

Statement of David F. Hackett
President
Gulfstream International Airlines, Inc.

Before the Finance Subcommittee on Energy,
Natural Resources and Infrastructure

Mr. Chairman and Members of the Subcommittee, good afternoon. Thank you for allowing me to speak here today. My name is Dave Hackett and I am the President of Gulfstream International Airlines, a Fort Lauderdale-based regional air carrier.

Let me begin by telling you a little bit about our company. We operate over 200 daily flights using a fleet of 34 19-30 passenger turboprop aircraft providing service throughout Florida and the Islands of the Bahamas. We carry almost one million passengers per year and employ approximately 700 people. We operate under code share agreements with Continental Airlines, Northwest Airlines and United Air Lines. In our markets, we are the only providers of scheduled air service in over half of our city pairs and in another 25 percent of our city pairs, we are the highest frequency carrier. Most of our services are provided to small or mid-size communities and, at the present time, we are not a participant in the

Essential Air Service Program although we have bid to provide service to Franklin and DuBois, Pennsylvania; Lewisburg, West Virginia and Athens, Georgia later this year..

As most of you know, I'm sure, the airline business is a very difficult one. While many of the largest regional airlines operate under "capacity purchase" or fee-per-departure agreements, all of our operations are conducted under what we call pro-rate agreements, meaning that we share a portion of the revenue from connecting passengers and each flight we operate is entirely at our own financial risk. We are fully responsible for deciding what routes, schedules and local fares to offer.

Similar to other small regional airlines, our business strategy is fairly simple. We utilize small-capacity, commercial aircraft to provide service that is oftentimes not economically viable for operators of larger equipment. Sometimes this comes in the form of being the only carrier in a particular route, and sometimes it means we provide complementary schedules to other larger airlines flying the same routes, thus ensuring passengers have access to convenient schedule alternatives.

This business strategy means that small regional carriers, like ourselves, rarely operate to the large hub cities. I do not believe that you will find any 19 or 30 passenger commercial aircraft flying to such hubs as Atlanta, Chicago or Newark.

This is not to say that we don't serve larger airports at all, but if we do, we typically provide flights to smaller destinations such as from Miami to Gainesville, Florida.

Industry Trends

As the industry has undergone restructuring over the past few years, we have seen a trend towards fewer but stronger hub services. I believe the regional airlines play a pivotal role in ensuring continued access to convenient, affordable air transportation by responding to such service changes.

In the case of smaller regional airlines such as ourselves, we tend to be the "last line of defense" in ensuring continuation of non-stop air service. For example, about eighteen months ago, one of the airlines within Florida flying jet aircraft between West Palm Beach and Tallahassee, our state capitol, ceased service for

economic reasons. Fortunately, we were able to arrange for an aircraft to be placed on that route with virtually no service interruption.

In today's economic climate, particularly given high fuel prices, often times the only viable aircraft that can fill such a void in non-hub environments is a smaller turboprop like ours. This is, of course, not something that is unique to our market within Florida. Let's look at Greensboro/High Point, North Carolina for example.

It is certainly not what any of us would call a small market; yet in recent years it has lost non-stop service to such cities as Cleveland, Pittsburgh and Baltimore.

The story continues to repeat itself with the recent elimination of scheduled service from Pittsburgh to Buffalo and Rochester. We are a firm believer in market forces, and we believe that such city pairs can and will see service re-established, if not by us, then by carriers like us. This is, of course, assuming that the carrier's anticipated revenues and expenses are reasonably in line.

With respect to small-capacity operators in the current Air Traffic Control funding debate, I think we all have a sense that continued investment in our a traffic control capabilities is essential to providing continued growth in air transportation. We

already experience, on a daily basis, the effects of overburdened Air Traffic Control and airspace resources. With the emergence of very light jets, plus continued rapid growth of corporate jet aircraft, this can only get worse without significant infrastructure investment.

I think that most people recognize that the burden of costs borne by the airlines under the present system of FAA funding is quite a bit higher than it should be relative to corporate jet users, due, in part, to the substantial growth that segment has seen over recent years. Clearly, we can see even more dramatic growth in the future for this segment and it is important that we establish a fair and equitable sharing of costs to support the Air Traffic Control system.

While we engage in discussions about funding alternatives, I would ask that you consider very carefully the impact on small and mid-size community commercial air service that these various alternatives will have. Note that we purposely include mid-size communities since, as previously mentioned, it is not just small communities any more that are experiencing issues associated with retaining an efficient network of non-stop air services. I recognize that markets such as Miami-

Gainesville or Pittsburgh-Rochester may not be the largest in the country, but I think we can all agree that to the residents and businesses in these communities, maintaining direct commercial air service is, indeed, very important.

Regarding alternative funding mechanisms for Air Traffic Control investment, I believe the discussion has moved in a positive direction. When the outline of the original structure put forth by the Administration was communicated to us, the impact on small commercial carriers was so draconian, it was difficult to comprehend. I read estimates that the projected Air Traffic Control fees could consume up to 30 percent of our entire annual revenue base.

The current structures under consideration, as I understand them, propose a new \$25 per flight user fee, or other fees like it, and a possible reduction in fuel excise taxes for commercial air carriers. Overall, this seems to be a more sensible and logical way to ensure the proper funding and mitigates inequities inherent within the current funding structure. It is important to note, however, that while a \$25 per flight fee may sound modest and is likely quite affordable for large commercial aircraft operators as well as the corporate and private jet flights, it would have a

significant and serious adverse impact on our company and other regional carriers that operate small capacity aircraft like us.

While we are generally considered to be a successful regional airline and have been modestly profitable for the past several years, the net impact of the user fee, even including a potential reduction in excise taxes, would be millions of dollars of increased expenses. If such a fee were in place currently, it would, in all likelihood, far exceed our total expected earnings for this year and could well place our company's future in jeopardy. As it is already exceedingly difficult to successfully raise fares as an offset to higher fuel costs, it is equally unlikely for us to recover higher Air Traffic Control fees. Relative to operators of larger aircraft, we simply have far fewer seats to spread the fees over, and burn substantially less fuel per trip, making any prospective savings much lower.

I am sure I speak for other regional airlines in that while we support new investment in our nation's aviation infrastructure, we want to ensure that whatever funding structure is adopted, it include exemptions on new fees or other protections

to ensure that the we are able to continue our important services to smaller communities in the future.

Thank you very much for listening. I look forward to hearing your questions at the conclusion of the panel.