It is a pleasure to have this opportunity to address you all today. Let me start by spending a moment describing Hawaiian Airlines, as sadly, I suspect few of you have had the opportunity to travel with us.

Hawaiian is an unusual airline in that it fits neither in the category of network carrier nor in the category of low cost leisure carrier.

We have instead taken to calling ourselves a ‘destination carrier’. We sell Hawaii as a destination and, true to this objective, we tailor our product to the needs of those traveling between the islands of our archipelago, and those seeking to visit Hawaii from farther afield. We provide a better level of service than that provided by our network competitors both American and Asian, and are, as a result more of a high cost carrier than a low cost carrier.

We operate a fleet of 54 aircraft, two thirds of which are wide-bodies. About 75% of our business is long haul. We’ve been in business for 86 years and for the last ten we've been the leading US airline in terms of both organic capacity growth and rate of growth in market cap. So it's a formula which has worked well for us.

But I worry about the future….

In my remarks today I'm going to address the insidious, creeping re-regulation of our industry which, in the next decade or so will start to undermine the huge benefits to consumers that have flowed since the liberalization of our industry began in the late 1970s. As an airline CEO addressing a room full of industry participants, likely all benefitting from an extraordinarily nice and profitable period in air transport, challenging the idea that we are not today in a better place than we were a decade ago might be heresy.

And I'll admit to it being easier to talk about 11 time zones away from our own headquarters.

Nonetheless, I think it is important to distinguish those aspects of our current good fortune which lie in the low price of oil from those which have other, more sinister roots. Because eventually, the windfall from lower oil will recede exposing the more permanent rocky shoal that our inattention has allowed to form.

Governments on both side of the Atlantic have done an increasingly poor job of fostering competition in the air transport industry. In fact, government policy has not just failed to promote competition but has instead worked assiduously to see it damaged. Governments have been inactive in the things they could do to foster free market forces while being positively energetic in those areas that smother competition.

Air travel is not consumed for the fulfillment it brings in its own right but instead for what it allows the traveler to do at the far end of his or her journey. This is pretty obvious but nonetheless is the essential point. We should always look at the value of air travel in the light of what it enables people to do that otherwise they would not be able to do so well, so cheaply or indeed at all. To name but a few of its benefits;

air travel enables business transactions;
the consuming of leisure and all of the employment associated with tourism;

the formation and strengthening of families and;
the betterment of relations across political and cultural divides..

The public interest is best served when more people travel by air and when they do so at the lowest cost. Against this yardstick airline deregulation in the United States and liberalization in Europe have been hugely successful. In the US, the inflation adjusted cost of an average airline ticket has fallen by almost a half from $442 to $264 The number of people traveling by air has grown 74%. I've seen no evidence to suggest that any other piece of federal legislation in the last forty years has done more to change everyday life for the better.

But today, these tremendous benefit is are under threat, not by a single point of attack but by many.

Taxes and other regulatory impediments to the growth of the industry are high on the list of enemies. They create costs that are borne ultimately not by the airline but instead by the myriad of activities that air travel enables. Policymakers and legislators have at best a dim understanding of what motivates consumers to travel so levying taxes and finding more ways to impede air travel is a most indiscriminate form of central control. It is extremely unlikely that sound economic policy mandates taxing the business deal, the family holiday, and the travel that keeps families closer together, at the same rate and yet that's exactly what a tax on air travel does.

And this is where the first of the vectors of creeping re-regulation that I will mention today lies; the heavy taxation burden that has been foisted upon the industry. I am not sufficiently well informed to comment on the structure of UK taxes on air travel but those who are tell me that we are lucky in the United States. This beggars belief. In the US, taxes and fees on air travel have trebled in the last forty years with half of that coming in just the last fifteen.

Today, a domestic air traveler can expect to pay more than 20 percent of the value of a ticket in taxes and fees. Signaling that it's not done yet, the U.S. Congress is angling to increase taxes another 5 percentage points. The most recent tax grab sees air travelers paying for the repair of roads. In our context, all of this represents a level of taxation equivalent to the taxes levied on alcohol, cigarettes and guns. In other words, air travel is being taxed at a rate that is designed to limit its consumption seemingly without acknowledgement or regard for the downstream consequences.

Allied to the impact of taxation on the industry has been the proliferation of regulations. A plethora of well meaning, helpful sounding but otherwise cack-handed regulations are proposed in the US on a biennial legislative calendar almost all of which would increase the cost of air travel. By dint of being complex to comply with, these same regulations are more difficult to comply with for the smaller airline or the prospective new entrant than they are for the larger one. This is a subtle yet effective raising of a barrier to entry long practiced in established industries around the globe.

The increasing level of taxation on air travel and its impact on the demand for travel by air, obscures another area where government policy has failed. In the United States and here in the UK, the lack of investment in the infrastructure the industry needs is apparent for all to see.

I don’t know enough to leap into the debate over Heathrow’s third runway but what is true is that the airport infrastructure in an around London is not sufficient to meet the demand of those who want to travel and the airlines that want to serve them.

Similarly in the US, the dominant form of interstate transport is hobbled by an air traffic control system that dates back to an era when commercial aircraft were powered by piston engines. So inadequate is the capacity of the US air traffic control system that the scheduled flight time between Washington National airport and New York’s La Guardia airport is today longer than it was in 1960 when Lockheed Constellations flew the route.

The constraints on the airport and ATC infrastructure that airlines must use are deadweight on competition. Slots, gates and international route rights are among the highest barriers to entry facing a would-be competitor. This may explain the antipathy of some legacy airlines which already enjoy the use of the existing infrastructure, to the building of more runways and gates and to the negotiation of expanded bilateral route rights.

However, there's no antipathy from these same carriers when it comes to the allocation of the limited capacity that exists. As the shape of the industry changes through consolidation and the shifting of alliances, the larger airlines have an understandable desire to see their operations consolidated at an airport.

Airports strive to make this happen but worryingly, these efforts are increasingly coming at the cost of smaller airlines which are shunted from one part of the airport to another. Sometimes our accommodation improves, often it gets worse but always it is the case that our competitive needs come last in the consideration of those making the decisions.

Though the number of limited entry bilateral markets is far fewer than existed thirty years ago, the allocation of scarce route rights in these markets is another area in which the independent competitor is disadvantaged. It is commonly the case that decisional weight in the allocation of routes is given to airlines operating the largest aircraft who can show the most travelers using a new flight.

On the surface, this seems logical but scratch a little deeper and the consequence of this approach becomes clear. The largest airlines are always likely to have the benefit of behind-the-gateway feed to fill their flights and will, therefore on average, be able to show more travelers for their proposed service than an independent airline competing for the same route right.

If governments allocate scarce route rights based on this math then the largest airlines become larger. And the next time a route right becomes available for allocation, their case becomes stronger yet. The independent competitor, who is key to maintaining a competitive environment, is marginalized.

The tightening of control over feed traffic is a growing menace enabled by the proliferation of immunized Joint Ventures. On both sides of the Atlantic and now increasingly around the Pacific, governments are blessing the union of two airlines in all but shareholding. The airlines in the JV act as if they were a single entity. These arrangements, which would otherwise be illegal, are blessed on the thin tissue that competition is enhanced when one pair of mega airlines competes with another pair of mega airlines.

This is rubbish. The proliferation of JVs has left independent airlines and would be new entrants starved of the connecting traffic feed that is the air supply in most long haul markets. There may be a balance of advantage enjoyed between the mega airlines but that won't preserve the consumer interest if independent airlines and new entrants cannot compete on a level playing field.

North Atlantic Joint Ventures have been around for longer than those in other geographies and provide, therefore, the best examples of how JVs impact consumer choice and fares. Despite voluminous references to the cornucopia of benefits that JVs would bring, touted by the big airlines in their applications for anti-trust immunity, few have been seen by the consumer.

Today 84% of all transatlantic traffic lies in the hands of just three Joint Ventures,

one involving British Airways and American,

one involving Delta and KLM/Air France and,
one involving United and Lufthansa.

Just 16 years ago the three largest competitors controlled just half of that market share.If you're familiar with the Herfindahl-Hirschman Index, the level of concentration in the North Atlantic market has moved 158% -- from 971 to 2410 -- well into the danger zone for effective competition.

This government-enabled concentration of seat capacity has allowed airlines to raise fares to consumers well above what might have been expected in a world without JVs. In order to assess this impact JVs we compared the pricing experience on routes between the US and Latin America, where as yet JVs haven't been approved, with that across the Atlantic where JVs dominate. Over the past 16 years, while US to Latin America yields have risen 10%, those on the north Atlantic have increased 46%.

I'll spare you a a lengthy discussion of JV math and how dramatic is the change in the competitive landscape when a single economic entity can control feed traffic on both ends of a long haul itinerary. I'll be happy to describe it after my comments to anyone who is sufficiently interested.

The important point is that for the independent airline or prospective new entrant in this post-synthetic merger world, access to feed traffic dries up. This limits the extent of the competitive impact they can bring where they do fly, and it limits the number of routes that they could fly. For the consumer the result is that the alternative connecting itineraries dry up often leaving a choice of just one which, as we all know, is no choice at all.

The eagle-eyed might have caught the small story a year or so ago that Delta had cancelled its interline agreement with American Airlines. In this very technical sounding development lies a sinister competitive reality; that the very largest airlines are today so dominant that they have no need for even the most tepid form of access to the networks of others. If they don't need access from others they are unlikely to grant access to theirs.

Prospectively, the news for the Transpacific bound US traveler is worse than even the impact on those crossing the

Atlantic. The substantially larger geography of the Pacific combined with the way in which populations are spread throughout the region mean that behind the gateway feed traffic is even more important than it is over the Atlantic.

We did a little rough analysis where we looked at both the transatlantic and the transpacific markets large enough to sustain a daily flight without the need for connecting traffic. We used 150 passengers traveling per day as a proxy for what you need to start a non-stop service across the Atlantic, and we used 250 per day across the Pacific as the distances are so much longer across the Pacific and the aircraft needed to fly the routes are therefore commensurately larger.

Across the Atlantic there are 87 city pair markets capable of sustaining a non-stop flight that needs no connecting traffic to support it. It's not a bad number but not a great one either.

Across the Pacific however, the picture is much worse. In this region there are only 18 markets sufficiently large to sustain non-stop service without the carrier needing to rely on feed traffic to fill the plane. All other routes between the US and places in the Pacific can be flown only if connecting traffic is available to support the long haul sector. If this traffic becomes concentrated on the networks of a few JVs, the prospect for an independent airline or a new entrant providing a competitive influence disappears. The consumer will be left to foot the bill.

I use the term 'if' when talking about the Pacific because in this region we have not yet seen the comprehensive proliferation of JVs. The danger in the Pacific lies more in the future than in the present thought there do exists today a number of markets where JVs have been approved and where our access to behind gateway traffic is being limited.

The consistent thread that joins all of these disparate policy shortcomings is 'access'. If governments don't provide adequate opportunities for independent airlines and new entrants to access the marketplace, these airlines cannot maintain the competitive pressure. When competitive pressure dissipates, the consumer foots the bill.
Lack of infrastructure, the control of slots and gates by incumbents, the approval of mergers and, most recently, the

proliferation of immunized JVs across international boundaries, all impede the ability of independent competitors and new entrants to provide competitive discipline. Which of these particular elements is most damaging varies market by market. In some it'll be the inability to get commercially viable slot times, in others it'll be the absence of feed traffic that'll prevent the working of competitive forces.

There is, of course, some self-interest flowing through my remarks today. Hawaiian is one such independent airline. We do face the problems of restricted access on a daily basis in the places we fly and in the places we'd like to fly. But beyond our self interest in these policy questions lies a truth that should concern us all.

Competition and the benefits it brings the consumer lie not in the largest of market participants but in the most marginal. The price in every truly competitive market is set by the marginal trade. Small independent airlines and new entrants are vastly more important to the landscape than their diminutive size suggests. We are the guardians of the consumer having choice and being able to travel at the lowest possible cost, whether the consumer chooses to do so on us or on one of the very largest airlines.

I'm fairly pessimistic that we will see a change in policy direction in the near term. Theindifference of legislators and policymakers to fostering competition has its roots in a pan-national sentiment, alive throughout the industrial world, that free markets have done a poor job of allocating resources and creating wealth for citizens. Facts have little sway in this debate and it is not for me make the case here for the benefits of free markets. I mention it because today's environment of skepticism over free markets helps explain the ease with which the forces of re-regulation have taken hold. If you don't believe that free markets generate consumer benefits then it's only natural that you don't make decisions to foster their health.

I conclude by returning to a statement I made earlier --that the public good is served by maximizing the number of people traveling by air and the economic efficiency with which they do so. This should be the standard against which we hold all policymakers and their policies to account. It represents a change from the narrative of the day but one which I believe will be necessary to preserve the good that the liberalization of our industry almost 40 years ago has brought about.

Thank you or as we would say in Hawaii, mahalo nui loa.