Airlines for America®

We Connect the World

February 11, 2020

Senator Lee Beyer
Representative Caddy McKeown
Co-Chairs, Joint Committee on Transportation
State Capitol
Salem, OR 97301

Re: HB 4036

Dear Senator Beyer and Representative McKeown and members of the committee:

Airlines for America® (A4A) is the principal trade and service organization of the U.S. airline industry.[1] The fundamental purpose of the association is to foster a business environment that drives our nation's economy and global competitiveness. I respectfully write to oppose efforts in Oregon HB 4036 to increase the state's jet fuel tax beyond its current 3 cents-per-gallon rate. Raising the tax could harm the state's economy, and A4A does not see the need for a tax increase, especially if it is being used to force the airlines to further subsidize general aviation.

Higher taxes act as a drag on aviation's role as a catalyst in Oregon's economy. In 2019, airlines, passengers and shippers paid $127 million for the commercial service airports we use. Adding additional taxes to that burden in order to fund airports we will not use is bad public policy.

Higher jet fuel taxes will impact consumers and small businesses the most and present the risk of higher airfares and shipping costs – or less air service – to offset the increase in jet fuel tax. Consumers, especially those who fuel Oregon's thriving $12 billion tourism industry, want low airfares, not higher taxes, and airlines are under tremendous pressure to keep costs under control. In 2018, Oregon's average round-trip domestic airfare including ancillary fees paid was $352, the lowest it has ever been on record after adjusting for inflation thanks, in large part, to expanded air service and industry competition. Why put this positive trend at risk?

[1] The members of the association are Alaska Airlines, Inc.; American Airlines Group, Inc.; Atlas Air, Inc.; Delta Air Lines, Inc.; Federal Express Corporation; Hawaiian Airlines; JetBlue Airways Corp.; Southwest Airlines Co.; United Airlines Holdings, Inc.; and United Parcel Service Co. Air Canada is an associate member.

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Fuel is the industry's second largest expense after labor, and while two pennies might seem inconsequential, every penny counts. In 2019, U.S. passenger airlines only generated 8 cents of profit for every dollar they collected. Higher jet fuel taxes will hurt the industry's ability to reinvest in services that benefit consumers and employees and/or pass on the higher costs to their customers and likely dampen demand. HB 4036 will discourage airlines from growing their operations in Oregon, especially low-cost airlines that have provided effective market competition and price relief to consumers. At worst, HB 4036 could compel airlines to curb service that is marginally profitable or unprofitable. Airline capacity is mobile and constantly adjusted as the industry seeks to deploy their aircraft in environments that generate the highest financial return.

Other states have recognized the benefits of a healthy commercial aviation industry to their local economies and have moved to keep costs low for the airlines. In 2016, North Carolina eliminated taxes on jet fuel and has prospered as air service has grown faster than the national average, fueling the state's economic growth. Florida, a state that has reduced its taxes in recent years and Georgia, a state that has eliminated its tax, have benefitted from above-average air service growth. These states acknowledge that fuel tax revenues paid by the airlines and their customers should be used for the benefit of commercial airline passengers, not for subsidizing general aviation. In Oregon last year, commercial aviation accounted for 34 percent of total operations, but generated over 95 percent of the state's total aeronautical revenues. Conversely, general aviation only generated roughly three percent of the state's total aeronautical revenues yet accounted for more than 60 percent of total operations.[2] General aviation is welcome to fund their own operations in the same way that commercial service airports are funded by the airlines and passengers who use them. The proposed tax hike will exacerbate this inequity.

We are also concerned about how the state would use revenues from an increase in the jet fuel tax. As you know, the FAA's revenue use policy requires that any revenue from an increase in taxes on aviation fuel be spent on aviation. We have not seen a proper accounting of how the last tax increase in 2015 was spent. Further, the state has not yet been able to show it is in compliance with that policy for existing taxes, and the FAA has rebuffed at least one of the state's compliance proposals as violating the policy.[3] We believe at minimum that any tax increase is premature until the state can show how the last tax increase was spent and can demonstrate a need for further revenue.

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[2] Source: FAA Opsnet, FAA Form 127.

[3] See correspondence between Oregon Department of Aviation and FAA, available at https://www.regulations.gov/docketBrowser?rpp=25&so=DESC&sb=commentDueDate&po=0&dct=SR&D=FAA-2013-0988. Not all correspondence has been released publicly, but the FAA told the state that its proposed use of fuel taxes to fund minimum revenue guarantees to carriers at certain airports would violate the revenue use policy and not be grandfathered. See FAA's letter of Aug. 28, 2019.

Given commercial aviation's vital role in Oregon's economy, we urge you to reject this unnecessary tax hike.

Sincerely,

Sean Williams
VP, State & Local Government Affairs