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American Working Group on National Policy, Inc. (AWGNP) critical review¹ of
"Your Flight Has Been Delayed",
a report by the Congressional Joint Economic Committee (JEC).

Summary:

The Congressional report does a very incomplete and invalid analysis of "costs to the U.S. economy" of yearly flight delays. Most of the cited "costs" to the U.S. economy in the report are, in fact, not costs but transfer-payments. Thus, the JEC report could at best be considered an attempt to characterize "costs to the privately owned U.S. airlines", not the "U.S. economy". Therefore, the presented \$41B/year cost should truthfully be reduced to only \$19B.

Given that the report's data was determined for 2007, the \$19B figure will likely be higher going forward, as fuel costs have continued to ratchet up from 2007. On the other hand, the airlines are in such dire straights that they have (finally) realized that their survival depends on substantially raising ticket prices. This act, in and of itself, will reduce net capacity (number of flights per year), which will in turn work to greatly eliminate (in-aircraft) delays, by some reliable estimates almost completely. Thus, the JEC report should be viewed as historical only and in no way representative of the future.

The JEC would be wise to immediately redirect their efforts toward considerations and analyses of possible airline and airport survival programs and sustainable long-term transportation needs (see Postscript), rather than the relatively small "cost of delays" impacts. With the global economy's interest focused in global climate change and protection of our environment, the JEC must also consider the environmental costs of emitting a total of about 200 million metric tons of CO₂ into the atmosphere each year by U.S. commercial airlines (military and privately owned aircraft emissions would be additional), which certainly does impact our "economy".

Review:

1) The report is based on 2007 statistics and is already out of date. The much higher current (and future) fuel costs are causing airlines to suffer near-bankruptcy situations, which have (finally) forced them to realize that they have to raise prices, which will result in decreased rider-ship. The major airlines (e.g. United, American and Continental) are already rapidly decreasing capacity, eliminating marginal routes and side lining aircraft.

All of this will cause significant reductions in (in-aircraft)² delays, some estimating as high as 40%³ to even 100%, going forward for the foreseeable future. AWGNP notes that it (and AReCO⁴) have, over the last several years, warned the Federal Aviation Administration (FAA) and others that exceptionally higher fuel costs lie in the future and that actions should be taken to ward off resulting airline industry financial debacles, as are now occurring. The need now is to stop the current and totally unnecessary

¹ With contributions by consultant Ross Ruthenberg.

² "In-aircraft", meaning the flight period between gate push-out and pull-in. Delays while parked at the gate may not be reduced (e.g. crew availability issues).

³ Since airlines persist on scheduling more flights per hour than an airport can handle, in an attempt to both protect their oligopolies and in many cases, to artificially generate "delays" for political purposes, the airports often operate near (conceptually over) maximum capacity during important parts of the day. This results in a situation where an x% reduction of such demand during those periods will have a greatly multiplied effect in delay reduction (e.g., 20% demand reduction yields perhaps 40-100% reduction in delays).

⁴ Alliance of Residents Concerning O'Hare, Inc.

massive and expensive airport expansions that are premised on totally unrealistic projections of future passenger and cargo traffic levels.

Most all of these ill-advised airport expansion programs (approved under the guise of increased capacity and safety) were premised on oil prices in the \$30/barrel region. In July 2005, AWGNP petitioned⁵ the FAA to radically revise their projections⁶, which assumed 2008 jet fuel average pricing of \$0.78/gal. and even only \$0.87/gal. in 2015 (a price of only \$0.67/gal. in inflation-adjusted 2003 dollars).

The JEC would be wise to immediately redirect their efforts toward considerations and analyses directed at airline and airport survival programs, rather than the relatively small "cost of delays" impacts⁷. With the global economy's interest focused in global climate change and protection of our environment, the JEC must also consider the environmental costs of emitting a total of about 200 million metric tons of CO2 into the atmosphere each year by U.S. commercial airlines (military and privately owned aircraft emissions would be additional). Additionally, the JEC should focus on an economic review of current airport expansion program and long-term transportation need (regionally) projected costs and where these funds will come from in a rapidly declining air transportation environment.

2) Most broadly, the Congressional report states that it is directed at determining "costs" to the U.S. economy. The report appears instead to be directed at determining costs to the privately owned U.S. airlines, due to system delays, not the U.S. economy, as portrayed.

"The total cost of domestic air traffic delays to the U.S. economy was as much as \$41 billion for 2007."

The study includes a passenger cost estimation based on multiplying time "lost" by a time valuation (\$37.60/hr.), amounting to a total of \$12.0 billion. It also assumes additional "indirect" costs "to the economy" of an amount equal to 50% of the direct airline costs of \$19B, or \$9.5B (from consultant Global Insight, 2002, the same consultant used over the years for FAA oil price projections).

Without including numerous other factors, it is doubtful that this is anywhere near a realistic or accurate total "cost" to the whole economy. For example, in-airport concessions actually gain profits from delays (i.e., people spend more time in airports). Limousines experience increased costs as they wait longer for passengers. And the report brings out the "excess jet fuel consumption" (740 million gallons per year) due to calculated delays, resulting in an additional 7.07 million metric tons of CO2 emissions, but does not place a cost on the resulting climate change impact beyond the cost of the extra fuel itself (\$1.6 billion).^{8 9}

More importantly, most of what is included in the costs calculations are not at all "costs to the economy", they are transfer payments and, to the extent that most of these amounts remain within the U.S. economy, they are not costs at all. In a simple example, a \$10 haircut is a cost to the customer but

⁵ www.areco.org/FAA%20Fuel%20Calculation%20Petition.pdf

⁶ FAA Aviation Forecast 2004.

⁷ This is not to say that some of the JEC recommendations are not worthwhile.

⁸ Perhaps the study and resulting report would have better served "the economy" and society by assessing the total cost to our environment of burning up (true resource destruction) all of the year's airline fuel requirements, which would amount to around 15 billion gallons for domestic and another 6 billion gallons for international flights, a total of at least 21 billion gallons per year, not just the incremental delay-related!

⁹ The report is disingenuous in comparing the 7.1 million metric tons of "incremental" CO2 emitted due to delay to that emitted by the total Prius cars sold to date (page 5); comparison should be totals-to-totals (i.e., about Prius 4.5 million metric tons to more like 200 million metric tons for U.S. domestic airline totals [2008]).

a gain to the barber; the haircut did not "cost" the economy \$10... if anything, GDP actually increased by \$10. Or, more appropriately, the passenger regrets his ticket cost but the airline celebrates increased revenue and profit.

Further, airline incurred costs, such as additional fuel costs due to delays, are also not economy costs but, again, transfer payments to a fuel wholesaler, who in fact appreciates the additional sales. The wholesaler in turn transfers some of this payment (let's say a dollar) "upstream" to a pipeline/storage operator, who transfers some to a refinery, which transfers some to an importer, who transfers some final portion out of the U.S. to other interests (e.g., eventually the Saudis). The only part of this entire payments transfer process that is a cost to the U.S. economy is the part of the original dollar, probably less than 50 cents, that leaves our "economy" (primarily to the oil producer). As with the barber, net GDP most likely increased in the U.S. economy.

So the main point is that one cannot generally add airline "costs", passenger "costs" and indirect "costs" together, in an attempt to derive some kind of "economy cost". The economics are *incorrect*. One might eliminate the passenger and indirect "costs" in order to focus on just the airline costs, but these then would be just airline costs, not costs to the economy.¹⁰

If the report is really directed at identifying an "economy cost", then huge stockholder losses (costs) should be included in some portion, as the plummeting airline stock values in the last year are certainly related to massive airline profit reductions (actually, most are net losses). Stock values are influenced in some portion by passenger dissatisfactions with the airlines, which in turn is caused in some measure by delays (the purported focus here) and the associated passenger grief.

Actually, this also may not be a true "economy" cost, as it represents the destruction of value of a piece of paper (stock), even though in the process, some folks may have "made money" while others lost, but the original stock sale was made by the airline and new stock-owners transferred cash to the airlines. The stock values fell because the airlines apparently spent that money without increasing internal shareholder value (i.e. generally, "losses"), but again, that's most likely a transfer payment in the context of the broader economy.

Thus, it is evident that trying to determine an "economy cost" of flight delays is nearly impossible, without much deeper consideration and research than given in this JEC report. It is probable that the assumed knowledgeable Joint Economic Committee actually had a goal of characterizing airline industry "costs" of delay. As such, the \$41B "cost", as shown in the excerpted summary below, should be reduced by \$12B in "passenger costs" (not an airline cost) and "roughly" \$10B in "indirect costs", neither of which are airline costs.

The total cost of domestic air traffic delays to the U.S. economy was as much as \$41 billion for 2007.

- Air-traffic delays raised airlines' operating costs by \$19 billion. With each delayed flight, airlines paid extra for crew, fuel, and maintenance costs while planes sat idle at the gate or circled in holding patterns.
- Delays cost passengers time worth up to \$12 billion. Delayed travelers, their

¹⁰ In the strictest sense, true costs are only incurred in an economic system (e.g., the U.S.), when resources are used or destroyed. Resources are generally only natural resources (e.g., oil, sand, water, etc., or human resources, generally characterized as labor or "work"). There is also "opportunity costs", but these aren't really costs per se', just alternatives, which is what is used here to assess "passenger costs" (i.e., time lost that could have been spent laboring/working on a more productive activity).

employers, and others lost productivity, business opportunities and leisure activities when air travel took extra time. Costs cascaded when delayed flights resulted in other late flights. These costs to passengers could be even higher than JEC estimates, as a result of missed connections, cancelled flights, disrupted ground travel plans, forgone pre-paid hotel accommodations, and missed vacation times.

o Indirect costs of delay to other industries added roughly \$10 billion to the total burden. In particular, industries that rely on air traffic, such as food service, lodging, general re- tail, and public transportation suffered

This reduces the airlines "cost" from \$41B to \$19B, a significant amount, which must be accurately portrayed to the American public and the financial community.

However, as implied above, even this \$19B is at best, an historical artifact. The dire financial straights that the airlines and the air industry are in now will consign that number to the dustbin, unless the price of jet fuel drops back immediately and permanently from its current value of about \$4.00/gal. to \$2.15/gal. (the average price used in the report).

That price decrease being extremely doubtful, the \$19B figure will experience a calculated increase due to the higher fuel costs and simultaneously, a significant decrease as air travel capacity is reduced by the airlines, which will likely eliminate most or all (in-aircraft) delays.

Postscript:

Consider that hundreds of massive commercial airport (and thousands of associated general aviation reliever airport) expansion programs (runways, terminals, infrastructure, etc.) are largely paid for by the commercial airlines (including ticket "taxes") and private plane owners, with lesser payments derived from airport concessions such as parking, restaurants, etc. and the U.S. taxpayer. The dichotomy now exists (predicted by some) that the airlines/plane owners will be asked to pay for greatly expanded airport capacity, while at the same time they are decreasing capacity and trying to survive financially. They will not want (or be able) to pay for such airport expansions, or provide bond capabilities while simultaneously, concessions' incomes fall as well, in proportion to the decreased airline capacities. Where will the necessary massive funding come from? The traditional solution of stocks and bonds "borrowing" against the future will not work well... stockholders are selling as fast as possible and selling bonds in the post-Bear Stearns financial environment is questionable at best.

Congress should act quickly to rein in this looming crisis and the mal-functioning FAA, advisedly by placing an immediate hold on all such expansions, before the massive bills are once again presented to the taxpayers, when the airlines, private aircraft and airport owners decide they can't pay them.