STATEMENT OF

CAPTAIN JOHN PRATER

PRESIDENT

AIR LINE PILOTS ASSOCIATION, INTERNATIONAL

BEFORE THE

COMMITTEE ON AGRICULTURE

UNITED STATES HOUSE OF REPRESENTATIVES

WASHINGTON, DC

July 11, 2008

IMPACT OF EXCESSIVE SPECULATION ON COMMODITY TRADING

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Good morning, Mr. Chairman, Ranking Member Goodlatte, and members of the Committee. I am Captain John Prater, President of the Air Line Pilots Association, International (ALPA). ALPA represents nearly 55,000 professional pilots who fly for 40 passenger and all-cargo airlines in the United States and Canada. On behalf of our members, I want to thank you for the opportunity to testify today about the urgent need to address speculation in the fuel commodities market which we believe has contributed to the sharp jump in fuel prices that is greatly impacting our industry.

The rising cost of oil is of concern to everyone in this country today. Many are worried that they will be forced to choose between filling their automobile gas tanks and purchasing groceries, and we are already seeing the negative impact that the escalating price of oil is having on the economy. Our members – the working men and women safely flying our nation's airliners – have another, more dire concern: will they lose their jobs – again – because their airline is forced to park airplanes or even go out of business?

After the horrific terrorist attacks of 9/11, pilots and other employees in the airline business suffered through thousands of job furloughs and pay cuts. In fact, between 2002 and 2011, workers at the seven largest U.S. airlines have given back $75 billion in concessions. Almost $30 billion has come from pilots in the form of reduced wages, revised work rules, and reduced or eliminated benefits. Terminated pensions totaled another $5+ billion. A brief period of airline profits in 2007 promised some hope that these massive concessions which helped save the industry could be returned to workers and their families.

Instead, the recent rise in energy costs has caused a flood of red ink and analysts now forecast an industry operating loss of as much as $7 billion or more in 2008, one of the largest losses in the industry's history and rivaling that experienced shortly after the events of 9/11. The magnitude of this impact can already be seen in the recent bankruptcies and/or discontinued operations of ATA, Aloha, Champion, Skybus, Eos, Frontier, Skyway and Air Midwest. Other airlines have parked airplanes and either furloughed employees, or plan to do so in the near future.[1] This

[1] **American Airlines** is reducing 4th qtr. 2008 mainline domestic capacity by 11-12% year-over-year. **Continental** is cutting 4th qtr. 2008 domestic capacity by 11.4% and reducing its workforce by 3,000. **Delta** is reducing its workforce by 3,000 and cutting 4th qtr. 2008 domestic capacity by 11%. **United** is cutting 4th qtr. 2008 domestic capacity by 14% and reducing the number of salaried employees by 1,400 to 1,600. Nearly 30 cities have lost scheduled airline service in the past year and more service cuts are on the horizon. **USAirways** is reducing mainline capacity 6-8% and reducing its workforce approximately 1,700. **Air Tran**

industry contraction is leading to the loss of thousands of skilled jobs and puts U.S. carriers at a disadvantage in the world marketplace. Ironically, the current industry fuel crisis also stifles progress to reduce fuel burn and emissions - at this time an unstable airline industry cannot afford to invest in new more fuel efficient aircraft[2] or invest in alternative fuel research.

A few salient facts about the current state of jet fuel expense, and industry reactions to that expense, help explain the airlines' predicament. Unlike many other industries which have a choice of electricity, natural gas, coal, heating oil or other sources of requisite energy, airlines have just one energy option for aircraft operations – petroleum-based jet fuel which must meet an exacting specification. Despite great technology-driven reductions in jet engine fuel consumption and airline pilot fuel conservation practices, jet fuel expenses have recently become the airlines' largest operating cost, now consuming as much as 40% of every airline revenue dollar, up from 15% in 2000. Jet fuel prices are expected to remain at extremely high levels; already increasing 67% from approximately $90.90 per barrel in 2007 to $151.72 per barrel in 2008. Every $1 increase in crude oil prices increases the industry's fuel expense by approximately $465 million, before considering the impact of any hedging. Because our carriers compete globally and fuel is priced in the weak U.S. dollar, our European counterparts have not experienced as dramatic of an increase in fuel costs, giving them a competitive advantage over the U.S. industry.

Airline pilots are working every day to conserve precious fuel during both ground and flight operations. Within the constraints of safety and hamstrung by an antiquated air traffic control system, pilots routinely shut down engines while taxiing and select optimal fuel-conservation altitudes and speeds. Further, pilots are working with the industry to help develop the NextGen air traffic management system that will further increase fuel efficiency. But all of those fuel-saving measures combined are incapable of compensating for the exorbitant fuel prices that we have experienced over the past year. No airline business plan can be successful with fuel topping $145 per barrel, and many will not survive in their present form at significantly less per barrel. Every day brings news of more airline worker layoffs, airplanes being grounded and air service to communities being cut. The U.S. aviation industry is a critical part of our national economy generating approximately 11% of Gross Domestic Product through airline travel and all related industries. Absent decisive and effective leadership on this issue, the airline industry's fortunes will continue to plummet and harm the national economy, in general, and airline workers, in particular, in the process.

Experts agree that today's surging oil prices are beyond those warranted by supply-demand fundamentals. In fact, just yesterday the International Energy Agency announced that annual demand is projected to increase at an annual rate of only 1.6% and that demand will be actually lower this year, growing only 1%, given declining economic conditions. Instead, surging oil prices are due, in some measure, to rampant investor speculation. In early June, speculators traded more than 1.9 billion barrels of crude oil – 22 times the size of the physical oil market, including $150 billion traded on the New York Mercantile Exchange alone. Sophisticated

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cut employee salaries by 10% and many airlines are delaying starting new service because of fuel prices. This week, **Northwest** announced 2,500 job cuts.

[2] There are currently no major aircraft manufacturer plans to produce a next generation narrow body aircraft. We are at least a decade away from aircraft capable of significantly less fuel burn than our current fleet.

"paper" speculators, including large pension fund managers, who never intend to use oil are driving up costs for consumers and making huge profits. This high amount of activity by "paper" speculators is having a grossly perverse impact on oil prices. Recently, ALPA and a broad coalition of consumer, labor, and business organizations joined to advocate immediate reforms in the widely-speculative energy commodity futures markets. While a long-term, rational energy policy including increased domestic supply and energy independence is our ultimate goal, bipartisan, near-term solutions to the market frenzy are absolutely critical.

With your leadership, we see an end to the current unwarranted escalation in oil prices which market speculation is helping to drive. ALPA has endorsed and pledged our support for the prompt enactment of Congressman Stupak's H.R. 6330, the "Prevent Unfair Manipulation of Prices Act of 2008." The PUMP Act will apply a much needed brake on rampant energy commodity speculation to help drive down unprecedented, surging oil prices that are crippling the economy. We are aware of several other proposed bills in both the House and Senate that share the same goal and we believe that they all have merit as a means of reducing the fuel speculation that is harming our industry.

The heart of the PUMP Act is Section 2 that extends CFTC jurisdiction over energy commodities that now enjoy a host of trading loopholes. The bill will open up the market to greater transparency and fairness to level the playing field for all traders by:

- bringing over-the-counter energy commodities within CFTC's oversight responsibilities;
- closing the "swaps loophole" by extending CFTC regulatory authority to swaps involving energy transactions, another important step towards needed transparency;
- extending CFTC regulatory authority to energy transactions on foreign boards of trade that provide for delivery points in the United States, a common sense measure as other products delivered in the United States are subject to the full panoply of United States regulation, save energy commodities; and
- requiring CFTC to set aggregate position limits on energy contracts for a trader over all markets, ensuring that traders do not corner markets by amassing huge positions and playing one exchange off another.

Unregulated swaps trades and the so-called "Enron loophole," among other weaknesses in the system, allow our most important energy supplies to be traded up to 20 times for each barrel of oil consumed. Why should oil future traders not have oversight similar to that of other security markets? Can we, as a nation, continue to stand idly by while speculators wreak havoc on our economy with the potential to destroy the air transportation links to many of our small and medium sized communities?

We strongly urge Congress to pass legislation to address the mostly unregulated futures trading of fuel before the August recess.

I thank you for the opportunity to testify today and look forward to your questions.

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