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**Before the U.S. House of Representatives
Committee on Natural Resources**

***“Harnessing American Resources to Create Jobs and Address Rising Gasoline Prices:
Family Vacations and U.S. Tourism Industry.”***

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Good morning, Chairman Hastings, Ranking Member Markey, and members of the Committee. I would like to thank you for giving me this opportunity to speak with you regarding the impact that rising gas prices are having on the travel and tourism industry. This hearing comes at a critically important time for the U.S., for the global economy and for our industry, and it is my hope that in addition to discussing the impacts of rising energy costs, we can also have a meaningful dialogue about the need for a comprehensive solution to our nation’s energy challenges.

Before we discuss the threats of rising gas prices and the potential solutions, let me first take a moment to discuss with the committee how the travel business impacts the U.S. economy – why it is a crucial engine for economic growth, and such a vital lynchpin in our society.

Travel and tourism is the largest services export industry in the United States. In fact, international tourists spent more than \$134 billion visiting here in 2010, according to the U.S. Travel Association.

One out of every nine jobs in the U.S. depends on travel and tourism. Last year, travel and tourism supported 14 million U.S. jobs.

Overall, the U.S. travel and tourism industry generated \$1.8 trillion in economic output last year.

Nearly \$800 billion of that was spent directly by domestic and international tourists – spurring an additional \$1 trillion in other industries.

Here’s another way to say it: for every dollar spent on travel, an estimated \$2.34 of additional spending cascades through the economy. With that sort of multiplier, the travel industry cannot only provide a bump to the U.S. economy – it can provide a shot of adrenaline.

But make no mistake, the travel industry’s significant contributions to the U.S. economy can only be fully realized if travel remains affordable and within the budgets of families and businesses of all sizes and backgrounds. This is where the high cost of energy rears its head.

Access to stable and affordable energy supplies is critical to the health of the travel and tourism industry and to the millions of people it serves. From airlines, cruise lines, rental car companies, and other transportation-related service providers, to hotels, shops, and restaurants, the stable

supply of energy at a predictable price is essentially the definition of energy security. Ominously, given the highly fluctuating price of oil, the United States and its travel and tourism industry do not have an acceptable level of energy security today.

Volatile fuel prices within the transportation sector send a shock to the system every time there is an oil price spike. High energy prices increase industry-wide operating costs and reduce revenue and jobs. The productivity of U.S. business and government suffers as meetings, interviews, conferences, deployments and site visits become impractical or impossible because of service and capacity cutbacks in direct response to these high and volatile oil prices. Moreover, beyond the direct impact that energy price volatility can have on our industry, the current vulnerability of the broader U.S. economy to oil price shocks has strongly contributed to the extended period of reduced economic growth that began in 2007, a development that has weakened a wide range of American industries and economic sectors.

Within the travel and tourism industry, volatile fuel prices tend to hit airlines hardest, because fuel makes up such a high percentage of their costs. According to Airlines For America, every \$1 per gallon increase in the price of jet fuel costs the U.S. airline industry \$17.5 billion. If we do not solve this problem, continued fuel price escalation will result in more and more capacity coming out of the sky – meaning less choice for consumers, more expensive airfares, and less overall economic activity.

That doesn't simply mean a loss for the airlines' bottom line – it means fewer families are able to afford the cost of flying within the U.S., fewer tourist dollars flowing into our economy, fewer businesses able to send their personnel on critical trips. In short, that hit to the airline industry translates to a body blow to our entire economy, stifling job creation and growth.

Airlines are not alone in suffering the direct negative impacts of fuel-price volatility. Between 2007 and 2010, the vehicle rental industry experienced a sharp drop in activity, particularly in light vehicles like cars and SUVs. Rental vehicles in operation dropped nearly 15 percent below typical levels in 2009. And the cruise industry spends approximately nine percent of its revenue on fuel.

The entire travel and tourism industry relies on customers, most of whom are struggling with the high cost of gasoline, which currently averages more than \$3.80 per gallon in the United States.

The U.S. Travel Association has new data on how high fuel costs can change the behavior of consumers. For Americans who plan to travel by car this summer, 54 percent said that an increase in the price of gasoline would affect their travel plans. Some of the top reasons given by consumers on how they would adjust their summer travel plans are: they would take fewer trips; they would spend less money on shopping and souvenirs; they would spend less money on meals and in restaurants; and they would spend less money on entertainment. For those who plan to travel by airline this summer and would change their behavior due to higher oil prices, a similar pattern emerges.

This demonstrates that the impacts extend beyond airline, hotel, and rental car industries, and into the restaurants, retail stores, and entertainment-based businesses that rely on tourism for at

least a portion of their business. A lot of times these are the small, family run businesses. This survey shows they are on the front-lines of the tourism industry, and they are in a battle against high gas prices.

Beyond the vacation and tourism industry, high fuel costs have had a sharp and measurable impact on consumer budgets in the United States, particularly on discretionary spending. In fact, as gasoline prices soared from 2001 to 2008, the increase in household fuel spending eclipsed the benefit of tax cuts over the same period. In 2001, the average U.S. household spent \$1,755 on gasoline and by 2008, that figure had increased to \$3,760—an increase of more than \$2,000. The cumulative impact of changes to the tax code over the same period increased household income by \$1,900. Thus, rising fuels prices acted as a tax increase that fully offset the benefit of tax cuts.

History repeated itself in 2011, when gasoline prices cost American households an additional \$104.4 billion in fuel expenditures compared to 2010. This nearly offset entirely the benefits of the 2011 payroll tax cut, which gave households an added \$108.6 billion in take-home pay. In essence, money—in the form of tax cuts—was put into one pocket to help Americans, but that money was then taken from another to pay for higher gas prices.

Of course, at the root of today's hearing is a larger truth that cannot be ignored—rising gas prices are merely a symptom of a more complex problem: our dangerous dependence on foreign oil. This dependence poses a serious threat to economic stability and our national security interests.

I am a member of the Energy Security Leadership Council, which is a project of Securing America's Future Energy (SAFE). The Energy Security Leadership Council is a coalition of business executives and retired national security leaders who believe that our dependence on petroleum, much of it imported from unstable and hostile regimes, poses an unacceptable economic and national security threat.

An often overlooked cost associated with our dependence on oil is the burden to our national security apparatus. The vulnerability of global oil supply lines and infrastructure has driven the United States to accept the burden of securing the world's oil supply. Much of the infrastructure that delivers oil to the world market each day is exposed and vulnerable to attack in unstable regions of the world. According to the U.S. Department of Energy, each day more than 50 percent of the world's oil supplies must transit one of six maritime chokepoints, narrow shipping channels like the Strait of Hormuz between Iran and Qatar. Even a failed attempt to close one of these strategic passages could cause global oil prices to skyrocket. A successful closure of even one of these chokepoints could bring economic catastrophe.

To mitigate this risk, U.S. armed forces expend enormous resources patrolling oil transit routes and protecting chronically vulnerable infrastructure in hostile corners of the globe. This engagement benefits all nations, but comes primarily at the expense of the American military and ultimately the American taxpayer. A 2009 study by the RAND Corporation placed the cost of this defense burden at between \$67.5 billion and \$83 billion annually.

Oil dependence also constrains U.S. foreign policy. Whether dealing with uranium enrichment in Iran or a hostile regime in Venezuela, American diplomacy is distorted by the need to minimize

disruptions to the flow of oil. Too often, oil dependence requires us to accommodate hostile governments that share neither our values nor our goals, putting both the United States and its allies at risk.

In short, our extreme reliance on a single, highly price-volatile fuel to power mobility has created an unpredictable investment environment in which the economy is struggling to grow. Our increasing expenditure on oil imports depresses the dollar, endangers our balance of payments, and puts our nation's well-being in the hands of unstable nations that are hostile to American interests.

At the crux of America's oil dependence is the energy demand of the transportation sector. Transportation accounted for almost 70 percent of American oil consumption in 2008. Cars and trucks were 94 percent reliant on oil-based fuel for their energy, with no substitutes immediately available in anything approaching sufficient quantities.

Clearly, given the costs of gas prices to American families and businesses and given the costs of oil dependence to our nation, we cannot continue down this path. Our country needs a comprehensive energy policy that matches the size of our energy challenges.

So what policies should we enact to fundamentally strengthen the nation's energy security?

We need to look at ways to expand domestic energy production, while preserving strong environmental protections. This point is obviously a sensitive one – and it's a topic that has often become politically heated. But I am convinced that working together there are ways to responsibly tap more domestic supplies in a manner that is safe, respectful of the environment and consistent with a long-term effort to transition to lower-carbon alternatives in the future. Producing more domestic energy will reduce the transfer of wealth to other oil-producing nations and strengthen the U.S. trade balance, which will help drive economic growth here at home.

The U.S. oil industry experienced promising gains in production from 2009 through 2011, and many mainstream forecasts expect the upward trend to endure for at least a decade. These gains have come about as a result of increased onshore production from shale oil basins in North Dakota and Texas, in addition to strong production from the federal Gulf of Mexico (particularly before the Deepwater Horizon incident).

Despite these gains, the U.S. still imports approximately half of its net oil needs, and rising oil prices have meant the cost of those imports is increasing to record levels. Today, oil typically accounts for more than half of our entire national trade deficit, weakening our economy and putting our nation's well-being in the hands of unstable nations that are hostile to American interests.

The United States can and should produce more oil domestically over the long term, particularly by leveraging federal lands currently unavailable to the industry. Moving forward with development of domestic resources in promising but sensitive regions will require a partnership between the public and private sector as well as a thoughtful and more nuanced approach by regulator and industry alike. In those areas where development moves forward, production

technology and processes should adhere to world-class safety and environmental standards. Maintaining a minimal footprint should be a priority for oil and gas producers in frontier areas, and regulations should require operators to leverage technology that improves environmental performance.

The first step toward increased offshore oil production and enhanced U.S. energy security must be reform of the U.S. regulatory approach for offshore energy production. Before new offshore areas can be opened, it will be critical that local populations – and equally importantly, national lawmakers – have increased confidence in industry safety. The current rules-based approach to regulating oil and gas production may no longer be suitable given the complex nature of the offshore industry. The current system encourages operators to comply with the letter of the law and no more, placing the onus on the regulator to dictate best available technology.

We also need to make our nation’s transportation system more energy efficient.

Congress took a wonderful and welcome step forward with its passage of FAA Reauthorization, including funding for Next Gen air traffic control systems. Next Gen will modernize the air traffic control system, reducing fuel usage and helping the economy. Air travel will be more predictable because there will be fewer delays, less time sitting on the ground and holding in the air, with more flexibility to get around weather problems.

And, as Congress works to reauthorize the transportation bill, we must consider reforming the federal transportation infrastructure funding process, using oil consumption metrics to prioritize projects.

Recent improvements in the nation’s fuel economy standards also have a critical role to play to ensure we use every drop of oil as efficiently as possible.

But even if we produce more domestic oil while using less, our nation will still be subject to the price volatility inherent in the global oil market. Even countries that produce more oil than they consume are still subject to oil price volatility. As an example, Norway and Canada produce more oil than they use, meaning they meet the commonly understood definition of being “energy independent.” Yet, they are still paying over \$100 per barrel for oil just like the rest of world, because oil is a global commodity. With geopolitical tensions continuing in the oil-rich Middle East and increasing demand for oil driven by the growing economies of China and India, the U.S. must recognize the hard truth that when we are utterly dependent on oil to fuel our transportation sector, we are not in control of our energy future.

The lynchpin of any plan that is serious about confronting oil dependence must be the transformation of a transportation system that today is almost entirely dependent on petroleum.

This includes improving and expanding federal R&D into alternatives, which will provide critical support for commercializing alternatives to petroleum in the future. It also includes working to deploy alternative fuel vehicles like natural gas for heavy-duty trucks, and electric vehicles for the light-duty vehicle fleet. Non-petroleum-based liquid fuels, such as advanced

biofuels that do not compete with food supplies, will provide alternatives to oil for the aviation and trucking industries.

In particular, the electrification of the transportation sector is critical. Electricity is generated from a diverse set of largely domestic energy sources, natural gas, nuclear, coal, hydroelectric, wind, solar, and geothermal, meaning no one fuel source—or producer—would be able to hold our transportation system and our economy hostage the way a single nation can disrupt the flow of petroleum today. Electricity prices are stable, the power sector has substantial spare capacity, and a ubiquitous network of charging infrastructure already exists in people’s homes and places of business.

While there are challenges to widespread consumer adoption of electrification, we are in the first inning of a nine inning game with alternative fuel vehicles, and we can’t forfeit or throw in the towel in the early stages. There is bipartisan legislation aimed to support deployment in targeted regional communities through a competitive selection process. This concept, known as “deployment communities” allows specific geographic areas to serve as R&D labs, showing what works well and what could work better, so the nation can take advantage of best practices and lessons learned as electrification expands nationwide.

Finally, I encourage the leadership of this committee to call on the General Accounting Office to conduct a study and issue a report on the interdependence between the travel industry and energy costs. Even though ours is the largest services export in the U.S., the enormous problem that travel’s dependency on stable energy costs creates is not well-understood and ought to be. The future of our industry and all of the downstream economic benefits it brings depends on addressing this crisis and getting a handle on it for the long-term. A GAO study will help policymakers and industry leaders stay focused on it, not just when gas prices spike.

Because every time oil and gas prices spike, the American public asks what can be done immediately to bring down prices. The hard truth is that once we’re in a price spike, there is precious little that can be done to fundamentally lower energy prices. Instead, the question we need to ask is, “What can be done to protect the country from the damaging effects of the next oil price spike, and the one after that?” The short answer is that we must fundamentally break oil’s stranglehold on the transportation sector.

So, while there is no silver bullet on gas prices and no quick fix on energy security, there are solutions. Given my earlier comments about what is at stake for the future of the travel industry and the economy, I think we can all agree that there is an urgent need to enact the policies now that will lay the groundwork for a more secure energy future.

As government and business leaders, we must endeavor to break through the gridlock that has blocked a comprehensive energy bill from gaining traction in the past – it’s an imperative for our industry and for the entire U.S. economy.

I commend the committee members here today for bringing light to such an important issue, and I thank you for your time.