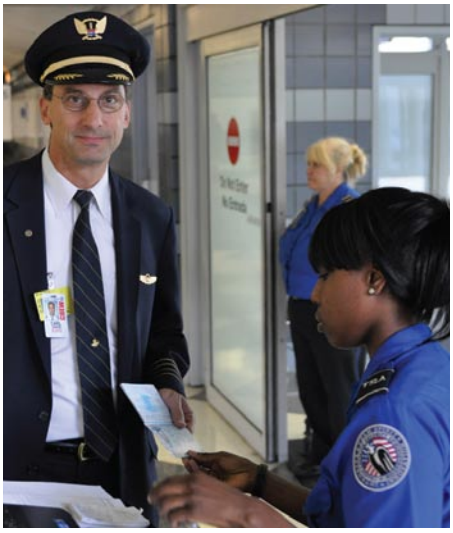
The airline industry's health and sustainability relies, in large measure, on creating and maintaining a positive travel experience for the public from the moment they arrive at the airport for departure until the time that they arrive at their destination. Since the intrinsic value of air travel is its ability to save customers time, the amount of money that passengers will spend on airline tickets is related to how much time is lost during security- and customs-screening activities at the airport.

Air travel has become an increasingly complicated and time-consuming mode of transportation, due in large measure to certain security and customs-related procedures and processes. The Sept. 11, 2001, terrorist attacks ushered in a sea change for aviation security and passenger and cargo screening. A new Department of Homeland Security (DHS) and the Transportation Security Administration (TSA) were established and assumed responsibility for these functions from the Department of Transportation (DOT) and the airline industry in late 2001. As a result, much greater resources and considerably more focus has been given to securing our nation's air travelers than at any time in the history of the country.

A significant impediment to the travel experience can be seen in the form of certain passenger-security-related processes and procedures that may be viewed very negatively by the majority of travelers. These can include long lines and wait times, the need to remove articles of clothing, loss of personal privacy, pat-downs by screening officers, and use of advanced imaging technology equipment.

The United States' philosophical approach and security culture, much more than the types and amounts of resources deployed, must adapt to today's threat. Screening processes need to continue to interdict harmful objects carried into airports, but they also must be enhanced to do a much better job of screening for individuals with hostile intent, and they must do so in a manner that is acceptable to the vast majority of air travelers.

Leveling the Playing Field for U.S. Airlines and Their Employees



Despite the fact that the threat has demonstrably changed in recent years, the United States has yet to significantly alter its decades-old screening methods to adapt to the new danger. Current screening procedures are predicated on two general assumptions: (1) every passenger poses an equal threat, with limited exceptions, and (2) the primary focus of screening is to identify objects that could be used to harm individuals and/or the aircraft. As a result, when terrorist tactics change or a different weapon or threat object is used, the security system is reactively adjusted to that new object or tactic. Over time, this inadequate response to the problem has the effect of creating an enormously costly patchwork of "Band-Aid" solutions.

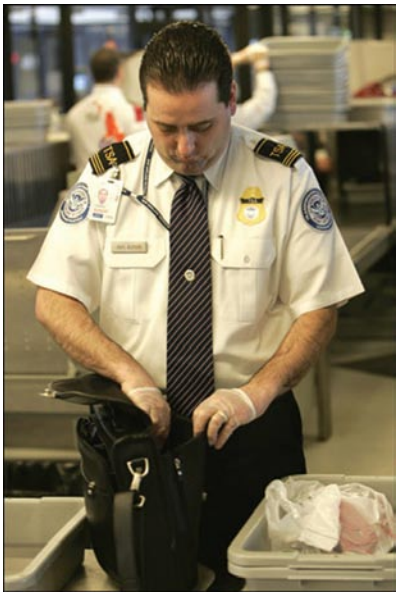
In 2011, ALPA and A4A collaborated with TSA on the development of a program called Known Crewmember (KCM) to screen authorized airline personnel using available technology and airline data. KCM is designed to confirm an airline flightcrew member's identity and current employment status, expedite his or her access to sterile areas of airports, reduce backlogs, increase throughput at passenger-screening checkpoints, and make more efficient use of TSA screening resources. It also is intended to enhance security for the traveling public and the airline industry. All of these benefits provide a win-win result for the security of the traveling public and efficiencies for airlines and their employees.

Professional airline pilots have successfully passed in-depth preemployment background investigations; they have been subjected to fingerprint-based criminal-history record checks, and are the most highly screened employee group in the aviation industry. Furthermore, pilots are on the front line of our nation's aviation security effort, not a threat to it. KCM recognizes those facts by providing pilots with a technologically modern and highly efficient alternative to the traditional airport security screening process.

Much of the same information exists about some members of the traveling public. In October 2011, TSA began a risk-based passenger-screening process at several airports, which is now being expanded to additional airports. Eligible customers include frequent flyers from several major airlines who are members of the Customs and Border Protection's (CBP) "trusted traveler" programs like Global Entry and NEXUS. This program can be expanded to include additional information. After opting in to the program, passengers go through an expedited screening at select checkpoints, keeping their shoes and light jackets on, their laptops in their cases, and packed liquids in their carry-on baggage.

Further, with respect to CBP clearance into the United States for both citizens and visiting foreign nationals, ALPA is concerned with the priorities of DHS and CBP. In December 2011, DHS announced plans to establish a U.S. Immigration Advisory Program at Abu Dhabi International Airport as a first step toward the deployment of a passenger preclearance program in the United Arab Emirates (UAE). ALPA opposes a preclearance site in the UAE.

CBP currently oversees preclearance sites at 15 foreign locations that allow U.S.-bound air passengers to get advance approval to enter the United States from established locations in airports outside the country. These sites are strategically located at airports where U.S. carriers constitute a considerable amount of the air traffic (for example, Dublin and Montreal) or all of the air service (as is the case in Bermuda). The potential preclearance site in the UAE would be a significant departure from this paradigm and would put U.S. air carriers and U.S. airline worker jobs at risk by advantaging foreign airline com-



petitors exclusively. In ALPA's view, U.S. customs preclearance should benefit U.S. citizens and facilitate travel on U.S. airlines.

No U.S. carrier currently flies between the Abu Dhabi airport and the United States. The only carrier with such service is Etihad Airways, the state-owned national airline of the United Arab Emirates. A preclearance site in Abu Dhabi would benefit only Etihad, which is already benefiting from numerous advantages over U.S. airlines, such as freedom from local taxes, the absence of transparency requirements with respect to corporate finances, and the ability to purchase wide-body aircraft from Boeing and Airbus at reduced rates through export credit agencies. ALPA opposes a preclearance site in the UAE for these reasons.

Policy Recommendation: A large amount of information is known about individuals who travel by air. The government should increase investment in the Known Crewmember and trusted traveler programs, which enhance security and reduce airport wait times for all customers, improving the airline customer experience.

The government should shift its resources to focus greater attention on identifying those very few persons who pose a threat to air travel instead of continuing a one-size-fits-all approach. Our security screening philosophy must be altered to embrace two fundamental principles: (1) the vast majority of passengers pose little or no risk to the safety and security of flight, and (2) the best means of providing genuine security is to positively identify known, no- and low-risk passengers, process them in an expeditious manner, and concentrate our finite, high-technology, and behavioral screening resources on the small percentage of passengers whose perceived risk is unknown or creates the need for additional screening measures. Such a proactive security system will defeat the terrorists by anticipating future threats, be much more effective and efficient than current security protocols, and reduce security-related inconvenience and delays for the vast majority of the traveling public while protecting passenger privacy to the maximum practical extent.

Further, DHS should abandon any plans to open a preclearance facility in the UAE, or any country where U.S. carriers do not do at least a majority of the flying. Congress should prohibit DHS from spending any funds on preclearance facilities where U.S. carriers are not doing at least a majority of the flying and should continue to prohibit DHS from accepting independent funding of preclearance facilities from any third parties, including cities, countries, and carriers.

Invest in NextGen to Improve Safety and Increase Efficiencies While Decreasing Costs to Airlines

To maintain a competitive advantage in the international marketplace, the United States' national airspace system (NAS)—which is composed of the entire air- and ground-based infrastructure, including air traffic control surveillance and communication, navigation, airports, aircraft, vehicles on the surface, and others—must be modernized. The current system of air traffic control and air traffic management is based on technologies, techniques, and processes that date back decades. The infrastructure continues to deteriorate, and the ability of the FAA and operators in the NAS to guarantee the safest possible travel is similarly being diminished.

Existing and emerging technologies hold the promise of significant increases in the ability to maintain or improve levels of safety while improving capacity and efficiency of our system, allowing our airlines to grow and ultimately save

costs, resulting in a better business environment and more level playing field for U.S. airlines.

NextGen, in its mature state, will improve efficiency of operations, enhance both the accuracy and coverage of controllers' ability to pinpoint the position of aircraft in flight and on the ground, increase capacity, reduce delays in the air and on the ground, and cut down greenhouse gas emissions. With the rising cost of fuel, less fuel will be consumed, resulting in immediate cost savings. Reduced taxi and flight time also translates into less noise and emissions. Better knowledge of exactly where the aircraft is on the ground translates into more efficient gate management, reduced tarmac delays, and fewer runway incursions. More accurate airborne position knowledge will allow the air traffic controller to arrange aircraft into more efficient streams. All of these benefits lead to profitability and growth of our airlines and our nation's economy, as well as a better customer experience.

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The upgrade from the current outdated system to a modern, more efficient one is as complex as the technologies themselves. It is simply impossible to "turn off" the current system while changes are made. Every major upgrade to the system must be undertaken while the system is in full operation, with the existing workforce. Thus, development of equipment and procedures, acquisition and deployment strategies, and training for pilots, controllers, and technicians must all be fully integrated.

Policy Recommendation: The U.S. government can help level the playing field for U.S. airlines and their employees by investing in NextGen to promote greater safety and efficiency.

The administration and Congress must work to accelerate the FAA's NextGen plan. The scope, duration, and cost of NextGen require that decisions on critical aspects, such as funding and equipage, must be timely, accurate, and focused on the overall needs of the public. Strong government leadership, consistent long-term funding, and cooperative planning are all needed in establishing standards and requiring minimum levels of equipage.

NextGen Taxes

While most aviation taxes go toward maintaining the aviation infrastructure in this country, some of the taxes also go toward developing and implementing technologies and procedures that lead to NextGen. U.S. airlines actually get "taxed" twice for NextGen, paying taxes on fuel, tickets, landing fees, and incurring numerous other fees, while also bearing the cost to install mandated technologies on their aircraft that will result in NextGen.

NextGen benefits all users of the national airspace system, not just airlines. Ironically, the most immediate economic benefit of many of these technologies, ADS-B for example, is to reduce the cost to the federal government to operate the national airspace system. ADS-B implementation enables the government to shift away from a ground-based surveillance infrastructure to a satellite-based system. This significantly reduces the cost burden on the government to maintain antiquated ground-based radar systems.

Policy Recommendation: Because the savings of NextGen investments by the airlines benefit the federal government at the front end, these savings should be passed to the airlines in the form of grants, tax credits, subsidies, or other incentives to encourage aircraft equipage.

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Section 2: Defending U.S. Aviation Jobs in the International Marketplace

The United States' airline industry's extreme financial volatility, numerous bankruptcies and airline shutdowns, extensive employee pay concessions, pension terminations, job losses, and eroding infrastructure require that immediate and aggressive action be taken to change course and establish a road map for future industry and employee success. In order to secure U.S. jobs in the international marketplace, in addition to creating a better business environment at home as set forth in Section 1, the United States also needs to champion airline workers directly through the enforcement of existing labor laws that are designed to safeguard U.S. workers. In cases where the U.S. labor market is exposed by government action, such as Open Skies agreements, the government must provide safeguards for U.S. workers.

Include Labor Safeguards in Air Transport Service Agreements

Since 1993, the United States has had a policy of pursuing Open Skies agreements with almost all of its trading partners and now has more than 100 such agreements in place. While some labor concerns, such as cabotage (the transport of local traffic between two points in the same country by an airline of a foreign country), foreign ownership, and seventh freedom passenger rights (the right to carry passengers between two foreign countries without any continuing service to one's own country), have been taken into account by the U.S. government in its negotiating policy, only the 2007 air services agreement with the European Union, as amended, contains an express labor article to safeguard U.S. aviation jobs.

In connection with the current effort of the United States to obtain an Open Skies agreement with China, ALPA has informed U.S. negotiators that the Association is opposed to continuation of that effort until a neutral entity undertakes a study of the potential effect of such an agreement on U.S. airline labor. ALPA has also informed U.S. negotiators that an Open Skies agreement with China should include labor provisions that provide meaningful safeguards and recourse to U.S. airline workers if the agreement adversely affects them.

Policy Recommendation: Congress should monitor U.S. air service negotiations to ensure that labor safeguard provisions are included where appropriate.

Safeguard U.S. Pilot Jobs in Connection with Joint Venture Alliances

With the development of international joint ventures that are afforded antitrust immunity, the U.S. government should ensure U.S. airline flying is maintained and enhanced. Currently, these joint ventures are structured so the airline

partners can act as single businesses with respect to the services included in the Joint Venture. A U.S. carrier may receive substantial revenue without performing any flight operations of its own on the international routes included in the Joint Venture. This can lead to U.S. airline workers getting only a small portion—or even none—of the international flying operated under the joint venture. This can have a negative impact on the overall competitiveness of U.S. airlines, as they may stagnate while their foreign partners grow. These agreements should generate flying opportunities for U.S. carriers and jobs for their workers and not result in the outsourcing of U.S. flying and U.S. jobs.

These agreements should generate flying opportunities for U.S. carriers and jobs for their workers and not result in the outsourcing of U.S. flying and U.S. jobs.

Policy Recommendation: Congress should take up and pass legislation ensuring that there be a close correlation between the portion of revenue a U.S. airline receives from a revenue-sharing arrangement that involves international air transport services and the amount of actual flying the airline itself engages in as part of that agreement. In the 111th Congress, H.R. 4788 was introduced in the House of Representatives. If enacted, that bill would have linked the portion of joint venture revenue that a U.S. airline could receive to the portion of joint venture flying done by the airline. The bill also would have required U.S. airlines to seek DOT approval of joint venture agreements and would have applied to all joint ventures, whether approved before or after the date of enactment.

Maintain Current Foreign Ownership Restrictions

Laws governing ownership of U.S. airlines are rooted in basic security considerations, in particular the need to ensure that U.S. air carrier aircraft are available in times of national emergency. These rules also address a key concern of U.S. airline employees—that they receive a fair share of international flying opportunities. It is quite possible that foreign ownership of U.S. carriers would result in the loss of flying opportunities for U.S. carriers and their workers should foreign air carriers allocate growth opportunities to their own workers as opposed to those of the U.S. carrier in which they would have a stake. Further, it is a very real concern that foreign ownership could result in U.S. carriers being largely controlled by foreign interests that are intent on turning those carriers into feeder operations for foreign airlines. For years, ALPA has opposed any modification of foreign ownership or control limitations.

Additionally, ALPA remains concerned about proposals put forward in the past by the U.S. government to allow for third-country ownership and control of foreign airlines. ALPA believes that the United States should retain the right to object on a case-by-case basis to particular ownership structures of airlines that wish to serve the United States.

Policy Recommendation: Maintain the current foreign ownership and control restrictions in the United States. No action is therefore needed by the U.S. government on this issue beyond defense of the current law.

Maintain Current Cabotage Restrictions

The United States has by far the largest domestic traffic market of any country. Allowing foreign air carriers to conduct cabotage operations—the transport of local traffic between two points in the same country by an airline of another country for compensation—would permit them to operate flights in this market in direct competition with U.S. carriers. This would be contrary to the basic U.S. employment policy altogether, as no other industry permits

foreign companies to operate in the U.S. domestic market with workers who are subject to the labor laws of that company's home country. During the U.S.–European Union air service negotiations between 2003 and 2010, the EU sought to include an exchange of cabotage rights in a new U.S.–EU agreement. Other negotiating partners have also from time to time proposed an exchange of cabotage rights with the United States. To date, the U.S. government has firmly rejected these proposals.

Foreign carrier cabotage is prohibited by the U.S. aviation statutes, and ALPA has consistently and strongly opposed efforts to modify the prohibition.

Policy Recommendation: Maintain the current cabotage restrictions in the United States. No action is therefore needed by the U.S. government on this issue beyond defense of the current law.

Restore Fairness in the U.S. Bankruptcy Code for Airline Employees

. . . many unionized airline employees have lost more than a third of their pay and their decades-old pension benefits and continue to be locked into lengthy court-imposed or pressured concessionary terms, . . . demonstrates that the current bankruptcy process has swung seriously out of balance for airline workers.

Following the terrorist attacks of September 11, 2001, many airline workers' pay, working conditions, pensions, and living standards—built over decades of collective bargaining—were lost in the bankruptcy process. Airline workers made deep, repeated, and lasting sacrifices, carrying far more than their fair share of the pain to save their airlines. At the same time, these long-term sacrifices by employees have often exceeded those necessary for the immediate economic survival of the airlines. The stark fact that many unionized airline employees have lost more than a third of their pay and their decades-old pension benefits and continue to be locked into lengthy court-imposed or pressured concessionary terms, while other stakeholders have not been required to make comparable sacrifices and airlines have since resumed profitability, demonstrates that the current bankruptcy process has swung seriously out of balance for airline workers.

These unfortunate results have occurred through the Section 1113 procedures of Title 11 of the bankruptcy code, which is the mechanism employers use to seek judicial permission to void collectively bargained obligations to their employees and impose, in their place, dictated pay and working conditions. The Section 1113 provisions were designed to recognize that some changes in employee working conditions may be needed to address an employer's economic crisis, while providing a basic level of protection to employees' binding labor agreements so that they could not be easily set aside in the bankruptcy process.

Recent court decisions, however, have misapplied Section 1113 far from its intent to void long-standing working conditions without due regard for the legitimate economic security of airline employees and their families. Indeed, some of these erroneous court decisions have held airline employees to standards no other creditors are made to endure—unlike other creditors, airline employees have been told that their binding labor agreements are not breached if they are voided in the 1113 process, calling into question the ability of employees to receive fair compensation for the breach of their agreements, and these workers are also told by the courts that, unlike other creditors, they cannot withhold their services if their agreements are breached and set aside. The result is that the application of the 1113 process has shifted far from its original intent, and is no longer fairly balancing the economic survival of a business with the basic economic security of employees.

Policy Recommendation: Congress must act to overhaul the Section 1113 process and return it to its original intent of providing a fair process to balance the need for economic restructuring for distressed employers with basic safeguards for workers' vested interests by tightening the standards for voiding contractual obligations to workers, ensuring fair treatment and equitable sacrifices for all stakeholders in the bankruptcy process, and making explicit that employees have the right to seek damages or withhold their services in response to an abrogation of their collective bargaining agreements, which are rights that all other creditors have. All of these changes are needed to restore some semblance of a level playing field for airline employees in today's volatile economic environment.

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Section 3: Enhancing International Aviation Safety Regulations through ICAO

Historically, the United States has led the world in setting aviation safety and security standards. Problems arise when the safety and security field is not level, and foreign airlines do not keep up with the United States' high standards. When the United States' excellent safety and security standards are not adopted by foreign competitors, U.S. carriers are left at a competitive disadvantage, and international air safety and security as a whole are compromised.

Work with ICAO to Help Raise the Safety and Security Bar Internationally

The International Civil Aviation Organization (ICAO) is an international standards-setting body chartered through the United Nations. While not a regulatory body, its Standards and Recommended Practices (SARPS) are expected to be used by the 191 member nations (which are referred to as "States") as minima in developing their own aviation regulatory standards and advisory materials. States are expected to inform ICAO of noncompliance with its standards, but ICAO has no means of directly enforcing States' adherence to standards. Many developing States use the ICAO standards as their own body of aviation regulations, making the ICAO guidance the *de facto* "minimum acceptable standard" worldwide.

Although there is an intrinsic benefit in higher safety and security standards, States with aviation safety and security regulations more restrictive than those of the ICAO, such as those of the United States, run the risk of being at an economic disadvantage since manufacturing, operating, and infrastructure costs may be driven up by the need to comply with the higher standards. It is thus in the United States' best interest, both in economic terms and from the standpoint of a safer global aviation system, to endeavor to continually influence the development of ICAO standards using U.S. regulations as a baseline.

ALPA is able to influence ICAO standards through our membership in the International Federation of Air Line Pilots' Associations (IFALPA) and through participation in the development of positions of the U.S. and Canadian delegations to the ICAO Assembly. Establishing higher ICAO standards than exist in U.S. federal aviation regulations can prompt the U.S. government to meet those standards. In key areas of interest to ALPA, therefore, it is advantageous to concurrently influence the development of improved aviation safety and security standards within U.S. federal regulations and ICAO standards.

Flight/Duty Time Requirements

ALPA views the establishment of improved flight and duty rules as among the most important flight safety undertakings in modern times. Recently, the U.S. government published a final rule on flight/duty time regulations for passenger

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carrying airlines, FAR 117, which will implement much-needed and long-awaited safety improvements over the next two years. The new rule is a significant improvement over the antiquated rules established five decades ago. Unfortunately, cargo operations were not included in the new pilot fatigue rule. For decades, ALPA has demanded "One Level of Safety" for the simple reason that fatigue affects all pilots. All safety regulations should follow suit.

Policy Recommendation: Congress should direct the FAA to amend FAR 117, the pilot fatigue rule, to include cargo operations under the same fatigue standards as those of passenger airlines.

Further, the United States should pursue a vigorous effort at ICAO to adopt a new international standard for flight/duty time that will increase aviation safety around the globe and create a level playing field for U.S. airlines that compete globally. The rule should cover all airline operations and be based on FAR 117.

Pilot Training, Licensing, Mentoring, and Screening

The best and most important safety feature on any airplane is a well-trained, highly motivated, professional pilot. Despite great advances in aircraft technology that have immeasurably improved safety, the flight crew is still responsible for making hundreds of decisions on each and every flight in order to operate in the safest manner possible.

Flying today's complex airline aircraft in very congested and complicated airspace is a challenging undertaking, even for experienced pilots. Yet around the world, entry-level pilots hired by airlines over the past few years generally have less experience than pilots hired in prior years. In some cases, pilots barely meet the qualifications and competencies established as the accepted minimums for commercial pilots.

Because fewer experienced pilots are available for hire, many States have implemented training programs designed to produce pilots in a short period of time, with virtually no experience. In addition, many airlines have lowered their minimum hiring requirements. In some cases, the hiring requirements have been lowered to the minimum allowable to acquire a commercial pilot license.

Recent accidents in the United States have led Congress and FAA to recognize the inherent shortcomings in today's training regulations. Numerous Aviation Rulemaking Committees met in 2010–2011 and developed many recommendations that the FAA is presently compiling into a proposed rulemaking to amend the flight training, screening, and mentoring requirements of the next generation of airline pilots, as mandated by the Airline Safety and Federal Aviation Administration Extension Act of 2011 (P.L. 111-216).

ICAO has taken a strong interest in this subject as well. It convened a symposium in early 2010 on this subject in Montreal and has been actively involved in the development of new training program concepts and standards.

Policy Recommendation: The United States should pursue a vigorous effort at ICAO to adopt new international standards for pilot flight training, screening, and mentoring around the globe.

. . . the Dangerous Goods Panel recommended that ICAO apply dangerous goods safety standards in the areas of labeling, training, inspection, and pilot notification to shipments of lithium batteries by air.

Carriage of Hazardous Materials Including Bulk Shipments of Lithium Batteries

ALPA has long advocated for improved transport requirements for hazardous materials. Shipments of lithium-ion and lithium-metal batteries aboard aircraft are currently the most pressing hazmat issue that the aviation community needs to address. Lithium batteries are more volatile than many goods that are currently shipped as hazmat; they can self-ignite when damaged, defective, or exposed to a heat source. They also burn incredibly hot, and FAA testing has shown that fires involving lithium-metal batteries are unresponsive to halon, the traditional extinguishing agent used aboard aircraft.

The United States has proactively banned the shipment of lithium-metal batteries on passenger aircraft. Despite the same risk that these batteries pose on cargo aircraft, lithium metal is still allowed on all-cargo aircraft. At this time, lithium-ion and lithium-metal batteries are exempt from many federal hazardous material regulations, such as the requirement to place a dangerous goods label on the package, the requirement to notify the pilot-in-command of their presence, the requirement for airline personnel to perform an acceptance check of the package, or any of the cargo compartment quantity limitations normally applied to hazardous materials. Further, there is no international prohibition on the shipment of lithium-metal batteries.

In January 2010, the DOT's Pipeline and Hazardous Materials Safety Administration (PHMSA), in consultation with the Federal Aviation Administration, issued a notice of proposed rulemaking (NPRM) to amend requirements in the Hazardous Materials Regulations on the transportation of lithium cells and batteries, including lithium cells and batteries packed with or contained in equipment. Considerable opposition to that NPRM was raised by several manufacturers and shipper organizations, which led to a legislative limit on federal regulations on lithium batteries in the FAA reauthorization bill of 2012.

This provision in the FAA reauthorization law (P.L. 112-95) makes it difficult to pass and implement any federal regulation on the shipment of lithium-metal or lithium-ion batteries (except the current metal ban on passenger aircraft) that is more stringent than the standards set by ICAO. There are exceptions if there is a "credible report" from a national or international governmental regulatory or investigating body that lithium batteries substantially contributed to an onboard fire resulting in a safety incident.

ALPA has been working through ICAO's Dangerous Goods Panel to improve international technical instructions for shipment of lithium batteries for more than a decade. Significant progress was made recently when the Dangerous Goods Panel recommended that ICAO apply dangerous goods safety standards in the areas of labeling, training, inspection, and pilot notification to shipments of lithium batteries by air. ICAO is expected to publish these new technical instructions by January 2013.

While these ICAO technical instructions mark critical progress, much remains to be done to apply "One Level of Safety" to enhance the safety of shipping lithium batteries on aircraft here in the United States.

Policy Recommendation: The United States should classify the bulk shipment of lithium batteries as a hazardous material, applying all appropriate hazardous materials regulations.

A safety management system (SMS) is a proactive safety program that makes use of voluntarily provided incident data and reports from frontline employees that give the operator notice of accident precursors. When SMS is implemented properly, greater safety and operational efficiencies result.

Mandate SMS and FRMS

A safety management system (SMS) is a proactive safety program that makes use of voluntarily provided incident data and reports from frontline employees that give the operator notice of accident precursors. When SMS is implemented properly, greater safety and operational efficiencies result.

ICAO standards stipulate that States shall, as of November 2009, require that airline and airport operators implement SMS in order to (1) identify safety hazards, (2) ensure that remedial action necessary to maintain an acceptable level of safety is implemented, (3) provide for continuous monitoring and regular assessment of the safety level achieved, and (4) aim to make continuous improvements to the overall level of safety. As of this writing, the United States is not in full compliance with this standard.

A fatigue risk management system (FRMS) supplements prescribed flight- and duty-time regulations and other validated, independent, scientific, research-based software tools by applying SMS principles and processes to proactively and continuously manage fatigue risk through a partnership approach involving management and crewmembers. The purpose of an FRMS is to ensure that flightcrew members are sufficiently alert so that they can operate to a satisfactory level of performance and safety under all circumstances.

In June 2011, ICAO adopted proposals to amend Annex 6 to include revised and new requirements for pilot fatigue management. The new standards became effective December 2011 and include the use of FRMS as one means of mitigating the risk of fatigue.

Despite the fact that SMS and FRMS are contained in ICAO standards, States' acceptance and implementation of these standards have been irregular at best. In the United States, most airline operators have a considerable amount of work to do to create both programs on their respective properties.

Policy Recommendation: The United States should advocate adoption of FRMS and SMS for all aspects of aviation: aircraft design, operations, airports, air traffic, maintenance practices, etc.

Installation of Flight Deck Secondary Barriers

Reinforced cockpit doors mandated on passenger aircraft by Congress after the terrorist attacks of Sept. 11, 2001, have added a valuable layer of protection to airliner flight decks. Experience has proven, however, that the doors do not provide a complete solution to the problem they were intended to resolve.

A secondary barrier, accompanied by standardized procedures for protecting the cockpit door when opened in flight, would significantly augment the fortified door and add an important layer of security to prevent hostile takeover of the cockpit. The secondary barrier is located on the cabin side of the fortified flight deck door and improves security by guarding the flight deck when the door is open. It can also indicate a person's intentions to breach the flight deck before he or she reaches the fortified flight deck door.

Since there is not yet a requirement for a fortified flight deck door on all cargo-only aircraft, the same device that is used as a secondary barrier on passenger airliners can provide a relatively low-cost security enhancement on cargo-only aircraft until such time as a fortified door requirement is made applicable to all airline aircraft.

In 2008, ALPA persuaded the U.S. government and airline industry to support the development of performance standards for secondary barriers. These

standards were completed in mid-2011 through a consensus-building federal advisory committee and can now be used by airline operators for implementation. Some U.S. operators have voluntarily installed secondary barriers.

Policy Recommendation: The U.S. government should pursue an ICAO standard for secondary barriers on all commercial aircraft to increase security of flight decks on aircraft operated around the world.

Establishing Global Carbon Emissions Levels

Every State is concerned about the potential effect on the climate caused by greenhouse gases, carbon dioxide in particular, as a result of burning jet fuel. To this end, the European Union has created an emissions trading scheme (ETS), which is a unilaterally imposed scheme that charges airlines for their aviation carbon emissions into and out of the EU. This ETS has been the target of much criticism by States around the world.

More than 20 countries with large aviation sectors have adopted a declaration opposing the inclusion in the ETS of flights by non-EU airlines into and out of the EU and have urged the EU to work collaboratively with the rest of the international community to address aviation emissions.

It is ALPA's view that the ETS is in contravention of the Chicago Convention and violates the basic principles of State sovereignty set forth in that convention and the relevant provisions of the United Nations Framework Convention on Climate Change. More than 20 countries with large aviation sectors have adopted a declaration opposing the inclusion in the ETS of flights by non-EU airlines into and out of the EU and have urged the EU to work collaboratively with the rest of the international community to address aviation emissions.

Further, just as with the UK Environmental Departure Fee, there is no requirement that ETS receipts be applied toward mitigating climate change or decreasing aircraft emissions through technological innovation of equipment or fuel.

In December 2011, Secretary of State Hillary Clinton and Secretary of Transportation Ray LaHood sent a letter to their EU counterparts rebuking the unilateral action of the EU ETS and strongly urged them to work through the ICAO process.

Further, the United States is currently working with China, Russia, and India on a strategy to counter the unilateral action taken by the EU. China has already stated that it will not allow Chinese airlines to participate in the EU ETS and has delayed large orders of Airbus aircraft, sparking tension over a potential trade war. India has quietly instructed its airlines not to participate and Russia has threatened to close its airspace to EU carriers. Dozens of other countries have expressed concern, including some EU countries.

The EU ETS will hinder the U.S. airline industry's ability to reduce carbon emissions. Presently, the only feasible way U.S. carriers can decrease fuel burn and subsequent emissions is through investment in more efficient aircraft and engines. The EU ETS decreases U.S. carriers' ability to invest in such technology. According to the International Air Transport Association the EU ETS could erode airline industry profits, already very marginal, by more than 30 percent. This significant decrease in profits will hinder U.S. airlines' ability to invest in new, more fuel-efficient aircraft.

Policy Recommendation: The U.S. government should file an Article 84 action at ICAO and work with ICAO to establish a global carbon emissions-limitation methodology that decreases pollution while maintaining airline sustainability. The Senate should immediately pass S. 1956, which authorizes the secretary of transportation to prohibit U.S. airlines from taking part in the EU ETS. Both efforts will demonstrate to the EU that it must eliminate the ETS and get to work on a real solution through ICAO.