TESTIMONY

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"Building Secure Partnerships in Travel, Commerce, and Trade with the Asia-Pacific Region"

Chairman Rogers, Ranking Member Jackson Lee, and members of the Committee, thank you for inviting me to testify on behalf of IATA's members on the importance of cooperation on aviation security between the US and Asia. IATA's 240 member airlines crisscross the globe every day, safely carrying passengers and cargo to their destinations. At the beginning and throughout every stage of the journey, aviation security is paramount to the safety and success of our industry. As the industry continues to evolve, security must keep pace with the changing world to ensure the benefits of aviation are realized.

IATA recently partnered with Oxford Economics to study the impact of aviation on 57 countries around the world, and the picture is clear: aviation drives the world economy. Aviation is responsible for 56.6 million jobs globally and 3.5% of global GDP. If aviation were a country, it would rank 19th in size by GDP. The industry is comprised of 23,844 aircraft, 3,846 airports, 192 air navigation service providers, 34,756 routes, and 1,568 airlines. All of these numbers are expected to grow over the coming years, with nearly 6 billion passengers, 82 million jobs, and $6.9 trillion in economic activity by 2030. In addition, aviation carries about 35% of global trade by value but only 0.5% of actual tonnage, representing 48 million tons of cargo and $5.3 trillion in value. Over the next decade, world trade is expected to nearly double, with emerging markets leading the way. Perhaps no part of the world better exemplifies the potential of aviation than the Asia-Pacific region, whence a significant portion of this growth will originate. And cooperation between the US and Asia will have a dramatic impact on the future of aviation.

The Asia-Pacific aviation market is growing. The Asia-Pacific region represents 43% of total jobs and 21% of the GDP generated by the air transport industry worldwide. In 2010, airlines carried nearly 2.7 billion passengers. Thirty-four percent of that traffic belonged to the Asia-Pacific region, the largest share of any individual region. Beijing is the second largest airport in the world in terms of passenger traffic, and of the top 10 countries by passenger traffic, 4 are from the Asia-Pacific region. Over the next 20

years, these numbers are expected to grow significantly. Passenger numbers are expected to almost triple in the region from 779.6 million in 2010 to over 2.2 billion in 2030. This increase represents an astounding 6.7% annual growth rate for passenger traffic, and cargo is expected to grow similarly in the region by 6.3% per year. However, if the region continues to press for liberalization in the industry and investment in infrastructure, this growth could be much larger.

Yet for all of its potential, aviation's continued ability to serve as an economic catalyst is highly dependent on regulatory relief and support. Open Skies agreements, such as the one between the US and Japan, have greatly increased the opportunities for growth in the US-Asia markets. But more work needs to be done. Aviation growth cannot translate into economic benefit unless we have a regulatory regime that supports it. And the unfortunate reality is that aviation is one of the most heavily regulated industries in the world. Other transportation modes benefit from fewer regulations and better harmonization. For example, maritime cargo security regulations are far less burdensome than aviation security regulations, leading businesses to choose shipping over air freight. Fortunately for our industry, this isn't always an option. Speed remains a critical component for some industries, but without proper regulatory support, the full benefits of air freight cannot be realized.

Similarly, harmonization and cooperation in aviation security has never been more important. The aviation industry today is dramatically different than it was when the security checkpoint was designed some 40 years ago. While airports, aircraft manufacturers, and airlines have adapted to the industry's growth, regulators continue to augment and patch their current systems to keep up with evolving threats, more passengers, and uncoordinated approaches. Security lines are sometimes considered the single worst part of the travel experience. That's on the passenger side.

Cargo screening also suffers from myriad approaches and reactive over-regulation and imparts enormous cost on the cargo supply chain. We must change the paradigm in aviation security to be proactive instead of reactive and to fit the industry as we know it today. To this end, governments must renew their emphasis on compatible security regulations. We are excited about programs such as Air Cargo Advance Screening (ACAS), a program of the US Customs and Border Protection (CBP) and the US Transportation Security Administration (TSA) that is being developed with industry input. While the US has been a leader in aviation security, the emerging Asia Pacific market is quickly becoming a prominent voice in security regulation. In order to maintain aviation's competitiveness across borders, regulators from the US and Asia must work together to promote regulations that both improve security and also support efficiency in the industry.

Inconsistencies and reactive, often duplicative regulations have led to less efficient security processing, which in turn has led to sky rocketing security costs for governments and industry, passenger frustration, and global confusion. Today's security checkpoint is outdated and does not fit our industry. Each passenger is processed at the same threat level, even though we know that all but a very select few travelers pose

no threat to the system. Under Homeland Security Secretary Napolitano and Transportation Security Administrator Pistole we have seen important initiatives to move to a risk-based approach to screening. An example is TSA's PreCheck program, which will dramatically improve security and efficiency by focusing resources on passengers about whom a threat level is unknown or undecided. However, substantial challenges remain.

The one size fits all mandate limits the ability to focus resources where threats are greatest. Additionally, while some have suggested that the market-based increase in carry-on baggage has led to this slowdown, we know this is not the case. We have assessed security throughput since 2005, and checkpoints were slowing down long before fare unbundling caused more carry-on bags. In reality, the requirement for passengers to remove jackets, shoes, and belts and to remove numerous items from their bags has dramatically slowed throughput at US airports. And every new requirement at the checkpoint, such as the 3-3-1 rule for liquids and gels, leads to longer lines, more confusion, and more frustration. This slowdown has also hampered airline schedules. For instance, the business model of low cost carriers (LCCs) depends on the fast turnaround of aircraft. In Asia, LCCs have grown from nearly 0% of the market to 25% over the last decade and are projected to reach 50 airlines by the end of 2012. The success of this burgeoning market will depend on increased efficiency across the aviation system, including security.

On top of these frustrations, global cooperation on security is complicated by a lack of coordination and by regulatory conflicts between nations and regions. Europe is looking to lift restrictions on liquids, aerosols, and gels next year, but what happens to the passenger transiting through one of Asia's major hubs? Screening practices for passengers vary from country to country, for instance: shoes off in one country and not in the other. Furthermore, aviation security often suffers from significant duplication, such as at certain airports where boarding passes are checked at the entrance to the airport and then again at the checkpoint. This must change. Our industry must be able to be assured that security practices are consistent but unpredictable. They must be clearly understood, and they must be uniformly implemented.

IATA is working with industry and regulators from around the world to try to modernize and reform the security checkpoint through the Checkpoint of the Future project. We are working to evolve today's security checkpoint to focus on risk based passenger differentiation and proactive, targeted screening. A pivotal piece of this reform will be global cooperation. Regulators must come together to address common challenges and to devise a path to create a truly global security system, where passengers can move more freely across borders through a more effective security regime. Efficiency does not preclude security. In fact, by increasing the effectiveness of security and focusing on proactive threat assessment and detection, efficiency improvements are virtually automatic. We imagine checkpoints in the future will allow passengers to walk through screening without cumbersome requirements to remove clothing or items from their bags. But the key to defining this future is to ensure that we undertake this evolution with a consistent and harmonized approach, especially for regulations.

As with passenger screening, cargo security represents a key challenge to industry and regulators. The 2010 Yemen printer cartridge incident was a reminder of the evolving challenge and the need for constant vigilance. Many regard it as air cargo's 9/11 in terms of the changes it is bringing to the air cargo business. There are two parameters to the solution. First, we must preserve speed along with security. Entire industry sectors have built their business models on the availability of fast air cargo supply chain links. If we don't keep the speed, business models around the world would change dramatically, and many could disappear. The second element is the need for a multi-layered approach that includes the entire value chain. The areas we should focus on are: risk management; securing the supply chain upstream, and; using the latest technology.

On risk management, IATA is working with stakeholders and regulators to harmonize risk-assessment measures in compliance with the World Customs Organization SAFE standards. IATA, Airlines for America (A4A), the International Federation of Freight Forwarders Associations (FIATA), and other stakeholders are working jointly with regulators on projects such as the EU and the US Air Cargo Advanced Screening pilot project to achieve harmonized results. And a jointly developed e-Consignment security declaration is being put forward as a recommended practice within the International Civil Aviation Organization (ICAO) Annex 17 regulations. This will help facilitate a consistent provision of data to regulators for risk management purposes.

The second element is securing the supply chain, and Asia-Pacific is in the forefront, as Malaysia launched the first IATA Secure Freight pilot initiative in 2010. Secure Freight evaluates the strength of a nation's aviation security infrastructure and works with the civil aviation authorities to ensure that cargo has come from either a known consignor or regulated agent and has been kept sterile until it is loaded. It identifies the gaps within a security regime and helps to seal this process upstream, which will prevent bottlenecks at the airport. Meanwhile Kenya, Mexico, Chile, South Africa, Egypt, and the United Arab Emirates are set to start their own programs, and China and Brazil are showing interest.

Complimentary to the focus on cargo security is IATA's e-freight program, a supply chain initiative, which is designed to remove paper from cargo manifests in favor of electronic airway bills. To be successful, the air cargo value chain must meet customer expectations with efficient and quality products and processes. In addition, electronic information allows data to be kept in a secure, need-to-know channel and provides improved tracking of shipments within the supply chain. Moving to a completely paperless system is a huge challenge, and e-freight is the single most important project to shore-up the competitiveness and efficiency of air cargo. The Asia-Pacific market is providing significant leadership in e-freight, and global participation by regulators and freight-forwarders will be pivotal to this program's success. It is imperative that the US Government embrace the need for electronic commerce to keep America competitive with other nations and to facilitate trade between the US and Asia-Pacific. This includes

the expedited adoption of paperless documents for import and export shipments of all types.

On the technology side, we all know the present constraints of security systems. The good news is that regulators are listening to and involving industry in discussions on technology. It is clear that a robust risk-assessment needs both physical and data screening programs. And of course these must be harmonized. The worst thing for both industry and states would be to have these programs competing with each other across airline networks. It is imperative that Customs Administrations and Civil Aviation Authorities coordinate their requirements and initiatives.

Cargo security harmonization is being driven by ICAO, which since the Yemen incident has undertaken a significant role in getting industry and regulators to the table. Secretary Napolitano and ICAO joined forces immediately following the incident to convene a series of conferences around the world to focus on harmonization, with the recognition that we are only as strong as our weakest link. In 2011, the ICAO Aviation Security Panel established a working group to address air cargo security concerns in an inclusive manner, in accordance with terms of reference that incorporate the relevant elements of the Secretariat Study Group on Supply Chain Security. The primary task of the new working group is to recommend practical measures that could be adopted by States on an urgent basis to enhance cargo security on passenger and cargo aircraft. In parallel, the ICAO Secretariat is carrying on with development of guidance material in the field of air cargo security, with a particular focus on international cooperation and information sharing, technology and processes for the detection of explosives, personnel training, and quality control and oversight inspection systems to ensure proper implementation of supply chain security processes.

Passenger and cargo security are paramount to the continued safety and success of the aviation industry. We are confident that continued efforts by the TSA, ICAO, and other regulators as well as industry will continue to improve security and efficiency in passenger and cargo markets. Chairman Rogers and Ranking Member Jackson Lee, thank you again for the opportunity to speak to you today about the future of aviation and security. IATA applauds your commitment to improving aviation security and making the experience more enjoyable for passengers. The future of flight is bright, and your collaboration is vital to our continued success as an industry.