

A COMPENDIUM OF THOUGHTS AND THEMES FROM STAKEHOLDERS REGARDING THE PILOT SHORTAGE IN THE U.S.

On July 22, 2014, the Local Airline Service Action Committee, which is comprised of the commercial service airports in the state of Minnesota (MSP, RST, DLH, BRD, BJI, HIB, INL, TVF), hosted an invitation only forum to discuss the pilot shortage issue that is impacting the US Regional Airline sector. **Marty Lens**, Executive Director of the Rochester Airport Company also played a key role in arranging this timely forum. The forum consisted of three distinct panels of experts and was moderated by **William Swelbar**, Executive Vice President of InterVISTAS Consulting LLC.

The first panel consisted of Regional Airline Chief Executive Officers and was moderated by **Jeff Hamiel**, Executive Director and CEO of the Metropolitan Airport Commission. The three CEOs on the panel were: **Jim Rankin**, President and CEO of Air Wisconsin Airlines; **Ryan Gumm**, CEO of Endeavor Airlines; and **Douglas Voss**, Chairman and President of Great Lakes Airlines.

The second panel focused on the pilot training perspective and was moderated by **Bill Towle**, Airport Director at St. Cloud Regional Airport. The three panel members were: **Kent Lovelace**, Chair/Professor Department of Aviation at the University of North Dakota; **Pat Cwayna**, CEO of the West Michigan Aviation Academy; and **Nancy Grazzani-Olson**, President of the Thunderbird Aviation/Academy College.

The third panel focused on the airport/community perspective of the pilot shortage issue and was moderated by **Shawn Dobberstein**, Executive Director of the Fargo International Airport. The three panel members were: **Dan Akins** of FlightPath Economics; **Jacqueline Buck** of the Department of Employment and Economic Development; and **Cassandra Issackson**, Director of MnDOT Aeronautics.

The day concluded with an around the room recap led by William Swelbar and closing remarks by Jeff Hamiel. A special thanks to Rylan Juran of MnDOT for taking copious notes of the day's proceeding.

PURPOSE OF THE FORUM

Today, regional airlines make up at least 50 percent of the departures performed from airports in 35 states and carry 22 percent of the nation's air traffic. For the majority of the commercial air service airports, regional airlines are the only link to the nation and the globe's air transportation system. This is important because it is the sector of the industry that is realizing a shortage of pilots to fly today's airline schedules. Today, the problem is most acute for regional carriers serving markets subsidized by Essential Air Service programs; regional carriers are being forced to park an increasing number of smaller jets, shifting staff to larger regional jets being delivered.

Some say there is not a shortage. That is certainly true at the mainline carrier level as the regional carriers are typically the pipeline for them to fund their growth and replace retiring pilots. So the goals of the forum were to raise awareness of the issues and to provide a way to share information on the subject; learn about causes of the shortage; discuss short and long term ramification of a pilot shortage for commercial air service; and to begin exploring solutions.

EXECUTIVE SUMMARY

Commercial airline service plays a critical role in the transportation infrastructure of America's small communities. Frequent, convenient, and affordable access to air transportation allows residents and businesses to connect to economic opportunities, new markets, leisure destinations, friends and family throughout the country and across the globe. In small communities, regional airlines provide a significant majority of this valuable service, operating flights with safe, comfortable, and right-sized aircraft.

Air service by regional airlines in the United States faces myriad challenges in today's airline industry environment. New regulations regarding the number of hours a pilot is required to obtain an Air Transport Pilot (ATP) license is among the most significant impediments to realize a commercial piloting career. A pilot shortage in the regional industry is real. Regional airlines are struggling to fill classes of new pilots that meet new FAA qualifications; at the same time, currently qualified pilots are moving to network carriers that mostly serve larger communities. Some small carriers have already cut service as a result of these new regulations.

When the new rule requiring 1,500 hours of training to obtain an ATP license was made law, universities and other training academies were granted credits of differing amounts toward the 1,500 hour requirement. It is believed that the FAA has latitude under the law to examine the number of credits that can be earned by the training programs. Further it is believed that the number of credits can be changed by the FAA to reward students that have invested significant monies and time in their pursuit of commercial piloting career. In no way is it believed that a change in the number of credits toward an ATP license endangers safety as the proponents of the knee-jerk legislation requiring 1,500 hours suggest.

In the immediate term, a regional airline pilot shortage will only increase the pace of service losses in America's small communities. Should the current slow pace of pilot hiring continue, many small communities may find themselves without commercial air service in the next few years and hub airports will see service and enplanement levels reduced. This issue needs to be addressed as economic activity to these imperiled markets is threatened.

FlightPath Economics suggests the negative economic impact could approach the magnitude of that suffered after the events of 9/11. Whether that is true or not is to miss the point. There will be significant economic fallout when the pilot shortage causes airlines to begin vacating markets and that day is already here for some and coming for many others.

To ensure that as much of today's commercial aviation system can be preserved as possible, it is time for the many stakeholders in the system to come together and find solutions before the economic fallout begins in earnest.

THEMES FROM THE CEO PANEL

A pilot shortage does not just impact smaller markets. It impacts larger hub markets as well as mainline service depends on passengers feeding from the regional sector of the industry. With the vast majority of traffic being carried by regional carriers connecting to a menu of flights at a hub airport, a portion of mainline aircraft could potentially become unprofitable because of a loss of feed.

Despite that some claim that there is no shortage, or that there is adequate supply if wages and working conditions were perceived as better at the regional providers, the industry is only at the tip of the iceberg in facing the problem. Today frequencies can be cut to preserve pilot time to fly most schedules. Tomorrow exits from markets will likely be the outcome of an insufficient number of pilots.

Commercial realities and regulation have exacerbated the pilot problem. First is the growth of the business aviation sector that has lured pilots away from the commercial sector. Second is that the rules and regulations governing pilot flight time and duty time were changed in order to give pilots more rest between flying assignments. This change required that the airlines have more pilots on staff today to do the same flying as yesterday. Then Congress, in a knee jerk reaction to the crash in Buffalo increased the number of hours necessary to complete requirements for an Air Transport Pilot license from 250 hours to 1,500 hours. These two changes come on top of the fact that nearly 18,000 pilots will be retiring from the mainline carriers between now and 2022. The confluence of events is only beginning to strain a system where fewer students are attracted to a commercial flying career.

A disturbing theme came clear. Today where a student leaves a highly regarded flight training program like that at the University of North Dakota, that student graduates with 400-500 hours gained within a complex environment flying multi-engine aircraft in demanding situations. To get to the 1,000 hours needed to begin a commercial career, then they are flying in a less demanding environment often flying only single-engine aircraft in less demanding conditions just to gain the incremental hours needed. It was said that the current increase in the number of hours is creating a system where we are actually degrading the skills of the individual pilot just to reach a number of hours that has been legislated. In other words, it can be said that we are making a very safe system less safe just to meet the statutory mandated number of hours.

Unfortunately Congress passed the legislation in reaction to constituents. 1,500 hours has become the legislated proxy for consistency when in reality a pilot with 500 hours may indeed be more consistent day to day than another with 1,500 hours. [It should be noted that both pilots in the fatal Buffalo crash had at least 1,500 hours in the cockpit]. While Congress is not experts, it is unlikely that anyone is going to champion a change in the 1,500 hour rule whether on the Hill or in the halls of the US Department of Transportation. However, the FAA has latitude under the law to change the required number of hours and there is an opportunity for credits with training. However, as discussed earlier a change will likely only occur with a crisis and the crisis will likely be a widespread exit from markets as a result of a shortage.

The Air Line Pilots Association (ALPA) would have everyone believe that increases in wages paid to regional pilots would immediately address the supply issue. As with many things, their self-serving

suggestion only tells part of the story. While it is true that first year wages are low, the airline also invests \$20,000 in each pilot hired in training. Training which is portable and will only benefit that pilot throughout his/her entire career. ALPA also does not tell you that a five –year captain at a regional carrier earns \$60,000, a marked increase from the \$22,000 earned in the first year. Adding to the vaguer of ALPA’s claims is that they are the collective bargaining agent for the vast majority of regional pilots and they actually agreed to the terms. The perception about low pilot pay is something that needs to be better explained to students and parents of students when considering a piloting career.

One thing mentioned is that long seniority lists at the regional carriers are becoming a problem in that first officers are being relegated to the “right seat” for 8-10 years. A shorter seniority list of course helps to increase wages faster. One of the perceptions that must be overcome is that there is movement again – assuming that sufficient hours have been logged by the respective pilot. First officers will begin to move to the captain’s seat quicker as more and more regional pilots leave to fill the vacated spots at the mainline carriers. This is a trend that has been missing over much of the past decade.

Whereas the military was the primary source in the past for commercial piloting, today almost all come from Certified Flight Instructors after completing a university program. The military is offering handsome retention bonuses to stay and that is a trend that was not present in the past.

Finally the discussion turned to the expected life of the 50-seat regional jet. The belief is that the jet has 8-10 more years of useful life. However the economics of the airplane are causing many to park or replace the aircraft. The expectation is that there will be only 400-500 units flying in the near future. The shift to larger aircraft has begun as the economics on a per seat basis are better. After the 8-10 years of useful life, the sense was that the 50 seat era will be done as no one will be making an airplane with a seating capacity to match.

There was much discussion with the audience about what can be done to address the issue assuming that there is a problem. The general consensus was that the Congress cannot and will not do anything that smacks as reducing safety. Therefore the immediate solution seems to point at the FAA using latitude given to them by the regulatory body to review and address this problem.

PILOT TRAINING PERSPECTIVE

Fewer college bound students are pursuing a career as a pilot. The University of North Dakota purchases the names of students with an interest in aviation and at least a 3.0 GPA; after 9/11 the numbers on the list decreased by half. Today the list of 25,000 names produces roughly 350 students. The general view is that the aviation industry simply does not sell itself well to students and their parents. Given that costs to train are high, the industry must better explain that over the life of a piloting career the return on educational investment does work.

Peak retirements will occur in 2023-24. Over the next 20 years, there will be a deficit of 35,000 pilots if no mitigation strategies are put in place. Today, about 50% of students in university programs want to fly for an airline. Eight percent of students changed their mind to pursue a career following the 1,500 hour rule change. An instructor pilot at UND will take an additional one year and a half to reach the

incremental 1,000 hours needed. We must increase the supply of Certified Flight Instructors willing to pursue an airline career through defined paths and an alternate path to a Restricted Air Transport Pilots license (R-ATP). The alternate path requires identifying and recommending additional criteria to apply credit hours. We also must find ways to reduce the cost of training and the cost of debt associated with training whether through loan consolidation/guarantees or supporting financial aid programs or all of the above.

The industry must work much harder to educate potential students on the benefits of the profession and make a reach for aviation intrigued middle and high school students.

AIRPORT/COMMUNITY/STATE AERONAUTICS PERSPECTIVE

In the short term, the industry is beyond the place where all can be saved. There is simply insufficient supply in the pipeline to meet the requirements for all commercial air service airlines to fly the schedules that are being flown today. The general view is that little can be done in the immediate term to fix the problem, however the problem can be fixed by 2022. Today foreign carriers are investing in pilot capital whereas the US has no such programs in place.

As has been stated previously, a real focus must be on changing the perception of a pilot's career prospects by doing something to mitigate the real or perceived poor return on investment. Today's seniority programs are inefficient; often failing to reward the best performing pilots; today's educational institutions create a more efficient pilot than years past. And consolidation has and will produce a more stable structure making instability, furloughs, and concessions a thing of the past.

According to FlightPath Economics, 53 airports in the Upper Midwest are at risk of losing some or all of their service if nothing is done. Today 70 percent of airports are dependent on regional carriers for access to the air transportation grid. If we fail to address the pilot shortage issue, the economic impact will rival the damage caused by the events on 9/11.

Several myths and misrepresentations surround the pilot shortage including: there just is not a problem; raising entry level pay will solve the problem; there is an abundance of qualified pilots waiting to fly; increased hours make pilots safer; there is adequate capacity to train pilots; enhanced pilot flow-through agreements will solve the problem; Congress and the FAA can solve the problem by changing regulations; increasing subsidy for EAS will help; the market will efficiently supply a solution; we will have plenty of warning; and mainline carrier ultimately will not be affected.

For a long time monies supporting Essential Air Service flying was sufficient. The fact is that it will never be profitable to continue service to all communities. Decisions will need to be made at some political level that say it is OK to serve some communities but not others?

CONCLUSION

Themes emerged throughout the day.

1. The issue needs a bonfire. The Colgan family lobby is a bonfire and they have the safety message.
2. Interesting how quiet the mainline carriers are – at least publicly.
3. We need to truly define the pilot supply issue to counter the work done by GAO. The University of North Dakota has done very good work in this area.
4. This is not just a starting pay issue. It is not a quick fix.
5. It takes five years to fill the pipeline.
6. It is a regional only issue and mainline will go untouched. Only in the immediate term.
7. In order to meet the new hour requirements, we are often left with not hiring the pilot with quality hours but rather one with the right quantity of hours.
8. Today 22% of traffic is carried by regional carriers. This traffic fills a lot of mainline airplanes. The system will certainly get smaller as the problem accelerates.
9. Stay focused on what can be done today. The problem is most of the fixes tend to be more medium term responses and as a result there is no quick fix to save everybody.
10. Airlines did not understand the impact of ATP rule changes. Small communities were promised to be beneficiaries of airline consolidation.
11. There is no one solution to the issue. Multiple strategies must be developed and multiple agencies need to engage in the conversation ie. City/County Associations, Chamber of Commerce, Economic Development Agencies, to name a few.

It is just different this time. Pilot shortages have been a part of the vernacular at least twice over the past three decades and each time a downturn in the economy mitigated any real damage. An interesting fact to many is just how quiet the mainline carriers have been on the issue. It is true that it is not yet a crisis for most. It is for Doug Voss at Great Lakes but not yet at Endeavor or Delta. For the years since the industry was deregulated, the industry has relied on a free pilot supply whether from the military or pilots funding their training on their own dime. Today the military is using retention mechanisms and their use of drones require the skills of the pilots that they have trained; there is a reduced civilian supply; and an increased opportunity at the foreign carriers.

The industry must coalesce and widen the conversation to ensure that the needs of the regional sector of the industry are met as well as the needs of communities that are dependent on the regional sector are met. There is too much economic activity at risk to ignore this issue.