

**Statement of Roy A. Williams**  
**Director of Aviation, Louis Armstrong New Orleans International Airport**  
**Before the**  
**Subcommittee on Capital Markets, Insurance,**  
**And Government Sponsored Enterprises**  
**Committee on Financial Services**  
**United States House of Representatives**  
**October 24, 2001**

Good Afternoon. My name is Roy A. Williams and I am Director of Aviation for the Louis Armstrong New Orleans International Airport located in Kenner, Louisiana. I am here to testify regarding the financial impact of the events of September 11, 2001 on our airport and our ability to continue functioning as an economically competitive provider of airport services to our community. In particular, I have been asked to offer testimony regarding the availability of insurance for operations at the airport and the increased costs involved where we have found insurance.

General Information about Louis Armstrong New Orleans International Airport

Louis Armstrong New Orleans International Airport serves Southeastern Louisiana and the Gulf South with extensive domestic and international service. Sixteen passenger carriers and air cargo carriers operate scheduled service to and from the airport, along with numerous charter, corporate, and general aviation flights. In the twelve months ending August 2001, we served more than 10 million passengers, an all-time record. Louis Armstrong ranks 39th in the United States for total passenger traffic.

The airport is located entirely in Jefferson and St. Charles Parishes. The New Orleans Aviation Board, appointed by the Mayor of the City of New Orleans, manages the airport. The nine member board includes representatives from New Orleans, Jefferson, and St. Charles Parishes.

The Jefferson Parish and St. Charles Parish Sheriff offices provide primary law enforcement, with additional support from the Kenner and New Orleans Police Departments. Numerous Federal agencies have a presence at the Airport, including the Federal Aviation Administration, Federal Bureau Investigation, United States Customs Service, Immigration Naturalization Service, and the Department of Agriculture. We also benefit from the presence of the Louisiana National Guard.

Passenger security screening is provided by ITS and Wackenhut. They are private firms working directly for the airlines serving New Orleans. The airport does not have a number of activities, found at many airports, which could pose additional security issues. For example, we do not have a major aircraft maintenance facility, a passenger or cargo connecting hub, or an airline reservation center.

## Overview of Airport Insurance Availability Since September 11, 2001

As a consequence of the September 11<sup>th</sup> events, the worldwide aviation insurance market has been in a state of crisis. Initially, the underwriting community's emphasis was directed at the airline portfolio; then their attention quickly shifted to other lines of aviation risk coverage, including airport liability, with negative implications.

Immediately after the attacks on the World Trade Center and the Pentagon, the underwriters issued notices of cancellation of "War, Hi-Jacking and Other Perils" risk liability, which includes acts of terrorism, to all airlines. To permit continuing airline service, Congress passed the Air Transportation Safety and System Stabilization Act, which included a mechanism for the federal government to indemnify air carriers for all war and terrorism risk above \$100 million.

In late September, airports were put on notice that their war insurance would be cancelled as of October 1, 2001. Although underwriters are beginning to offer war risk insurance, again, there has been no commitment whatsoever from the insurance industry that reasonable reinstatement terms will be offered to airports. That is why airports are continuing to petition the market, Congress and Department of Transportation for this essential coverage. In essence, airports are uninsured or "naked" with respect to this risk coverage and are exposed to substantial third party liability risk going forward.

Currently, airports are solely dependent on state sovereign immunity laws to back them up. The problem is that these laws vary in inclusiveness across the states, they may not fully cover proprietary responsibility, and they do not cover all airport operating entities such as BAA USA, which operates the Indianapolis International Airport, the JFK/IAT International Air Terminal Group which operates Terminal 4 at John F. Kennedy International Airport, or the company that operates Stewart Airport. Also, where state sovereign immunity law applies, 3<sup>rd</sup> party claims would go unsatisfied, a moral/ethical issue that concerns most governmental entities operating airports.

Prior to the September 11<sup>th</sup> events, airports usually had substantial levels of war and terrorism risk included as part of their general airport liability coverage, generally \$300 million at airports such as Louis Armstrong Airport to \$1 billion for large hub airports. To date, three insurers have come back into the market with a product that is expensive and has a very limited and inadequate liability cap of \$50 million. At least one of the available policies contains massive exclusions such as screening, baggage and security functions. In addition, all policies still include the 7-day cancellation clause, which would allow insurers to cancel their policy on short notice.

### Impact of September 11 at Louis Armstrong Airport

Prior to September 11<sup>th</sup>, the airport was able to acquire adequate insurance at reasonable premiums. For the 12 months ending September 30, 2001, our policies covered essentially all risks, including War and Terrorism, up to \$300 million. Our annual premium was \$321,000 and our provider was Westchester.

We began searching for a replacement policy after the events of September 11th. By September 20 we had an insurance proposal for the coming year, but it is quite different from the insurance we previously had. The new policy excludes war and terrorism, completely, it excludes coverage for officers and directors, and it costs significantly more - \$520,350 for \$300 million of coverage.

The airport continued to seek additional coverage and was later offered an amended proposal that included \$50 million of war and terrorism coverage, at an added cost of \$450,000. A second provider was able to offer \$50 million of this coverage for a premium of \$303,000. We were also able to obtain officers and directors coverage for \$8,000.

The board sought additional coverage, hoping to bring the airport to the pre-September level, but none was available. We accepted and "bound" the offers we had. As of this time, we have similar general liability coverage to what we had before September 11, but far less for war and terrorism coverage. And, the airport's annual premiums have nearly tripled.

Just this week, we have received one additional insurance option that we are considering. For a \$572,950 annual premium, we can obtain \$100 million in additional war and terrorism coverage, increasing our total protection for this coverage to \$150 million. If we accept this option we will have half of our prior war and terrorism coverage for a total annual premium of five times what the airport paid last year: \$1.4 million versus \$321,000 in the year 2000.

We will have no choice but to charge this cost to the air carriers through increases in their rents and landing fees. The \$1.1 million insurance premium increase I have described represents a 3 percent increase in total air carrier costs. Put another way, this increase could raise landing fee by 15 cents per 1,000 lbs. of aircraft weight or approximately 22 cents per passenger.

The board remains committed to maintaining adequate insurance to protect the airport. The board is equally committed to minimizing air carrier costs and would therefore welcome your help in providing airports with war and terrorism coverage at a cost we can all afford.

### Recommendations

Congress quickly stepped into the marketplace to ensure that airlines would not be faced with financial ruin as a result of the September 11<sup>th</sup> tragedy. Our airport and airports across the country will benefit by the fast action of the Congress in this regard. However, as many people in this hearing are aware, our nations airports are a primary driver of the economies of our nations' cities. It is at our airports where jobs and value added services provide a tax base and economic opportunity. In order to sustain those jobs, our airport and airports like it must remain competitive and efficient.

The Louis Armstrong International Airport cannot sustain the risks of insuring itself against perceived risks of terrorism across the world by passing on the exorbitant costs of higher premiums through higher landing fees. There is simply no mechanism for an individual airport to recover these costs in an efficient and economic manner given the magnitude of the risk compared with the limited resources available at any single airport. Therefore, we recommend that the committee consider solutions that spread the risk to individual companies and airports in as broad of a way as possible, taking into account that the risks associated with an act of terror far exceed the economic capacity of an individual airport to sustain. One of these solutions would be to extend the federal war risk insurance program explicitly to airports (the program now covers airlines and their vendors, agents and subcontractors).

We are cautiously optimistic that the Louis Armstrong International Airport has recovered from the downturn of air travel nationwide. For the first half of October, the airport has handled an average of 157 flights, down 14% from a daily average of 180 flights reported in all of October 2000. The airport is at about 90% of air passenger volume reported in August and 85% of volume as compared with October 2000. We hope these numbers for New Orleans will improve, but we cannot fulfill our obligation to our community unless national volumes return to normal.

What will get those passengers flying again? The single best means of getting back to business in air travel is to restore confidence in the security of our planes and airports and to provide stability in the marketplace. The uncertainty regarding the availability of insurance and the calculation of risk associated with acts of terror creates a background of instability that has wreaked havoc with the traveling public and the insurance industry. Restoring the certainty of insurance at reasonable rates should underpin any legislative effort to restore this confidence.