WRITTEN TESTIMONY OF
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AIR TRANSPORT ASSOCIATION OF AMERICA, INC.
BEFORE THE
HOUSE SELECT COMMITTEE ON ENERGY INDEPENDENCE
AND GLOBAL WARMING

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Mr. Chairman and members of the Committee, I would like to thank you for the opportunity to appear before you this morning to offer the airlines' full support for a balanced, comprehensive National Energy Policy and all viable short and long-term measures to reduce the price of oil, including a release from the nation's Strategic Petroleum Reserve (SPR).

I would be remiss by not also thanking you for your leadership in addressing skyrocketing oil prices, in particular the bipartisan support in late May to stop filling the SPR.

Today's hearing is critically important as high oil prices are smothering the nation's families and taking a disproportionate toll on aviation, trucking and other key sectors that help drive our economy. Yesterday, crude oil settled at $126.31 a barrel. A year ago, it was $75 below, which at the time seemed unbearably high. Gasoline in many parts of the country exceeds $4 a gallon, with energy, grocery and housing costs for American families up across the board and rising. Consumer confidence is at the lowest level since May 1980 as the economy continues to deteriorate due, in large part, to record-high oil prices.

Due to additional circumstances in refining, environmental specifications and changes in the composition of global demand, jet fuel prices are exceeding those of diesel and gasoline, the latter by a substantial margin on the order of $30 per barrel. Through July 15, jet fuel prices had risen 71 percent increase over the same period in 2007 – a jump no one could have predicted or planned for. This year, U.S. airlines will spend more than $61 billion on fuel than in 2007, a $20 billion jump in one year and more than the combined fuel bill in the first four years of this decade.

Due to the weak dollar, they are paying a significant premium over fuel prices paid by their European competitors – as much as 60 percent more per barrel. More than 40 percent of the average fare is now required just to break even on fuel expenses - up from 15 percent in 2000. It now costs an estimated 7 cents in fuel alone to transport a passenger one mile, versus 2 cents just a few years ago. That means that, on average, a cross-country roundtrip now costs $420 per passenger, versus $120 in 2000.

With a multibillion-dollar loss expected, the airlines are responding to today's staggering fuel prices in every way conceivable More than 31,000 job cuts have been announced thus far this year, with more expected. Some 100-plus communities have lost or are slated to lose all scheduled air service. Large metropolitan areas are not immune to significant reductions in service, with serious implications for the traveling and shipping public.

There are many reasons for skyrocketing oil prices: a weak dollar, increasing demand in developing countries; insufficient U.S. supply/exploration/refining capacity, geopolitical instability and rampant market speculation in the energy futures markets.

In recognition of the many factors that have led to triple-digit oil prices, ATA and its member airlines have long supported both short and long-term solutions with three essential elements:

- increasing domestic supply
- reining in unchecked speculation in the energy futures markets and
- a release from the SPR

A balanced, comprehensive national energy policy is the only kind that will bring the quick, meaningful and lasting relief this nation needs.

Increasing our domestic supplies (both conventional and alternative) will reduce our dependence on foreign oil and lower prices – a win for national security and the economy. A release from the SPR is a strong first step.

Today the SPR is an untapped, readily accessible source of domestic supply unavailable to the commercial marketplace. Its inventory of 706 million barrels – up 165 million barrels from January 2001 – is two and a half times the amount held by the U.S. private sector. That's 294 days – almost 10 months – of emergency oil that could supply the United States in the remarkably unlikely scenario that it were to suffer a complete loss of imports from the Persian Gulf, including the oil we import from all of our allies in that region.

Airlines support a release **now** because history shows us that even a temporary increase in supply will immediately lower oil prices. Within two days of the 1991announcment that there would be a release from the SPR in the aftermath of the Persian Gulf War, prices fell 38 percent.

We offer the following framework for the release:

- Follow an unannounced release schedule
- Release light, sweet crude oil first
- Restore U.S. commercial inventories, at a minimum, to year-ago levels
- Dedicate revenues from the sale of SPR barrels to the development of alternative energy sources
- Congress should set-up a framework or trigger for continued use of the SPR when conditions warrant

The Speaker's proposal for the timed 6-month release of 10 percent of the SPR – releasing light, sweet crude oil and replacing it with heavy, sour crude – is a workable plan that will help bring down prices. We offer our full support and appreciation for this important step.

Mr. Chairman, I would remind the committee that we have a home heating oil reserve from which you could also consider a release.

In closing, these are critical economic times and we feel very strongly that Congress has to act forcefully to address oil prices. The solution should include three essential elements: a release from the SPR; our companion goal of addressing rampant speculation in the energy futures market – Chairman Stupak's PUMP Act offers real relief; and finally, over for longer-term supply, the American Energy Act introduced by the republicans yesterday contains strong supply-side initiatives that we endorse.

Only when we have a comprehensive plan that includes all of these elements will we rein in skyrocketing oil prices.