



Testimony of Jeffrey Butler  
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Before the  
Subcommittee on Federal Workforce,  
U.S. Postal Service and the Census  
  
United States House of Representatives

Alaska Bypass Mail  
H.R. 4011

March 4, 2014

Chairman Farenthold, Ranking Member Lynch, and Members of the Subcommittee. My name is Jeff Butler. I am the Vice President of Airport Operations and Customer Service for Alaska Airlines. In that capacity, I oversee the airline's airport operations, cargo, reservations and customer divisions, including more than 5,000 employees and contractors in 58 cities. I am proud to say I have spent my entire career, now spanning 30 years, at Alaska Airlines. We are appreciative to have this opportunity to testify today on the importance of the Bypass Mail Program in the state of Alaska.

The vital importance of the Bypass Mail Program can be summarized in one sentence---

The Alaska Bypass Mail program “. . . provides rural Alaskans with access to fresh food and basic supplies which they otherwise could not afford to access if they had to pay higher air freight prices.” *Northern Economics Bypass Mail Study for the State of Alaska, Final Report, March 2013, p. ES-1*

The statements of the Yukon-Kuskokwim Health Corporation, representing 30,000 rural Alaskan users of the Bypass Mail system, and of the Mayor of the North Slope Borough, bring the dire consequences of changing the system into even sharper focus—

The importance of maintaining a stable level of Bypass Mail and passenger service cannot be overstated. Our commodity prices are already among the highest in the country. We understand that the proposed changes are likely to lead to higher costs for the USPS. We cannot afford any changes likely to lead to higher parcel post rates which the wholesale shippers in Anchorage and Fairbanks would pass on in the form of even higher commodity prices. *Subcommittee Statement of the Yukon-Kuskokwim Health Corporation on H.R. 4011, dated Feb. 28, 2014*

The bypass mail service helps ensure our residents have regular passenger service so we can travel for medical emergencies and business or personal trips; amenities taken for granted by most Americans. It's not an exaggeration when I say, the combination of bypass mail service and passenger service work in tandem to ensure the very survival of the people I represent. *Subcommittee Statement of the Honorable Charlotte Brower, Mayor of the North Slope Borough, dated March 1, 2014*

Rural Alaskan residents regularly have to overcome a multitude of financial, climatic and other challenges. The last thing these residents need is for their transportation pipeline to be changed so that foodstuffs and other daily necessities, already significantly more expensive than what you and I would pay in this part of the country, are simply no longer affordable.

Alaska Airlines, the largest airline within Alaska, has been a significant carrier of mainline Bypass Mail while serving as the state's principal passenger carrier. Alaska respectfully disagrees with H.R. 4011 which this subcommittee recently approved. That legislation would create multiple negative effects among all of the Bypass Mail system

stakeholders – most importantly the residents of the State’s many isolated villages and regional communities, as well as the USPS, and the existing bypass mail carriers. The only beneficiaries of H.R. 4011 would be the 3 or so new entrant Bypass Mail carriers the legislation would make eligible for the carriage of mainline Bypass Mail. H.R. 4011 would transform the entire Bypass Mail system and, in the process, lead to reduced Bypass Mail and passenger service levels, jeopardize the rural communities’ fragile transportation infrastructure and drive the USPS’ costs higher – at the same time Congress has been working to find ways to improve the USPS’ financial condition.

Alaska Airlines’ Bypass Mail operation currently consists of almost 80 weekly flights between Anchorage and Fairbanks to regional hub communities including Bethel, Barrow, Nome and Kotzebue. Most of those flights are operated with “combi” aircraft – Boeing 737s specially configured to accommodate both Bypass Mail and passengers. Alaska regularly uses more than 135,000 sq ft of terminal/warehouse space at its Alaskan locations to accommodate Bypass Mail. Bypass Mail primarily consists of foodstuffs including perishables, medical supplies and the other daily necessities on which the people of rural, roadless Alaska rely. The Bypass Mail system has long been the primary transportation pipeline used by the rural grocery stores, hospitals, medical clinics and trading posts. The position statements being submitted by various Alaska Native organizations and the regional communities clearly attest to the importance of the Bypass Mail system and the reliance of the regional residents and isolated communities on a stable network of regularly scheduled Bypass Mail as well as passenger service.

The economic reality is that the Bypass Mail market has been shrinking because of out migration from the rural communities and other recent changes in the Bypass Mail system. Alaska Airlines’ January 2014 Bypass Mail volume was 13% lower than our January 2013 Bypass Mail volume. The resulting reduction in Bypass Mail revenue is already straining Alaska’s ability to maintain the level of regularly scheduled mail, freight and passenger service we have long operated to the rural communities. The significant Bypass Mail revenue diversion resulting from the addition of 3 or so new Bypass Mail carriers would almost certainly oblige Alaska to materially reduce the level of both its passenger as well Bypass Mail service to rural Alaska. The consequences of the passenger service reduction would surely have serious negative effects on the rural communities—which is uniformly the view of the many Alaska Native organization submissions to this Subcommittee.

We strongly encourage this Subcommittee to bear in mind that an important objective of the 2002 Rural Services Improvement Act expressly provided that the use of Bypass Mail revenues are to be used to support passenger, as well as mail, service to the isolated rural communities. Alaska Airlines serves 19 communities in the state of Alaska. Only 3 communities are connected to any sort of road system. We are the interstate highway system in Alaska. For each of the isolated communities that are part of the bypass mail system, Alaska Airlines offers the only mainline jet service to these small towns. We are the lifeline for these communities. Nome offers a compelling example. The community will celebrate the annual running of the Iditarod sled dog race this month which commemorates the 1925 dog sled relay that brought critical serum to the community

which was suffering a diphtheria epidemic. Almost 90 years later, access to this Bering Sea community is still severely challenged and, without the 3 daily arrivals by Alaska Airlines, it may still be reliant on dog sleds to bring needed supplies to town.

This service, however, is costly. The significant distances between the urban centers of Anchorage and Fairbanks and the bypass mail towns in northern and western Alaska argue for jet service. Yet operating jets into these small communities brings with it unique expenses. For instance, the towns do not maintain their own airport terminal buildings as we see in most of the United States. In Nome, Kotzebue, Barrow and Bethel, Alaska Airlines has built and maintains the passenger/cargo/mail terminal buildings. These are small towns with 2000-4000 residents, serving even smaller outlying villages. While air service is essential there is only so much demand. The resulting economic challenges of operating to these communities long ago established a clear need for a program like bypass mail.

The suggestion that the Bypass Mail system is broken and would somehow benefit from the addition of 3 or so additional carriers simply does not comport with the facts. The Bypass Mail market is not the typical aviation market which positively responds to the addition of new carriers. We have already explained that the Bypass Mail market is a declining market and there appear to be few prospects for meaningful growth. There is no possibility of market growth from price stimulation. Uniform Parcel Post rates are set by the USPS with the approval of the Postal Rates Commission. Every shipper pays the same Parcel Post rate within the same shipment size category. It is these Parcel Post rates that the shippers pay directly to the USPS and which the rural residents then indirectly pay in the form of commodity prices. With a flat to declining market and price uniformity, the addition of 3 or so new Bypass Mail carriers will only lead to one result—the decrease in each of the 4 Bypass Mail carrier's approximate market share from 25% to just 14%. That substantial Bypass Mail revenue reduction has to translate into reduced levels of Alaska's passenger and freight service—in addition to reduced Bypass Mail service among the 4 existing Bypass Mail carriers. Alaska Airlines and various Native organizations have already highlighted the negative consequences of such service reductions.

The USPS would also experience significantly worse financial results if the 3 or so new operators of smaller less efficient aircraft became Bypass Mail participants. Those negative results would directly flow from the application of DOT's longstanding ratemaking formula establishing the rates the USPS must pay the Bypass Mail carriers for transporting mail. Both mail rate components—the variable costs which correspond to flying costs and the fixed costs which relate to warehouse expenses—would escalate. The proliferation of the new entrants' smaller less efficient aircraft would unquestionably increase flying costs. The magnitude of that substantial increase is apparent from a simple comparison of the flying capacity unit costs of Era, one of the prospective new entrants, and the same cost for Alaska. The most recent DOT ratemaking order states that Era's available ton-mile cost for its smaller propeller aircraft is \$1.92 in sharp contrast to Alaska's Boeing 737 available ton-mile cost of just \$.57. DOT Order 2013-12-3, dated Dec 6, 2013, App D. The 236% spread between the unit costs of the other prospective

entrants is almost certainly similar. The fixed warehouse cost component would also increase because of the corresponding reduction in each carrier's Bypass Mail volume. Under DOT's formula, warehouse costs are computed on the basis of the number of tons of Bypass Mail each carrier transports. A 42% reduction in per carrier Bypass Mail volume (from a 25% to a 14% market share) means that the same fixed warehouse costs will have to be spread over far fewer tons—thus driving up the per ton warehouse-related costs. The combined increase in flying and warehouse costs would only make the USPS' weakened financial condition far worse—and negate the benefits of other structural USPS reform changes Congress is considering.

The bypass mail program serves an area of the United States that is economically depressed and has serious limited infrastructure. The Americans that live in these communities – many of whom are Alaska Natives and have lived in the region for generations – live and work in often harsh conditions. They can't get in their cars and drive to medical appointments in the city. They don't wait for the train or semi-truck to arrive with reasonably priced basic commodities for their stores. But they nonetheless love this country, they're proud Americans and proud Alaskans and they deserve, and are incredibly reliant on, what is already an established but fragile transportation infrastructure. On behalf of the people of Nome, Kotzebue and the other affected towns, we urge this Subcommittee to not weaken this system further by advancing H.R. 4011. Please do not allow this bill to move forward.

Thank you. I am pleased to answer any questions from the Subcommittee.

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