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AIRLINE COMPETITION IN THE WAKE OF THE PROPOSED US AIRWAYS/UNITED MERGER

HEARING

BEFORE THE

SUBCOMMITTEE ON ANTITRUST, BUSINESS RIGHTS, AND COMPETITION

OF THE

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CONTENTS

STATEMENTS OF COMMITTEE MEMBERS

WITNESSES

QUESTIONS AND ANSWERS

SUBMISSIONS FOR THE RECORD

AIRLINE COMPETITION IN THE WAKE OF THE PROPOSED US AIRWAYS/UNITED MERGER

WEDNESDAY, JUNE 14, 2000

U.S. SENATE,
SUBCOMMITTEE ON ANTITRUST, BUSINESS RIGHTS,
AND COMPETITION
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The committee met, pursuant to notice, at 10:09 a.m., in room SD–226, Dirksen Senate Office Building, Hon. Mike DeWine (chairman of the subcommittee) presiding.

Also present: Senators Schumer, Leahy, Thurmond, Kohl, Specter, and Torricelli.

OPENING STATEMENT OF HON. MIKE DeWINE, A U.S. SENATOR FROM THE STATE OF OHIO

Senator DEWINE. Good morning. Welcome to the Judiciary Committee, Subcommittee on Antitrust, Business Rights, and Competition, for today's hearing examining the proposed United Airlines/US Airways merger.

A little over a month ago, this subcommittee held an oversight hearing on aviation competition, and while we knew it was a timely hearing, I have to admit I did not expect to be examining this industry again quite so soon, but here we are today. We are here today again to examine this time the proposed merger between United and US Airways. This is a merger of enormous importance, not just on its own terms but because of the impact it may have on the airline industry as a whole.

In its own right, of course, the deal is very significant. United is the world's largest airline and it has offered to pay more than $11 billion for US Airways, the sixth-largest airline in the country. The merger would add approximately 560 routes to United's already extensive system, practically double the number of United's daily flights, and give the airline approximately 27 percent of all domestic passenger seats. To put it simply, this largest and strongest of airlines would be an even larger and stronger competitor in the world airline market.

This added size would offer certain benefits to some consumers, some consumers who will have access to a larger network with greater flight frequency and more convenient travel options. In addition, the combined airline may extend its network to provide greater service in certain locations that are currently underserved.

Of course, as with many mergers, the deal poses a number of competitive problems, as well. United and US Airways currently go head to head in a number of markets and at a number of airports, mostly in the Northeast and Mid-Atlantic area. That head-to-head competition would end with this merger. This merger would decrease competition in those areas. Some have argued that competition would be significantly decreased on hundreds of routes, including some where United and US Airways are currently the only competitors. For example, in my home State of Ohio, this deal will eliminate nonstop competition on routes from Dayton and Columbus to Dulles Airport here in Washington.

United and US Airways have attempted to minimize some of the most obvious problems up front by proposing to spin off a number of routes, slots, and gates at Reagan National Airport to a new airline, which would be called DC Air. This airline would compete with the newly merged United Airlines and would, at least in theory, limit the anticompetitive impact of this merger in the Washington, DC., area.

Many within the aviation industry have criticized the DC Air spinoff. Critics believe that the new airline would be too reliant on United and US Airways for employees and equipment and thus would not compete aggressively against United. Some argue that competition would be better served by allocating the DC Air slots to other competitors or by having DC Air bid for those slots independently. Obviously, the competitive vigor of DC Air is of critical importance to the United/US Airways merger plan and we intend to examine this issue carefully today. We have Robert Johnson of DC Air here with us today and we look forward to discussing these issues with him.

Although concerns have been raised about the details of the proposed merger, and as mentioned, many people are critical of the DC Air spinoff, those concerns pale in comparison to the big-picture implications of this merger. The Justice Department can and will look at the details of this deal. The Justice Department will examine the route-by-route details of this merger and should force divestiture whenever and wherever appropriate. The Justice Department should look carefully at DC Air to decide whether it can be a legitimate competitive force in the market and should, therefore, act accordingly.

But the most important element of this deal and the issue that concerns me the most is the impact this merger will have on the structure of airline competition in the future. United Airlines is already the largest airline in the country. Despite its size, however, the other domestic airlines are currently large enough to compete with it. American Airlines and Delta, the second and third largest U.S. airlines, have been able to stay within shouting distance of United and provide significant competition. Northwest, Continental, and US Airways are also large enough to provide a competitive alternative for consumers.

But if this deal is approved, the competitive scales would tip dramatically in favor of United. US Airways will be eliminated as a competitor and United will suddenly become much, much bigger than its closest competitors. In fact, United would be roughly 50 percent larger than its next largest competitor. The United network would effectively cover almost all the domestic market, further enhancing its dominance.

In these circumstances, the other airlines will almost be forced to react, and the most logical reaction will be more mergers. If this deal is approved, we are likely to see rapid consolidation within the industry and could easily see the domestic aviation market shrink from six major players to three major players in a very short period of time.

The competitive implications of such dramatic consolidation are very significant and must be examined as part of our oversight responsibility. We must examine the impact of such a consolidation on consumers, on smaller cities, smaller markets, and smaller airports. We need to consider whether such consolidation might lead to further entrenchment of fortress hubs and whether the remaining airlines would compete with each other vigorously, or as some fear, merely carve up the market and allow one airline to dominate each region in the country. We need to consider whether start-up and smaller airlines would be able to compete in such an economic environment.

Further, we must consider the impact of such consolidation on existing hub airports. In Ohio, for example, we have major hubs in Cleveland and in Cincinnati, and I know that my constituents worry about whether both hubs will be maintained if other airlines consolidate. This is an important issue everywhere, because when hubs close, passengers lose convenient access to flights, and just as important, lose the hub-to-hub competition that helps to discipline prices on one-stop flights. Accordingly, we must examine the implications of possible hub consolidation and determine whether or not such consolidation will harm consumers.

Of course, the answers to all these questions are, to some extent, speculative. We cannot know for sure how other airlines will react to this merger, and we cannot predict with certainty that consolidation will lead to consumer harm. But we can be sure that the proposed merger between United and US Airways will have a lasting and significant impact on the competitive environment of the U.S. aviation industry and that we need to examine more than just its specific effect on individual airline routes. It is critical that policy makers and the enforcement agencies scrutinize this proposal carefully and extensively to ensure that competition is preserved within the industry and that consumers are protected from the impact of excessive consolidation.

Now, before I turn to the ranking minority member of this subcommittee, Senator Kohl, I would like to state just one more thing. I have been chairing this subcommittee now for approximately 3 years, and during that time we have examined mergers in a wide range of industries. And almost every time we examine a proposed merger, I hear the same explanation: My competitors are getting bigger so I need to get bigger.

I will be very candid. I am worried if this deal goes forward that soon we will be right back in this room again for another merger hearing, listening to a different airline executive tell us the same thing. United is getting bigger so I need to get bigger, as well. The problem is that bigger airlines mean fewer airlines and that is not necessarily good for consumers, and if this deal is bad for consumers, then I have a problem with it.

Accordingly, today, Senator Kohl and I are sending a letter to Joel Klein of the Antitrust Division asking him to carefully scrutinize this deal. We are asking him to scrutinize the deal and to pay special attention to the impact it may have on future consolidation in the airline industry.

Now let me turn to the ranking member of the subcommittee, Senator Kohl.

STATEMENT OF HON. HERBERT KOHL, A U.S. SENATOR FROM THE STATE OF WISCONSIN

Senator KOHL. Thank you, Mr. Chairman. In the last few years, our subcommittee has held several hearings on the wave of competition now sweeping many areas of the national economy, including, most notably, the telecommunications and media industries. Now the airline industry looks like it is poised to jump on this merger bandwagon, and even if United/US Airways does not open the door to what many predict will be a floodgate of airline mergers, the combination of these two major airlines will clearly create an aviation giant. The merged carrier will have nearly 1,000 airplanes making 6,500 daily flights to nearly every city in the United States and many cities overseas, offering nearly twice as many flights as its closest competitor, American.

For these reasons, the burden is squarely on you, Mr. Goodwin and Mr. Wolf, to demonstrate to us on behalf of the American people that your deal will enhance competition and not harm consumers, and frankly, I am skeptical that you can.

To be sure, we recognize that this merger has the potential to benefit travelers by giving them access to the expanded route network to be offered by the combined airline. Nonetheless, it also raises serious questions that you will need to answer. Will the combined airline's dominance at key hub cities, such as Charlotte, Pittsburgh, Philadelphia, Washington/Baltimore, and New York City, lead to higher fares and reduced service in these markets? Will the combined company reduce the frequency and quality of service to many smaller non-hub cities, such as Milwaukee, Buffalo, or Burlington?

Perhaps more importantly, is this deal likely to lead to further consolidation as your competitors decide that they need to merge to compete with the breadth of your operations? In my opinion, if we reach the point where we get down to only three major carriers, then that would be a disaster for consumers, and that is why Senator DeWine and I have sent a letter today to Joel Klein urging the Justice Department to consider any further airline consolidations as part of its evaluation of this deal.

Mr. Goodwin and Mr. Wolf, you have already recognized that there is one market where the level of concentration caused by this merger is unacceptably high, Washington/Baltimore, and you have therefore decided to spin off many of United's and US Airways' routes operating out of Washington's Reagan National Airport to a new airline, DC Air, to be operated by Robert Johnson.

Now, we all respect the business acumen, skills, and independence that Mr. Johnson has displayed in building BET into a media powerhouse. Nonetheless, serious questions have been raised about the viability of DC Air as an independent competitor. We understand that it plans to "wet lease" most of its fleet from United and US Airways. This means that in addition to leasing the actual airplanes, the pilots, ground crews, and even management personnel will be United/US Airways employees. In this situation, how willing—and if willing, how able—will DC Air be to aggressively challenge and undercut United on price or service? We hope you can address this panel's doubts on this score.

Several weeks ago, this subcommittee held a hearing regarding the current state of airline competition. No one knew of this deal at that time. One of our witnesses, Alfred Kahn, widely regarded as the father of airline deregulation, pointed out how deregulation has brought consumers many benefits, and I agree. But he also believes that for deregulation to work, there must be a sufficient number of competitive alternatives so that consumers have choice when it comes to air travel, and I agree here also, because as the chart accompanying me here today indicates, you typically have lower prices when you have more competitors.

Fortunately, we have a terrific panel of witnesses here today to help sort out these issues. We are especially interested to hear if you three, Mr. Goodwin, Mr. Wolf, and Mr. Johnson, can sustain your burden to convince us that competitive choices will remain in air travel even after this merger, and we will give you every opportunity to make your case and so we look forward to hearing your views. I thank you, Mr. Chairman.

Senator DEWINE. Senator Kohl, thank you very much.

Let me turn now to Senator Thurmond.

STATEMENT OF HON. STROM THURMOND; A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator THURMOND. Thank you very much, Mr. Chairman. Mr. Chairman, I am pleased that we are holding this hearing today on airline competition. United, the world's largest airline, recently proposed purchasing US Airways for $4.3 billion. The combined company would control about 27 percent of the U.S. market and be about 50 percent larger than its next largest competitor.

We must consider whether bigger is better in this case, and the answer is not clear. It would be easier and more convenient for travelers to reach more destinations on the combined airline, especially with United's focus on the West and US Airways' focus on the East.

However, this convenience may also result in higher prices because of fewer choices and less competition. For example, after the merger, the combined airline would control about half of the nonstop daily flights and about half of the flight destinations in the capital of my State, in Columbia, SC.

Indeed, the most significant question is whether this merger will lead to a wave of consolidation in the airline industry. It is highly possible that other airlines will try to merge to keep up with the largest airline in the world, and we have already heard rumors of other possible mergers. Widespread consolidation in the airline industry probably would not be a positive development today. It is clear that having only a few players in an industry is not in the best interest of consumers. Robust competition has been the reason airline prices have historically been low since deregulation. It is critical to maintain vigorous competition in our airports, including smaller cities.

I welcome our witnesses to discuss this merger and its potential implication on the industry as a whole.

Mr. Chairman, I have another engagement.

Senator DeWine. Senator, thank you very much.

Senator DeWine. Senator Leahy.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM THE STATE OF VERMONT

Senator Leahy. Thank you, Mr. Chairman. Thank you for calling this hearing. In fact, I appreciate the hearings that you and Senator Kohl have had. I also appreciate, if I might say, this would probably bring about a recall petition by the Republican party in Ohio, but I also appreciate the evenhanded way both of you have handled this committee. I think this is a serious one where the evenhandedness is going to be important.

There seems to be a mega-merger in a different industry almost every week. Current economic forces are driving rampant consolidation, I understand that, and it should be no surprise to anybody that the Airline industry is on the bandwagon. But I think if you have consolidation in this industry, you need some very special attention. Air carriers are an essential part of the national transportation network. For rural communities, like in my State, they are a critical element for economic viability. The airline industry also heavily relies upon an infrastructure paid for by passengers, by local communities, and by the Federal Government.

Every significant increase in concentration in this industry has to be carefully examined in terms of competition, accessibility, and, of course, what most consumers see, air fares. So we are here to consider the proposed merger of US Airways and United Airlines.

Now, I see, and I know they will be testifying, Jim Goodwin and Stephen Wolf. Both of these are highly respected CEO's who run excellent companies, and the companies will argue that economic forces require them to merge, and they also argue that they are a good fit, except for one city, and that one city, though, is the Nation's capital.

But the merger has important implications in other communities at the other end of the line. While US Airways and United have proposed to resolve concerns in the Washington hub market, I have serious concerns about the effect of the merger on Burlington, VT. Even with the spinoff of DC Air, United Airlines will control 74 percent of the market share in and out of Burlington. So like on that millionaire show, at the beginning, you have three lifelines. Well, in Vermont, we have three or four lifelines out of town, but this could be taking one of them away. As the host of that show says, you take away one of the lifelines, you get in a little bit of trouble. My gut and years of experience, including 25 years of flying back and forth between Washington and Burlington, tell me this merger could send us in the wrong direction.

And I am very concerned that Vermonters have to drive to other States just to get reasonable air fares. I mean, look at this chart. On this, you can go from—I will take it from Washington, DC. You can go to cities near Burlington for $88—Albany, Hartford, Manchester—on a 7-day advance. It costs $735 to go to Burlington. Now, if you want to go a little further, London, you can cut about $300 off that. It is $419 to London—and that is not New London, CT, or New London, NH, it is London, England—or $402 to Los Angeles. So $400 to Los Angeles, $419 to London, or $735 to Burlington, or $88 to places that are just a few miles away.

Now, what I ask is, why does a Vermonter have to travel to New Hampshire or Connecticut or New York, nice States so that they are, just to get an affordable flight out of town? I mention Burlington because Burlington is our main hub. We have thousands of people who fly in and out of there every day, a lot of them business travelers.

Now, let us see what happens if you merge. Here is what you have. Here we have Vermont passengers. United Airlines/US Airways does 75 percent of it, and Vermont seats, 76 percent, and Vermont departures, 72 percent. Now, that shows where there should be competition because that shows where the demand is.

They are going to end up with a pretty significant market share here. We have actually seen a gradual increase in the number of flights, a gradual lowering of prices, and the airlines had been going in the right direction. In the fall, we are going to have JetBlue flying in from Kennedy Airport. But I cannot understand how it could cost less than $735 on a 7-day advance if you take away one of the airlines. We have J.J. Hamilton and Joe McNeil from Burlington here today. They need to have these answers.

The employees—I should say this, incidentally. I fly all over the country. The employees of United Airlines and US Airways there in Burlington, VT, are the finest people, the nicest people you could ever have in any airline anywhere in the country, but they ought to know about it.

I will put the rest of my statement in the record, Mr. Chairman.

Senator DEWINE. It will be made a part of the record.

Senator LEAHY. But I am very concerned about this, as you can probably tell.

Senator DEWINE. Senator Leahy, thank you very much.

[The prepared statement of Senator Leahy follows:]

PREPARED STATEMENT OF SENATOR PATRICK LEAHY

Mr. Chairman, thank you for calling this hearing on airline competition. There seems to be a megamerger in a different industry almost every week.

Current economic forces are driving rampant consolidation across-the-board. And to the surprise of no one, the airline industry is on the bandwagon. But consolidation in this industry deserves special attention. Air carriers are an essential part of the national transportation network and for rural communities they are a critical element for economic viability.

The airline industry also heavily relies upon an infrastructure paid for by passengers, local communities and the federal government. Every significant increase in concentration in this industry must be carefully examined in terms of competition, accessibility and, of course, airfares.

We are here this morning to consider the proposed merger of United Airlines and US Airways. Both are fine companies whose CEOs are highly respected in the airline industry. The companies argue that economic forces require them to merge. They also argue that they are a good fit—except for one city which happens to be the nation's capital.

However, this merger has important implications in other communities—at the other "end of the line." While US Airways and United have proposed to resolve concerns in the Washington hub market, I have serious concerns about the effect of the merger on Burlington, Vermont. Even with the spin off of DC Air, United Airlines will control 74 percent of the market share in and out of Burlington.

It reminds me of that Millionaire show. At the very beginning you have three lifelines. Well, in Vermont we have three or four lifelines out of town and with this merger, we are taking away one of them. As Regis Philbin would tell you, when you take away lifeline, you are in trouble.

My gut and years of experience tell me that this merger would send us in the wrong direction. Also, I am sick and tired of the fact that Vermonters have to drive to other states just to get reasonable air fares.

Just look at the charts. From the Washington area, you can get to cities in states bordering Vermont for $88 round-trip, just by calling one week in advance. To fly from Burlington, an back, it would cost $735.

Why should a Vermonter have to travel to New Hampshire or Connecticut or New York, just to get an affordable flight?

My second chart demonstrates how much market share United, merged with US Air, will end up with in Burlington, even taking into account DC Air.

In Burlington, we have actually seen a gradual increase in the number of flights and a gradual lowering of prices. The airlines have been moving in the right direction there. In the fall, we will have JetBlue flying in from Kennedy airport to introduce more competition in the market. These small steps to get more flights and more options to Burlington could be cancelled out by a giant leap in the opposite direction. If it costs $735 to fly from Burlington, round trip, how could it possibly cost any less if you take one of the airlines away?

I need a sound answer to that question as do J.J. Hamilton, the Director of the Burlington Airport, and Joe McNeil, the city attorney in Burlington, who are here today.

United and US Airways want to spin off a new airline, DC Air, that will fly out of National Airport. Robert Johnson is a great businessman and I wish him the best in this new endeavor. However, DC Air will find that leasing is expensive and I understand that the new airline fleet will rely heavily on commuter and regional jets, which might limit the ability of this airline to become a low-cost carrier.

Frankly for Burlington, Vermont, and other “end point” destinations in the Northeast such as Syracuse and Albany, the spin-off of DC Air is not an answer to solving the market dominance that United will have in our communities.

Mr. Chairman, I will have a number of questions for all the witnesses for the record.

Senator DEWINE. Senator Schumer.

STATEMENT OF HON. CHARLES E. SCHUMER, A U.S. SENATOR FROM THE STATE OF NEW YORK

Senator SCHUMER. Thank you, Mr. Chairman. First, I want to thank you and Senator Kohl for the courtesy of being here today as a member of the Judiciary Committee. Also, I agree with Pat Leahy in the fine way you have both together conducted this committee.

Let me thank you for holding this hearing on the proposed merger of US Airways and United Airlines. The issue is vital to New York, which, due to heavy local presence of US Air, will be highly affected by the proposed merger. The merger represents both an opportunity and a danger for upstate New York and I intend to fight to make it an opportunity. I plan to be aggressive in ensuring that airline competition in upstate New York continues to grow, not decline, under this or any future merger.

Mr. Chairman, my general view is that in an economy that is based on free market principles, the government should tread cautiously when its actions, such as disapproving an airline merger, have a major impact on an industry sector. At the same time, the hallmark of free markets is competition and a true test of whether this merger should be approved as is, should be altered, or should be rejected is whether the result would ensure competition for consumers and businesses.

For me, the key question is whether such a merger would have a negative impact on regional air service, particularly in upstate New York, where US Airways currently dominates the market, and by most people's accounts has served them poorly. According to local airport authorities, US Airways controls 38 percent of the air market in Albany, 39 in Buffalo, 43 in Rochester, 40 in Syracuse. United Airlines represents 9 percent in Buffalo, 15 in Rochester, 8 in Syracuse, and 9 in Albany. So a new merged airline would control 50 percent of the market in each of New York's major upstate cities, and in Binghamton, the new airline would control a staggering 90 percent of the market.

These cities are already saddled with some of the highest airfares in the country. Today, the average price of a round-trip US Airways ticket from Washington to Albany costs $430. Buffalo, it is $342; Syracuse, $398; and $358 to Rochester, and that is nothing when you compare it to the walk-up fares. The price of a walk-up round-trip on US Airways from National to both Albany and Buffalo is $758; Rochester, $692; Syracuse, $792, and the answer why is simple, no competition.

When my constituent from New York, Dr. Kahn, developed this whole plan for deregulation, when it came to the two New York City airports, to National Airport, and to O'Hare Airport, there was no competition because there were slots and the airlines have used the slots as their own personal property and they have not served the public interest.

So I am concerned that this proposed merger may make a bad situation even worse in upstate New York. I believe the merger agreement as currently proposed could lead to even higher fares and poorer service to the upstate cities like Albany and Buffalo and Rochester and Syracuse, and smaller cities like Utica, Binghamton, Elmira, and Jamestown could also face fare increases and reduced services. Let me give you a couple of examples.

Daily flights from Dulles to Albany would be cut under the merger from 9 to 6; Buffalo, 11 to 8; Rochester, 11 to 7; Syracuse, 9 to 6. And while the number of DC Air flights from National to upstate would stay the same, I understand that they plan to use 50-seat regional jets instead of the typical 112-seat or 142-seat jets currently used by US Air.

Now, I have the highest respect, as my fellow panelists do, for DC Air's new CEO, Robert Johnson, who is without dispute a highly successful and public spirited entrepreneur. I look forward to working with him. But let me say up front that I have been a longstanding critic of US Airways' high prices and poor service and I welcome efforts to do better. But I fear that DC Air may not have a cost structure that enables it to provide true low-cost service.

The new carrier plans to use regional jets, which can have a higher per-passenger operating cost than larger jets. The practice that you mentioned, I think, Mr. Chairman and Senator Kohl, of wet leasing and other services from outside high-cost carriers can add additional costs to base operations.

And I share the concerns that many have already voiced about the specifics of the proposal to grant 222 of US Airways' extremely valuable take-off and landing slots from National Airport. These slots represent as much as a quarter to a third of National's total slot inventory, and while United is now proposing to sell them, I believe they are a public asset.

I am sympathetic to the argument that DC Air, AirTran, and other new entrants and low-cost carriers have made that in order to compete with the majors of National, they need a critical mass of slots. I agree that perhaps DOT's traditional method of doling out just a few slots at a time to a diverse bunch of small, undercapitalized carriers, only to see them all fail, may not be the best way to go. But boy, oh boy, what happens if a year later the new airline decides to sell their slots, which they can do under the present agreement, so that someone else might take these slots and fly to Dallas or Chicago or another city that is well-served with competition. We would all regret any decision if that happened.

Competition does work. JetBlue, New York's new low-cost carrier, persuaded me and others that they needed a large number of slots in New York to effectively serve upstate, and they are serving my good friend Pat Leahy's city in Vermont, as well, Burlington. So we fought to convince DOT to grant an unprecedented 75 slots at Kennedy in return for the carrier's promise to serve Buffalo, Rochester, and Syracuse, and JetBlue has delivered on its promise. It is overwhelmingly successful. It has even forced US Air to lower some of its prices, which they said their cost structure would not allow them to do, until JetBlue and good old fashioned American competition came.

I want to follow that successful model of JetBlue in this merger and want whatever carrier receives those slots at National, which are worth their weight in gold, to guarantee they will provide competitive service out of National Airport to Albany, Buffalo, Rochester, and Syracuse.

So in conclusion, Mr. Chairman, I hope that DOJ and DOT will take this opportunity to look at the broader question of airline competition. I am not at this point opposing this merger. I will oppose it if the interests of upstate New York are not protected, and thus far in the agreement, they are not.

Thank you for holding this hearing and I look forward to working with the committee, the airlines, and the administration during this important process.

Senator DEWINE. Senator Schumer, thank you very much.

I think we can see the importance of this hearing and the importance of this proposed merger by the fact that we have four of our colleagues here today to testify, which is, frankly, over the 30 hearings that Senator Kohl and I have held, we have not had such an amount of interest from our colleagues and I think it does speak to the importance of this merger.

Let me start from my left, and we will go from my left to my right, with the Honorable Jesse Helms. Senator Helms, thank you very much for joining us.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM THE STATE OF NORTH CAROLINA

Senator HELMS. Mr. Chairman, are you sure you do not want to use the early bird approach? He was sitting here before I got here.

Senator DEWINE. Well, he was pointing to you, Senator, and said you should go first.

Senator WELLSTONE. I always agree with Jesse Helms. [Laughter.]

Senator HELMS. If anybody believes that, I have a little swampland down in Eastern North Carolina I want to sell you. But he is a good friend, really. I wish he would do something I could agree with. [Laughter.]

Senator LEAHY. Jesse, he just did. He yielded to you.

Senator DEWINE. He yielded to you, Senator, so maybe we can all agree on that.

Senator HELMS. OK. If we struggle long enough, we will, I am sure. Seriously, Mr. Wellstone, I was teasing and I know you were, too.

I do not come here pretending to be an expert on rates, what they should be or what they are not. I have some problem with the rates from Raleigh-Durham to Washington. When I came to Washington, you could buy a round-trip for two times $39, or you could buy a single trip for $39. But you look at the cost of gasoline and salaries and all the rest now, and I do not propose to be an expert on operating an airline and I do not come here as such, but I want to make clear that as one who remembers Tom Davis—I do not know whether Senator Edwards is old enough to remember or not, but US Air was once Piedmont Airlines, which was founded in North Carolina and founded by a great friend of mine, and then it became US Air and there it went.

Of course, it is good that you examine the impacts that this proposed merger may have within the airline industry, and, of course, the business community, and more importantly, I suppose, the traveling public. Now, I have a hunch that it is going to work out in a positive way because I know the people involved and you folks either know them or you will know them because you are going to be dealing with them on various questions that will be raised in this hearing and otherwise.

It is important that this proposal, of course, be given careful study at DOJ and DOT. This has been done in many previous mergers and I think that will always continue.

Now, what I believe the two agencies, Justice and the Department of Transportation, will find is that compared to some media speculation that harm to consumers and competition may result, this merger is going to prove to be, in large measure, exceedingly beneficial to the traveling public and the U.S. economy.

Like you, I have had visits with the principals involved and I have talked with them and we have talked with candor. US Airways is the largest carrier serving North Carolina and one of the 20 top employers in my State. After examining the details made available to me, I have concluded that this will be beneficial for the citizens of North Carolina and to the competitive marketplace in general, but having said that, I congratulate and commend you for going into this in some detail.

US Airways as now constituted serves Asheville, Fayetteville, Greensboro, Winston-Salem, Wilmington, and, of course, Senator Edwards' and my hometown of Raleigh-Durham. Of course, its principal operation is its hub in Charlotte.

By the way, I have got to brag a little bit. Charlotte, NC, is now the second-largest banking center in the United States, and I never thought that I would see that day, either, because I used to be the executive head of the North Carolina Bankers Association and Wachovia was by far the biggest bank in terms of deposits at that time. Wachovia is no longer there, but it is still a strong bank.

US Airways, I am told, employs about 10,000 people in North Carolina with an annual payroll of nearly $700 million and with expenditures of over $1 billion a year.

As I stated at the outset, I think this is going to prove to be a positive development, but it is your job to decide whether what I think is, indeed, a fact. But I believe you are going to find out, knowing the people who are involved and their wish to operate above board, I believe you are going to be satisfied with this with perhaps some adjustments.

I have two or three pages more that I have put together, but having chaired a committee for a while around this place, I am going to ask unanimous consent that the balance of my statement be printed in the record.

Senator DEWINE. Senator, that will be made a part of the record.

Senator HELMS. I thank you, sir, and I yield to whomever is next.

Senator DEWINE. We appreciate your testimony, Senator Helms, very much.

[The prepared statement of Senator Helms follows:]

PREPARED STATEMENT OF SENATOR JESSE HELMS

Mr. HELMS. Chairman DeWine, Senator Kohl and other distinguished members of this sub-committee, thank you for including me to participate in your hearing this morning regarding the proposed merger of US Airways and United Airlines.

It is good that you will examine the impacts that this proposed merger may have within the airline industry, business community and more importantly on the traveling public.

I believe that the impact will be a positive one for all concerned.

It is important that this proposal be given careful study by the Department of Justice and the Department of Transportation. This has been done regarding many previous mergers.

What I believe the two agencies will find is that, contrary to some media speculation that harm to consumers and competition may result, this merger will be exceedingly beneficial to the traveling public and the US economy.

Mr. Chairman, US Airways is the largest carrier serving North Carolina, and one of the top 20 employers in my state. After examining the details made available to me, I have concluded that this will be very beneficial for the citizens of North Carolina and to the competitive marketplace in general.

US Airways serves Asheville, Fayetteville, Greensboro, Wilmington, Winston-Salem, and Raleigh-Durham. Of course its principal operation is its hub in Charlotte (the second largest banking center in the United States, by the way) offering nearly 500 daily flights. US Airways employs some 10,000 people in North Carolina with an annual payroll of nearly $700 million and with expenditures of more than $1 billion each year.

As I stated at the outset, I consider this proposed merger to be a positive development for North Carolina but, obviously the principle concern in a merger of this size is the possible impact on jobs. I'm gratified that all 40,000 US Airways employees will be offered comparable positions in the new airline.

Additionally, this merger will help North Carolina's burgeoning economy grow by providing more flights to more domestic and worldwide destinations. Having a hub in Charlotte has indeed helped the Queen City's growth and the linkage of Charlotte to United's global network will positively impact the Carolinas and the rest of the Southeast.

US Airways has a domestic North-South service structure with some routes to the Midwest, Rocky Mountains, and West Coast. While I admire the efforts of US Airways to expand to Europe from Charlotte, it is my understanding that US Airways will in the foreseeable future not see further international expansion. Links with United's system will give Charlotte and the Carolinas access to the economic centers on the West Coast, Europe, and Asia.

Upon completion of the merger United has plans, I'm told, to offer non-stop or one-stop service from Charlotte to 249 domestic and international destinations, immediately adding non-stop service to other high technology centers in Seattle and San Francisco. This will amount to 75 additional destinations over US Airways' service today—and 186 more than are currently available on United.

Mr. Chairman, the merger of US Airways and United Airlines will bring substantial economic benefits to the communities throughout the Carolinas.

Thank you again, Mr. Chairman, and members of this distinguished committee.

Senator DEWINE. Senator Wellstone.

STATEMENT OF HON. PAUL WELLSTONE, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator WELLSTONE. Thank you, Mr. Chairman and Senator Kohl, Senator Leahy. I said to Senator Santorum and say to Senator Edwards, I am going to be very brief and make three quick points.

I actually do not think—I appreciate the comments of my colleague, I really do, and I think actually the question is not so much the individuals. I think we have got some very good people that are in management positions. But I think, Mr. Chairman, I share your viewpoint. It has to do with the question of structure, of competition or lack of competition. I think that is the real question. What I am worried about are mergers begetting mergers.

I think this hearing today is going to be viewed with a sense of history. Now, I am not trying to be melodramatic. I mean that very seriously. I was here testifying on Viacom-CBS and I have been on the floor. I have probably given too many speeches, Senator Kohl, about the ways in which conglomerates have muscled their way to the dinner table in agriculture and have pushed producers out. I worry about the concentration of power in telecommunications because that is the question of flow of information in a democracy. I worried about the Mobil-Exxon merger. I mean, I feel like I have written enough letters and given enough speeches and talked about this over and over again for the last couple of years.

But I really do believe, and it is interesting, I said to Senator Santorum, it is interesting, the number of people that are concerned about this, and I think the thing that unites us is our concern about competition. I mean, I do not think it is a good thing for this economy or a good thing for this country to have such concentrated economic power. This is a free enterprise system. We want to have some free enterprise in the free enterprise system. We want to have the competition.

So I think this hearing is part of a larger question, and the reason I think this hearing is going to be viewed with a sense of history is that I predict over the next couple of years this whole question of these mergers and consolidations is going to become a burning issue of American politics and a terribly important question for all of us.

And I think the problem, and I am going to give a Minnesota example and that will be my last point, the problem is, and you said it, Senator DeWine, it is kind of like everybody says, I did not want to do it but I had to do it in order to compete, and then it happens, and then somebody else merges and they say, we had to do it to compete, and the mergers beget the mergers beget the mergers. It seems to me that somebody, somewhere, sometime, somehow, someplace has to say, enough.

Now, if, in fact, the United and US Air deal goes through, we now have discussions taking place between Northwest Airlines in Minnesota and American Airlines, and what is the argument they are making? We are going to have to merge in order to compete. And people in Minnesota, and I think you hear this from different Senators representing different people in different States, are saying, what does this mean for our future? Will we still have a hub airport? The employees say, are we still going to have our jobs? How is this going to work? The business community says, how is this going to affect our ability to travel? What are going to be the consequences for the people of the State of Minnesota?

I am here to say that I think that people in Minnesota understand very well the dangers of these mergers and this consolidation as it affects our communities, the people in our State, the jobs, you name it.

So I will take a somewhat different position. I have certainly sent a letter, and I am so pleased that the two of you have, given your positions on this committee, to the Justice Department, to Joel Klein saying, carefully, carefully scrutinize this proposed merger. But for my own part, I believe that if the Justice Department is to prevent such a disastrous wave of irreversible consolidation in the airline industry, I believe it has to move now to block the proposed merger of United and US Airways. I want to be up front about that. As a Senator from Minnesota, that is the position that I am taking today in this hearing and I am going to do everything I can with my voice and with what ability that I have as a Senator to try to stop this merger from taking place. Thank you.

Senator DEWINE. Senator Wellstone, thank you very much.

Senator SANTORUM, thank you for joining us.

STATEMENT OF HON. RICK SANTORUM, A U.S. SENATOR FROM THE STATE OF PENNSYLVANIA

Senator SANTORUM. Thank you, Mr. Chairman. I want to first thank you for having this hearing and I want to share Senator Helms' comments that it is your responsibility to take a look at this and I am certainly glad that you are. I am going to take a look at this. I am not an expert in antitrust. I am somewhat of an expert on Pennsylvania, so I am going to take a look at it from the aspect of how this affects Pennsylvania. Frankly, I see a lot of pluses. I see some potential downsides and I just wanted to share those with you.

Number one, we have 17,000 US Airways employees in Pennsylvania. I think that may be the largest concentration of any State of US Airways employees. We have two hubs, both Philadelphia and Pittsburgh. So there probably is not a State that is going to be more impacted by this than the Commonwealth of Pennsylvania. So I do have some concerns about that.

Having said that, we have had US Airways be the dominant carrier in Pennsylvania for quite some time now. US Airways has had its troubled past. I mean, there has been some financial difficulty in the past and it has always been sort of a concern of those of us in Pennsylvania as to the future of US Airways from an economic standpoint as well as the employees' concern about the long-term future of US Airways.

The fact of the matter is that with United now acquiring US Airways, that, I think, increases the stability, at least from our perspective, of the air carrier in Pennsylvania serving the market, and certainly I know in talking to many of the employees, they are actually pretty pleased about the fact that now they feel like they are with a carrier that is going to be there for the long haul, and with the guarantees of employment that have been made, I think a lot of the employees in my State are very happy with that.

With respect to service and fares, Pennsylvania has been a State that has been subject to having a dominant carrier and two hubs, which means relatively high fares. The exchange of that is we have a lot of good service. We have great service out of Pittsburgh for the size of the city. Philadelphia has good service, frankly should have better service given the size of the city, and one of the promises that have been made in this merger is, in fact, to expand dramatically, particularly internationally, the service out of Philadelphia, which I think will be beneficial to our region and also expand cargo.

From a point of view of a user, setting aside fare, and I just make comments for the committee and I heard Senator Schumer talk about fares, our fares are already high. We already have, in a sense, very limited competition within Pennsylvania already, and so I do not see this merger really fundamentally changing that. I look at it as, are there any pluses added to it, and from what I have seen is a discussion of an expansion of service in Philadelphia and Pittsburgh, particularly the overseas service, which in Pittsburgh is something we desperately need and want.

So I see this as, again, a lot of potential upsides with respect to service and, frankly, very limited downside given the history of already having high fares and a dominant carrier in the Commonwealth, I do not see much difference here with respect to that pricing structure and the competition in the Commonwealth.

The biggest concern, frankly, I have is not an economic concern but it is the major concern I have and that is the impact on several thousand people at a maintenance shop in Pittsburgh and at a reservations and training facility in Pittsburgh, and I have talked to both of the CEO's about that. That is my number one concern about this, as to whether there will continue to be a maintenance facility in Pittsburgh. I am making no bones about it that that is the principal concern I have and want to make sure that that concern is communicated as to the impact on jobs in Southwestern Pennsylvania.

So from your standpoint, obviously, that is not a concern. But from my standpoint, that is the major concern I have and certainly will be a factor in the long term, whether I support this measure or not. Thank you, Mr. Chairman.

Senator DEWINE. Senator Santorum, thank you very much for your statement.

Senator SANTORUM. I have a statement for the record, if I can just put that in.

Senator DEWINE. Your statement will, Senator Santorum, be made a part of the record, and all written statements that we have received will, of course, be made, without objection, a part of the record.

[The prepared statement of Senator Santorum follows:]

PREPARED STATEMENT OF SENATOR RICK SANTORUM

Thank you Chairman DeWine. I appreciate the opportunity to provide testimony today on the proposed merger of United Airlines and US Airways. As you know, my particular interest in this issue lies in the 17,000 Pennsylvanians employed by US Airways and the presence of two of the airline's hubs in Pennsylvania.

I understand that the Subcommittee's task today is to examine the effects of this proposed merger on airline competition, and this issue does concern me. US Airways is the dominant carrrier in Pennsylvania, with hubs in both Philadelphia and Pittsburgh, and United is currently a major competitor within the state. In fact, the two airlines account for more than 65 percent of traffic in and out of Philadelphia and more than 75 percent of traffic in and out of Pittsburgh. While I am pleased with the potential for increased access for Pennsylvania passengers and freight shippers to Asia, Central America, the Carribean, and Europe, I have made Mr. Goodwin and Mr. Wolf aware of my concerns with regard to competition and pricing. I look forward to reviewing their plans to address these issues, as well as others raised during this hearing.

However, Mr. Chairman, my major concern surrounding this proposed merger is the possible adverse effect on the thousands of Pennsylvanians who are currently employed by US Airways, and the possibility that these jobs could leave Pennsylvania. For instance, there are 2,270 maintenance workers at Pittsburgh International Airport, one of the finest airports in the world. It is my understanding that United recently invested millions of dollrs in a new maintenance facility in Indianapolis, which still needs a few thousand qualified mechanics. I would like to know before this merger is approved whether they intend to move any of my constituents' jobs or the extent to which any positions may be eliminated in Pennsylvania.

Further, I have been contacted by many constituents and local government officials about the impact this merger may have upon the US Airways training component based in Pittsburgh. This facility employs more than 500 workers and has an estimated annual economic impact of $80 million on the local economy. Before this merger is approved, I would like to know whether the training component and its employees will remain in Pittsburgh.

Finally, because of Philadelphia and Pittsburgh's status as hubs, there are thousands of US Airways' flight attendants and pilots who make Pennsylvania home. Before this merger is approved, I would like to be assured that Philadelphia and Pittsburgh maintain their hub status in the new airline.

As you can see, my constituents and I have a major interest in this proposal. We have many questions that need to be answered before we sign off on this deal. I again thank the Subcommittee for the opportunity to testify and look forward to the public debate that lies ahead.

Senator DEWINE. Senator Edwards, thanks for joining us.

STATEMENT OF HON. JOHN EDWARDS, A U.S. SENATOR FROM THE STATE OF NORTH CAROLINA

Senator EDWARDS. Thank you, Mr. Chairman, and Senators Kohl and Specter. Thank you for allowing me to be with you today.

Senator Helms made reference to this a few minutes ago. Obviously, US Air is a major employer in our State, employing, I think Senator Helms pointed out, almost 10,000 people in the State, almost 8,000 people in the Charlotte area alone. So this merger is actually critically important to the people of our State. The Charlotte hub is one of the major hubs for US Air. I think there are 494 daily flights out of Charlotte and 3,400 flights out of Charlotte weekly.

The merger comes at a time when there is increased concern among people who fly to the Charlotte hub about competition, price competition, or the lack thereof in the Charlotte marketplace. I have heard some of the other examples that have been given today.

Let me give just a couple of examples that apply specifically to Charlotte.

We found a flight, it is on July 4, upcoming July 4, originating in Washington, DC, going to Charlotte, then going to New Orleans. If you get on that airplane in Washington, DC, and fly to New Orleans, the cost of the flight is $220. If you get on the same airplane in Charlotte, in other words, roughly halfway through the flight, you pay $982. So if you are on the flight in Washington, it is $220. If you get on the flight midway in Charlotte to New Orleans, it is $982.

Senator DEWINE. So you are better off going to Washington first and then starting over.

Senator EDWARDS. You are a lot better off. It is a lot cheaper, anyhow. When I talked to the two CEO's of the merging airlines, first of all, I have to say they were very open and very candid in all their conversations with me. It was a very helpful meeting. But I asked the question, how can this happen, and the answer was, well, probably because there is a Southwestern flight out of Washington, DC, going to New Orleans. I think that makes the point. I mean, this whole issue revolves around the question of competition.

Let me give just one other example, a flight from Washington, DC, to Miami, stopping in Charlotte. Yesterday, the fare was $562 if you flew out of Washington. If you do exactly the same thing, get on the airplane in Charlotte instead of Washington, DC, the fare is $862, $300 more getting on the flight midway.

These are two examples. There are lots of examples that we have, and Mr. Chairman, I will provide copies of those examples and ask that they be made a part of the record.

Senator DEWINE. They will be, without objection, made a part of the record.

[The information of Senator Edwards was not available at presstime.]

Senator EDWARDS. The reality is that in many cases, North Carolina travelers flying out of the Charlotte hub pay as much as 4 times as much as travelers who are flying from other US Airways terminals to identical destinations. This is the direct result of a lack of price competition in the Charlotte marketplace, and without some increase in that competition, these prices are not going to go down.

There is a second concern that we have which this merger might affect, which are restrictive airport practices. In my State, the Charlotte-Douglas International Airport has 48 jet gates and US Airways leases 38 of the 48. In other words, there are only 10 that they do not lease.

In order for an air carrier to compete in that airport, in that market, it has to have access to all the airport facilities—gates, baggage carousels, and ticket counters. The smaller carriers and the new market entrants have expressed strong discontent about the particular airport practices that are being used there, such as exclusive use gate lease agreements and provisions that require that a majority of the airlines at an airport approve any new capital expenditure for which they will be charged. Obviously, these kinds of practices have a direct effect on restricting a small or new carrier's ability to compete with established dominant carriers.

In Charlotte, the leases last until the year 2016. In many airports, the leases can last more than 20 years, and these sorts of deals make it extremely difficult for small airlines to compete with the larger more established airlines, and many times the gates are only available at a higher cost or at a disadvantageous time.

So my principal concern with this proposed merger has to do with price competition and the potential negative impact this could have on competition in general.

I do want to say a couple of positive things about the merger because in my meeting with the CEO's of the two companies, I expressed my concern about employees in North Carolina and in the Charlotte market, particularly. They have assured me that they have a contractual responsibility to not lay off any of those non-managerial employees for a period of 2 years. I think they have made a public commitment that, essentially, they have no plan to lay anyone off, and I take them at their word. I believe what they say and that does help address some of the concerns I have about folks in North Carolina who are employed by US Air.

The reality is that there is a real potential in North Carolina for the Charlotte hub to grow as a result of this merger and as a result of access to destinations we presently do not have access to, and that can have an enormously positive economic benefit to not only Charlotte but to all of North Carolina. So we know that there is real potential here for spurred economic development in Charlotte and all of the State of North Carolina.

I think actually the airlines have done another good thing which I have not heard mentioned today, which is they have agreed to freeze their three major structural rates for a period of 2 years, and as I understand it, all the rates basically flow off those structural rates, and I think that is a good thing. It is a positive thing. It is something they did voluntarily and I think it is something they should be commended for.

But the reality is, we cannot turn a blind eye to the presently existing lack of price competition in the Charlotte marketplace, and freezing fares in Charlotte only has the effect of locking in already existing high prices.

So I hope that this hearing and your committee will explore the impact of this merger on competition and how the Department of Justice and FAA review of the merger might help consumers, which obviously is something we are very concerned about. Mr. Chairman, I thank you very much.

Senator DEWINE. Senator Edwards, thank you very much.

Before I turn to Senator Specter for an opening statement, do any of my colleagues have any questions for the panel?

[No response.]

Senator DEWINE. We appreciate very much your coming. It has been very, very helpful. And again, the fact that the four of you took the time to be here really sends a signal, I think, of the importance of this, not only the hearing, but more importantly, this proposed merger. So we appreciate it very much. Thank you.

As our next panel comes up, let me turn to Senator Specter for any opening statement that he would like to make.

Senator Specter.

STATEMENT OF HON. ARLEN SPECTER, A U.S. SENATOR FROM THE STATE OF PENNSYLVANIA

Senator SPECTER. Thank you, Mr. Chairman. The proposed merger between US Airways and United has enormous effect on my State. There are some 17,000 employees. There have been enormous investments in both the Pittsburgh and Philadelphia airports and substantial reliance on US Airways. There are very complex questions as to what impact this merger, if approved, would have on the national scene. There are the rumbles about Continental and Northwest getting together and American and Delta getting together, and I think there is little doubt when you take the biggest carrier and one of the biggest carriers and put them together that there is going to be a very profound impact in the entire industry.

There is enormous concern at the outset on size. We have been warned about that since the days of Thomas Jefferson and Justice Brandeis and we have seen the problems which have been brought about by the Microsoft situation, a lot of commentary in the publications today about oligopoly. There is a suit involving a small carrier which tried to go into the market in Wichita, KS, to compete with American Airlines on routes into Texas. When they did that, American Airlines lowered their prices. Predatory practices drove the small competitor out of business.

I am taking a look in some detail to see what kind of competition there is or what companies who try to enter the markets in Pennsylvania. US Air is the sole carrier between Pittsburgh and Philadelphia. There have been a few companies which have tried to enter the market—East Wind, Pro Air, Vanguard. East Wind was unsuccessful, but there is always a risk on size and on predatory practices, which we have seen really a great deal of in the American economy, and that is something we have to examine very, very closely.

I am sorry to have arrived at this hearing a little late. I was part of the U.S. delegation to the funeral services yesterday of President Assad in Damascus. We arrived back about 1:00 a.m. this morning and then found C–SPAN had these hearings, so it was a very late night and I heard some of the comments yesterday. I heard a question raised about United. I think it was Mr. DeFazio who raised the question about United having the worst record of service and the worst on-time record. I did not hear an answer from Mr. Goodwin last night, but he may have answered it at 3:00 or 4:00 a.m., I am not sure. But if he did not, he will have a chance to today.

I heard the question raised again from Mr. Wolf about what is going to happen with the maintenance center in Pittsburgh, and it may be a little parochial, but a maintenance service of that size with those many jobs involved is something of great concern to a Pennsylvania Senator. We have been trying to get an answer from US Airways for a long time, and Senator Santorum and I met with Mr. Wolf and Mr. Goodwin on May 25 and raised the question again and were told, understandably at that time, that in 2 days they had not had a chance to have an answer. It was a closely guarded merger matter. Well, it has been some time since then and I think Pittsburgh is entitled to an answer. I do not know if this subcommittee is entitled to an answer, but I think Pittsburgh is entitled to an answer.

When we have had acquisitions and joinders, we had an effort by Norfolk Southern to acquire Conrail in 1984, and in this hearing room, I think, we stopped the acquisition, I think for the benefit of Pennsylvania, certainly, and the benefit of America. Then Conrail has been dismantled since between CSX and Norfolk Southern. I have a lot of problems with what has happened there.

Some of the recommenders of this matter told us about First Union, which came into Philadelphia 2 years ago. A week ago Sunday, the Philadelphia Inquirer had a story about how First Union gave the worst consumer service in the country, quite a remarkable record, for the entire country.

So these are matters which are very, very much on my mind and I intend to have hearings in Pittsburgh and Philadelphia and Allentown. This is a big, big matter for Pennsylvania and I think it is a big, big matter for America, so I thank you for the chance to make this statement, Mr. Chairman.

Senator DEWINE. Thank you, Senator Specter.

Senator SPECTER. We are seeking a quorum on Governmental Affairs. This is an operation, this building, where roller skates are not sufficient. You have to have elevated capacity, as well. But I will return.

Senator DEWINE. Senator Specter, thank you very much.

Let me invite our second panel to come up. We appreciate all of you being here and I will begin to introduce you as you come up.

James Goodwin is Chairman and Chief Executive Officer of UAL Corporation and United Airlines. He was previously President and Chief Operating Officer with responsibility for all operational groups.

Stephen Wolf is the Chairman of US Airways Group. Previously, Mr. Wolf served from 1987 through July 1994 as Chairman and CEO of United Airlines.

Robert L. Johnson is the Chairman and CEO of DC Air. Mr. Johnson is also the Chairman and CEO of BET Holdings. He also served on the US Airways board and is a member of the Board of Governors for the Rock and Roll Hall of Fame in Cleveland, OH. I had to get that in there, Mr. Johnson.

David Neeleman is Chief Executive Officer of JetBlue Airways Corporation. He was President and co-founder of Morris Air, which was acquired by Southwest Airlines in December 1993.

Professor Alfred Kahn is an Emeritus Professor of Political Economy at Cornell University and a special consultant to National Economic Research Associates. He is also the former Chairman of the Civil Aeronautics Board. He testified before this committee a short time ago. We welcome him back.

Mark Cooper is Director of Research at the Consumer Federation of America and President of Citizens Research. At the Consumer Federation, Mr. Cooper has responsibility for energy and telecommunications policy and analysis as well as internal consulting duties for survey research and economic analysis.

We welcome all of you. We apologize for the delay, but that is the nature of the Senate. We are here now ready for your testimony, which we appreciate very much.

I am going to go out of order and I am going to start with Professor Kahn, and the reason I am going to do that is that he is due in Congressman Henry Hyde's Judiciary Committee in the U.S. House of Representatives any moment, and we do not want to lose his testimony. We are going to ask him to go first and then we will go back to the regular order, which will be starting with Mr. Goodwin.

Professor Kahn, thank you very much, and we hope you can stay for questions, but if you have to go, we will understand. Thank you for coming.

PANEL CONSISTING OF ALFRED KAHN, EMERITUS PROFESSOR OF POLITICAL ECONOMY, CORNELL UNIVERSITY, ITHACA, NY; JAMES E. GOODWIN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, UNITED AIRLINES, CHICAGO, IL; STEPHEN M. WOLF, CHAIRMAN, US AIRWAYS GROUP, INC., ARLINGTON, VA; ROBERT L. JOHNSON, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, DC AIR, WASHINGTON, DC; DAVID NEELEMAN, CHIEF EXECUTIVE OFFICER, JETBLUE AIRWAYS CORPORATION, NEW YORK, NY; AND MARK N. COOPER, DIRECTOR OF RESEARCH, CONSUMER FEDERATION OF AMERICA, WASHINGTON, DC

STATEMENT OF ALFRED KAHN

Mr. KAHN. Thank you, Mr. Chairman. I am honored by your second invitation and grateful that it gives me an opportunity to repay you a debt. I ran over my allotted time last time by several minutes. I will try to give you some of that back today.

As you know, last time, I testified about the question of whether the industry was prone to engaging in predatory or unfairly exclusionary practices and we talked a little about the DOT rules. I think those are terribly important. We are now talking about——

Senator DEWINE. Professor, could you pull the microphone just a little closer?

Mr. KAHN. I am sorry.

Senator DEWINE. We want to hear and we also want everyone in the room to be able to hear, as well.

Mr. KAHN. The subject last time was behavioral rules for the industry and I think antitrust has these two essential aspects, one, control over illegitimate behavior, and second, being alert to changes in the structure of an industry that may threaten competition. So I will turn with only a few brief remarks to the proposed merger.

Let me point out right away that I do not have a settled opinion about the merits of the merger. I am going to suggest three areas of inquiry, however, that I am sure the Department of Justice will want to undertake, some of which you have already identified.

The first is, of course, the possibility that there is direct competition on important routes between the two carriers. The Department of Justice has brought suit against the proposed acquisition of Continental by Northwest Airlines and there it identified some eight major routes, notably between their respective hubs, on which they were either the only two competitors or preponderant competitors. So I do not know to what extent there are such direct competitive overlaps, but that is obviously the first place that the Department of Justice should look.

The second is one that I have not heard much alluded to but I think is terribly important. In deregulating the airlines, we relied very heavily on the threat of potential as well as actual competition to prevent exploitation of consumers. It was the asserted contestability of airline markets that we thought was very important, and it seems to me that it is highly likely that there are many routes on which either United or US Airways is a potential competitor of the other.

There were several studies in the 1980's of the pricing behavior of the newly deregulated airline industry, and while, to my recollection, those studies demonstrated that one competitor actually in a market is worth at least two contestors in the bush, it also demonstrated that the presence of a potential entrant already operating at one or the other end of a route did have a disciplinary effect on prices on that route. So I think that second topic is one that we really want the Department of Justice to talk about.

I have a bit of history here that is relevant. I went back and looked at the notes that I took back in the 1980's when Northwest was proposing to merge with Republic Airlines and it turned out that there were very few routes on which they were direct competitors. There was just a handful. And yet Republic was a successful airline. It had a hub at Memphis, which it acquired from Southern, Detroit and Minneapolis-St. Paul, and I find it difficult to believe--we cannot be sure that it would have survived, but I find it difficult to believe that we would not have been better off if those two airlines had not gotten together, giving Northwest its 80, 90 percent domination of those hubs.

It is that potential competition which I think is particularly worth looking at in this case because I take it that United's main explanation and justification of the merger, at least the one that has been commented on in the press, is that United needs a strong hub in the Northeast. The press has over the years been pointing that out with respect to both United and American Airlines.

But if United really does feel the need for a big hub in the Northeast, this suggests that it is an important potential competitor of US Air and that if denied the ability to acquire the hub in the easiest non-competitive fashion by acquiring US Air's Pittsburgh and Charlotte hubs, it might be impelled to construct a hub of its own in direct competition with US Air.

Now, potential competition, in theory, is supposed to be taken into account in the antitrust laws. It has tended to be slighted in many of the merger cases that I am familiar with in recent years, but in the airline industry, potential competition is terribly important.

Finally, the point that several other people have emphasized. If United's acquisition of a competitive advantage, by giving it the first claim on traffic feed from US Air's extensive network. If that increases the pressure on other carriers to do likewise, then we do have to take into account in assessing the effects of this merger the possible repetitive effect that it may have.

I happen to have had some involvement in American's reaction when United signed a code-sharing agreement and an alliance with

Lufthansa. American first tried to prevent it. Failing that, it seems very clear to me, American's move then to acquire a similar partner in the case of British Air was an illustration of this possible cumulative effect of the merger.

So it is these three levels that I am very eager to hear the Department of Justice's analysis. Thank you.

Senator DEWINE. Professor, thank you very much.

Mr. Goodwin.

STATEMENT OF JAMES E. GOODWIN

Mr. GOODWIN. Good morning, Chairman DeWine, Ranking Member Kohl, and other members of this distinguished subcommittee. On behalf of United Airlines' more than 100,000 employees, I would like to thank you for this opportunity to testify this morning.

My name is Jim Goodwin. I am Chairman and CEO of United Airlines. Before I took my current position, I was President and Chief Operating Officer. At various times, I have managed North American operations, international operations, maintenance, and marketing. I began my career at United Airlines 33 years ago last week.

In short, I am an airline guy. I have spent my life learning this business piece by piece, and in the course of that, I have learned what our customers want. They want to be able to go anywhere and go there conveniently. They want global access and they want global service, and that is what an airline must deliver.

I am excited about this merger because I believe it will deliver on that promise. This subcommittee will review the antitrust implications of this merger. In my view, this merger is strongly pro-competitive. The United/US Airways merger will create the Nation's first comprehensive airline network and the network economics that result from creating such a network will mean substantial benefits for our customers and competition in general.

For example, the network synergies will make it possible to add cross-country and international nonstop routes that neither United nor US Airways could have justified without the merger. United plans to add 93 nonstop domestic and international flights the day this merger is consummated. More than half of those nonstop flights are on routes where no airline provides nonstop service today. This added service means greater customer choice and added competition.

In addition, the network synergies will result in United providing new competition on 560 city-to-city routes where neither United nor US Airways competes today. The merger will make it possible for United Airlines to challenge Delta and American in the Southeast and along the Southern tier cross-country routes, areas of American and Delta strength. The merger will also make air travel more convenient for consumers by greatly expanding single carrier hassle-free service on thousands of routes. We will literally bring the world to gateways across America.

And with that worldwide system comes a world class set of services—single check-in, seamless bookings, the industry's best airport lounges, a frequent flyer program that offers more options for travel to more places throughout the world. All of these aspects of having a comprehensive airline network will generate significant consumer benefits.

The basic point in this, in my years in the airline industry, I have looked at every single possible combination for United and I am here today because this combination is the only one that will deliver what our customers need. United Airlines is committed totally, with no equivocation and with a substantial amount of cash, to this merger. That is the kind of big step that requires a very special opportunity.

United is also committed to addressing any possible issues about the overlap of routes. That is why we took the unprecedented step of proposing a remedy on the day we announced the merger. I am talking about the creation of DC Air, an independent new carrier at Reagan National that will bring significant new competitive service to the Washington area.

As you know, Congress, the Department of Justice, and the regulators will review this proposal carefully. We welcome that scrutiny and we are confident that they, like us, will conclude that this merger will benefit all air travelers.

This merger is about expanding customer choice. It is about creating growth and economic benefits for communities across America. It is about delivering more convenience and more travel options to the passengers and shippers alike. Growth happens when cities in the West, like Denver, have better service to the East. It happens when cities in the Northeast, like Albany, have new options to travel in the United States and abroad. It happens when Charlotte is given a chance to continue its growth as a hub and become a more competitive counterbalance to Atlanta in the Southeast.

Worldwide access, convenient service, community growth, that is what this combination will deliver and that is what I look forward to talking with each of you about this morning. Thank you.

Senator DEWINE. Mr. Goodwin, thank you very much for your testimony.

[The prepared statement of Mr. Goodwin follows:]

PREPARED STATEMENT OF JAMES E. GOODWIN

Chairman DeWine, Ranking Member Kohl, and other Members of this distinguished Subcommittee, on behalf of United Airlines' more than 100,000 employees worldwide, thank you for the opportunity to testify today. United appreciates the chance to explain why our customer-driven merger with US Airways is pro-competitive under the antitrust laws and how this transaction will significantly benefit consumers and the communities served by both carriers.

As I will explain in more detail below, United believes the merger is a "win-win" for valued customers of both carriers, other airlines travelers, and competition generally. The merger's network synergies will lead to consumer benefits and increased competition. United plans to provide nonstop service in many markets in which no nonstop service exists today and will add new competition to routes in which neither United nor US Airways competes today. Among other things, United will add new competition in the Southeast and along southern cross-country routes, taking on Delta's and American's strong presence in those areas. In addition, the merger's synergies will allow United to offer more extensive connecting service to customers in our hub cities and the smaller airports connected to our hubs. Finally, passengers that prefer flying on United or US Airways will now enjoy access to a more extensive, global on-line network, allowing them to earn and use frequent flyer miles on one network, which will result in significant consumer benefits.

The acquisition not only will generate these significant consumer and competitive benefits, but has been structured to address any potential antitrust issues raised by the combination. United and US Airways propose to divest sufficient assets to create a new airline, DC Air, the would address antitrust concerns arising from combining the two airline networks in Washington D.C. The creation of DC Air will alleviate any potential anticompetitive concerns with the transaction related to Washington, D.C., and customers will benefit both from the synergies resulting directly from the transaction and from the additional competition provided by DC Air.

Mr. Chairman, we are a customer service business that operates in a highly competitive global industry. Simply put, our success depends on our ability to anticipate and respond fully to our customers. Our customers tell us they want hassle free, single-carrier service throughout the country. Similarly, international passengers tell us that they want seamless, global network service such as that offered by the Star Alliance, the premier alliance with which United is proud to be affiliated. Listening to the marketplace, the message was unmistakable: our customers except us to offer them the benefits of the most comprehensive air service network possible.

Put in that context, let me explain our decision to acquire US Airways. Like a chain, an airline's network is only as strong as its weakest link. As United examined its ability to respond fully to our valued customers, we considered whether we could improve our efficiency and the sustained level of service provide. What we discovered was that United's weakest link was US Airways' strongest link and vice-a-versa. United has an extensive east-west system in the United States with hubs in the Midwest and the West. In contrast, US Airways has a comprehensive north-south route system along the East Coast anchored by hubs in Pittsburgh, Philadelphia and Charlotte. Together, the two networks are highly complementary.

Accordingly, United concluded that by combining the two carriers, we would draw upon the strengths of both airlines and simultaneously fill service voids in each other's existing networks. The result, we believe, will be the first truly efficient nationwide network that will provide consumers with unparalleled travel convenience and service.

Let me now walk through in more detail why the transaction will produce substantial pro-competitive benefits. The merger's pro-competitive synergies reflect the nature of the airlines business. Most airline networks are structured as hub-and-spoke networks to route passenger traffic efficiently. These networks exhibit certain network economies, such that the more extensive the hub-and-spoke network, the lower the cost of providing service on each city-pair segment and the greater the ability to provide improved quality of service throughout the airline's route structure. By combining the complementary US Airways and United networks, the proposed transaction would allow the combined entity to enjoy greater network economies. The merger would therefore facilitate adding frequencies and new routes, and improve overall quality of service.

Because of such network synergies, United will be able to add nonstop service on many cross-country and international routes on which neither United nor US Airways would have found it economic to do so without the merger. As a beginning, based on today's market environment, United plans to add 93 non-stop flights in 47 routes shortly after the merger is consummated. Of these, 64 are domestic flights and 29 will be international flights. On domestic routes, for example, consumers will benefit from planned new non-stop flights between Pittsburgh and San Jose; Philadelphia and Portland, Oregon; Washington Dulles and Orange County; Raleigh-Durham and San Francisco; Austin and Charlotte; Denver and Ft. Lauderdale; and San Francisco and Tampa Bay. United also plans to introduce daily non-stop service to other international destinations as well. For example, from Dulles, our plan is to offer the only daily non-stop flight from Washington to Copenhagen and, subject to government approval, the only daylight service to London Heathrow. In Boston, United plans an additional daily flight to Frankfurt and the only daily non-stop service to Tokyo.

These new nonstop flights will add competition along these city-pair routes. It is important to note that slightly more than half of these 93 flights will be on routes where no airline provides non-stop service today. Beyond a doubt, the merger will enhance consumer choice and add competition on these routes.

This increase in service and the overall greater connectivity created by the merger also will enhance competition along hundreds of other city pair routes. After the merger, United will have a significant competitive presence on 560 city-to-city routes where neither United nor US Airways competes today. Examples of one-stop routes where United will provide new competition include Sacramento to Erie, Pa.; Reno, Nev., to Tallahassee, Fla.; Ft. Lauderdale to San Antonio; and Fargo, N.D., to Panama City, Fla. The 560 new routes also include a number of international flights as well, including new one-stop flights from Phoenix to Copenhagen; San Jose, Calif., to Madrid; Birmingham, Ala. to Brussels; and Tulsa, Okla., to London. Adding service on these routes results in an unambiguous increase in consumer choice and competition.

The merger will not only increase competition on a route-by-route level, but also from a broader perspective. Today, United has minimal presence on north-south routes along the East Coast, in the southeastern part of the country, and on transcontinental routes across the southern tier of the United states. US Airways, while it has a strong presence along north-south East Coast routes, does not have the network to adequately serve the southeastern part of the country nor compete strongly along southern transcontinental routes. By contrast, these areas are the strengths of Delta and American Airlines, the second and third largest airline carriers. Delta, with its hub in Atlanta, is the largest airline in the Southeast, and it has a strong presence from this southeastern base along north-south East Coast routes and southern transcontinental routes. Similarly, American Airlines, with its hubs in Dallas-Fort Worth and Miami, has a strong presence in the southeastern part of the country along with southern transcontinental routes. American, with its focus, also has a strong presence in routes from the United States to South America.

The merger will allow United to challenge Delta's and American's strong presence in these markets. With the newly acquired hub in Charlotte, United will have sufficient presence on both sides of the country to begin flying transcontinental routes across the southern tier of the country, directly challenging American and Delta along these routes. Moreover, this transcontinental presence will allow United to focus the Charlotte operations on challenging Delta in the southeastern part of the country, as the availability of cross-country routes will make it more economical for United to expand service from Charlotte in the Southeast. Finally, with the expanded presence in the southeastern part of the country and southern cross-country routes, United can better use Miami as a getaway into South America, where it competes with American's service in these markets.

The combination of United and US Airways also will create an airline for the 21st Century that will deliver significant benefits to millions of passengers. Over the years, customers feedback and research have made one fact abundantly clear: Many business and leisure travelers like to travel on a preferred airline, enjoying access to airport facilities and amenities provided to preferred customers, and to take advantage of corporate discounts with the preferred airline. These travelers desire online access to as many flights, city-pairs, and airports as possible on their airline. The merger, by combining the cities and airports served by the two carriers (and the Star Alliance) into a global network, will provide such passengers with on-line access to the combined network of the two carriers. The result will be significant new benefits to millions of consumers.

The numbers tell the story. For United passengers, the merger will create new, single-carrier service to 93 destinations and add about 5,000 routes to the network. For US Airways passengers, the benefit is even greater: new, single-carrier service to 145 destinations and an additional 7,000 routes. Overall, United will offer over 80,000 non-stop, one-stop, and two-stop flights daily, more than double what United or US Airways offers today separately.

In short, this transaction brings together two complementary route systems that will result in a new network connecting US Airways' eastern U.S. routes with United's western U.S. routes and our international network. The result for consumers will be a more extensive network in which consumers can enjoy the considerable benefits that travel on United offers, benefits that will help simplify travel and make it as hassle-free as possible. Those benefits range from the convenience of single-carrier service and one baggage check-in to United's #1-rated Internet site, the best airport lounges in the industry, and a frequent flyer program, Mileage Plus, that delivers more opportunities to earn miles and many more destinations for award travel throughout the world. Added to that is the reach of our Star Alliance partners, which will link passengers to a comprehensive network that will directly carry them to destinations around the globe in a way not currently possible.

Let me share a case in point. We have an extensive network in Asia while US Airways does not serve that region of the world. The merger will fill that service gap for US Airways passengers. As result of the merger, a current US Airways passenger in Pittsburgh will enjoy new single-carrier, one-stop service to Asia/Pacific destinations such as Shanghai, Beijing, Osaka, Taipei, Seoul and Sydney. The same is true for new single-carrier, one-stop service from Pittsburgh to Latin American destinations such as Caracas, Rio de Janeiro, Sao Paulo, Santiago and Buenos Aires. These are a just few examples of how the merger will make global travel more convenient in the eastern United States.

Mr. Chairman, that is a summary of the pro-competitive benefits of the transaction and we think they are substantial. Now, let me turn to the issue of the extent of overlap between the networks and what we are doing to address the potential antitrust concerns. At the outset, it is worth noting that unlike previous airline mergers dating back to the 1980s, United and US Airways do not share a common hub. So, our merger does not present that concern. We believe also that overall there are few overlaps that raise significant antitrust concerns. To cite one statistic, within the East Coast, while US Airways carries about 38 percent of passengers, United only has about 1.7 percent of passengers. What that tells you is that in US Airways' strength, the north-south network along the East Coast, United is not a significant player there today and therefore the merger does not present significant overlaps.

Nonetheless, we have taken great care to proactively identify and remedy what we thought might be potential issues for regulators. We recognized from the outset that antitrust concerns might be raised with respect to Washington, D.C., United has a hub at Washington Dulles and US Airways is the #1 carrier in terms of enplanements at Ronald Reagan Washington National Airport. To address any possible issue about the overlap on Washington, D.C., routes as a result of the transaction, we are voluntarily divesting the bulk of US Airways' significant and valuable resources at Reagan National. We will divest these assets to DC Air, an independent new-entrant carrier that will bring significant new competitive service to the nation's capital.

We believe there is little doubt that DC Air will provide a viable, profitable, and strong competitive presence in Washington, D.C. and other markets it serves. Reagan National generates a significant amount of local traffic and DC Air will have access to valuable slots to serve this market.

Now, I understand that many have criticized the fact that DC Air will have arm's length, market-based contractual relationships with United to provide fuel, planes, and other assets for a transition period. Somehow, these transitional relationships are supposed to suggest that DC Air is not viable. These critics must not work in the airline industry, as these types of leasing and contractual relationships are common in the industry.

DC Air will add a new competitive presence in Washington, D.C. After the merger and the DC Air divestiture, United's Dulles hub will compete with DC Air's base of operations at Reagan National. Both airlines will also compete with the other airlines serving the Washington, D.C., area. DC Air has indicated it plans to offer service from Reagan National to 43 cities. That total includes 31 cities in which US Airways' service from Reagan National competes today with United's service from Reagan National or Dulles. At a minimum, therefore, competition from Reagan National will be maintained, given DC Air's low-cost structure, United expects that competition will be enhanced. Moreover, in the case of routes between Reagan National and three cities—Pittsburgh, Philadelphia and Charlotte—United will enter those routes and compete with DC Air in providing service to Reagan National. Today, only US Airways provides any service to Charlotte from a Washington airport and only US Airways provides service to Reagan National from Philadelphia or Pittsburgh. Again, we see that as an increase in competition.

United will acquire and operate the US Airways shuttle between Washington, New York and Boston. United today does not provide a shuttle service from Washington Reagan National. On these routes, US Airways competes with Delta. I can assure you that we will compete vigorously with Delta on those popular routes. On a broader city pair basis, six airlines (United, US Airways, Delta, Continental, TWA, and American) provide service between New York City and Washington D.C. and entry is a viable option given the high percentage of local traffic on these routes. We see no diminution in competition in these markets because of the merger.

In short, we believe the DC Air divestiture addresses any antitrust concerns related to Washington, D.C. And, we believe addressing the Washington, D.C., overlap addresses the most significant overlap caused by the merger.

Of course, we understand that regulators and other interested parties will scrutinize other possible overlaps between the airlines. We do not believe any other overlaps raise significant competitive concerns. For example, we understand that the Justice Department will look closely at routes between the two airlines' hubs in which United and US Airways are the only airlines providing nonstop service today. While there are four such routes in which United could be the only airline providing nonstop service after the merger, United will still face significant competition on these routes. Most of these routes are cross-country routes in which other airlines provide direct and connecting service; these other airlines already have significant shares of traffic in these markets. Most of these routes also have logical potential entrants located at one of the hubs. For business travelers that travel almost exclusively on a preferred carrier, we will offer more frequencies per day on these routes on a single carrier, greatly increasing their travel flexibility. And, finally, passengers flying out of hub cities will enjoy significant benefits overall because of the added service and greater overall on-line connectivity available because of the merger.

Finally, let me address the issue of consolidation in the industry. Recently, there have been a number of press reports discussing possible consolidation in the airline industry in Europe and elsewhere. Airlines are not seeking to get bigger solely for the sake of size alone. That is not the case at all. As with this transaction, airlines are being forced by the marketplace to build the strongest and most comprehensive route structure possible. In doing so, airlines are able to respond better to customer demand for seamless, hassle free travel. Also, building the strongest possible network enables carriers to maximize their operating efficiencies. It also can lead to increased competition, as airlines are better able to take on other airlines in the other carrier's area of strengths.

Some have nonetheless said that we should not enjoy all the pro-competitive benefits from the United-US Airways merger because of the possibility that other airlines might merge in the future. I cannot speculate on what other combinations might arise. But I can say that our merger agreement should be viewed on its merits. No matter what other mergers might occur, these facts will remain the same: (1) A United-US Airways merger is a merger of complementary networks; (2) A United-US Airways merger presents few overlaps of competitive significance; (3) A United-US Airways merger includes the creation of a new airline (DC Air); and (4) A United-US Airways merger will generate numerous pro-consumer benefits. Any other possible combination will have to make a similar pro-competitive demonstration under the antitrust laws. None of us knows whether such future mergers will occur, whether the merging airlines will have the pro-competitive benefits of the United-US Airways merger, and whether the merging airlines will take the steps we have to ensure that the transaction will be pro-competitive. I would also note that the speculation I have seen ignores the existence and growth of Southwest Airlines, along with a growing number of low-cost discount or regional carriers such as ATA, Frontier, and Jet Blue.

Mr. Chairman, let me conclude by again thanking you for the opportunity to testify today. As I have said, we strongly believe this transaction should be approved. It is in best interest of consumers, communities served by both carriers and the U.S. economy. I would be pleased to respond to any questions.

Senator DeWine. Mr. Wolf.

STATEMENT OF STEPHEN M. WOLF

Mr. WOLF. Chairman DeWine, Senator Kohl, and members of the committee, on behalf of the entire US Airways family, I appreciate the opportunity to be here with you this morning.

With over 30 years in aviation, I have been fortunate to have been associated with the development of both US Airways and United Airlines. From this perhaps unique perspective, I would like to offer a few comments on the proposed merger.

The merger of United and US Airways creates, in the words of one major financial analyst, the first airline of the 21st century. Indeed, this event will be a milestone in commercial aviation, joining the complimentary systems and assets of two veteran and geographically different carriers to create the Nation's and the world's most efficient route network. For US Airways, this merger will enable us to provide the comprehensive global service that our valued customers and communities we serve demand and, indeed, deserve.

When I joined what was then US Air a little over 4 years ago, I pondered whether or not there was a place in U.S. commercial aviation for a mid-sized carrier with mature costs that was at that time coming off of multiple years of multi-billion-dollar losses, a thoroughly weakened balance sheet, a frequently talked about bankruptcy candidate, a aging mixed fleet of aircraft, subpar service levels, and no strategic direction. While these characteristics were indeed significant, I believed they were manageable.

The question I then pondered was where could US Airways realistically hope to go long-term, recognizing it was the only United States mid-sized mature cost carrier left out of the original group of six. Braniff, Eastern, and Pan American were gone, and Continental and TWA had gone through bankruptcy twice each, and in the process dramatically adjusted their cost structure.

Well, the answer to that question was not clear. We nevertheless committed ourselves to establishing US Airways as a vibrant, financially secure, global carrier. To this end, the dedicated and hard-working employees of US Airways have made enormous progress. To take the next critical step, however, in becoming a truly global carrier requires access to transcontinental and international markets. With this union, US Airways has the opportunity to achieve this goal in a single stroke. In brief, this is the right step with the right partner at the right time.

Importantly, this is not a merger whose benefits are measured in the elimination of duplicate jobs and functions. This is a merger whose benefits truly flow from improved service, vigorous new competition in domestic and international markets, and the seamless web of efficient global travel that will occur. This new partnership will employ more people, stimulate economic development, and facilitate international commerce, trade, tourism, and investment for more U.S. communities. These benefits are equally important for the multitude of US Airways network cities service through Pittsburgh, Philadelphia, and Charlotte, which will have the immediate access to the global reach of United's system and the Star Alliance.

An exciting and pro-competitive part of this merger proposal is the creation of a highly competitive new entrant carrier at Washington's Reagan National Airport, with more than 100 flights daily to 43 destinations. It also will bring about the most significant procompetitive change in the regional market since slots were initiated at Washington National in 1968.

Over the past 3 decades, my career has taken me from American Airlines to Pan American World Airways to Continental, Republic, Flying Tigers, United, and finally US Airways. My enthusiasm for this proposal is rooted in a lifetime of experience in this industry. This agreement will extend the promise of domestic deregulation by enabling more American air travelers to more fully enjoy a global network of seamless service and benefits of open competition.

Mr. Chairman, I want to share with you just a second the deliberations of our board of directors, who pondered this thing very significantly. From the perspective of our three constituencies, shareholders, employees, and customers and communities we serve, this is certainly fair to our shareholders. It is an absolute home run for our employees in terms of a guaranteed job and career advancement opportunities we could not provide. And for the communities and customers we serve, it provides them access to the best route system in the entire world and all the economic pluses that come with that, which are significant.

In my judgment, this union provides the ideal free market response to the rising customer demand for international travel. The enhanced United Airlines will be well positioned to extend the benefits of deregulation to the global marketplace in the second century of flight. Thank you, Mr. Chairman and members.

Senator DEWINE. Mr. Wolf, thank you very much.

[The prepared statement of Mr. Wolf follows:]

PREPARED STATEMENT OF STEPHEN M. WOLF

Chairman DeWine, Ranking Member Kohl, and Members of the Committee, on behalf of the entire US Airways family, I appreciate the opportunity to be here this afternoon.

The merger of United and US Airways creates, in the words of one major financial analyst, the first airline of the 21st Century. Indeed, this event will be a milestone in commercial aviation, joining the complementary systems and assets of two veteran and successful carriers to create the nation's and world's most efficient and comprehensive route network, much to the benefit of the customers and communities we serve.

I am fortunate to have been involved with this industry for over 30 years and associated with the development of both US Airways and United Airlines. From this perhaps unique perspective, I would like to offer a few comments on the proposed merger.

Put simply, both organizations can take great pride in this remarkable step—and both can be excited by what it means to the traveling public and the communities we serve. The analyst is correct: this IS the first airline of the 21st Century.

Just as the great airlines that emerged from he onset of deregulation—the Uniteds and Americans and Deltas and Northwests, indeed, in US Airways—have brought the benefits of affordable air travel to millions and millions of Americans, so will those benefits be expanded even further in the 21st Century evolution of this system. And just as the first era of deregulation spawned new and powerful forces such as Southwest Airlines, so too can we expect to see a new competitive spirit emerge in the coming decades as new opportunities arise.

For US Airways, this merger promises to help us provide the efficient, global service that our valued customers demand and deserve. I joined what was then US Air a little over four years ago. At that time, I pondered whether or not there was a place in U.S. commercial aviation for a mid-sized, mature-cost carrier, recognizing that we were unique in our position. The industry was made up of many successful, incumbent carriers—American, Delta, Northwest and United. The balance of the mid-sized, mature-cost carriers had disappeared, those being Braniff, Eastern, and Pan American. Then, there were an array of low-cost carriers, such as Southwest, which operated with a significantly lower cost structure and a product that focused on point-to-point service. Finally, there were the in-between carriers that were generally size-peers of ours, including TWA and Continental. But these carriers had substantially reduced their cost structure as a result of a series of bankruptcy filings. US Air was none of the above.

In this difficult business environment, we committed to a five-point strategic plan to restore financial stability to our company that would ultimately lead to our company that would ultimately lead to our becoming the "Carrier of Choice." Together, with the dedicated and hard-working employees of US Airways, we have made enormous strides in transforming the airline and have been successful in attaining our goals. We have made spectacular improvements in our operational performance, established harmonious labor agreements, begun fleet modernization and expanded our international service. What goal remains? We are determined to become a world-class, global carrier, that provides our customers with efficient, worldwide service.

To take the next critical step in this five-point strategy requires access to transcontinental and international markets. But we are a mid-sized, high-cost player in an industry characterized by extremely vigorous competition. With deregulation and the subsequent emergence of small, low-cost regional airlines as well as the growth of global alliances, it has become increasingly challenging for us to maintain our competitive edge and remain profitable. In this environment, we can only go so far if we go it alone. To expand into the global market and to realize our full potential, we have to join with a partner that has a more extensive scope, breadth and reach. With a route network that primarily complements ours, United Airlines is that ideal partner.

With this union, US Airways has the opportunity to achieve our goal of building a truly global carrier—not over many years, but in a single stroke. Without it, we would face tremendous hurdles in striving to offer the kind of convenience and world wide service that our customers both deserve and expect in this competitive era. For the US Airways family—our employees, our customers and the communities we serve—we are obligated to do the right thing. And this is it: the right step, with the right partner at the right time.

What makes this so right? First, the combination is a superb fit that enhances competition and benefits customers. This is an agreement that works on many levels and is one in which the consumer benefits of the combined carriers will be substantially greater than their individual parts. Where there was the potential for overlap between the two carriers—primarily in the Washington area—we have eliminated that potential conflict by divestiture. In contrast to many mergers whose benefits are often measured in the "synergies" of eliminating duplicative jobs and functions, this is a merger whose benefits truly flow from the growth that will occur.

United's extensive east-west system and western presence nicely complement US Airways' comprehensive north-south routes and eastern presence. Historically, both US Airways and United are known for their high level of service and for the professionalism of their employees. Our employee unions are similar. And we each have, in large part, the same type of aircraft—all major considerations.

For the thousands of dedicated and loyal men and women in our workforce, this agreement promises a bright future. For nearly a decade, the employees of US Airways have faced periods of uncertainty about the future of the company. Now they will be part of the most exciting development in commercial aviation history, and they will see their career opportunities, and their security, increase. United Airlines agreed that, given the complementary networks and benefits of the combined carrier, they could absorb these employees without the need for layoffs and furloughs. Indeed, given the strong projections in leisure and business travel, the new partnership actually expects to employ more people rather than fewer in the foreseeable future.

For millions of our customers, this merger will deliver immediate benefits, while simultaneously building a foundation for future opportunities. This step is both pro-consumer and pro-competitive.

In today's global economy, more people are flying to more places than ever before; and this merger is a natural step to meet that demand. Partnered with United, we will be able to provide our customers with an unparalleled array of on-line destinations. Our passengers will gain new non-stop, same-carrier service to 117 U.S. cities and 28 international destinations. Our loyal and frequent customers, many of whom live in small and medium-size cities throughout the eastern United States, will gain instant access to over 500 additional destinations in every corner of the globe through the Star Alliance.

This means that millions of our customers will be linked to a system that will directly carry them to commercial centers around the globe. On the combined US Airways and United system, for instance, travelers will be able to fly from such places as Frankfort, Kentucky to Frankfurt, Germany, and from Pittsburgh, Pennsylvania to Silicon Valley with never-before-available ease and convenience. After the merger, more passengers will enjoy the convenience of one airline, one baggage check-in and one frequent flyer program.

For the US Airways family of communities, this agreement will bring home significant benefits. We will bring the world to the doorsteps of hundreds of communities by providing easier access to international destinations. Many of the mid-size cities we serve—such as Charleston, Rochester, and Tampa—will gain seamless access to international destinations. Our hub in Charlotte, for example, will gain new non-stop service to several West Coast destinations, and one-stop service to new destinations such as Hawaii, Australia, New Zealand, Korea and Taiwan, as well as to Caracas, Rio de Janeiro, Sao Paulo, Buenos Aires and Santiago. In addition, dozens of communities in the eastern United States will have enhanced commercial and tourism opportunities with new, convenient access to numerous Asian destinations.

By gaining convenient access to international destinations, these communities will see traffic multiply and business opportunities flourish. They will strengthen their ability to attract international investments, as well as domestic business and tourism. And US Airways' hub cities in Pittsburgh, Philadelphia and Charlotte will be better able to compete with other carriers' East Coast hubs and international gateways.

This combination will also give rise to a new level of competitiveness—in an industry where competition is already thriving. The number of airlines in this country is on the increase, not the decrease. This is true both in domestic and international markets. In the Eastern United States alone, regional and low-cost carriers like Southwest, Delta Express, AirTran and JetBlue have transformed the landscape and significantly expanded consumer choice. All signs indicate that this trend is likely to continue; the merger of US Airways and United will not interrupt it, but will augment it. We will spark growth industry-wide, starting with the creation of new competitive avenues and service options.

And as an important part of this transaction, certain current US Airways assets will be transferred to a new airline—DC Air—that will inject fresh competition into the Washington, DC marketplace. DC Air will be a Washington-based airline committed to offering high-quality, cost-competitive service to consumers and business in this region. It will be a major competitive force at Washington's Reagan National

Airport, with more than 100 flights daily to 43 destinations. It also will be the nation's largest minority-owned airline and will bring about the most significant pro-competitive change since slot controls were initiated at Washington National in 1968.

I have spoken today primarily in my capacity as Chairman of US Airways, and it is natural that my testimony be viewed as representative of the interests of my company. And indeed. I speak first and foremost for the airline that I have helped to lead for the past four years. But I am also here today to address the future of an even larger community—the commercial aviation industry.

I have spent a professional lifetime in this industry. Over the past three decades, my career has taken me from American Airlines to Pan American World Airways to Continental, Republic, Flying Tigers, United and finally US Airways and I bring all of my aviation experience to bear on my testimony here today.

For these thirty years, I have watched the era of deregulation, the expansion of regional service and the impact of globalization create a revolution in the airline industry. The combination of these two carriers is both the most positive response to these new market forces and a proactive step into the next generation of flight.

But the impact of this merger transcends the immediate; it is a major milestone in aviation history. By helping to generate new competition, it will establish a new era in the industry. It will further and enhance America's leadership in the global aviation market.

As we move into the second century of flight, the international marketplace is undergoing a radical transformation. The world has never been more interconnected than it is today. The combination of technology and free-market principles has led to the free-flow of goods, services and information across national borders. Travelers from all four corners of the country need to be able to travel throughout the country and throughout the world quickly and efficiently. By combining the strengths of these two companies, we will have our first truly nationwide network that is linked to the world. With this partnership, we can further facilitate the flow of international commerce. This is especially exciting for many of the eastern communities that have been served by US Airways for as many as 50 years or more. These communities will not be left behind; they will become full-scale participants in the new global economy.

The legal framework is also evolving to adapt to the changing marketplace. Fragmented protectionist bilateral agreements are rapidly being replace by "open skies" and liberalized regimes on a bilateral and even multilateral basis. Eventually, multilateral regimes will emerge. The United States now has taken the lead in opening the international skies. Now the market place is responding to the opportunity created through U.S. government bipartisan leadership.

When the U.S. deregulated the domestic airline industry more than 20 years ago, we freed the industry to respond more efficiently to the ever-evolving needs of customers. At the same time, we enabled U.S. airlines to demonstrate to the world the benefits that come from a deregulated marketplace. During the past two decades, consumers have enjoyed improved efficiencies, services and price options. Through this merger, U.S. airlines once again can demonstrate the consumer benefits of a more open marketplace—this time on a global scale. At the same time, this agreement will completely fulfill the promise of domestic deregulation by enabling more American air travelers to more fully enjoy a global network of seamless service and the benefits of open competition.

But it is not just domestic consumer demand to which we must respond in order to thrive. We must remain competitive, in a rapidly changing international environment. Multi-national carriers in Europe and Asia are responding to the new marketplace opportunities. The greater efficiencies resulting from this merger will improve services and bring down prices, thus enhancing global competitiveness. The new merged airline is positioned to compete head to head with the leading carriers of Europe and Asia, as these airlines are undergoing a similar transformation—although at a slower pace. Allowing U.S. customers to respond to the new global market, we can bolster the world leadership of our industry. This merger is an important step in doing so.

For our nation to continue to lead this industry on an international scale, we must also have the vision to see beyond the historical constraints of a fragmented aviation system. We must recognize that an open, global marketplace is inevitable and the aviation industry will be no exception.

Now in the rapidly changing legal and economic environment of the world, our industry must continually evolve to meet consumer demand. This union provides the ideal free-market response to this rising consumer demand for international air travel. It reflects the needs of an increasingly interconnected global marketplace.

Such an airline is well-positioned to extend the benefits of deregulation to the emerging global marketplace.

The benefits of the union will be substantial domestically as well as internationally. A merger of US Airways and United will have clear and dramatic positive effects on competition in domestic markets. Both the economy and consumers will reap the benefits of this enhanced competition and improved service. For the US Airways family—from our employees to the communities we serve—this partnership will create a host of new opportunities. Our customers, too, will enjoy substantial benefits, including easier-than-ever access to the world. For all involved, the benefits that will arise with this new airline are significant.

Thank you for the opportunity to share my perspective with you.

Senator DEWINE. Mr. Johnson.

STATEMENT OF ROBERT L. JOHNSON

Mr. JOHNSON. Chairman DeWine, Senator Kohl, and members of the subcommittee, thank you for the opportunity to be here this afternoon. I am the founder and CEO of BET Holdings, a multimedia company whose principal business is operating the BET Cable Network, a 24-hour basic cable programming service that reaches 60 million homes and is the preeminent business serving the entertainment and information needs of African-Americans. From an initial investment of a half-a-million dollars by TCI in 1980, BET Holdings celebrates its 20th anniversary with a market capitalization of approximately $2.5 billion. I own 65 percent of the shares of BET Holdings.

The recently announced acquisition of US Air by United Airlines has created for me another historic and exciting opportunity. I have agreed to purchase certain assets of US Airways operating out of Reagan National Airport and will be launching DC Air. I do so not to create an African-American-owned airline, though it will be that. I do so not just to make sure that air transportation remains competitive, though I will definitely do that.

Rather, I do so and I believe, like my fellow panelist here, Mr. Neeleman, to build a great and successful airline that I believe with all my heart will benefit the Washington area, where I have lived for over 20-plus years, offer high-quality service and value to passengers traveling to and from DC, and make us all proud that our airline is the absolute best to fly.

My vision for DC Air is straightforward: To build on the well-established East Coast service that Washington area passengers have come to rely on from Washington National Airport, and I focus on this word "rely." The three million people who fly from 43 cities to and from Washington National Airport expect that service to be there every day, and I assure you that is our focus, 43 cities flying to and from Reagan National Airport.

They expect us also to provide safe, reliable, high-quality service at competitive prices to customers and communities in this area, and I focus on those two words, "safe" and "competitive," and I assure you this airline will meet those tests.

We also expect to compete vigorously on price and service in the market we serve. Now, some of you on the panel, Senators, have raised the question as to whether or not DC Air can compete as a result of being a byproduct or a spin-off of United and US Air. Let me assure you, I did not achieve the things I have achieved in American society, a graduate of the University of Illinois, a Master's Degree from Princeton, building a $2.5 billion company, by not being able to compete in the American system.

I admit that the airline business is not an industry that I was born into. Neither was the communications industry. But it is definitely a business I am confident I can master by not only focusing my innate intelligence on the issue and my self-determination to succeed, but also by hiring talented executives, and I have done that when I hired Bruce Ashby, a 14-year veteran of the airline industry, to serve as the acting President of DC Air, and the talent that Bruce brings I am sure will attract other talented individuals.

Our goal also is to facilitate the growth and economic development that accompanies air service and development and maintain an airline that the Washington community will be proud to call its hometown carrier.

Let me make one other point. Unlike the other major airlines based in cities who serve Washington's Reagan National Airport, we do not see Washington as another spoke in a vast hub-and-spoke system and we will not provide service from Washington only to a handful of hub cities. Rather, Washington is our home base. Washington and the 43 communities we will serve from Washington is our entire business. We are focused on the needs of our customers in these cities and committed to providing them the service they deserve.

As a result of this transaction, we will become the largest carrier at Reagan Washington National Airport. We will offer 111 daily departures from Washington to 43 cities with a fleet of 37 aircraft. On day one, 29 of those aircraft will be jets and we plan to become an all-jet carrier as we go forward.

In addition, we are ready to begin discussions with other major airlines, such as American, Delta, Continental, and Northwest, to seek out partnering opportunities such as code sharing and frequent flyer arrangements. We see these as beneficial to our passengers, who would be able to earn frequent flyer miles in the major airline programs while flying DC Air. We believe our services at National Airport will be perceived by these carriers as a desirable feature of the extended network.

As I said, Senators, in summing up, I am in this game to compete. I have an enormous investment both of time, money, and prestige in this, and there is absolutely no way I am not going to pursue every opportunity to compete, whether it is against JetBlue, whether it is against United, whether against American or Delta, to assure a maximum return on my invested dollars. Thank you, sir.

Senator DEWINE. Mr. Johnson, thank you very much for your testimony.

[The prepared statement of Mr. Johnson follows:]

PREPARED STATEMENT OF ROBERT L. JOHNSON

Mr. Chairman, Ranking Member Kohl, and Member of the Subcommittee, my name is Robert Johnson. I am founder and Chief Executive Officer of BET Holdings, Inc., a multi-media company whose principal business is the operations of the BET Cable Network, a 24-hour basic cable programming service that reaches 60 million cable households.

From an initial investment of $500,000 by Tele-Communications, Inc. in 1980, BET Holdings celebrates it 20th Anniversary with a market capitalization of approximately $2.5 billion dollars and is the preeminent business serving the entertainment and information needs of African Americans.

The recently announced acquisition of US Airways by United Airlines has created for me another historic and exciting opportunity. I have agreed to purchase certain assets currently operated by US Airways out of Reagan National Airport and will be launching DC Air. I do so not to create an African American owned airline, though it will be that. I do so not just to make sure that air transportation remains competitive, though I will do that. Rather, I do so to build a great and successful company that I believe with all my heart will benefit the Washington area, offer high quality service and value to passengers traveling to and from DC, and make us all proud that "our airline" is the best to fly.

My vision for DC Air is straightforward: to build on the well-established East Coast service from Washington's National Airport that Washington-area passengers have come to rely on; to provide safe, reliable, high-quality service, at competitive prices to customers and communities in this area; to compete vigorously on price and service in the markets we serve; to facilitate the growth and economic development that accompanies air service; and to develop and maintain an airline that the Washington community will be proud to call its hometown carrier.

In terms of its development and its creation, DC Air is a product of the United/US Airways merger, and that is great news for consumers. Why?

The creation of a new airline is no small task in this intensely competitive industry. New entrant carriers face numerous obstacles such as high, fixed start-up costs, the lack of a strong identity, and an unproven route structure and business plan. DC Air, however, is not a typical airline startup company. Benefiting from the experience and expertise of United and US Airways personnel, we intend to build upon a proven network anchored at Washington's National Airport. DC Air will be a viable and totally independent competitor from Day One. At the same time, it will avoid the mistakes and pitfalls that often confront and, in many cases, overwhelm new entrant carriers in this industry. DC Air will be the largest carrier (measured by number of departures) at Washington's premier, close-in airport, offering 111 daily departures, flown by 37 aircraft, serving 43 airports, extending as far as Maine, Florida, Kansas City. And as DC Air develops, we will assess opportunities to expand service to additional communities.

For over several decades in some cases, great American cities like Albany, Allentown, Birmingham, Buffalo, Burlington, Charleston, Columbia, Greensboro, Greenville, Huntsville, Knoxville, Lewisburg, Manchester, Morgantown, Norfolk, Roanoke, Rochester and Syracuse, among others, have enjoyed nonstop air service to the heart of the nation's capital. These communities have relied upon this extensive service network, which has provided significant commercial, trade, economic development, and governmental relations benefits for these important cities.

The network has been maintained during periods of economic growth and recession, during harsh winters and humid Washington summers. Sustained service to many of these cities is made possible by the efficiency of a network that is centered at the beautifully renovated, convenient Ronald Reagan Washington National Airport.

DC Air is fully committed to sustaining and enhancing this network of service that links these critical American cities to our nation's capital. As a new entrant, DC Air will provide frequent, competitively priced air service, ultimately with an all-jet fleet. Retaining synergies of the current route system is absolutely vital to ensure the important access for these communities to Washington, D.C.

History clearly shows that as air carriers acquire the coveted, valued slots at Washington National, they use those slots in the most profitable way—in service to their hometown hub cities. In fact, excluding US Airways, the principal U.S. carriers serving National Airport only do so from their hubs or focus cities: America West from its hub in Columbus, Ohio; American from its hubs and international gateways in Chicago-O'Hare, Dallas, New York-JFK, and Miami; Continental from its hubs in Cleveland, Newark, and Houston; Delta from its hubs in Atlanta, Cincinnati, and Dallas, its New York-JFK international gateway, and its Delta Shuttle cities, New York-LaGuardia and Boston; Northwest from its hubs in Detroit, Memphis and Minneapolis; TWA from its hub in St. Louis and its New York-JFK international gateway; and United from its hub in Chicago O'Hare and its Miami international gateway.

Only US Airways, the current hometown, Washington-based carrier, offers breadth of service to the Washington passenger, serving not just its hubs in Charlotte, Philadelphia and Pittsburgh, but also 46 additional communities each day. That is why the creation of the hometown D.C. carrier is so critical to the preservation of a route system that has served medium and small cities throughout the eastern United States for so many decades. That is why the merger proposal reflects the strong conviction of each of the three principal players that not only must competition be preserved in the D.C. metropolitan area, but that new competition must come in the form of a carrier able, willing, and completely dedicated to preserving and enhancing the existing network of service which the citizens of so many of these cities have come to rely.

The prospects for vigorous new competition and improved quality of service to these communities are boundless. DC Air is up to the challenge and is eager to assume the historic commitment to these great American communities by providing safe, reliable, high-quality service with outstanding employees.

I appreciate that the airline industry is unique in many ways, and I further appreciate that the industry is highly unionized. I welcome *all* employees—whether union or non-union—to the DC Air family. My plan is to provide fully competitive compensation and benefits packages, while fostering an environment of participation and common goals for all our employees. This plan, I believe, will result in high job satisfaction among DC Air employees, which, in turn, will translate into the top-quality service our passengers should expect and demand.

STARTUP OF OPERATIONS

To assist in shaping and realizing the vision of DC Air, Bruce Ashby has been named acting President of DC Air. Bruce has 14 years of airline experience, most recently with US Airways, where he held the position of senior vice president—corporate development. Prior to that, he held the positions of senior vice president—planning and vice president —financial planning and analysis. Before joining US Airways in April 1996, he held corporate officer positions at Delta Air Lines, where he was vice president of marketing development, and at United Airlines, where he was vice president of financial planning and analysis and vice president & treasurer. Bruce played a key role in the formation of three "airline-within-an-airline" units: MetroJet by US Airways, Delta Express, and Shuttle by United, all of which were successfully launched and grown by these carriers, and continue to operate today. Bruce's broad background at a senior management level in the areas of airline finance, planning, marketing, operations, and labor negotiations will prove invaluable to DC Air.

As I mentioned earlier, unlike a typical airline startup, which might begin with one or two airplanes flying one or two routes, DC Air will be a fully operational airline serving 43 communities from National Airport with 111 daily departures. This plan brings important consumer benefits, by providing nonstop service and a new, competitive force to the 43 communities that we plan to serve, 36 of which are served from Washington's Dulles airport well.

To enable this level of startup, DC Air has entered into a memorandum of understanding with United Airlines, as part of the proposed United-US Airways merger, that will provide DC Air, from Day One, with the hard assets it requires to mount its operations. These include 222 departure and arrival slots at Washington National Airport; necessary gates and related airport facilities, for which DC Air will assume the leases; and the operations of one of its commuter airline subsidiaries, including the management staff, turboprop aircraft, and related assets. In addition, during a brief transition period in which DC Air will build its own fleet, United will ensure near-term aircraft availability through customary contractual "wet-lease" relationships for up to ten B–737–200 aircraft and up to 19 regional jet aircraft. In short, DC Air will have the necessary people, aircraft, and airport rights and facilities from Day One.

In addition to the Day One hard assets, United has agreed in the memorandum of understanding to provide DC Air, if DC Air so requests, with certain supporting services at market rates. These services are typically purchased by airlines, and include items such as fuel, occasional use gate agreements, station-handling contracts, and standard industry interline ticketing and baggage agreements. DC Air is free to purchase any and all of these services on the open market from the numerous other providers of such services.

It is critical to appreciate that none of these understandings compromise DC Air's independence.

We are rapidly moving through the process of turning the vision of DC Air into an operating reality. We have begun discussions with aircraft manufacturers in order to build our long-term all-jet fleet of aircraft. We are drafting the definitive documentation with United Airlines to implement our memorandum of understanding. We will soon be entering into detailed discussions with the DOT and FAA to obtain the required permits and certificates. And, we are engaged in working with the federal, state and local governments and community leaders to ensure that their needs are met.

In addition, we are ready to begin discussions with other major airlines, such as American, Delta, Continental and Northwest, to seek out partnering opportunities such as code-sharing and frequent flyer arrangements. We see these as beneficial to our passengers, who would thus be able to earn frequent flyer miles in these other major airline programs while flying DC Air. We believe our service at National Airport will be perceived by these carriers as a desirable feature of their extended networks.

SERVICE

DC Air's initial aircraft fleet will be composed of turboprop aircraft operated by DC Air employees, plus 19 regional jets obtained through an industry contractual relationship with current US Airways affiliates and 10 Boeing 737–200s obtained through a wet-lease arrangement with United Airlines.

Currently, the market that DC Air will serve are flown by US Airways with 34 percent turboprop departures and 66 percent jet departures. Of the 111 daily departures to be flown by DC Air, 25 percent will be turboprops and 75 percent jet departures. We will move to an all-jet fleet of aircraft over the first few years of operation; ultimately 100 percent of DC Air's service will be flown by jets.

DC Air intends to retain service to the communities it serves. One of the key benefits that comes to the communities we serve is that we are purchasing from United all of the slots required to serve these communities. Were the slots to be divided up among several larger carriers, none of these carriers would have sufficient slots to serve all the communities and each would naturally tend to add service to high-volume markets, such as hubs and focus cities where they already have a significant presence. Conversely, DC Air is committed to continuing service to all of our mid-size and smaller communities, and its sole focus is on serving these communities with the highest quality operation. Access by these 43 cities to the heart of the nation's capital will be assured.

COMPETITION

DC air will provide Day One competition to the Washington, DC area, with competitive pricing and high-quality service.

DC Air will offer nonstop competition to larger incumbent carriers from National Airport in eight of its 43 markets: Atlanta, Georgia; Charlotte and Raleigh-Durham, North Carolina; Columbus, Ohio; Detroit, Michigan; Ft. Lauderdale, Florida; and Philadelphia and Pittsburgh, Pennsylvania. These constitute 22 of its 111 daily departures, or 19 percent. All eight of these markets are also served from Washington's Dulles airport.

In addition, DC Air will compete in 28 markets with service currently offered from Dulles Airport: Albany, Buffalo, Rochester, Syracuse and White Plains, New York; Allentown, Pennsylvania; Hartford, Connecticut; Burlington, Vermont; Charleston, Columbia and Greenville, South Carolina; Greensboro, North Carolina; Charleston, West Virginia; Dayton, Ohio; Indianapolis, Indiana; Kansas City, Missouri; Nashville and Knoxville, Tennessee; Louisville, Kentucky; New Orleans, Louisiana; Norfolk, Richmond and Roanoke, Virginia; Portland, Maine; Providence, Rhode Island; and Jacksonville, Orlando, and Tampa, Florida. These constitute 70 of its 111 daily departures, or 63 percent.

In seven of its markets, DC Air will face no direct competition at National or Dulles airports. These include two designated Essential Air Service markets (Lewisburg and Morgantown, West Virginia), as well as Birmingham and Huntsville, Alabama; Little Rock, Arkansas; Manchester, New Hampshire; and West Palm Beach, Florida. Washington's National Airport represents the only nonstop link for these communities to the nation's capital.

SUMMARY

DC Air is an airline that works. It works for our customers, who will receive top-quality service at competitive prices between Washington's premier airport and the forty-three other cities we plan to serve. It works for our many mid-size and small communities, because it will retain nonstop service to National from those communities that otherwise would likely be converted to connecting service over another carrier's hub. It works for our employees, who will enjoy the benefits of working for a competition-focused, all-jet carrier with a clearly defined mission. And it ensures that airline competition will grow and thrive here in Washington.

ROBERT L. JOHNSON, FOUNDER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, BET HOLDINGS II, INC.

Robert L. Johnson is the founder, chairman and chief executive officer of BET Holdings II, Inc., the leading Black-owned and operated media-entertainment company in the United States. With the mission of established BET as the most-valued consumer brand within the Black marketplace, BET has enjoyed extraordinary financial and strategic success since its inception in 1980. For two consecutive years, BET Holdings, Inc. has been recognized by Forbes magazine as one of the "Best Small Companies in America."

From 1976 to 1979, Johnson served as vice president of Government Relations for the National Cable Television Association (NCTA), a trade association representing more than 1,500 cable television companies. Prior to joining the NCTA, Johnson was press secretary for the Honorable Walter E. Fauntroy, Congressional Delegate from the District of Columbia. Johnson previously held positions at the Washington Urban League and the Corporation for Public Broadcasting.

Johnson serves on the following boards: US Airways; Hilton Hotels Corporation; General Mills; Gerald Stevens; United Negro College Fund; National Cable Television Association's Academy of Cable Programming; and the American Film Institute. Johnson is also a member of the Board of Governors for the Rock and Roll Hall of Fame in Cleveland, OH.

Major awards received by Johnson include: 1997 Broadcasting & Cable Magazine's Hall of Fame Award; CTAM's Grand Tam Award; Cablevision Magazine's 20/20 Vision Award which lists him as one of the twenty most influential people in the cable industry; an NAACP Image Award; National Women's Political Caucus' Good Guys Award; a Distinguished Alumni Aware from Princeton University; and the President's Award from the National Cable Television Association.

Johnson is a graduate of the University of Illinois and holds a master's in International Affairs from the Woodrow Wilson School of Public and International Affairs at Princeton University. Johnson resides in Washington, DC with his wife, Sheila, and their two children.

BET Holdings operates five major cable channels: Black Entertainment Television, a 24-hour programming service targeting African-American consumers that now reaches more than 60 million U.S. homes and more than 90% of all Black cable households; BET On Jazz: The Jazz Channel ™ and BET International ™, 24-hour jazz programming services reaching more than 2 million domestic and 1 million international subscribers respectively; BET Action Pay-Per-View, a pay-per-view channel that reaches more than 10 million subscribers; and BET Gospel, which was launched in December, 1998, and features inspirational speakers and musical programming. In 1998, Johnson established BET Pictures II and BET Arabesque Films to produce and market Afican-American themed film releases and made for TV movies, respectively.

BET Holdings has also leveraged its brand identity into new businesses outside the cable industry. These businesses include direct ownership of BET Arabesque Books, the only line of original African-American romance novels written by Afican-American authors; and co-ownership with Vanguard Media, Inc. of an impressive roster of magazines of Afican-American and urban targeted magazines. Those titles include:

- BET Weekend—a glossy magazine reaching 1.8 million readers and focusing on lifestyles, arts and entertainment. It is circulated once a month in selected Sunday newspapers in 10 major urban markets;
- Emerge—a provocative issues-oriented magazine providing news, commentary and analysis for an upscale African-American readership of 300,000 on a range of topics including politics, technology, personal financial and the arts;
- Heart & Soul—a circulation of 400,000 and geared toward African-American women with information on how to live well and stay fit;
- Honey—a multi-cultural publication focusing on fashion, entertainment and lifestyle for today's modern woman; and
- IMPACT—a bi-weekly trade publication focusing on the business of urban entertainment, including the IMPACT Super Summit, the leading urban music trade conference.

Other BET Holdings ventures include: BET.com, an interactive web site based upon a joint venture with Liberty Digital, News Corporation, USA Networks, and Microsoft; BET SoundStage Restaurant, an entertainment-themed restaurant in Largo, Maryland; BET SoundStage Club, a dance club on Pleasure Island at Walt Disney World Resort in Orlando; BET On Jazz Restaurant, a fine dining restaurant in Washington; Tres Jazz, a restaurant located inside the Paris Hotel and Casino in Las Vegas; and BET Movies/STARZ!, a premium movie channel joint venture with Starz Encore Group LLC.

Senator DeWine. Mr. Neeleman.

STATEMENT OF DAVID NEELEMAN

Mr. Neeleman. Thank you very much, Mr. Chairman, Senator Kohl, other distinguished members of the subcommittee. I, too, am grateful for the opportunity to come here and share a little bit of my insight. Although I am not as old as some of the other panelists, I have spent my whole adult life in the airline business.

Senator DeWine. We are not sure who you are referring to.

Mr. Wolf. Whoever it was, we did not like it. [Laughter.]

Senator DeWine. They are all shaking their heads, Mr. Neeleman.

Senator Torricelli. I would start over. [Laughter.]

Senator DeWine. At least he did not refer to the committee.

Mr. Neeleman. I have plenty of gray hair to show that I have been in this business for a while——

Senator Leahy. I will take hair of any color. [Laughter.]

Mr. Neeleman. Could I have my time back now?

Senator DeWine. It is about up, Mr. Neeleman. [Laughter.]

Mr. Neeleman. But I have been, in my whole adult life, I have been in the low-fare business and one of the greatest pleasures that I have as a CEO of a low-fare airline is to provide travel opportunities to millions of people that would not have been able to travel if it were not for our great fares.

Today, I come on behalf of 600-plus employees at JetBlue Airways. In just our short little time in existence, we have been able to prove that if you provide great service with a great product with unbelievably low fares, people fly and you can be successful. We are going to add 40 airplanes over the next 4 years, but at that point in time, we are still going to be small. We are going to be a little guy.

I have read a lot of interesting things in the press over the last few weeks since this arrangement was announced, but one particular item caught my eye and it was a quote by actually the President of United, Ron Dutta, where he said that, and I am very compelled by their arguments, that this will create a finished network in the United States and if three or four airlines survive from this, that would be of great service to the passengers of the United States for the reasons they have explained. But he also said that there would also be a dozen or so regionals that would then be allowed to thrive and offer low fares.

I just want to make sure that that is the case, and I think there are several ways. We are not against mergers per se, having been an individual who sold one of my airlines to Southwest Airlines. It worked out good for our employees and it worked out good for the people in the Western part of the United States. But I think there are ways, and maybe there are some things that can be done to maybe make this palatable so that competition can be allowed to thrive in the areas.

For example, the Department of Transportation worked for a couple of years on some competitive guidelines that they wanted to enact. They really had to do with extreme measures, what we call capacity dumping, where airlines would go into a market in a hub-dominated airport and the incumbent carriers would use extreme measures to try and eradicate competition. Those competitive guidelines have never been enacted, for example, because they have been vehemently opposed by the major airlines that are now wanting something from the Justice Department. So there are things, I think, that there are some quid pro quos that could be discussed, where we could create a finished network as well as opportunities to thrive.

Also, in the area of gate availability, Senator Edwards talked about Charlotte, for example. We have had difficulty getting into many airports that we would like to fly into. We will not fly into an airport where we have to sit and wait for gates and put our passengers through that kind of experience. We refuse to go to those airports. And so if some gates could be freed up and some slots.

I have a tremendous amount of respect for Robert Johnson and what he has been able to accomplish and I wish I had his network as one of our 24 channels live on our airplanes, but low fares are created by airplanes with great economics and with big passengers, and I fear that the plan that DC Air has is actually constricting the numbers of seats and the numbers of flights out of Washington National Airport.

Regional jets are used primarily to cater to business travelers that pay the highest fares and thereby eliminating the leisure traveler. If you have this construction, there have been studies that show that there are 16 percent less seats that will be available out of Washington National and 8 percent less flights. That will cause the leisure traveler to be eliminated from this equation and they will have to go to another airport in the Washington area, which will, in turn, be controlled by United. So obviously it is a very creative plan, but I fear that it will have dire consequences for the American consumer.

Just in conclusion, we have not asked for any handouts. We have not asked for any government subsidies. All we want is a fair chance to compete. We are excited about what we have been able to accomplish so far and we will do it in the future. Thank you, Mr. Chairman.

Senator DEWINE. Mr. Neeleman, thank you very much.

[The prepared statement of Mr. Neeleman follows:]

PREPARED STATEMENT OF DAVID NEELEMAN

Mr. Chairman and Members of the Subcommittee:

I am grateful for the opportunity to testify this morning on behalf of JetBlue Airway's more than 600 employees.

JetBlue Airways is New York's low fare hometown airline. This is more than a marketing slogan, its really who we are.

As a new entrant, low fare carrier, I am convinced that the only way to always offer the traveling public affordable airfares is to remain a low cost company. In order for JetBlue to remain a low cost company, we needed: unprecedented financing, $130 million; a fleet of brand new modern jets, the Airbus A320; a sound business plan, offering low fares and great service to the world's busiest travel market New York City; and finally an experienced and exceptional management team. I believe we have all four of these ingredients and thus far, the traveling public seems to agree.

These cornerstones of our business, coupled with a focus on productivity and efficiency, have allowed us to hire at above market wages and to deliver "the JetBlue Experience" to more than 200,000 customers.

Having inaugurated service in February of this year with flights between New York City and Buffalo, we just took delivery of our fourth new aircraft last week. After the live satellite television screens are installed at each of its 162 leather seats, it will enter low fare service next week to and from Orlando. Shortly after launching Orlando, JetBlue will serve Rochester, New York and Burlington, Vermont, two of the highest priced travel destinations in America. By the end of the year, we will have ten brand new aircraft in ten cities and this growth pace will continue for at least four years and forty aircraft.

Importantly, even at this pace, I know that in four years JetBlue will still be a very small regional carrier. This is precisely why certain aspects of the proposed merger, and its potential consequences for the entire industry, are of concern to JetBlue.

From a macro perspective, if this deal is approved, I believe other large carriers will feel the need gain additional market strength in order to keep pace with United. Whether or not such moves are economically justified or in the best interest of their shareholders or customers, I still believe this will occur.

This industry consolidation could conceivably result in three or four major carriers carrying upwards of 85 percent of all US domestic traffic. As an entrepreneur who has started and then sold companies, including an airline, I am not against airline mergers per se nor am I against the concept of this merger. However, industry consolidation such as would occur through this merger, and others, absent protection for smaller carriers trying to compete fairly in the domestic marketplace, can only be seen as harmful to the American consumer.

When there are fewer companies competing in a market, any market, prices tend to rise. Small carriers, whether low fare in nature like JetBlue or otherwise, must be assured a level playing field and the ability to compete. To ensure the consumer's continued access to multiple carriers and low fares as the industry consolidates, small airlines must be afforded access into concentrated airports as well as access to commercially viable facilities such as gates and counter space at these airports. While some carriers claim airspace is the most pressing issue facing the US airline industry, I believe the ability of small carriers to access concentrated airports and obtain adequate facilities is the most critical issue facing new entrant carriers.

Also, as carriers consolidate their systems and pare down overlapping or inconsistent routes, lessening consumer choices, they will be in a far stronger position to utilize their suddenly available excess equipment to the disadvantage of their competitors, especially smaller carriers and new entrants.

As this deal is reviewed, I believe Congress and the Department's of Justice and Transportation should carefully examine these negative ramifications and consider ways for United and US Airways to eliminate these and similar problems. One approach which may prove to be a good starting point would be to strengthen and enact the Department of Transportation's Competition Guidelines while also increasing the use of its unfair practices enforcement powers. I suspect the need for the Guidelines may prove greater than ever as the industry consolidates.

On a micro perspective, this deal presents several areas that I believe need to be addressed. Included here are specific airport access and facilities issues as well as specific city-pair routings where the only carrier in several large markets will be the new United. Also, in this regard, I believe that the proposed DC Air presents and unworkable attempt to solve the obvious hub domination issue that will exist in the Washington DC-Baltimore metropolitan area.

From the press accounts I have read, DC Air is poised to become Washington DC's new low fare airline; and it is suggested that it will be profitable too. I have a tremendous amount of respect for its potential new CEO, Robert Johnson. He is one of America's premier entrepreneurs with a stellar track record.

Yet the deal itself is not only bad for consumers in the entire Washington metropolitan region, it is bad for consumers throughout the eastern United States who visit Washington on business or leisure travel.

United Airlines is by far the dominant carrier today at Dulles Airport. After the merger, its dominance will increase. After the merger, United will also become the carrier at BWI. And right in the middle, at Reagan National Airport, DC Air will supposedly eliminate that new regional dominance.

DC Air will be flying a fleet of jets, most of which will have 50 or fewer seats. Its costs, as a so-called "virtual airline" that wet-leases the vast majority of its operational assets and personnel from United, will be high, as will its own operating costs given its equipment type and proposed route structure. In fact, with the proposal route system as I have seen it, most of DC Air's markets will have far less capacity than those markets receive today with US Airways.

With a decreased supply, and even a steady demand, prices for consumers in all DC Air's markets will likely increase. Since the deregulation of the domestic airline industry in 1978, passenger traffic at Washington's National Airport has actually decreased by 360,000, a drop of more than five percent. Operations at National have also decreased during this period by more than 10 percent. Under DC Air's proposal, not only will the daily capacity further decrease at National Airport, by 16 percent, but so too will the number of daily operations, by 8 percent. With less supply into slot-controlled National Airport, leisure travelers seeking lower fares will likely find them unavailable and be forced to utilize the two remaining United dominated airports in the region.

I do not believe the DC Air proposal, which will significantly reduce capacity at the already under utilized and artificially slot-controlled National Airport, should be rubber-stamped by the regulatory authorities.

National is a unique airport. New entrants have effectively been barred since 1986 as slots cannot be purchased at any price and lease prices are prohibitive. Even with the new FAA Reauthorization law, there is no end in sight to National Airport's slot regime which has yielded less than a one percent growth rate in passenger traffic over the past twenty-five years while total domestic enplanements have grown by more than 200 percent in this same period. This is clearly not the most efficient utilization of the taxpayer's most scarce aviation resource. Given the new competitive landscape that will be painted by this deal, coupled with National Airport's unique attributes, I believe the Department of Justice should insist that a portion of the slots that DC Air seeks to purchase at a below market price be returned to the government, from whence they came at no cost, and be allocated to qualified new entrant carriers who will legitimately spur competition.

Mr. Chairman, in the end, the post-deregulation airline landscape is littered with many start-up carriers that have failed due to a combination of weak management, and inability to achieve low costs and/or a poor business plan. JetBlue is not, nor will it become, this type of carrier. We have performed our due diligence and have successfully begun to implement our business plan in the largest travel market in the nation. All that we seek from those reviewing this merger is to correct some of its negative aspects and afford us a fair chance to grow our franchise and create further opportunities for customers to enjoy the JetBlue Experience.

In closing, I am reminded of a forward-looking statement recently made by the President of United Airlines. He said that with this deal, for domestic purposes, United would become a "finished network." Possibly speculating on others in the industry, he added that consumers would benefit most from the competition of but three or four national carriers and dozens of smaller regional carriers. Frankly, with but one reservation, I cannot altogether disagree with his prognostication. However, my reservation is simply that these dozens of smaller regional carriers he refers to have a fair opportunity to compete in every market they so choose. This is JetBlue's chief concern.

I appreciate your asking me to testify today and look forward to any questions you may have.

Thank you.

CONSEQUENCES FOR SELECTED DC AIR MARKETS

	ROUTE	TODAY @ DCA	DC AIR	DULLES
NY	DC-ALB $379	US x3 jets = 378 seats	3 RJ = 150 seats	6 US Exp* 3 US Exp
	DC-BUF $379	US x3 jets = 361 seats	3 RJ = 150 seats	8 UA Exp 3 US Exp
	DCA-SYR $386	US x 3 jets = 323 seats	3 RJ = 150 seats	6 UA Exp 3 US Exp
	DCA-ROC $346	US x 3 jets = 362 seats	3 RJ = 150 seats	7 UA Exp*** 4 US Exp
OH	DCA-DAY $393	US x 3 jets = 326 seats	3 RJ = 150 seats	3 UA Exp 3 US Exp
	DCA-CMH $439	US x 3 jets = 320 seats	3 RJ = 150 seats	7 UA Exp* 3 US Exp
VT	DCA-BTV $400	US x 3 prop = 96 seats	2 RJ = 100 seats	4 UA Exp**
SC	DCA-CHS $449	US x 3 mix = 196 seats	3 RJ = 150 seats	5 UA Exp*
TN	DCA-TYS $380	US x 4 mix = 164 seats	3 RJ = 150 seats	3 UA Exp

All fares are full fare, one-way fares as of June 13, 2000
RJ = 50 seat regional jet
Exp = commuter affiliate at IAD utilizing turboprops
* = includes both regional jets and turboprops
** = all flights operated with 50 seat regional jets
*** = all flights operate with turboprop, except one 737

Senator DEWINE. The Senate now has a vote, and at this point we are going to excuse Professor Kahn because he is wanted on the other side of the Capitol in Congressman Henry Hyde's Judiciary Committee. Professor, thank you for joining us.

When we get back, Mr. Cooper will be our final witness and then we will go to questions. Thank you very much.

[Recess.]

Senator DEWINE. We will reconvene. Thank you all very much for your patience.

Mr. Cooper, it is your turn. Thank you for joining us.

STATEMENT OF MARK N. COOPER

Mr. COOPER. Mr. Chairman, members of the committee, thank you for having me today. This is one of those cases where going last is actually going best because each of the members of the committee has spoken. The problems that I will speak about have shown the empirical analysis, 20 years of empirical analysis, and this is the experience of the American consumer.

There is a problem out there and this merger will make it worse. There are some mergers to which policy makers should say no and this is one of them. This merger would reduce competition in an industry that already suffers from a lack of competition. It would trigger a round of mergers that would lead consumers with fewer choices across the Nation. Professor Kahn asked some questions. I actually will answer each of those three questions, horizontal market power, network market power, and a merger wave.

Measured at the national level, allowing the number one airline to buy the number six airline violates the merger guidelines of the Department of Justice. Those guidelines were promulgated under the Reagan administration, affirmed under the Clinton administration.

Viewed on an airport-by-airport basis, the merger violates the guidelines in more than half a dozen airports, and actually, every one of the airports Mr. Schumer mentioned, it violates the guidelines, and that raises my count to about a dozen.

On a route-by-route basis, there are numerous cities, we have heard as many as 100, that would lose head-to-head competition. And whether or not these are hub airports, when you lose competition, you reduce choices and ultimately raise prices. Twenty years of empirical evidence in this industry has shown that when airports become concentrated, when competitors leave markets, prices go up by 20 to 40 percent. My testimony identifies 2 dozen examples of econometric studies that show that, and you have your examples right there. Count the airlines. Count what you lose. Those are 20 to 40 percent increases by the reduction of competition. That is what the consumer experiences. That is what Mr. Edwards, Mr. Kohl, Mr. Leahy have talked about.

Of course, market power is evidenced not only in higher prices but also with miserable service, and Mr. Schumer has mentioned that. Since airlines do not face effective competition, they do not have to respond at the level of quality of service. So much for horizontal concentration.

The geographic extension that this merger would create would create a denser national network, and those networks make it less and less likely that competitors can attack any individual market. As happens with all such networks, travelers are locked into single line suppliers, through hubs have their traffic concentrated, and then the travelers are further held captive with code sharing, manipulation of reservation systems, frequent flyer promotions, et cetera.

As those customers become more and more captured to those airlines, entrants have difficulty attracting people for segments. The necessary scale of entry gets larger. And, of course, the ability of new entrants to get into airports is restricted by anti-competitive practices, which Mr. Edwards and Mr. Neeleman have mentioned.

Having gained those advantages, we end up with less competition for the traveling public. The merger will also trigger a round of mergers across the industry. What we are moving from is fortress hubs to fortress regions, with national networks that are sprinkled with hubs to hold passengers and deny them choices.

Now, the interesting thing is, of course, is that the proponents of the merger recognize their problem so they have proposed a series of politically correct but economically incorrect and useless band-aids to try and cover over the problem. We have the promise of a 2-year price freeze, and it is very difficult to figure out whether yield management will change the percentage of tickets on any given flight so the average price goes up. And besides, 2 years is not a very long time. The damage to competition will be permanent. What happens after 2 years? It does us no good.

We have the carve-out of a regional airline, which would primarily own non-jets, as I understand it, and rent its jet aircraft from the parent. The value in that airline is in those slots and those slots can be flipped, turned over after 3 years, and again, the harm to competition is permanent, not temporary.

We hear promises about routes that might be opened. We have heard discussions about facilities, et cetera. Frankly, I do not think this committee or the Department of Justice should micromanage the industry by negotiating a series of specific concessions about Syracuse or Pittsburgh or otherwise. We need a public policy that comprehensively gives the consuming public competition in the industry.

The only way to protect the consumer in this industry is to provide competition. Allowing this merger to start a merger wave will do exactly the opposite, and this is a major national issue. The American public now travels, because of the growth of income and the mobility of our society. We must have an airline industry that is responsive, and the only way to get a responsive industry is to have real competition. We believe that this merger, starting the wave that will inevitably follow, is a step in the wrong direction. Thank you.

Senator DEWINE. Mr. Cooper, thank you very much.

[The prepared statement of Mr. Cooper follows:]

PREPARED STATEMENT OF DR. MARK N. COOPER

Mr. Chairman and Members of the Committee, My name is Dr. Mark N. Cooper. I am Director of Research for the Consumer Federation of America (CFA). CFA is the nation's largest consumer advocacy group. CFA is a non-profit association of some 260 pro-consumer groups, with a combined membership of 50 million, which was founded in 1968 to advance the consumer interest through advocacy and education. I greatly appreciate the opportunity to appear before you today to offer our view of the proposed United Airlines/US Airways merger.

There are some mergers to which policy makers and the Department of Justice should just say "no!" This is one of them. This merger would reduce competition in an industry that already suffers from a general lack of competition. It would trigger a round of mergers that would leave consumers with fewer and fewer choices across the nation. New airlines would find it harder and harder to enter these more concentrated, integrated markets that would result.

There was a time when airline problems were largely problems for business travelers, but that has changed. The rapid growth of personal income over the past decade has made air travel much more common among residential consumers, in spite of sharply rising ticket prices. As a result, consumer groups such as CFA have become more and more concerned about the failures of the airline market—poor service and the abuse of market power in a highly concentrated industry.

HORIZONTAL CONCENTRATION WOULD INCREASE IN MANY AIRPORTS

On a market-by-market basis the merger violates the Department of Justice Merger Guidelines in more than half-a-dozen major airports including Philadelphia, Dulles, National, Baltimore, Boston, La Guardia, San Francisco and Orlando. There are numerous other smaller airports and routes from smaller airports that would also be affected. Whether they are hubs or not, the loss of head-to-head competition imposes a burden on consumers by reducing choices and ultimately increasing prices.

The empirical evidence in the airline industry shows that when airports become concentrated or when competitors are removed from already concentrated airport, prices go up, by as much as 20 to 40 percent. Econometric studies of market structure have consistently shown that concentration on routes, at airports, and in the industry at large are associated with higher fares (see Table 1). Analysis of specific events—entry, exit and mergers—confirms these findings. Similarly, estimates of the elimination or addition of one competitor have been made.

The average traveler has few, if any choices, and they would become fewer if this merger and the ones in its wake are approved. Generally, we find that most routes have fewer than four carriers. National average concentration ratios (Hirshman-Herfindahl Index or HHI) typically are in the very high range. Measured at airports the HHI is in the range of 3300—the equivalent of three airlines per airport. Measured by city pairs, the HHI is closer to 5000—the equivalent of two per route. Given such a high level of concentration, we should not be surprised to find that anti-competitive behavior and changes in market structure have a significant impact on fares. Exercising market power is easy in such highly concentrated markets.

Market power is evidence both by higher prices wherever it exists and miserable service. Since they do not face effective competition, they do not feel compelled to improve quality. Flowing from this basic observation, we find support for a number of traditional observations about public policy. Actual competition is vastly more important than the threat of competition. Barriers to entry play a critical role in determining the level and nature of competition. Mergers tend to reduce competition, increase prices and lower output.

FORTRESS HUBS AND IMPENETRABLE NETWORKS

The geographic extension that United is seeking and the denser network that the merger would create make it less and less likely that competitors will be able to attack these markets. As all such airline networks do, it would lock travelers in by concentrating their flow through fortress hubs, coordinating scheduling at those hubs, and binding them with frequent flier and other promotional programs. As travelers fall more and more under the control of one airline, the ability to new entrants to crack markets is reduced, as it become harder and harder to attract passengers to flight segments. The necessary scale of entry gets larger and larger.

The centerpiece of industry structure in the deregulated environment—the hub and spoke network—is a constant source of public policy concern. Part of the complexity of the analysis stems from the fact that the characteristics of hubs that appear to confer market power are both "positive" and negative. Just as competition can create efficiencies so too can hub and spoke networks. Unfortunately, in practice, the "positive" economic advantages of hub and spoke networks have been immediately leverage with and overwhelmed by anti-competitive actions to increase and exploit market power by incumbents dominating hubs. Incumbents create barriers to entry by locking in customers and disadvantaging competitors in a variety of ways.

Traffic is diverted to the dominant incumbents through a number of marketing mechanisms that extends market power over travelers. These include frequent flier programs, deals with travel agents to divert traffic, manipulation of computerized reservation systems, code sharing, and general policies of market segmentation.

The ability of competitors to enter hubs is undermined in a number of ways. Access to facilities is impeded through a number of mechanisms that preclude or raise the cost of entry. These mechanisms include denial of gate space, extraction of excess profits on facilities, and the inability of entrants to attract adequate passengers to establish a presence.

Having gained this advantage, the incumbents can raise price, without risking entry. Prices at hubs are higher. Profits at hubs are higher. Studies that try to decompose the market power associated with specific practices—hubbing, manipulation of computerized reservations systems, frequent flier programs—also reach similar conclusions (see Table 1).

A CASCADE OF CONCENTRATION

This merger will trigger a movement from fortress hubs to fortress regions. We have already heard reports of retaliatory mergers that would organize the country into core regions where largely captive customers are funneled into national networks. The inconvenience and, in many cases, the impossibility of inter-airline travel, give the originating airline enhanced market power over the traveler.

Industry structure has become sufficiently concentrated to raise a fundamental question about whether market forces are sufficient to prevent the abuse of market power. Both at individual hubs and in the industry as a whole, markets have or would become highly concentrated. Attorney's General from 25 states filed comments in support of the Department of Transportation's anti-predation rule which identified 15 airports at which the dominant firm had a market share in excess of 70 percent (see Table 2). This is the standard generally applied to indicate monopoly status. This is not a small airport problem. Six of the ten busiest airports in the country are on the list. Over one-third of all passenger emplanements took place at these airports.

Moreover, the monopolized airports are building blocks of potential national market power through concentration of the national industry. For example, major pending merger/alliances or those being discussed in the wake of the proposed United/US Air merger include five of the nations busiest airports and eleven fortress hubs.

PROPOSED FIXES ARE INADEQUATE

Recognizing the severe problems that this merger faces, the merging parties have offered a series of largely meaningless Band-Aids to try to patch over the fundamental problem.

First, the new giant airline can easily increase it yield by reducing the number of discounted seats available. With the immense increase in market power up and down the East Coast that will be a readily available strategy. Moreover, what happens after two years. The damage to competition will be permanent, not temporary.

Second, they have proposed to carve out a new airline at National airport. This addresses only one market and not in a very effective manner. The airline simply cannot provide meaningful competition. The airline is largely a commuter airline, with turboprops. Its jets will be leased from United, which will make it difficult, if not impossible to complete on price. The airline's primary assets will be valuable landing slots and gates that will be fungible in three years. What happens after that? The damage to competition will be permanent, not temporary.

Third, we hear vague promises about extremely long haul, continental and international routes that might support non-stop or direct flights if the merged company could render the traveler captive.

CONCLUSION

The bottom line is clear. Temporary freezes, feeble spin-offs and a few long distance flights cannot make up for the massive increase in concentration that will result from this merger. With two decades of econometric evidence about competitive problems at the levels of structure, conduct and performance reinforced by detailed analysis of recent events, one can only hope that the public policy debate will not revert to the irrelevant question of whether deregulation served the consumer interest. The trigger for public policy concern is, as it has always should have been, whether anticompetitive practices are hurting consumers. By every measure, the airlines are failing that test at present. Allowing a merger wave to further concentrate the industry would further diminish the competitive forces in the industry and is not in the public interest.

TABLE 1

THE IMPACT OF ANTI-COMPETITIVE MARKET STRUCTURE ON FARES

STUDY	RACTICE	PERCENT INCREASE IN PRICE
GENERAL MEASURES OF COMPETITION		
Dressner and Trethaway	Competition	35
GAO (1993)	Hub Concentration	33
GAO (1996)	Hub Concentration	31
DOT (1996)	Hub Concentration, 1989	19
	1994	19.7
	1995	22.1
CHANGE IN NUMBER OF COMPETITORS		
Strassman	Add one (2.7 to 3.7)	44
Hurdle (et al.)	Loss of one	20
Windle and Dressner	Add one (2-3)	17
Oum, Zhang and Zhang	Add one (1-2)	17
Borenstein (1989)	Add one (1-2)	8
ENTRY AND EXIT		
Dressner and Windle	Low cost (Southwest)	35
Whinston and Collins	Low cost (Peoples)	34
DOT (1996)	Low Cost (all Hubs)	35
	Low Cost (Concentrated Hub)	40
Joskow et al.	Any	10
GENERAL INDUSTRY PRACTICES		
Morrison and Winston	Hubbing	5.4
(1995)	Frequent Flier	7.9
	CRS Manipulation	9.4
	(Subtotal)	22.7
	Fare restrictions	23.8
	Total	46.5
Stavins (1996)	Fare restrictions	20-40

TABLE 2

DOMINANT AIRLINES PROPOSING GREATER CONCENTRATION WITH FORTRESS HUBS THAT EXCEED MONOPOLY STANDARD

AIRPORT	AIRLINE	DOMINANT FIRM MARKET SHARE
ATLANTA	DELTA	79%
CHARLOTTE	US AIRWAYS	90
CINCINNATI	DELTA	90
DALLAS FT. W	AMERICAN	70
DENVER	UNITED	70
DETROIT	NORTHWEST	79
HOUSTON INTL	CONTINENTAL	79
MEMPHIS	NORTHWEST	79
MINNEAPOLIS	NORTHWEST	82
PITTSBURGH	US AIRWAYS	89
SALT LAKE	DELTA	72

Source: Attorneys General

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Senator DEWINE. Mr. Goodwin, Mr. Wolf, Mr. Johnson, while it is fresh in your mind, do you want to respond to what Mr. Cooper had to say? Let me just ask you if you would start with his allegation that we are going to have a wave of mergers, we are going to get into fortress regions now and the American public is going to suffer. Mr. Goodwin or Mr. Wolf or Mr. Johnson?

Mr. WOLF. Let me say that Mr. Cooper has insight into the future that I simply do not possess. But in any event, what is before this committee today and what is before the government of the United States is the merger of these two airlines with the least amount of overlap, I think, in the industry today, and with the most amount of pro-competitive and pro-consumer benefit if it is allowed to go forward.

US Airways is basically a north-south operator on the East Coast of the United States of America, where we have about a 38 percent share. United has about a 1 percent share. If you look at the communities that we serve, and by the way, we are proud to say as an example we started flying from Charlotte to Paris some limited number of weeks ago, a very big event for US Airways, in Paris, in hosting a little function, we had Governor Hunt there with us and the Governor sort of got me aside and said, "Steve, what I really want you to do for North Carolina is to get us service to South America." I tried to respond as positively as I could, but the truth of the matter is I conveyed to him that probably not during his natural lifetime nor mine would that happen.

As a result of this merger, North Carolina is going to have one-stop service to multiple points of big name cities in all of South America, one-stop service to Hong Kong and Beijing and Tokyo. I mean, it is an immense plus for the consumers in the cities that we serve.

Mr. GOODWIN. Chairman DeWine.

Senator DEWINE. Mr. Goodwin.

Mr. GOODWIN. A couple of other points. Mr. Cooper alluded to the fact that this was going to create regional mega-carriers so that we would sort of divvy up the country. I think that is inconsistent with what consumers want. Consumers are telling us they want to have access to more places with more frequency and more opportunities to travel so they can travel on a given airline.

Senator DEWINE. And at the same time, they want it cheaper. I mean, we all want everything.

Mr. GOODWIN. Absolutely. They all want it, and they want it cheaper.

Senator DEWINE. They all want it all.

Mr. GOODWIN. But that flies in the face that the country is going to get divvied up amongst a group of players. Every other——

Senator DEWINE. Mr. Goodwin, excuse me. I think the premise, though, for that is what Mr. Cooper said and what some of us fear is that this is going to set off a wave of mergers. Once you have the new wave of mergers, you are going to be down to three major airlines. Then you get into this fortress region.

Mr. GOODWIN. I cannot speculate on whether there is going to be another round of mergers because I do not know whether anyone else——

Senator DEWINE. I would like for you to, because it is important and we need to have this addressed. If you say you do not know, that is fine, but we need for you to try to address this because I think it is a public policy issue. We cannot look at this merger in isolation—no one has a crystal ball, but public policy, I think, demands that we look a little bit forward beyond this immediate merger.

Mr. GOODWIN. I agree with you. I think you have a tough chore to look at the downstream effects of this and will there, in fact, be further mergers. My only point, Mr. Chairman, is I am not sure that there is another combination out there that will satisfy the antitrust rules as they currently are applied to our industry, that will satisfy the needs of the consumer, that will satisfy the labor integration issues that any airline merger surfaces. I do not know that there is another one out there like this. So that is why it is difficult for me to give you some definitive answer, but I do recognize the committee's need to ask that question.

Mr. JOHNSON. Mr. Chairman.

Senator DEWINE. Mr. Johnson.

Mr. JOHNSON. Let me respond to Mr. Cooper's comments regarding DC Air. I think DC Air is a viable airline today operating out of DC National and it will continue to be that way. We will transition this airline as quickly as possible to an all-jet airline. We focus only on the 43 cities we serve. As I mentioned earlier, I have been in the Washington area, I pay taxes here, have my business here for almost 30 years. I see no reason to acquire this airline for the purpose of flipping it and have no intention of doing so.

In addition, in terms of our relationship with United, as I think was mentioned earlier in some of the testimony, we have leases with United that are at arm's length, that are at fair market prices, and these leases are done across the airline industry. Thousands of departures a day are based on types of leases from aircraft that are flown by United, US Airways, Delta, and Northwest.

So there is nothing that is sort of unprecedented in what we are doing at DC Air. We are providing a transition service from United that we can walk away from with a 4-month notice and begin to operate our own jet aircraft to these 43 cities.

Senator DEWINE. Mr. Johnson, Mr. Neeleman said that under DC Air's proposal, daily seat capacity will further decrease at National Airport by 16 percent. The number of daily flights will also decrease by 8 percent. Is that true, and if it is true, what are we to make about that.

Mr. JOHNSON. It is not true.

Senator DEWINE. It is not true?

Mr. JOHNSON. It is not true. The number of flights that we have——

Senator DEWINE. What are the figures, then?

Mr. JOHNSON. We have 111 slots, 222 daily departures, and we will continue that. In fact, we will look to expand that to some cities that we think by sort of reconfiguring our route structure might benefit from more flights coming into the city. We are going from turbo props, instantly from 66 percent jet to 75 percent jet. The regional jets that we are looking at, or the jets that we are looking at, Boeing, for example, contacted us. They have a new jet, 717, that seats, I think, close to 100 passengers.

We have not made any final decision on the configuration of our fleet, but I can assure you that the three million passengers, both business people and tourists who come to Washington, DC, and Washington, DC, as you know, is a prime tourist market, will continue to have available seats on DC Air, and if we see there is a need for more seats, we certainly have the financial capacity to reconfigure our fleet schedule to meet it.

Senator DEWINE. Mr. Neeleman and Mr. Cooper, do you want to respond to that?

Mr. NEELEMAN. Well, obviously if the—the 16 percent, I think, was a study taken by Sam Butrick, who is an industry analyst, and it was based on the—in a lot of markets——

Senator DEWINE. Based on what?

Mr. NEELEMAN. Based on, in a lot of markets, planes were being substituted. Boeing 737's were being substituted for regional jets. So the seats were going from 112 or 128 seats down to 50 seats, so obviously there is a reduction there. But I do not understand the intricacies of the deal. I just know what I read, and if they have the opportunity to substitute those planes for bigger airplanes later on, then there is a possibility that that could increase again. This is the plan that was submitted by them that has those reductions, but Mr. Johnson obviously could buy some new, bigger airplanes and expand that.

Mr. WOLF. Mr. Chairman.

Senator DEWINE. Mr. Wolf.

Mr. WOLF. Could I just expand on that?

Senator DEWINE. Certainly.

Mr. WOLF. Mr. Neeleman's point is absolutely correct. I mean, a larger aircraft and a larger stage link is obviously going to produce substantially lower unit cost. One of the units here, Dave, is that some of these markets are 35, 50-seat airplanes because that is how big the market is and you cannot put a big airplane on it because it would be economically——

Senator DEWINE. You are going to have to speak right into that microphone.

Mr. WOLF. DC Air's fleet starts with three types of aircraft, turbo prop aircraft, regional jet aircraft, and 737–200 aircraft, and Bob Johnson and his acting president are actively pursuing discussions right now with all the air frame manufacturers about what is the best equipment to operate going forward.

Senator DEWINE. Mr. Goodwin, United has promised that it will not raise its basic rates for 2 years, and we have talked a little bit about this today, except to account for underlying costs, such as fuel. As you certainly know, airlines use these basic rates to set a wide range of different fares, and we have all experienced it, being on a plane, how many different fares there are and we have had a lot of testimony about it and we understand why you do that. You have many different passengers at different rates.

So even if United does not change its basic rates, it will still retain, I assume, the ability to vary how many of its tickets will be low-price tickets and how many will be high-price tickets. Will you commit today that United will offer the same percentage of low-price tickets on its flights? And let me ask another question. How will you price your tickets on the new routes that you intend to create?

Mr. GOODWIN. Mr. Chairman, we have committed as part of this transaction, as you know, to a 2-year fare freeze on structured fares. Structured fares are full fares. They are 14-day advance purchase fares or 21-day advance purchase fares, et cetera.

We are willing to commit to an oversight process to ensure that we stand behind that commitment because we believe very strongly that that is an important part of this transaction, a statement to the consumer that we want to demonstrate that we are not going to raise fares, we are going to sort through this transaction. Obviously, United Airlines' unit cost rates are significantly lower than US Airways, given the network and size of our business. We want to have the ability to integrate and see what happens to the overall cost structure.

Senator DEWINE. These fares that you have promised to keep constant, what percentage, though, of passengers does that consist of? On a given flight, how many on an average would be paying that fare? In other words, how many would be affected by your commitment? We just need to understand what we are talking about.

Mr. GOODWIN. Mr. Chairman, I understand that, but in order for me to answer that, I need to make one other statement that I did not cover before.

Senator DEWINE. Sure.

Mr. GOODWIN. Those structured fare also are the basis for all other sale fares. So when we advertise a 30 percent off sale or a 50 percent off sale, those come off of the 21-day advance purchase fare. If you just take the structured fares per se, they account for, in our airline's case, 45 percent of our revenues.

Senator DEWINE. Of your revenue, but what percentage of passengers, because that is a different issue.

Mr. GOODWIN. That number, I could not tell you off the top of my head, but it is——

Senator DEWINE. Ten percent? Twenty?

Mr. GOODWIN. I will tell you what. I will get that answer for you rather than speculate, because I do not know it.

Senator DEWINE. All right. So the answer is, though, to our question, we do not know—you cannot make a commitment, you are not going to make a commitment about what the mix is going to be, which ultimately will determine what the average person, the typical person, the non-walk-up to the gate, buy a ticket person, will be paying?

Mr. GOODWIN. The non-walk-up——

Senator DEWINE. Everybody else, most of us.

Mr. GOODWIN. The leisure traveler?

Senator DEWINE. Well, it is not just leisure. A lot of us plan. People do plan some business that they have to do based around this. I mean, the vast majority of passengers do not come into the category which you have just stated you will guarantee to be constant. The vast majority do not.

Mr. GOODWIN. But Mr. Chairman, the vast majority come in at a rate below——

Senator DEWINE. Oh, I understand that. No, I understand. All we are trying to do today—I think we are saying the same thing—all we are trying to do today is determine what your commitment to keep fares constant really means, and what I am hearing from you, and then I will turn it over to Senator Kohl because I have gone over my time, what I am hearing from you is we will keep this basic rate which affects one in five passengers. You cannot tell me exactly, but we know it is under 45 percent because that is what you said the dollar figure was and we know this is where your major revenue comes from. So we know it is maybe one in five. And you cannot guarantee anything about the mix, the percentage mix, which you vary all the time based upon how you maximize your profits, which you have a right to do.

Mr. GOODWIN. But it also is very seasonal. It is very unique and different by each market. So it is very difficult when you consider the thousands and thousands of combinations to start trying to get that specific.

Senator DEWINE. I understand.

Mr. Goodwin. So what we tried to do, Mr. Chairman, was to find something that was very easy to monitor, very easy to track, very easy for someone to hold us accountable for our commitment.

Senator DEWINE. All right. I appreciate that. My only point is that for the average, the non-business, non-walk-up, pay-full-fare person, I am not quite sure what your commitment means, that is all.

Senator Kohl.

Senator KOHL. Thank you, Mr. Chairman.

Mr. Goodwin, you are, as the CEO of United, trying to maximize profits or make investments to benefit your shareholders stake. I mean, that is what we do as CEO's, and I understand it and I respect that and I appreciate that. For many of us, one inevitable conclusion is that a major part of this deal is to eliminate a competitor, and by doing so, you will make more money. And again, making money is not a bad thing. It is a good thing in our society. When you run a business and you make money and have a strong return on investment, that is a very positive development in our democratic, capitalistic system.

But I find it hard not to inevitably see that whether it is now or 2 years from now after your pledge to maintain prices as they are, that down the road, this is a move that will make more profitable your business because you will have eliminated a competitor and you will be able to charge more money on routes for that reason. Many of us feel that way. I am sure many people out there in America feel that way, that this is clearly an attempt to eliminate a competitor so that you can charge more money on routes. Why is that not true?

Mr. GOODWIN. Senator Kohl, I would like to go back and add another responsibility that I think we, as CEO's, have, and that is to serve our customers, no matter what business we are in.

Senator KOHL. Sure.

Mr. GOODWIN. Yes, we are in this for the economics.

Senator KOHL. Of course.

Mr. GOODWIN. But we are in this to serve customers. This transaction is about serving customers. It is not about eliminating a competitor. It is about taking a route network today that United Airlines operates that is an east-west route network that is primarily concentrated Chicago and west and in the international world and combining it with an airlines network that is primarily north-south and concentrated on the East Coast. We believe that is a very complementary overlap.

Now, are there some routes as a result of this combination that are going to result in some changes in competition? Absolutely, and we believe as the Justice Department goes through their due diligence in this process, as I am sure they will do on a route-by-route basis, they will identify those issues that are of concern to them and we will have to figure out collectively how we work together to try to see if we can solve those concerns. We believe we can.

But in the end of the day, what we are trying to do here is enhance competition. We are trying to do that by providing customers with more choice, and that is clearly what we are doing here. Customers tell us day in and day out they want to have access. They want to have access to more places that I cannot provide them. Customers also tell us day in and day out that they want to do business with a single carrier, if they can. It is more convenient. There is one ticket. They do not have to go change terminals at airport locations, in some cases change airports. So what we are trying to do is to continue to refine and build our network so that we can satisfy what our customers are telling us they want.

Mr. WOLF. Senator Kohl, could I add a point that I think would be interesting to you, if not the committee and everybody else?

Senator KOHL. Go ahead, Mr. Wolf.

Mr. WOLF. There is a marketplace in Peoria and there is a marketplace in Illinois. There is a U.S. marketplace. But in the end of the end, we are vastly approaching only a global marketplace. If you look at international passengers per se, US Airways on an annualized basis has 1.6 international passengers. United has 11.4 international passengers. Combined, we have 13 million international passengers. British Airways has over 30 million, Lufthansa over 27 million, Air France over 24 million, American Airlines over 17 million international passengers. And we are yet to put our best football team into the international marketplace, and this, indeed, is going to be a very competitive football team in the international marketplace.

Senator KOHL. At a time when air travel is increasing as rapidly as it is, in other words, your industry is not a declining industry, it is a very robust industry with huge growth potential, which is a good thing and I am sure you anticipate it as a good thing, why would we see it as healthy to have fewer and fewer companies competing in this industry which cannot need that because it is a declining industry. Why would we see that as a good thing?

And after all, you, Chairman DeWine, and the other Senators have also all pointed out, we never know what deal is coming down next. In fact, as you know, the other airlines are all about talking possible deals right now. I would not be surprised if some of them are talking to put that fear in us so that we say no to you. That would not surprise me. But why would we want to start going down that path in an industry with such huge growth potential that does not have, after all, dozens and dozens of big-time competitors? Why would we want to start moving down that path? Yes to you, yes to the next one, yes to the next one, and maybe three airlines 5 or 10 years from now.

Mr. GOODWIN. Well, Senator, only time will tell if you have the opportunity to say yes to another one or another one or another one. But what I think is the underlying issue here is any carrier, and I think you heard David comment on this a moment ago, he wants to be able to grow his franchise. He wants to be able to grow his network. He needs some things to make that happen.

We want to grow our network. We have a large geographic area that we have no access to. Our customers are asking for access. We are trying to provide that to them. Other carriers may also have a need for greater access to fill out their network. That may be a path they choose to go down, too. But I think what you will see happen, Senator, is that competition will continue to grow because airlines compete across hubs, not in a hub, across their hubs. They build networks that play to their strengths.

There are hundreds of examples of cities around the country that have significant competition because of the multiple air carriers' operations or hubs. One of the cities I like to talk about is Des Moines, because it is in a State that has a lot of small cities, a State that likes to have good access to air service. Des Moines has service to 10 different hubs. They have eight airlines serving their city and they have over 50 flights a day to those connecting complexes.

So there are always going to be opportunities for air carriers as they start to fill out their networks to tie cities to their respective hubs and that is how competition will continue to be fostered in this business, as well as one of the carriers which we have not talked about, Southwest. Southwest started as a very small local regional carrier, just as JetBlue is doing. They now offer today in the United States the same number of seats that United Airlines does, and we do not talk about that, but that happens. They have access to over 90 percent of the U.S. population and they are growing at 13 to 15 percent a year, and I am sure that JetBlue is going to be growing at a faster rate because they have developed a product that brings value to their customers and they will be bringing value to the marketplace and they will continue to compete.

Mr. COOPER. Mr. Kohl, let me offer an observation, because the primary benefit that they keep giving us is access, and if you ask yourself, why do we not have access, the answer is simple, because we have this fortress hub system. So people who say, I want to get to there but I cannot find another airline to get to there because when I get to their hub, there is nobody else there. This is Mr. Neeleman's problem. He says, if I could get access to those hubs, then I could actually compete for those customers, and if I compete on price, you know what, for that $400, I think people will change planes. At least, that is what my members tell me.

So what he is offering you is a solution to a problem that he has created and will only reinforce that. The point is that if we want to have competition, we have to have access to customers and this merger will make that less. Yes, he is going to give me a flight to Beijing, but the people who want to get from Columbus to Charlotte are paying $500 too much, and Mr. Neeleman would like to be able to get into Charlotte so that he can compete on that route, and that is his problem. That is a structural problem that the industry has created, so I certainly would not let them solve the problem by making it worse, which is what they propose to do.

The benefit is convenience. I would love to go to Beijing on a one-stop flight if I live in one of those cities at the end of his network. But frankly, on a day-to-day basis, the average consumer is more worried about the $500 differential that Mr. Edwards presented in such stark terms, and that problem is created by policy about closing hubs.

Senator KOHL. One last question. Mr. Johnson, you are on the board, or were on the board of USA.

Mr. JOHNSON. I am still a board member, yes, sir.

Senator KOHL. Is it not of interest that as a member of the board of directors—I understand you did not vote on this merger—but as a member of the board of directors, you now wind up with a brand new business that has a huge profit potential or you would not be doing it and it comes to you to some extent because you are an insider there, you understand everything, they understand you and whatever they decided or you jointly decided that you would get out of all this for yourself a shiny new business with a huge upside. I mean, I think you need to somehow explain that to those of us who are interested in protecting, as a member of the board of directors, protecting only the value of the shareholders that you represent. That is your fiduciary responsibility.

Mr. JOHNSON. Yes, Senator. I would be delighted to explain that to you because I think it is part and parcel of what I call the way the American system works. For many years, we as African-Americans have not been in what I call that system of access to people who can benefit you in terms of opportunities.

I went to Princeton, and because I went to Princeton, I was referred to a gentleman here in Washington, a guy named Bob Gray who owned a big Hill and Knowlton public relations firm. That Princeton connection got me my first job with the Corporation for Public Broadcasting. It is called being in the deal flow.

Now, I was able to get on Stephen Wolf's board because he respected the fact that I also serve on Hilton Hotel's board, General Mills' board, and I created a business as a CEO that I founded, and he recognized that I knew how to create value, I knew how to focus on shareholder interests, and he knew I had the first African-American company publicly traded on the New York Stock Exchange. So I brought benefit to US Air as a director.

Now, when this opportunity came before me, I was not seeking this opportunity. When Steve mentioned the merger, the overlap competition in DC Air, he knew he had to spin it off. He came to me because I was a businessman who he felt had enough confidence and enough capital to take on this opportunity. It was fully disclosed to the board. I did not participate in any vote on this issue at all, and I think it is absolutely the way business is done in the United States, where you get access to individuals who can help you, they present it to you, it is above board. I am paying full value, my capital. This is the American way and I am delighted to be a part of it.

Senator KOHL. Thank you.

Senator DEWINE. Senator Kohl, thank you very much.

Senator Specter.

Senator SPECTER. Thank you, Mr. Chairman.

In view of the very limited amount of time that we have on the questions in the hearing today, I want to start by asking that a number of questions be answered for the record.

First of all, Mr. Goodwin and Mr. Wolf, I would like to know what efforts there have been made by other airlines to come in and compete with your carriers, what happened with respect to the fares they charged, how you met them, and whether they were able to provide any effective competition. I want to test to see what your experience has been, like the American Airlines which drove a company out of business in Wichita, at least under the allegations which have been made in that antitrust litigation.

Mr. Johnson, I would appreciate it if you would provide information on the capitalization of your company. The information which I have amounts to your purchasing 222 slots, leasing 37 planes from United, and no information as to capitalization. I note that there have been five shareholder lawsuits filed against US Airways directors on an allocation of assets to you benefitting at the expense of public shareholders and another lawsuit has been filed alleging self-dealing. I would like your response to those and to know what kind of capital you have, besides leasing these planes preliminarily from United and how you are going to make a transition from leases to acquiring jets.

Mr. Goodwin, I would like information from you about what happened in the sequence of mergers which followed in 1985, United's acquisition of Pan American World Airways. The information that I see is that the experts concluded that it spurred Northwest's subsequent acquisition of Republic, which created the domination of certain markets, and we have already talked about a concern here as to the domino effect on the mergers between American and Delta and Continental and Northwest. I would like to have your analysis as to what the impact on the market will be when number one teams up with number six.

Mr. Wolf, you have made a point as to what has happened to similarly situated airlines, about five of them, Braniff and TWA and others, on an analogy as to where US Airways stands in terms of the future of your company, and one of the matters of enormous concern to Pennsylvania is what would happen to US Airways if this merger does not occur. So I would like your analysis as to what has happened to those other companies in terms of what is posed now as a risk to US Airways.

And included in that I would like the analysis of you, Mr. Goodwin, as well, as to how Southwest comes into the picture and how AirTran comes into the picture and how they acquire slots and gates. As I understand it, there is such a tie-up on that that the prospect of another competitor is just very, very slight.

Now, Mr. Goodwin, yesterday, you were asked at the House hearings whether United, and it is United because you are going to be the survivor here, would you be willing to sign a consent decree with the Department of Transportation, perhaps it should be with the Department of Justice, guaranteeing that whatever commitments are undertaken here for however long a period of time, that it would be enforceable. Your response was, you did not know the answer to that question and nobody asked you the follow-up question, which is if you do not know, who does. You are the CEO. Are you prepared today to make a commitment that the successor company, if a merger is approved, would be willing to enter into a consent decree so that any commitments are binding and enforceable?

Mr. GOODWIN. Senator, I think this may be a little bit of the same conversation we were having earlier. If you are referring to the price conversation that we had yesterday, there was a subsequent follow-on discussion about that subject and what I have said and what I am willing to commit to is United Airlines is unequivocally committing to a 2-year price freeze on those fare types that we have indeed identified. We believe that it is a fair freeze that will cut across the entire industry.

Senator SPECTER. Can you come to my question, please?

Mr. GOODWIN. And as a result of that, we are willing to accept any monitoring process that we can work out with the Department of Transportation, the Department of Justice, to ensure that we follow through on our commitment.

Senator SPECTER. Well, the way to do that would be a consent decree. You enter into a contract, call it a consent decree. It is enforceable. Are you willing to do that?

Mr. GOODWIN. We are willing to commit to whatever the government believes they need to have ensure that we follow through on our commitments.

Senator SPECTER. Well, I do not want to leave it to the government, that nebulous entity for the future. I want to know today if you are prepared to say that you would agree to a consent decree. That is the way it is done.

Mr. GOODWIN. If that is the way it is done and if that is what we have to do to demonstrate our commitment, we are willing to commit to what we have committed to. We want to provide our customers with a 2-year fare freeze and we will commit to that.

Senator SPECTER. I am unwilling to accept your statement, "if that is the way it is done, then we will commit to it." I do not want to get involved in whether that is the way it is done. I want to know whether you will make a contractual commitment which is binding in a court of law on whatever promises you make with respect to fares or anything else.

Mr. GOODWIN. I am testifying to that effect today and we are very serious about that. If the legal language is a consent decree that we have to commit to in order to satisfy the requirement, that is what we will commit to.

Senator SPECTER. Well, I will take that to be a yes, Mr. Goodwin.

With respect to the business about furloughs, I understand your policy on that. Would you be willing to commit to maintaining the same number of jobs so that if people leave by attrition, that those same number of jobs would be open, say, in Pennsylvania?

Mr. GOODWIN. Senator, no, I would not be willing to make that commitment. I think we have made an unprecedented commitment to employ all the people that are currently employed by US Airways and scheduled to work. Technology, et cetera, are changing every day in the marketplace and to make that commitment, I could not do so.

Senator SPECTER. Well, there are changes and it is up to you, but there are an awful lot of nervous people among the 11,700 employees in Pittsburgh and 5,800 in Philadelphia, and you are privileged to make whatever arrangements you choose, obviously. You made quite a big deal over saying that there would be no furloughs, but that left open the question as to whether employment opportunities would be maintained.

And while technology does change, the question in my mind is the fairness of asking you to make a 2-year commitment on those job opportunities. It is not an unlimited commitment, but it would provide some additional assurance. And I picked 2 years because that is what you have decided with respect to air fares. How about it?

Mr. GOODWIN. Senator, I am not sure exactly what you are asking for in that 2-year period——

Senator SPECTER. Exactly what I am asking for——

Mr. GOODWIN [continuing]. A cap on employment numbers?

Senator SPECTER. Exactly what I am asking for is the same number of jobs which are now available by US Air in Pennsylvania will be maintained for 2 years.

Mr. GOODWIN. Senator, I am not in a position to be able to make that commitment.

Senator SPECTER. Fair enough. Your judgment, your business judgment. I respect that. But that tells us something at the other end as to what is likely to happen to the 17,000 employees.

I have taken a look at the pricing fares and the way you established prices, and without being facetious, I do not think Albert Einstein could understand this. You have 6 months prior to departure, 48 days before departure, 13 days before departure, 4 hours before departure, 5 minutes before departure, overbookings in all the categories, for example, 4 hours before departure the plane is overbooked by 11 passengers but the computer nonetheless authorizes the sale of three more coach seats. There is a different standard 5 minutes before departure.

I am taking a look to see what is the meaningfulness of the commitment you have made to maintain prices for 2 years. Does that maintain a commitment that you are not going to change the number of seats available at the lower fare, because if you reduce the number of seats at the lower fare, then, in effect, the prices will go up, although you have not raised the price. Does it affect the special arrangements that you have, because if you make changes on the special arrangements, then the prices would, in effect, go up.

What can be done, Mr. Goodwin, Mr. Wolf, to give the consuming public some opportunity to understand pricing? Your fares are not published, is that correct, Mr. Goodwin?

Mr. GOODWIN. No, Senator, it is not. Fares are published widely, both in our system, on the Internet. Consumers have access to prices.

Senator SPECTER. Do consumers have a spot where they can take a look in one document and find out these various costs for 6 months, 48 days, 13 days, 4 hours before, 5 minutes before?

Mr. GOODWIN. Senator, all the Internet bookings systems that are currently in use have a low-fare shopper feature that all the consumer has to do is put in the city they are leaving from, the city they are going to, the day they want to fly, and it will find the lowest fare for them.

Senator SPECTER. That does not answer my question, Mr. Goodwin. I understand that. I understand you can go to the Internet and you can find out where the cheapest fare is today to go from point A to point B. But my question to you is whether somebody can go and get the whole picture.

Mr. GOODWIN. Well, the information on the whole picture only resides in the computer systems, and they can go to those computer systems and have access, Senator, to all that information. There is not one spot that I personally know of that has the thousands or probably millions of fares that are displayed in those computer systems today.

Senator SPECTER. Just one more question on the one that was asked of you yesterday, Mr. Goodwin, and that was the assertion made by Mr. DeFazio that United has the worst consumer record and the worst on-time record. First of all, was Congressman DeFazio correct when he said that at the House hearing yesterday?

Mr. GOODWIN. Senator, it depends on what survey or what criteria you want to measure against. Senator DeFazio——

Senator SPECTER. Is there any survey which shows that?

Mr. GOODWIN. Yes, there is, and then there are comparable surveys that say that we are rated number one or number two in the industry. So when we talk about our company, I guess we all like to pick the one we like the best, but United Airlines' service ratings by PLOAG, which is a syndicated research company that measures all the airlines all the time and has been doing it for the past 20 years, has United rated as number one for the last 12 months.

Senator SPECTER. On what?

Mr. GOODWIN. On total airline service, all the things that customers——

Senator SPECTER. How about just on on time, which ought to be——

Mr. GOODWIN. On time is clearly one of the elements, sir.

Senator SPECTER [continuing]. A little easier to gauge. For 31 elements here, you have got an Einstein problem. How about on time? Was Congressman DeFazio correct that United has the worst on-time record of any carrier in the country?

Mr. GOODWIN. The last 12 months, United Airlines' performance on on time is we are ranked seventh, not last. His comment yesterday, sir, related to the 13-year period from 1987 to the year 2000.

Senator SPECTER. OK, very last question. If you are ranked seventh at the present time, which is not too good, are you going to be any better if you acquire US Airways and have still a bigger system to administer?

Mr. GOODWIN. Absolutely.

Senator SPECTER. Thank you.

Senator DEWINE. Senator Leahy.

Senator LEAHY. Mr. Goodwin, if it is any consolation, Members of Congress also get rated by a lot of different organizations. We tend to, when we run our reelection ads, we do not put all the ratings in those ads, either. This probably comes as a shock to you, but it is true. But we usually end up finding—whoever runs against us finds the other ratings and they publish them.

I would also say on the question of consent decree in the form of a contract, like all contracts, you cannot enter into a contract unilaterally. I would assume that your answer would include the fact that if you are going to have such a consent decree, whoever is in the government has to agree to the other side of it or you cannot enter into such a contract, is that true?

Mr. GOODWIN. Senator, that was the point I was trying to make, that whatever we have to do to satisfy the Department of Justice requirements, we will do that.

Senator LEAHY. I am thinking of Doc Yeager, one of my professors in Contracts 101 at Georgetown, God rest his soul. He was a very colorful man, but I do recall we needed more than one person in a contract.

Now, Mr. Goodwin and Mr. Wolf, I think your respective boards of directors are probably praising the heck out of you. They should. You have entered into an agreement. It is on paper. It is a logical fit for both companies. United flies primarily east-west. US Airways is a dominant north-south carrier on the East Coast. If you spin off DC Air or whatever it may end up being called, then you address the United domination of the Washington, DC market.

But, having said all these things complimentarily, and I mean them that way, I think you are going to have market share problems in many other communities. US Airways was a dominant carrier in many communities on the East Coast. If you merge with United, it is going to strengthen that grip even more. It is the places with the end-point destinations that bother me. If there is consolidation of carriers, I do not see how that brings down these high air fares.

You talked about holding air fares in place for 2 years. That does not help us when we think the air fare is too high already. I have used this chart. I know these prices because I fly my family back and forth all the time. I find it a lot easier when they say, Dad, let us go to California or Ireland or visit our relatives in Italy or whatever else we do than going back and forth here. It is going to cost the old man a little bit less.

How do you take care of those end-point areas? Frankly, I do not see that if these prices are this high with some competition, how could they possibly come down with even less competition?

Mr. WOLF. Can I comment on the——

Senator LEAHY. And I have enormous respect for both your airlines. I said before, they fly into Burlington. Your people there are among the most professional I have ever met. As I fly around the country, US Airways and United, the people I deal with in your other hubs and areas are extraordinarily professional and helpful people. That is not the issue. It is the issue whether a family can go somewhere without taking out a second mortgage.

Mr. Wolf, you were trying to say something.

Mr. WOLF. Let me try to comment on the round-trip Washington, DC, from Burlington. I am assuming these numbers are all absolutely correct. My guess is the $735 round-trip fare is the walk-up, most expensive——

Senator LEAHY. No, 7 days.

Mr. WOLF. Seven-day advance for the $735? And the $419 fare to London is certainly the largest advance purchase possible——

Senator LEAHY. Seven days.

Mr. WOLF. Seven days also?

Senator LEAHY. Yes; we took these all at 7 days. Incidentally, on an earlier question you were asked, and I will help you a little bit on this, Mr. Goodwin, and I will go back to you, Mr. Wolf, you were asked about these Einsteinian charts. The Internet really has changed that, and I think in fairness to you I should say so. I know that my kids on their last trip from the West Coast they put in to PriceLine or Travelocity, one of those, a fare, date, and came back and they said no. They put back in the amount again they wanted, and after 15 minutes, they got it. This is something we never had before. I am not doing that as an ad for any of these companies, but I know we find that is very helpful.

I am sorry, Mr. Wolf. Go ahead.

Mr. WOLF. Let me go back to it again and try to take a shot at it. Let me start by saying, which I do not say with any particular pleasure, that US Airways has the highest unit costs in the industry. We have the highest unit costs in the industry primarily for two reasons. One is our average stage link and the average aircraft size, a small airplane and a small stage link which drives high unit costs. And two, because we are only about half the size of the major carriers and we cannot spread our fixed costs over a larger base, which is one of the driving forces for the transaction we are proposing.

I would guess that unit costs between Burlington and Washington are 5, 6, conceivably 7 times what they are in that transatlantic flight. The load factor in the transatlantic flight at that fare level is probably 100 percent, and our load factor in Burlington is maybe 60.

Mr. Chairman, if I could, I would like to go back to the fortress hub thing for just a second because fortress hubs have this flavor of bad, and I am particularly happy that Senator Schumer is back in the room. There are 23——

Senator LEAHY. I just want to add a note on this, Mr. Wolf. I recall when there has been competition. Prices still did not come down. I mean, it may drive the airline, a regional carrier, anything else, to really determine what they will use for equipment. I take flights on both of your companies all the time. They are usually full. A lot of times, I cannot even get on because they are already full. A larger plane which would cost you a lot less if it was available would allow them to bring down the cost of that ticket, but also there would be people there. But I remember when the old Peoples Express was flying in and out of Burlington, we had busloads coming down from Montreal. We had a lot of others that came there to fly it, and while it was going on, prices of everybody came down.

But anyway, go ahead.

Mr. WOLF. Well, the larger aircraft would, in fact, would be substantially more expensive to operate, but it would generate lower unit costs.

But in any event, if I could go to the hub thing for just a second, there are 23 hub cities in the United States of America, and because of the economic advantage of being a hub city, I suspect every other city in the United States of America would like to be a hub city. Hubs compete with hubs, which is a little more difficult for us to understand. We all understand airlines competing with airlines, but hubs compete with hubs, and let me use an example for just a second, and I am particularly pleased that Senator Schumer is here.

We fly from Buffalo to Pittsburgh 4 times a day with full-size jet aircraft. There are 24 passengers a day that fly between Buffalo and Pittsburgh. On average, we have six of them per flight. Now, because we run a hub in Pittsburgh, which, by the way, obviously we would never fly any times per day from Buffalo to Pittsburgh with 24 passengers in total in the marketplace, but because we have a hub in Pittsburgh, we are able to say to our sales arm in Buffalo, you not only can sell a seat to Pittsburgh, you can sell a seat as a result of the connecting complex in Pittsburgh to the beyond 35 additional destinations, and the sum of that is we generate a load factor of about 67 percent and it becomes a sort of a profitable thing for us to do.

But if you look at Buffalo and you look at our operation, if you are in Buffalo, you can connect, if you want to go to a beyond point—pick the West Coast, where you cannot fly nonstop from Buffalo to the West Coast—you can fly over Atlanta 3 times a day from Buffalo to connect to Los Angeles, or Charlotte 3 times a day on us, or O'Hare 10 times a day on American or United, or Cincinnati 3 times a day on Delta, or Cleveland 6 times a day on Continental, or Dallas once a day on America, or Northwest 6 times a day out of Detroit. Hubs vigorously compete with hubs, and as a result of that, these communities get more service than they would otherwise get. The hub city gets phenomenally more than it can justify on an O and D basis because of the size of its local market, and the feed cities get more than they would get otherwise.

As a result, frankly, what is going on in the industry with this strong desire for low-cost, low-fare carriers to come in, perfectly understandable by me as an American consumer, and I understand perfectly what they do to mature-cost airlines in terms of monitoring their fare levels, because they have dramatically lower costs and thus lower fares and that is certainly what the American consumer wants, we have to match the fare. Whether we lose money or not, we have to match the fare, because the option is if we do not match the fare, no one is going to fly on us and we are going to have to withdraw from the marketplace.

So I think there is an immense amount of competition in this industry today and I think it is going to continue. I think JetBlue is going to do exceedingly well and continue to grow, and among other things, cause all of us to watch our fares because we do not have his costs but we have got to match their fare level.

Senator LEAHY. Could I close with this, Mr. Chairman. I am going to submit a number of questions, and I realize this is a complex area and at some point I would like to talk at further length——

Mr. WOLF. I would like to do that.

Senator LEAHY [continuing]. With you, Mr. Goodwin, and you, Mr. Wolf, and you, Mr. Johnson, about this, but Mr. Neeleman, let me just say, if I might, Mr. Chairman, one more question, Vermonters are excited about the jet service to Burlington. I have seen diagrams of these planes——

Senator SCHUMER. I have been on them, Mr. Chairman. They are very nice.

Senator LEAHY. Actually, they are the kind of plane you wish the flight lasted a little bit longer on, unlike many times where we are all so busy and we do not want it to last any longer, even on the nicest of airplanes. And I understand your service to Buffalo—that is in New York, upstate. [Laughter.]

Senator SCHUMER. I have been there.

Senator LEAHY [continuing]. And to Florida is working out extremely well. Now, Vermont is a high-priced destination, so a low-fare service is very welcome. You said that you are concerned that JetBlue is going to be shut out of National Airport because of slotting problems, but there are two other airports in the DC area. In fact, a couple of those fares are out of BWI, and we have got Dulles. Why is it a problem if you get shut out of National?

Mr. NEELEMAN. I think if you look at consistently, Washington National is the airport that people want to go to in the Washington area. It is the airport that traditionally has—you cannot buy slots in there, and we made an inquiry as to leasing slots and it was so expensive that obviously we could not make it work. Obviously, the market dictates and those slots obviously were created for the taxpayer and were created by the Federal Government and given out and we would like to have the opportunity to be able to, thanks to Senator Schumer and efforts of many, we were able to have access to Kennedy Airport, and from there we have been offering $49 to $99 fares to upstate New York and have increased service from three flights a day to Buffalo to five flights a day. There are thousands and thousands of people now that are traveling where they could not have traveled before. All we want is access and we want to be able to fly into a market.

To Mr. Wolf's comment, I understand we cannot be all things to all people. We will never fly to Paris out of Charlotte or anywhere else. There needs to be a national system that needs to be created for a maximum amount of efficiency. You may be happy when you fly from Buffalo to New York on us for $49, but what happens 1 day when you want to fly to Spokane, WA? You have to have a national network.

I am saying, OK, it makes sense, all the things they say, but we need to have, then, if we are going to put so much power in such few hands going forward, then let us enact some way that we can make sure that competition on a regional basis, like what we have been able to do in the State of New York and we will do in the State of Vermont, can continue, where they cannot take this power and lay it on top of you, and there have been many cases of that, to put you out of business just to return to status quo.

I think, too, Southwest has been able to coexist and they have flourished. They make hundreds of millions of dollars a year. If we were making that now, we would not be so concerned about making sure there were competitive guidelines. We hope to get to that place someday, and I am sure we will.

But there are points on both sides. There is the good and there is the bad, and I think there is a way to take this opportunity to take the good with the bad and make it better for the American consumer than it has been heretofore or will be in the future if there is something that is not done.

Senator LEAHY. Thank you again, Mr. Chairman, for holding this hearing. I think it is extremely valuable.

Senator DEWINE. Thank you, Senator Leahy.

Senator Schumer.

Senator SCHUMER. Thank you, and I thank you, Mr. Chairman, for your patience and courtesy which you always extend. I am going to try to make it quick because I am in here at the end, but I have two questions that I would like to ask each of the four panelists, and I will ask them once and let them answer seriatim, and then I have one final question for Mr. Neeleman.

First, how is this merger, given that we have not gotten good service in upstate New York—I met Mr. Wolf a while ago and complained about the service and he explained to me his high costs and I said, well, I am going to have to try to bring in competition. He said, well, that is probably what you should do.

Mr. WOLF. That is absolutely correct.

Senator SCHUMER. I respected his honesty, and I did. So the question is, what will this merger as constituted by you folks do for upstate New York better than what is done now?

And second, given the high cost structure, why is it not in my constituents' interests to take these beautiful 212 slots, or whatever it is—did I get the right number?

Mr. WOLF. Two-twenty-two.

Mr. JOHNSON. Two-twenty-two.

Senator SCHUMER. Two-twenty-two, which are gold, and give them to a low-cost airline, because it seems to me I do not see, given the arrangement that you folks have made, that the new airline is going to do much better than the old airline, and worse, in a sense, that if they do not do well, it may be because they do not have the long-term tradition and obligations that US Air had, they will just change. They will say, we should not be a Northeast airline. We should be something else. Or we could take our slots and give them to the market.

And so I guess my second question is, are people willing to commit that they will serve upstate New York? I do not mean a verbal commitment, I mean we work out with Antitrust and the Department of Transportation that these slots, which I think many people are having doubts about in terms of how the system works, are tied to geography as opposed to tied to a carrier. Mr. Goodwin, you may go first.

Mr. GOODWIN. I will speak to your question of upstate New York. Upstate New York is a very important market to not only your constituents but my constituents.

Senator SCHUMER. The seventh largest State in America, it would be, without any of New York City or the suburbs.

Mr. GOODWIN. We have had a long-term relationship of serving upstate New York, principally over our hub in Chicago, and most recently with some flights down to Dulles as we have expanded across the North Atlantic. It is our intent as part of this transaction to continue to provide all the service that we have been providing to upstate New York and providing the service that will come as part of this transaction to the hubs of Pittsburgh and Philadelphia.

Senator SCHUMER. Do you think the cost would get any lower?

Mr. GOODWIN. I believe that US Airways has a unique problem with their cost structure because of their size and their complexity. We have a much larger route network. We are clearly going to be able to take their infrastructure costs and spread them over a much larger base. That, in my estimation, is going to lower costs.

Senator SCHUMER. Now, that would not be true of DC Air? They will not have the larger base and they will still have high costs.

Mr. GOODWIN. No, but Senator, they also do not have 75 years of history of being an old economy air carrier. They are starting from scratch, just like JetBlue has. You have different work rules. You have different employment contracts. You have different process that we, unfortunately, cannot go back and reinvent the wheel. That is why a Southwest and a JetBlue and a Frontier and an AirTran and an ATA and all those carriers can be successful in the market, because they are not tied to the old patterns that we are.

So upstate New York, in my estimation, is going to benefit significantly from this transaction because they are going to have more access. They are going to have one carrier. They are going to have online capability to basically the global markets. And we are very, very hopeful that if we are as successful as we think we are, we are hopeful that we are going to be able to bring more service to upstate New York from some of our other hubs.

Senator SCHUMER. Mr. Wolf.

Mr. WOLF. Senator Schumer, as you and I have talked in the past, US Airways' Achilles heel, much to my embarrassment but factually, is that we are the highest unit cost carrier in the country. We have not done what the other five carriers who were midsized mature-cost carriers at the beginning of deregulation, we were not Eastern, Braniff, or Pan American and going out of business. We were not Continental or Delta who have gone through bankruptcy twice. We are the sole remaining mature-cost carrier of mid-size, and clearly it is an issue of significance to us and has some portent about our long-term viability.

Having said that, when this merger is consummated, our unit costs are going to come down dramatically because we are going to be in a much, much larger base. It is just the way the system works. If I could double the size of my own airline today, our unit costs would come down absolutely dramatically, and that is what will happen when we merge with United Airlines.

Senator SCHUMER. Why would the price be lower? Let us leave out DC for the moment, which is a new entity. Why would the price be lowered if there is less competition rather than more? You are a businessman.

Mr. WOLF. I do not agree there is going to be less competition. I think there is going to be more vigorous competition as a result of doing this than less competition.

Senator SCHUMER. How so? You have two airlines and now you have one.

Mr. WOLF. On those routes, on those limited number of routes where we go from one to two, it is a real issue. It is a Justice Department issue. It is an issue for you. It is one that we are going to deal with as aggressively as we can. But other than a point-to-point service, if you are in Buffalo and you are flying to the hundreds and thousands of cities in the United States of America——

Senator SCHUMER. Take Chicago.

Mr. WOLF. To Chicago, you can fly on American or United Airlines. But if you go beyond Chicago, you can fly over Chicago in those two carriers or over Cleveland or over Cincinnati on all different airlines and we are all competing for that beyond passenger. So competition is going to stay as it is and we think it is going to become even more aggressive.

Senator SCHUMER. It has not worked very well. Admittedly, it has worked the worst in the slotted airports, the two New York City, National and O'Hare. But it has not done us much good up to now.

Mr. WOLF. Well, I am not sure I would agree. I mean, the GAO Office says that fares of airlines today are some 36 to 40 percent less on a real dollar basis——

Senator SCHUMER. I mean, for upstate New York, it has not.

Mr. WOLF. The discount fares are still very attractive, but if this happens, I am sad to say, you are going to lose the highest-cost carrier in the country and you are going to get a much bigger carrier with a much broader system and with all the economic advantage of going to all those points online, which is what Kodak will tell you they want, at a lower cost structure.

Senator SCHUMER. And let me ask you one other question.

Mr. WOLF. I want to answer the second one, also.

Senator SCHUMER. Go ahead.

Mr. WOLF. The second one is, why should we give these slots to this airline versus a low-cost carrier. There is some misconception about "this airline." This is a new airline, just like JetBlue, with new employees. They are not taking one US Airways employee, unless they hire a member of management who goes there willingly. He is going to hire his own employees and acquire his own aircraft and he is going to be a low-cost carrier starting up. And, too, he is going to be able to provide much more competitive fares than anything that we can provide today.

The last thing on that particular point is——

Senator SCHUMER. How can he get—well, I will ask Mr. Johnson this.

Mr. WOLF. He is a JetBlue start-up airline with, at this point in time, an acting president. He is going to hire a president. He is going to hire a chief pilot. He is going to hire pilots. He is going to go through the same thing that JetBlue has gone through. But what he has to do, which is somewhat awkward and unusual, the day after the merger is consummated, he has got to serve these 43 cities and he has got to do temporary things to get aircraft to operate with until he can get his own fleet and his own employees, and he cannot do that in advance because we are talking about hundreds of millions of dollars in commitment to airplanes and he does not even know if he is going to have an airline. So it is only an interim situation.

Senator SCHUMER. Yes, but at the beginning, to keep the service going, he is going to basically take over your structure and call it a different name.

Mr. WOLF. No, he is not. No, he is not. He is going to do one of a couple of things. We are going to move a significant number of regional jets that we have exclusive contracts with today, US Airways, and move those into National Airport to serve routes that we are flying with our own aircraft today at a much, much higher cost.

Senator SCHUMER. Give those to him.

Mr. WOLF. Well, I am not giving them to him. He is going to do this himself. He is going to acquire, own, eight turbo prop aircrafts, although he is going to become an all-jet fleet as quickly as he can, and he is going to lease from United some limited number of 737-200's with crews to operate these routes at an arm's length negotiation until he can get his own airplanes. He does not have the luxury of doing what JetBlue is doing, which is starting up with one, two, three air frames and growing that way because he has got to serve the marketplace day one. But he will get there as quickly as he can. But he is a low-cost, new airline start-up carrier.

In the alterative——

Senator SCHUMER. Why, if you could not do it, can he do it? You could have started from scratch, so to speak.

Mr. WOLF. No, I could not.

Senator SCHUMER. You could have gotten new planes. You could have looked for new employees.

Mr. WOLF. No, sir, we could not do that. We are certainly doing a good job of buying new aircraft, and we are going to take 58 new large jets this year. But I cannot abrogate my union contracts. I mean, I have a scope clause that says if I buy an airplane and we own an airplane, it is going to be flown by our pilots, and it is common in the industry. He is going to go out and hire his own pilots. He is going to start up just like JetBlue, and I cannot do that. I cannot do it with a subsidiary or any other way possible.

Too, we did look at selling the slots off piecemeal, two here, six there, 12 there.

Senator SCHUMER. Right.

Mr. WOLF. We probably could have gotten more money for them——

Senator SCHUMER. No, I do not want to see them sold, because they could go——

Mr. WOLF. Well, if we would give them away——

Senator SCHUMER. What do you think of the idea of tying slots geographically?

Mr. WOLF. Frankly, I have never thought about it, but I can tell you this, that US Airways has served a number of these small communities for 50 years or more, and we could certainly use those slots to larger geographic centers where there is more revenue, and Bob Johnson is committing to doing the same thing.

Senator SCHUMER. OK. We will need more than a verbal commitment.

Mr. WOLF. I think I interrupted you a minute ago.

Senator SCHUMER. No, no, no, that is fair.

Go ahead, Mr. Johnson, the same questions.

Mr. JOHNSON. I think I am going to echo in what I am saying a lot of exactly what Mr. Wolf said. In what we will do for service in upstate New York, the service is going to be better than it has been before because, for example, right now you get three jets in

Buffalo, three jets in Albany, three jets in Rochester, three jets in Syracuse. You continue to get that same level of service, but in our case you have an airline that is totally focused only on serving the 43 cities of which the four that I am talking about are your cities.

Senator SCHUMER. Binghamton, too. Binghamton, you serve.

Mr. JOHNSON. OK. We also serve White Plains, as well.

Senator SCHUMER. That is not on your list.

Mr. JOHNSON. DC Air is not in Binghamton.

Senator SCHUMER. Not in Binghamton, because you do not go from Binghamton—US Air does not go now from D.C. to—they just go to Pittsburgh. All right. OK.

Mr. JOHNSON. So you are going to have a focused airline. It is not going to be tied to the mature costs that Stephen Wolf mentioned. So we can focus on productivity, we can focus on marketing, we can focus on providing a service that is directly related to the communities that we serve. We are not looking to go across the Atlantic. We are not looking to build up hub sites anyplace else. We are only focusing on those 43 cities.

Now the question you asked, why should you give these valuable slots to a low-cost carrier? First of all, they were not given to me. They were sold to me, just as slots have been sold historically throughout the airline industry or leased throughout the airline industry. This is not a give away.

Senator SCHUMER. They were sold in a——

Mr. JOHNSON. They were sold.

Senator SCHUMER. Not in a competitive bidding situation, I presume.

Mr. JOHNSON. And as far as I know, historically, they are not sold in a competitive bidding situations.

Senator SCHUMER. No, that is one of the problems.

Mr. JOHNSON. Well, I know, but I am only coming to the opportunity as it is presented, and so I did exactly what every other airline has done and so on.

Senator SCHUMER. Right. You realize that is not a great argument for upstate New York.

Mr. JOHNSON. Well, I think David got—his slots were sort of given to him. I do not think he competitive bid for them.

Senator SCHUMER. No, but they were tied geographically.

Mr. JOHNSON. And we are tied in a way geographically for 50 years of history and I see no reason to change that history in terms of serving these 43 cities.

Now, the question is, why should you give it to a low-cost carrier? My argument is, we will be a low-cost carrier because of some of the things that I mentioned before—focused airline, rationalized fleet, market commitment to serve just these 43 cities.

For example, if you look at the DC Air routes now, the total revenue, if you take the total revenue, divide it by the three million passengers, the average cost of a point A to a point B flight on DC Air is about $125. Now, that is the kind of competitive route structure they have now. I think once we get a hold of it, and as I said, focused on cost, focused on service, those costs are going to be much more competitive.

Now, will we commit to serve upstate New York? Senator——

Senator SCHUMER. Let us put it like this. How will you commit beyond a verbal commitment?

Mr. JOHNSON. I think we will be more than willing to sit down and talk with the people at DOT, the people at Justice about how they might ask us to address that issue. But I think if you look at what the airline has done in the past, that has been its route structure. It has been a valuable route structure. It would be certainly no way in my interest to try to tamper with that very attractive route structure, and part of that route structure are the cities that we mentioned in upstate New York. But I will be more than glad to sit down with the officials at DOT and Justice to address that issue.

Senator SCHUMER. OK, thank you. Now, I would just like Mr. Neeleman and Mr. Cooper to, in whatever way you see appropriate, either agree with or rebut what has been said by Messrs. Goodman, Wolf, and Johnson.

And just one other question to Mr. Neeleman, which is you have done a great job. I mean, I am not wedded to JetBlue. I am wedded to good service for upstate New York and you are the first one to really provide. But you have a real constraint, which is number of jets. How are you going to be able—let us say somehow or other you have had a chance to get a bunch of those slots and fly to the cities you are flying to from National. How would you be able to serve them given that you have a constraint on the number of planes you have? So answer whatever you want to say in reference to these three guys and then that question.

Mr. NEELEMAN. OK, great. Let me answer the last one first. You know, one of the reasons that I think and I know that JetBlue will be successful is that we have a plan and we are going to stick to it. As much as this area of the country would be nice and I would love to have been in Mr. Johnson's spot to get these, we are committed to New York. We are a New York-based airline. We have committed to you and we have committed to everyone that we are going to utilize the slots that we have in Kennedy Airport.

We could not use more than maybe 10 of those slots to provide service between here and New York City, which would in turn provide service to upstate New York. There are other airlines that are lining up saying, we want them all. We will divert all of our planes in here. No, we are not here in a self-serving way to do that, and I frankly have been enlightened today by the fact that Mr. Johnson is not something that is going to be attached to United Airlines, that he is going to go out on his own. We have a lot of expertise. I was just sitting here thinking, maybe we should trade in some of our expertise for some of his slots. We could do a quick trade here.

Senator SCHUMER. As long as you fly to New York State, I might support that.

Mr. NEELEMAN. Well, you know they will be.

Mr. JOHNSON. And Dayton and Columbus, right?

Mr. NEELEMAN. And Dayton and Columbus.

Senator SCHUMER. Well, that is for the other guys to do their thing.

Mr. NEELEMAN. But we are committed to New York. We told you that. We are, and we are not here to try and grab all the slots or probably not any of them, for that matter. But we would like to serve the Washington, DC area. If we cannot get into Washington National Airport, eventually we will be at Dulles and bringing those low fares. We will not be able to provide all the things that United Airlines can provide, but we will do and we will create our passengers that are not currently traveling today.

Senator SCHUMER. And what is your judgment on the ability of Mr. Johnson, not Mr. Johnson per se, who is a fine, accomplished, intelligent man, but of a company starting the way it is to be a low-cost carrier, forgetting about where they fly and all of that?

Mr. NEELEMAN. You know, I think, obviously, in the initial stages, there is a policy that is a "use it or lose it" policy. This is a very creative thing, because if the slots were handed to him on a piece of paper overnight, he would lose them all.

So there needed to be a commercial arrangement where these planes would be leased and be flown by a regional carrier, probably not by United's pilots but one of their regional carriers to fly these, and this is the reason where hopefully temporarily the seats from Buffalo will contract, and hopefully Mr. Johnson, having these assets and these slots, you can really make a case the same way we did in Kennedy to build an airline in here with really low costs, and hopefully his concept will be similar to what ours is. Instead of trying to grab the $800 fare, which has been the case here, let us do a more rational $200 fare or $300 fare, from $99 to $300 and create a whole lot of new business and fly bigger jets on it.

If this happens, we are all kind of in this war together, but we all have similar challenges and wish him all the luck because it is a tough business. Like I said, the way it is structured, if it is totally not tied to United and if there are restrictions that he has to fly to certain places, he can make it work. And if his costs are lower, which ours are, significantly lower, and we can show him how to do that and we would be happy to talk to him about it, then he can make a success about it.

Senator SCHUMER. Thank you. Just before I get to Mr. Cooper, who I see is sitting apart from the other capitalists——

Mr. COOPER. Plus Mr. Kahn here.

Senator SCHUMER. OK.

Mr. COOPER. He was the buffer, see.

Senator SCHUMER. But Mr. Johnson, just to clarify something, there is no agreement and will be no agreement that if you do not use a slot, the slot goes back to United, reverts to United?

Mr. JOHNSON. Senator, there is no agreement. There will be no agreement. I am acquiring all the slots and will operate the slots to the 43 cities that we serve.

Senator SCHUMER. If that was asked already, I apologize, but I thought it had to be.

OK, Mr. Cooper, you get the last word.

Mr. COOPER. Mr. Schumer, your defense of upstate New York is magnificent, but frankly, as I listened to this discussion all morning, we have heard Mr. Neeleman talk about rules on predation and access to hubs. We heard Mr. Specter talk about his facilities. We have heard the company commit to price regulation for 2 years and maybe antitrust. Two to one, I think we would have to do three to two and four to three. On any one of those routes, you lose that competitor, you have lost something. If we go back, actually, we should look at six to five and five to four, but let us start at four to three, because almost nobody has more than four.

What we have got here is we are re-regulating the airline industry, and frankly, if I walked in here and said, you know what, we ought to re-regulate the airline industry, you guys would have said, you are nuts. This is one of those liberal consumer groups who wants to impose regulation.

So my answer is simple. Do not cobble together the re-regulation of the airline industry to defend your interests, which I am sympathetic with, or yours or Illinois or Pennsylvania. Let us vote for competition. This man represents real competition, and let us make sure——

Senator SCHUMER. Which man are you pointing to?

Mr. COOPER. This man right here, Mr. Neeleman. He has brought low prices, and occasionally, we have heard the history, we do occasionally get a low-price airline, but they frequently get run out of the market, and we have got a court case about that, and maybe we need regulation. Maybe we need legislation.

But I would urge you, as you have frequently urged me in a number of other industries, not to try and cobble together an industrial policy on the back of these mergers through consent decrees. You hate that for most industries. And so the answer is that, from our point of view, to not let this merger go forward and maybe look at the way we can introduce competition across the board, because you are going to have a chance if this one goes forward to do the same thing as a consent decree on the next one, and they will tell you, "I cannot predict history." The answer is that we know they are coming, just like they did in telecommunications and cable TV, et cetera.

And so from our point of view, public policy ought to be set. I will give you the list of things that you should accomplish and tell Justice to put on the back end of that consent decree, and I guarantee you Mr. Goodwin is not going to want to sign that consent decree, which answers all these problems.

The answer is, say no to the merger, continue to press the industry to compete, and maybe we need to come back and ask this question about hubs, because Mr. Wolf equates the concentration of traffic at hubs with the ownership of traffic, and that is not necessarily the way the industry has to be organized. They want to own the customers through their airports so they can control them. It did not have to work that way. There are other industries that allow access and concentrate traffic without that ownership. Maybe that is the legislation we should be looking at.

But as a matter of principle, we ought not try and cobble together this remarkable set of conditions. To preserve your options in New York, and it is not only the two to ones, it is the three to twos and four to threes, we should say no to this merger and insist that we open the industry up down Mr. Neeleman's path of real competition rather than jury-rigging some substitute while we create national airlines.

Senator SCHUMER. Thank you, Mr. Cooper. Thank you, Mr. Chairman.

Senator DEWINE. Mr. Goodwin, some cities such as Akron currently enjoy nonstop service to competing hub airports such as Washington-Dulles, United's hub, and Pittsburgh, US Airways's hub. Now that these will no longer be competing hubs, will cities such as Akron continue to have nonstop service to both cities or will the merged United/US Air cut nonstop service to either Washington-Dulles or Pittsburgh?

Mr. GOODWIN. Senator, I do not have in front of me what we are planning in Akron, but I would be more than happy to get it to you by first thing tomorrow morning, if you would permit me to do that.

Senator DEWINE. That would be great. Let me ask you another question. Your answer may be the same. There are at least two routes from Ohio cities Columbus and Dayton to Washington-Dulles where United and US Airways are the only carriers currently offering nonstop service. If the merger is permitted to go through, basically, these communities would lose all competition on these routes. Why should passengers in Dayton and Columbus not be concerned about that?

Mr. GOODWIN. Again, not having the specific flight schedule in front of me, but I will be happy to get those to you and we will be happy to address that question, sir.

Senator DEWINE. All right. Let me give you the final one that you can get back to us. I guess this is more directed to Mr. Wolf. There are several Ohio markets where US Airways Express, in joint relationship with other smaller carriers, provides the only nonstop service on certain routes. For example, in Columbus, US Airways Express partners with small carriers to provide nonstop service to communities such as Grand Rapids, MI, and Indianapolis, IN. What will happen to routes like this after the merger?

Mr. WOLF. Mr. Chairman, we have some almost 5,000 flights a day and serve over 200 cities. My assumption is that we do that for an economic reason today, not philanthropic——

Senator DEWINE. We assume.

Mr. WOLF [continuing]. And I would like to think that we would have the sense to continue doing that tomorrow.

Senator DEWINE. Let me thank all of our witnesses here today. We have had a very distinguished panel of witnesses. You all have been very patient with us. We appreciate this very much.

I must say that I am still concerned that this merger will lead to other mergers in the aviation industry, and frankly, I did not hear anyone, any of the six witnesses, who could tell me, "No, Senator DeWine, that is just crazy," or, "That is not going to happen." So I happen to think it will happen, and I think your silence on the issue and your inability to say that this is probably not going to happen clearly indicates to us this is what is going to happen.

So I think when Justice looks at this and we look at this as far as public policy, we have to assume this is the first of two, three mergers and I think we can pretty well project what U.S. airlines are going to look like, the domestic industry, and I think we are going to be down to three major players. I think we have to look at that and I think we have to be concerned about that.

This subcommittee will continue to monitor the progress of this merger and the impact it has on competition in the airline industry. This is an industry obviously very critical to the U.S. economy and this merger is of great importance to consumers.

So again, we appreciate all of you being here. You have shed a lot of light, I think, on the issue and we appreciate it very much and the hearing is adjourned.

[Whereupon, at 1:27 p.m., the subcommittee was adjourned.]

QUESTIONS AND ANSWERS

RESPONSES OF JAMES E. GOODWIN TO QUESTIONS FROM SENATOR DEWINE

Question 1. In the past five years, has your airline included new entrant carriers in your frequent flyer programs? If not, why not? Will United's frequent flyer arrangement with DC Air be exclusive, or will other small airlines be allowed to participate? Will DC Air be permitted to participate in other airlines' frequent flyer program

Answer. In the past five years, United has not added any new entrant carriers to our frequent flyer program. Unfortunately, no new entrant carrier has met our criterion of complementing our network in a way that creates attractive new redemption opportunities for Mileage Plus members. Should a new entrant carrier meet such criterion, we would consider them for participation in our program.

With respect to our frequent flyer relationship with DC Air, there is no exclusivity with DC Air.

Question 2. Mr. Goodwin, in your written testimony you state that the merger is not anticompetitive, in part, because new low cost carriers will provide sufficient competition. Given that, would you agree with those who argue that low cost carriers should be given greater access to slot controlled and gate constrained airports? If so, how should this be accomplished?

Answer. Low-cost carriers such as Southwest, Air Tran, JetBlue, Frontier and others have been growing aggressively and expanding competitive entry in numerous markets. The recently enacted FAA Reauthorization law contains a number of provisions that will further improve and accelerate the competitive entry of low-cost-carriers. With respect to slots, the new law phases out slot controls at Chicago O'Hare, New York LaGuardia and New York Kennedy. During the phase-out period, the new law immediately provides new access for low-cost carriers that do not presently offer more than 10 daily rountrip flights to these airports or are seeking to serve small communities. United favored immediate elimination of slot controls but Congress instead decided to phase-out these restrictions. We believe the phase-out of artificial slot constraints will make competition at O'Hare, LaGuardia and Kennedy even more vigorous than it is today.

Similarly, the new FAA Reauthorization law addressed concerns about gate access. The new law requires 40 airports—hubs where one or two carriers control more than 50 percent of the passenger boardings—to file competition plans if they seek higher PFCs, new PFCs or new Airport Improvement Program (AIP) grants. We understands this provision is intended to give airports an incentive to develop and implement plans to promote competition and capacity enhancement, including expanding gate access.

Question 3. Some cities, such as Akron, Ohio, currently enjoy nonstop service to competing hubs such as Dulles and Pittsburgh. Now that these will no longer be competing hubs, will cities such as Akron continue to have nonstop service to both cities.

Answer. We have committed to maintain all existing routes into Akron and after the merger. We will continue to provide such service from Akron to both Dulles and Pittsburgh. Our Akron service will continue to compete with service offered by other carriers. Every city that is served from both of these hubs today will continue to receive service to both of them after the merger. We will not be able to achieve the revenue benefits that we project without being able to offer the truly global network that the combination of hubs in our network offers. In the case of Akron, service to Pittsburgh allows us to offer connections throughout the Midwest and western United States while Dulles allows access to the East Coast, Europe and the Caribbean.

Question 4. There are several markets where US Airways Express, in joint relationships with other, small carriers, provides the only nonstop service on certain routes. For example, in Columbus, US Airways Express teams with small carriers to provide nonstop service to communities such as Grand Rapids, MI and Indianapolis., IN. What will happen to these routes, and others like them, after the merger?

Answer. Overall, United is committed to maintaining service levels in Columbus. Today, service from Columbus to Fort Wayne and Grand Rapids is provided by Chautauqua Airlines, an independent regional carrier. Without knowing the specific profitability of the US Airways Express service, we cannot make a concrete commitment to continuing these specific flights. However, after the transaction closes, we will work with the Express carriers to evaluate all current US Airways Express routes. The passenger feed regional carriers such as Chautauqua Airlines provides to US Airways' network will continue to be very important to United's global network after the merger is completed and we expect to maintain service on all current routes.

Question 5. There are at least two routes from Ohio cities (Columbus and Dayton) to Washington Dulles where United and US Airways are the only carriers currently offering nonstop service. If this merger is permitted to go through, these communities will basically lose all competition on these routes. Doesn't this merger harm consumers in those communities? What should be required during the merger review process to ensure that all nonstop competition is not lost on these routes?

Answer. The merger will have no anticompetitive effects in terms of service between these Ohio cities and Washington D.C. With the DC Air divestiture, DC Air will be the second competitor providing service between Columbus and Dayton and Washington D.C., providing the only jet service between these cities United expects the Justice Department, as part of its review process to analyze competition in all nonstop city pair markets from Washington.

RESPONSES OF JAMES E. GOODWIN TO QUESTIONS FROM SENATOR GRASSLEY

Question 1. Recently, Section 155 of the AIR–21 legislation found that 15 large hub airports are each dominated by one air carrier with each such carrier controlling more than 50 percent of the traffic at the hub. The FAA actually has 41 airports on its list. The General Accounting Office has found that such levels of concentration lead to higher airfares. A merged United-US Airways would be the dominant carrier in 10 major US airports. How can this Committee be certain that this market dominance will not harm the American traveler both through increased hub dominance, higher prices and reduced services? These airports must submit competition plans to the FAA before an increase in the Passenger Facility Charge can be approved. How does this merger help these airports comply with the law to receive PFC increases?

Answer. United and US Airways have little presence at each other's hubs, so the merger will have insignificant effect in terms of increased shares at the carriers' eight hubs. The DC Air divestiture will address the only hub airport at which the merger could have been viewed as arguably having a significant effect at a hub airport. Nor will the merger have a significant effect on the combined presence of the two airlines at other airports. Indeed, at some airports, the merger will permit the combined entity to be a more effective competitor with the #1 carrier at those airports.

As you are aware, the new FAA Reauthorization law requires 40 airports—hubs where one or two carriers control more than 50 percent of the passenger boardings—to file competition plans if they seek higher PFCs, new PFCs or new Airport Improvement Program (AIP) grants. As we understand the provision, it is intended to encourage such airports to develop and implement plans to promote competition and capacity enhancement. We believe these plans will be useful since they will encourage airports to focus on ways to expand ground side capacity at existing airports. To be eligible for PFC increases in the future, covered airports will be required to prepare such competition plans irrespective of our proposed combination. Accordingly, our proposed merger appears not be directly relevant to an airport's decision whether to develop a competition plan as a precondition for seeking a PFC increase.

Question 2. Concerns have been raised that this merger would create a frenzy of airline consolidations that would eventually lead to higher prices and reduced choices. We've already heard rumblings of other airlines talking about consolidation. Do you believe that if the United-US Airways transaction prompts other airlines to merge, this is good for the average American traveler? What about the concerns that a strike by the workers at one of these mega-airlines would be catastrophic for travelers?

Answer. What matters is the number of airlines that are actual competitors in a particular city pair market, not the number of overall airlines. A merger can, in fact, enhance competition at a city pair level, because the combined entity may be able to compete in city pair markets that were not economically viable for the two airlines separately. For that reason, industry consolidation is not necessarily inconsistent with increased competition.

United does not necessarily believe that it is likely that other airlines will merger, nor does it discount this possibility. The competitive effects of any subsequent airline merger would have to be considered on its own merits and United believes it is premature to speculate on the likely competitive effects of hypothetical mergers. In any industry, one can always speculate that a sufficient number of future mergers may occur such that eventually there might be harmful competitive effects. If this hypothetical possibility were sufficient to prevent a merger, no merger would ever be approved. United also notes that the merger of United and US Airways is a merger between two complementary airlines with little competitive overlap and will generate significant benefits for passengers, a combination that other airline mergers may have difficulty establishing.

Often, the most significant competitive factor affecting competition in a city pair market is the presence of a low cost carrier. Neither the United-US Airways merger nor the industry consolidation hypothesized by many would have adverse effects on low cost carriers. Indeed, with the creation of DC Air, the United-US Airways merger would lead to the creation of a new low cost carrier at Reagan National.

Under no circumstances would hypothesized consolidation result in just three major carriers as some suggest. Southwest Airlines, the fastest growing and most profitable airline today, will continue to compete vigorously and discipline prices. At its current rate of growth, Southwest is likely to be the largest domestic U.S. carrier within the next few years. Moreover, other low-fare carriers also will continue to compete effectively and offer consumers competitive air service options.

With regard to any possible concern about a strike, the combined carrier would be subject to the same labor laws and strike protections that apply to the individual carriers. The Railway Labor Act which governs carrier and employee conduct during a strike has a series of steps which preclude strikes or other forms of economic self-help. These steps include the ability of a carrier to seek injunctive relief and a Presidential Emergency Board (PEB) which can be convened by the President if the dispute "threatens substantially to interrupt commerce." Congress also has the ability, which it has used on occasion, to pass special legislation further prohibiting parties from resorting to self-help, submitting the dispute to a second PEB or even accepting the PEB's recommendations.

RESPONSES OF JAMES E. GOODWIN TO QUESTIONS FROM SENATOR KOHL

Question 1. What do you think of this, Mr. Goodwin? Would you agree to those types of "market opening" conditions in order to gain approval of the merger?

Answer. United intends to cooperate fully with the Justice Department's investigation of the merger and is willing to work with the agency proactively to address potential anticompetitive concerns. In that regard, United will be willing to listen to any ideas or suggestions the Justice Department might have along these lines. United would note that any proposed condition to the merger should generate pro-competitive effects and it does not believe that limiting United's ability to add service (or requiring United to eliminate service) is pro-competitive, nor does United believe the Justice Department will likely view reductions in service as pro-competitive or beneficial to consumers.

Question 2. Mr. Goodwin and Mr. Wolf, do you believe it is likely that this deal will lead to other mergers among major airlines? If so, shouldn't we be concerned that additional consolidation in the airline industry will be harmful to competition? And, in your view, what is the minimum number of major airlines we need to ensure vigorous competition in the domestic airline industry?

Answer. United does not necessarily believe that it is likely that other airlines will merge, nor does it discount this possibility. The competitive effects of any subsequent airline merger would have to be considered on its own merits and United believes it is premature to speculate on the likely competitive effects of hypothetical mergers. In any industry, one can always speculate that a sufficient number of future mergers may occur such that eventually there might be a competitive effect. If this hypothetical possibility were sufficient to prevent a merger, no merger would ever be approved. United also notes that the merger of United and US Airways is a merger between two complementary airlines with little competitive overlap and will generate significant benefits for passengers, a combination that other airline mergers may have difficulty establishing.

Regarding the number of airlines needed to ensure competition, what matters is the number of airlines that are actual or potential competitiors in a particular city pair market, not the number of overall airlines. A merger can, in fact, enhance competition at a city pair level, because the combined entity may be able to compete in city pair markets that were not economically viable for the two airlines separately. For that reason, industry consolidation is not necessarily inconsistent with increased competition. Moreover, often the most significant competitive factor affecting competition in a city pair market is the presence of a low cost carrier, and neither the United-US Airways merger nor the industry consolidation hypothesized by many would have adverse effects on low cost carriers. Indeed, with the creation of DC Air, the United-US Airways merger would lead to the creation of a new low cost carrier at Reagan National.

Question 3. Mr. Goodwin, would it be good for competition if other airlines besides DC Air had a chance to obtain some of these slots at DC National?

Answer. As we considered the sale of assets at Reagan National Airport, we took into account a number of factors. First, we wanted to sell the assets to a carrier that was committed to serving the Washington, DC area on a long-term basis. Second, we wanted to ensure our shareholders that we received fair market value for the assets in an arm's length transaction where the purchase price reflected the give-and-take of negotiations. Finally, we wanted to identify a carrier that would maintain the current service pattern between Reagan National and many small and mid-sized communities that currently rely on US Airways for non-stop access to Reagan National. If slots were sold-off on a piecemeal basis as the question suggests, we believe this service to small city markets would be put at risk. In contrast, by selling the slots in a block to DC Air, we believed we will preserve small city air service access to Reagan National from numerous small communities throughout the eastern U.S.

RESPONSES OF JAMES E. GOODWIN TO QUESTION FROM SENATOR LEAHY

Question 1. Will the newly merged airline keep the same number of seats flying to and from the Burlington, Vermont airport? Will the newly merged airlines fly the same number and type of aircraft to and from Burlington? What commitments has United made to provide such service?

Answer. United will maintain all existing service operated to/from Burlington with the exception of service to Reagan Washington National. Burlington/Reagan Washington National service will be taken over by DC Air which has announced that it intends to offer two roundtrip flights per day and upgrade from turboprop to regional jet service. With respect to United's Burlington service after the merger, we intend to operator the same number of flights as we do today. We also plan to operate all existing jet service with jet aircraft, but the exact types of aircraft cannot be determined at this time since we have not made final allocation decisions. We expect to make such decisions close to completion of the merger and the time we produce our first combined schedule.

Question 2. US Airways has regional codeshare agreements with Allegheny and PSA operating out of Burlington. Will the merged airline keep all of the combined regional airline codeshare agreements? Will all of the regional airlines be effectively assumed into the new operation?

Answer. The passenger feed that these regional carriers provide to US Airways' current hubs will be crucial to our combined network after the merger. At this time, the exact structure of that ongoing relationship with PSA and Allegheny will take after the merger has yet to be determined. Today, Allegheny serves the New York La Guardia market and we will maintain the 5 flights they provide. PSA serves Burlington only to Reagan Washington National airport and DC Air will provide this service after the merger.

Question 3. In the past, US Airways has placed marketing and sales focus on the Northeast region during ski season. Does the newly merged United intend to dedicate as much marketing and sales focus to the Northeast as did US Airways? This is of particular concern to Vermont since United has, in the past, focused on sales to the Colorado ski market.

Answer. As the "Skier's Airline of Choice," United has solid leisure strategy for the Ski market. Our Leisure Sales organization has devoted a full time "ski specialist," at our headquarters level to coordinate all aspects of our ski customers needs. Additionally, we have a dedicated wholesale desk in Detroit, which provides reservation sales support to our more than 30 regional and national ski wholesale partners, as well as, all major resort central reservation offices throughout the Colorado Rocky Mountain region. United is poised to expand its wholesale relationships with other ski specialist in Vermont, once our merger agreement with US Airways is concluded.

United plays an important role with establishing “seasonal direct air service” to many of the primary ski resorts. Something that we would certainly evaluate with the ski resorts in Vermont, given our planned merger with US Airways.

Although United’s focus in the past has been in the Colorado region, we anticipate our strong Midwest presence, and the effective north/south route structure by US Airways, will make us a winning combination for our existing wholesalers, and other leisure partners, selling the Vermont ski areas.

Question 4. Metrojet is a low-cost carrier that is a wholly owned subsidiary of US Airways. It effectively competes with Southwest in the Northeast particularly in Albany, Manchester and Hartford. Will United create a similar low-cost service to those destinations?

Answer. United has not made a final decision on the status of Metrojet but we recognize the importance of providing a low-cost operation in the East as a competitive counterbalance to not only Southwest Airlines but other low-fare carriers such as JetBlue and AirTran. We have not decided on the exact deployment of such a service but it is likely to include such cities as those mentioned. The routes currently served by Metrojet at Albany and Manchester are being discontinued for the time being but they will be reevaluated as our plans for low-fare operation in the East evolve.

Question 5. Will United continue to operate all existing hubs as hubs?

Answer. The hallmark of our proposed merger is to expand single-carrier service for passengers throughout our global network. To accomplish this goal, we will need all of our current hubs plus the Charlotte, Pittsburgh and Philadelphia hubs currently operated by US Airways. Accordingly, we plan to continue to operate all existing hubs.

Question 6. What factors did United Airlines consider in deciding to run the shuttle from Reagan National Airport to LaGuardia Airport, rather than sell that route to DC Air? Why were these routes left out of the deal with DC Air?

Answer. United is generally very pleased with the performance of its Dulles hub but there is a very strong demand from New York to Washington for service to Reagan Washington National that we are not able to satisfy today. As a result, we decided to include the Shuttle operations at Reagan Washington National in our purchase of US Airways. They deliver considerable benefits, which are part of the value of the deal and we felt that the presence these operations gave in Washington, New York and Boston would be a necessary part of the merger.

We also believe that in the case of Washington to New York the markets using the Shuttle at Reagan National and the service at Washington Dulles are distinct and the merger therefore does not present an overlap.

Question 7. Did United consider creating its own big hub in the northeast, rather than acquiring one from US Airways?

Answer. We presently operate a hub at Washington Dulles International Airport. Primarily, it is an east-west hub for domestic service. It also serves as an important international gateway hub for flights to Europe and other destinations such as Mexico City. Responding to customer demand for improved single-carrier service in the north-south market in the eastern U.S., a little over a year ago we significantly increased our service at Dulles. While consumers welcomed this new service, it became apparent to us that expanding our existing hub at Dulles would not permit us to respond quickly and fully enough to our customer demand for greater single carrier service in the Eastern U.S. Instead, we concluded that the only way to do so was to acquire existing, well-established hubs like Pittsburgh and Philadelphia. Simply put, our decision to acquire US Airways was driven by our realization that expanding the current hub at Dulles or building a new northeastern hub from scratch was not a practical or economically efficient way to respond fully to customer demand for improved single-carrier in the north-south market along the East Coast.

RESPONSES OF UNITED/US AIRWAYS TO QUESTIONS FROM SENATOR KOHL

Question 1. [For Goodwin and Wolf]: Mr. Goodwin and Mr. Wolf, do you believe it is likely that this deal will lead to other mergers among major airlines? If so, shouldn’t we be concerned that additional consolidation in the airline industry will be harmful to competition? And, in your view, what is the minimum number of major airlines we need to ensure vigorous competition in the domestic airline industry?

Answer. It is important to address the question of other future mergers in this industry in the proper context. To begin with, this merger brings together two complementary route structures that have little overlap (United's east-west routes and western presence and US Airway's north-south network in the eastern U.S.). The result is a truly national carrier that serves all four corners of this country in a way that will (i) greatly benefit our consumers and the communities we serve and (ii) enhance competition.

I do not know if there are other combinations that work as well as this combination does for the traveling public. For example, is there another combination that will inject new competition into more than 500 city-pairs currently served by only one carrier (as the United-US Airways merger will)? Is there another combination that will provide on-line service for the first time to over 4,000 city-pairs (as the United-US Airways merger will)? Is there another combination that will publicly commit to a two-year freeze on structure fares (as United has already done)? Is there another combination that will publicly commit to a no-furlough guarantee for the tens of thousands of employees from both carriers (as United has already done)? Is there another combination that would bring together two route networks with very little overlap (as with the United-US Airways combination)? Is there another combination that expressly provides for the creation of an independent new entrant carrier (as with the creation of DC Air)? Is there another combination that will guarantee no reduction for two years in domestic standard base commission rates for travel agents (as United has done)? I do not know the answers to these questions; so I would not want to speculate on whether there will be additional mergers among the other majors airlines.

Even if other mergers come about, they must be reviewed closely on their own individual merits to determine, among other things, whether they provide pro-competitive and pro-consumer benefits like the United-US Airways merger does. Although I would not predict that the U.S. airline industry will only have five, four, or even three major carriers in the future, there is every reason to conclude that such an industry would continue to be characterized by intense competition. The major network carriers will continue to compete vigorously with each other for domestic and international traffic over their respective networks. Low-cost carriers will continue to grow, offering intense competition and lower fares in regional markets. Indeed, the industry is currently undergoing a wave of new entry by well-regarded low cost carriers such as JetBlue, Air Tran, National, Vanguard, Spirit, and others. Moreover, just as this transaction will result in a new entrant carrier in DC Air, other transactions may likewise produce new carriers and lead to the divestiture of assets creating even more opportunities for new entry and increased competition.

Question 2. [For Goodwin]: Mr. Goodwin, wouldn't it be good for competition if other airlines besides DC Air had a chance to obtain some of these slots at DC National?

Answer. No response.

RESPONSES OF UNITED/US AIRWAYS TO QUESTIONS FROM SENATOR GRASSLEY

Question 1. Recently, Section 155 of the AIR–21 legislation found that 15 large hub airports are each dominated by one air carrier with each such carrier controlling more than 50% of the traffic at the hub. The FAA actually has 41 airports on its list. The General Accounting Office has found that such levels of concentration lead to higher airfares. A merged United-US Airways would be the dominant carrier in 10 major U.S. airports. How can this Committee be certain that this market dominance will not harm the American traveler both through increased hub dominance, higher prices and reduced services? These airports must submit competition plans to the FAA before an increase in the Passenger Facility Charge can be approved. How does this merger help these airports comply with the law to receive PFC increases?

Answer. The United-U.S. Airways merger will not harm consumers through increased hub dominance, higher fares, or reduced service. The merger of United and US Airways will greatly benefit our consumers and the communities we serve. Consumers will enjoy enhanced competition and expanded service options in both domestic and international markets.

- The combined carrier's route network will continue to complete vigorously with the hub-based networks of other carriers and will inject new competition into more than 500 city-pairs currently served by only one carrier. By linking United's east-west and international routes with US Airway's eastern network, the merger will provide competitive alternatives in US Airways' hubs in Charlotte, Philadelphia, and Pittsburgh to other existing hubs and gateways. Moreover, the merger will result in a new independent carrier based at Reagan Washington National Airport, providing service to 43 communities form the nation's capital.

- Overall services offered by the combined United-US Airways' will be greatly expanded: new, first-time on-line service to over 4,000 city-pairs, and 93 new nonstop fights to international and domestic destinations.
- With respect to fares or pricing, United has publicly committed to an unprecedented, and easily monitored, two-year freeze on structure fares (except for CPI and full cost increases).

Because this merger creates a truly efficient nationwide network, creating more choice for consumers in hundreds of markets, it will enhance competition, stimulate growth, commerce and jobs across the U.S. and provide a wealth of benefits in the form of vastly more convenient service for consumers.

With respect to the new law requiring airports seeking an increase in Passenger Facility Charges to submit competition plans, the merger does not directly relate to these proposals, which are directed primarily toward ensuring competitive access at hub airports. This merger, however, will enhance competition at hub airports by expanding choice for consumers and injecting new competitive alternatives in hundreds of markets currently served only by one carrier. We see this merger thus as consistent with the objectives of AIR–21.

Question 2. Concerns have been raised that this merger would create a frenzy of airline consolidations that would eventually lead to higher prices and reduced choices. We've already heard rumblings of other airlines talking about consolidation. Do you believe that if the United-US Airways transaction prompts other airline to merge, this is good for the average American traveler? What about the concerns that a strike by the workers at one of these mega-airline would be catastrophic for travelers.

Answer. It is important to address the question of other future mergers in this industry in the proper context. To begin with, this merger brings together two complementary route structures that have little overlap (United's east-west routes and western presence and US Airways' north-south network in the eastern U.S.). The result is a truly national carrier that serves all four corners of this country in a way that will (i) greatly benefit our consumers and the communities we serve and (ii) enhance competition.

I do not know if there are other combinations that work as well as this combination does for the traveling public. For example, is there another combination that will inject new competition into more than 500 city-pairs currently served by only one carrier (as the United-US Airways merger will)? Is there another combination that will provide on-line service for the first time to over 4,000 city-pairs (as the United-US Airways merger will)? Is there another combination that will publicly commit to a two-year freeze on structure fares (as United has already done)? Is there another combination that will publicly commit to a no-furlough guarantee for the tens of thousands of employees from both carriers (as United has already done)? Is there another combination that would bring together two route networks with very little overlap (as with the United-US Airways combination)? Is there another combination that expressly provides for the creation of an independent new entrant carrier (as with the creation of DC Air)? Is there another combination that will guarantee no reduction for two years in domestic standard base commission rates for travel agents (as United has done)? I do not know the answers to these questions; so I would not want to speculate on whether there will be additional mergers among the other major airlines.

Even if other mergers come about, they must be reviewed closely on their own individual merits to determine, among other things, whether they provide pro-competitive and proconsumer benefits like the United-US Airways merger does. Although I would not predict that the U.S. airline industry will only have five, four, or even three major carriers in the future, there is every reason to conclude that such an industry would continue to be characterized by intense competition. The major network carriers will continue to compete vigorously with each other for domestic and international traffic over their respective networks. Low-cost carriers will continue to grow, offering intense competition and lower fares in regional markets. Indeed, the industry is currently undergoing a wave of new entry by well-regarded low cost carriers such as JetBlue, Air Tran, National, Vanguard, Spirit, and others. Moreover, just as this transaction will result in a new entrant carrier in DC Air, other transactions may likewise produce new carriers and the lead to the divestiture of asset creating even more opportunities for new entry and increased competition.

Any strike at a major carrier would have a serious impact on the traveling public, whether it was United, American, Delta, or Southwest. The proposed United-US Airways merger is a pro-labor, pro-union agreement and, as such, we believe it reduces chances of any such labor strikes. For starters, United has publicly committed not to furlough any employees as a result of this merger. For US Airways employees, the merger with United represents and unprecedented opportunity for job security with a financially strong, well-regarded global carrier with a strong international alliance. In addition, US Airways employees will benefit from enhanced job growth opportunities with the world's largest carrier.

RESPONSE OF STEPHEN M. WOLF TO A QUESTION FROM SENATOR LEAHY

Question 1. [Stephen Wolf, Chairman of US Airways] Without this union, what hurdles would US Airways have faced in achieving its stated goal of "building a truly global carrier"? Do you anticipate that other airlines that attempt to compete with the newly merged airline will face these same barriers?

Answer. In the past few years, the dedicated and hard-working employees at US Airways have made great strides toward our goal of becoming the carrier of choice for travelers. That being said, however, certain marketplace realities confront us. US Airways is currently unique in its position as a mid-sized carrier with a mature cost structure. We have the costs of our large network competitors, but unlike them, we lack the ability to spread these costs over a larger network with longer average stage lengths. In the post-deregulation era, all other carriers similarly situated to US Airways have either gone out of business or have gone through bankruptcy proceedings.

Braniff and TWA provide very instructive examples. Both Braniff and TWA were pre-deregulation carriers that were not able to respond efficiently to the challenges of the deregulated marketplace. They were both mid-sized carriers that did not expand their route systems to match the challenge from United, American, Delta, and Northwest. Despite several bankruptcies and restructuring, Braniff ultimately disappeared. TWA also has undergone bankruptcies and restructuring which have substantially reduced its costs and enabled it to survive by finding a new competitive niche. TWA's long-term position in the industry, however, is uncertain.

Without this proposed merger, US Airways would need to confront, and seek to overcome, these hurdles in the coming years—recognizing that the history for similarly situated carriers has not been pleasant.

I would not anticipate that other airlines competing with the newly merged airline will face these same barriers because, as I noted above, US Airways' situation is unique. We have the highest unit operating costs in the industry with a route network comprised principally of short/medium-haul services. No other carrier that I can think of is confronted by these same circumstances.

RESPONSES OF STEPHEN M. WOLF TO QUESTIONS FROM SENATOR DEWINE

Question 1. Mr. Wolf, you have made several statements in the past about the necessity of increased access to slots and gates at foreign airports to bring the benefits of increased competition. Many smaller carriers have similarly complained about their ability to gain slots at closed airports, and gates at other airports in the U.S. market. Do you think it would benefit competition if carriers were required to relinquish some slots and gates at those airports where they have a dominant market share?

Answer. The situation at certain foreign airports cannot be readily compared to the situation of carriers operating domestic services at slot-controlled airports in the United States. The U.S. Government has bent over backwards to ensure that foreign carriers seeking to operate at U.S. slot controlled airports have access to such airports by either awarding them slots free-of-charge or providing them with slot exemptions. Other countries, however, have not provided reciprocal access for U.S. carriers. It took well over a year, for example, after US Airways received governmental approval to operate Charlotte-London service before we obtained the necessary slots at Gatwick Airport.

In the domestic market, there are only four airports with slot restrictions—Chicago O'Hare, New York LaGuardia, New York JFK, and Washington National. All other airports in this country are open to any carrier wishing to increase existing service or initiate new service. Even at those airports where slots are currently required, under the new FAA reauthorization legislation, AIR–21, passed this year by Congress, slots are being phased out, opening the way for free and open access. The only exception is Reagan Washington National Airport where Congress essentially left the slot regime in place. But even there Congress provided for 24 new slot exemptions, and new entrants such as National, Spirit, and Frontier, among others, are already taking advantage of the increased access.

In structuring this merger, we addressed the issue of concentration in Washington, DC straight on—with the creation of an independently owned and operated new entrant carrier, DC Air, at Washington National Airport, serving 43 communities with 37 aircraft from the heart of the nation's capital.

To our knowledge, gates should be and are available at almost all airports for new entrant service. No airline has even been prevented from serving one of US Airways hubs—Philadelphia, Pittsburgh, or Charlotte—as a result of a lack of gates. New entrants, including Air Tran, America West, Vanguard, and Midway, have all been able to gain access.

Question 2. A merged United/US Airways will control a significant number of slots at slot-controlled airports. For example, it will have control roughly 42% of the slots at New York LaGuardia where slot restriction will be in place until 2007. Do you believe this high level of concentration in this large air travel market is anti-competitive?

Answer. Even though slots at LaGuardia will not be phased out entirely until 2007, under the new AIR–21 legislation passed by Congress this year, slots are no longer required for carriers that propose to add flights or initiate new service from LaGuardia to small hub or non-hub airports with regional jet or other small aircraft. The result is that smaller markets are seeing a dramatic increase in their service to LaGuardia.

LaGuardia is, and will remain, an intensely competitive airport. Several low-cost carriers have increased their operations at the airport in recent years. There is every reason to believe that this type of new entry and competition will continue. Moreover, this merger will result in the unprecedented commitments by United to freeze fares for two years, maintain service to every city on the joint carriers' route maps, and guarantee no job loss for employees of both companies.

Question 3. There are several markets where US Airways Express has entered into relationships with other, small carriers such as PSA, Piedmont and Allegheny to provide airline service—sometimes the only nonstop service on certain routes. Some reports indicate that US Airways' authority to operate the slots and gates being utilized by these joint arrangements will be transferred to DC Air. What effect will the merger have on these joint arrangements? Specifically, will the routes serviced by these joint arrangements continue to be served and what will happen to the employees of the airlines that supported the arrangements with US Airways Express?

Answer. With respect to the arrangements that US Airways Express has entered into with regional carriers such as PSA, Piedmont, and Allegheny, United, as the purchasing carrier, will assume all of the contractual rights, duties, and obligations that are contained in those agreements. Because of the structure of the merger, and the need to divest assets at Washington National Airport, some of the services provided by US Airways Express carriers will be operated by DC Air, which ultimately plans to convert all of its turbo-prop services at Washington National to jet services. While the exact structure of United's ongoing relationships with the regional carriers has not been finalized, the passenger feed that US Airways Express carriers provide to US Airways' current hubs will continue to be an important part of the United network.

Question 3a. Is anything being done now to ensure that these small carriers have clear and adequate notice of any changes that would result if the merger were approved, to ensure that they remain viable competitors and their employees don't leave because of uncertainty?

Answer. United has publicly committed that no city currently served by US Airways or United will lose service as a result of this merger. United has also committed to assuming all of US Airways' obligations regarding the US Airways Express carriers.

RESPONSE OF ROBERT JOHNSON TO A QUESTION FROM SENATOR KOHL

Question 1. Mr. Johnson, some commentators have called your planned airline, DC Air, a "virtual airline." They are worried that your airline will not be an independent competitor to United and US Airways because, at least initially, many of your airplanes will be "wet leased" from United and US Airways. This means that, not only will DC Air lease these airplanes, but the pilots, ground crews, and even management personnel will be employees of the combined United/US Airways.

Many wonder how, in these circumstances, DC Air can vigorously and aggressively compete with United/US Airways.

Mr. Johnson, is it true you plan to "wet lease" many of your planes in this manner when you commence operations at DC Air? And, if so, how will it be possible for DC Air to aggressively compete against United/US Airways on price or service when, at the start of your operations, most of your planes, flight crews, and management will be part of United/US Airways?

Answer. With regard to our relationship with United, there are really two issues to address. First, as part of the creation of DC Air we will purchase a number of assets, including slots at Washington Reagan National, and assume ownership or leases of aircraft, facilities and equipment required for our business in a one-time transaction. Second, we will enter into standard industry contractual relationships for an appropriate transition period, at market rates, to ensure the continuation of air services on day one for those communities where DC Air will replaces US Airways' services. For example, United will contract with us to provide fuel at our airports, and will wet-lease ten Boeing 737 aircraft to us at market rates. The remaining twenty-seven aircraft we will operate day one will be a mix of aircraft that we own and aircraft that we will operate under contract with regional carriers who make a business of providing such services to other airlines. Additionally, we are ready to begin discussions with other major carriers to seek out partnering opportunities such as code-sharing and frequent flyer arrangements.

These contracts address the logistical issues associated with ensuring complete continuity of service to Washington, D.C. from the 43 communities we will serve on day one of our operations. Typically, a new entrant carrier begins with one or two aircraft and grows by adding one aircraft at a time over a period of years. DC Air is unique in that it is imperative to the successful implementation of our plan that we from day one serve 43 cities from Washington, D.C. so that there is no interruption of service to any of the communities presently being served by US Airways. We will do this with thirty-seven aircraft, replacing current US Airways service in well-developed, profitable markets with a long history of service and a customer base of some 3 million passengers per year.

Although United is contracting with DC Air to provide these transition services to us to ensure that our customers will enjoy the continuity of service, wet leasing aircraft in no way impedes DC Air's ability to complete with United or anyone else. In a wet lease, operational control of the aircraft is left to United, by United will have no influence over our management, pricing, marketing, identity, aircraft scheduling, or other activities. We expect to compete vigorously with United and other airlines including Delta, Southwest, AirTran, and others, on the basis of price and service across our network.

Our cost projections indicate that DC Air will start "out of the box" with costs per seat mile that are significantly lower than US Airways' costs for operating its Washington Reagan National routes. This reduction is due to several factors:

DC Air, as a new entrant carrier with a focused operation, will have lower overhead costs; With the exception of the ten B737 aircraft to be wet-leased for a transition period from United, DC Air's unit labor costs will be consistent with other new entrant and regional carriers, and will not be burdened with the productivity issues associated with the complex operations of traditional "mainline" U.S. carriers;

Our fleet of aircraft, which will ultimately be an all-jet fleet, will be appropriate for the routes we will serve.

And, as we phrase out of our transition agreements with United, we expect our costs to be further reduced.

Because our costs are lower, and because we will have a singular focus on serving Washington, D.C. to/from the 43 other communities in our network, we will be able to offer high quality service and extremely competitive fares.

RESPONSES OF ROBERT JOHNSON TO QUESTIONS FROM SENATOR LEAHY

Question 1. What kind of service—frequency, cost, nonstop, one-stop to major cities, discounted tickets—will DC Air be providing to Vermont? What commitments has DC Air made to provide such service?

Answer. DC Air is committed to continuing US Airways' current two daily round trip frequencies from Washington Reagan National to Burlington, but we will upgrade that service from the current turboprop aircraft to regional jets. Connections will be available to popular destinations such as New Orleans, Orlando, Tampa, West Palm Beach, Ft. Lauderdale, Raleigh, and Atlanta, among others. We will bring a special focus on the Washington, D.C. passenger, and we are committed to providing high quality service at the lowest possible fares to the communities we serve.

Question 2. Did DC Air negotiate to purchase US Air's profitable shuttle service from Reagan, National Airport to LaGuardia Airport. In your view, why were these routes left out of the deal?

Answer. The Shuttle was not discussed as part of the transaction that will create DC Air. The Shuttle is a highly specialized operation, requiring different aircraft from those DC Air will use to serve our markets, and with some very specialized marketing and operational requirements as well.

Question 3. Does DC Air intend to operate as a low-cost carrier, such as Southwest Airlines as opposed to a "competitive carrier"?

Answer. Our cost projections indicate that DC Air will start "out of the box" with costs per seat mile that are significantly lower than US Airways' costs for operating its Washington Reagan National routes. This reduction is due to several factors:

DC Air, as a new entrant carrier with a focused operation, will have lower overhead costs; With the exception of the ten B737 aircraft to be wet-leased for a transition period from United, DC Air's unit labor costs will be consistent with other new entrant and regional carriers, and will not be burdened with the productivity issues associated with the complex operations of traditional "mainline" U.S. carriers; Our fleet of aircraft, which will ultimately be an all-jet fleet, will be appropriate for the routes we will serve.

Because our costs are lower, and because we will have a singular focus on serving Washington, D.C. to the 43 other communities in our network we will be able to offer high quality service and extremely competitive fares.

However, Southwest Airlines' costs per seat mile will likely be lower than DC Air's. This is largely due to structural factors: Southwest provides high frequency service to larger population centers, with larger aircraft, and does not fly to the type of small and mid-sized communities that will make up the core of DC Air's business.

RESPONSES OF ROBERT JOHNSON TO QUESTIONS FROM SENATOR DEWINE

Question 1. Some reports indicate that DC Air will service Columbus, Ohio and Dayton, Ohio with regional jets. It appears that these communities are currently served with larger jets. Estimates indicate that the switch to regional jets will reduce seat capacity at each of these cities from at least 320 seats a day to around 150. Will you continue to offer the same level of pricing, including the same number of lower fare seats, with this reduced seat capacity?

Answer. DC Air's initial fleet plan includes eight turboprop aircraft, nineteen regional jets, and ten Boeing 737–200 aircraft, which will be used to serve 43 communities from Washington Reagan National, including Columbus and Dayton. Under this initial fleet plan, these two cities will be served with three round trips each day using a mix of jets and regional jets, with the majority of departures being flown with regional jets. We are currently in discussions with aircraft manufacturers regarding our long-term aircraft fleet. We have committed that we will become an all-jet carrier, but have not yet selected the quantity and seat size for our long-term aircraft.

Currently US Airways serves Columbus and Dayton with three round trips per day using jets with an average seat size of 100 to 110 seats. However, these aircraft historically have departed less than half full, with the "local" (i.e., Washington, D.C.-bound) passengers per departure averaging 41 per trip for Columbus and 39 per trip for Dayton. Based on these historical patterns, we are comfortable that we will be able to accommodate the needs of these cities for Washington, D.C. service. And, by using a more efficient aircraft that is better suited to the market, we will be able to offer the same number of departures at a significantly lower cost, and this will translate into the ability to offer lower fares.

In the event that demand increases, we will have some flexibility to reallocate jet aircraft within our system to accommodate that demand.

Question 2. There are several markets where US Airways Express has entered into relations with other, small carriers such as PSA, Piedmont and Allegheny to provide airline service—sometimes the only nonstop service on certain routes. Some reports indicate that US Airways' authority to operate the slots and gates being utilized by these joint arrangements will transfer to DC Air. What effect will the merger have on these joint arrangements? Specifically, will the routes serviced by these joint arrangements continue to be served and what will happen to the employees of the airlines that supported the arrangements with US Airways Express?

Answer. As part of the proposed merger transaction between United and US Airways, DC Air will acquire 222 take-off and landing slots at Washington Reagan National. Some of these slots are currently operated by the wholly owned US Airways Express subsidiaries (Allegheny, Piedmont and PSA) and some by affiliated US Airways Express carriers (such as Mesa). The vast majority of routes flown by these airlines currently will be flown by DC Air. Allegheny, Piedmont and PSA also provide significant feeder service to US Airways in other locations, particularly in the hub cities of Charlotte, Philadelphia and Pittsburgh, as well as in Baltimore and Washington Dulles. It is expected that these entities will continue to provide feeder service to the combined operations of US Airways and United going forward.

Final plans as to what assets will be acquired by DC Air have not yet been made. We are negotiating with United/US Airways as to the specific assets and in what corporate vehicle they will be packaged. It is possible that one of US Airways' existing subsidiaries or a yet-to-be-formed subsidiary will be the nucleus from which DC Air will be formed. In that event, some number of employees employed by that subsidiary may transfer with its other assets to DC Air. Because DC Air's initial operations are relatively small when compared to the operations of US Airways' existing subsidiaries, we do not expect that a significant impact would occur with respect to the existing employees or operations.

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM THE STATE OF IOWA

Mr. Chairman, thank you for holding this hearing. As you know, competition and anti-trust policy are of special interest to me, but I've been especially focused on airline competition issues because Iowans have such limited choices in their air travel. Since United is the world's largest carrier, and US Airways is the nation's sixth largest carrier, the proposed merger between United and US Airways raises serious anti-trust questions. My recent experience with the AIR–21 legislation showed me the importance of increasing airline competition into the marketplace, yet this merger seems to be heading the industry in the opposite direction. As a Senator from Iowa, the proposed merger worries me even more since large sections of the Midwest already experience high prices and few options. Both of these airlines currently provide air service to Iowans, and I cannot help but worry about the impact it may have on air travel for my constituents. In fact, I've urged both the Departments of Justice and Transportation to carefully scrutinize this transaction. But my hope is that before the Justice Department approves this merger, United and US Airways will fully address these concerns.

PREPARED STATEMENT OF ED PERKINS, CONSUMER ADVOCATE FOR THE AMERICAN SOCIETY OF TRAVEL AGENTS, INC.

My name is Ed Perkins, and I currently serve as the Consumer Advocate for the American Society of Travel Agents (ASTA). I am also a nationally syndicated travel columnist and author of several travel buying guides. I was Founding Editor of Consumer Reports Travel Letter, from which I retired in 1998. In addressing you today, I am focused solely on the interests of American consumers, not on those of the travel industry or any of its components.

In my view, we can't view a proposed merger of United Airlines and US Airways in isolation. Instead, we must look at it in the broader context of concentration in the U.S. airline marketplace. And in that context, I submit that the merger of United and US Airways—or any other merger between any of the six giant lines—would be highly inimical to the general public interest and the interests of travel consumers. I base that conclusion on two sets of issues: pricing and labor. Let's look at each.

You've already seen and heard lots of claims about the merger's possible impact on prices. Many of the industry's most celebrated economists have published learned treatises, and they generally seem to agree: fares would either go up, go down, or stay about the same. Not to disparage those economists—I used to be one, myself—but we all know that, depending on how they structure an issue and the assumptions they make, capable economists can come to diametrically opposite conclusions about almost any issue. Certainly this one. More to the point: If we get bogged down in the details of relative costs, overlapping routes, hub consolidations, differential wage rates, and such, we'll quickly lose sight of the basic principles that should really govern the decision.

Instead of looking at all those murky details, we should focus on how one or more mergers would impact the process by which the giant airlines raise and lower prices—specifically, how they would affect the pricing dynamic in a commodity market, which is the way today's airline market behaves.

Price increases happen when one giant airline decides an increase would be a good thing. Immediately, the other giant lines study the increase and determine if they would also like to see higher prices. One by one, those that agree announce their own hikes—sometimes following the originator, sometimes with adjustments. As in the old saying, one airline runs the fare hike up the flagpole, and the others start saluting it.

What's critically important here is that it now only takes one of the six giant lines to reverse the hike. In effect, each of those six lines has veto power over price hikes in the entire national airline marketplace. If any one of them doesn't salute, the hike is quickly run back down the flagpole and returned to the closet.

Clearly, the fewer the number of giant lines, the less chance that any given price hike will be vetoed. And, in a worst-case scenario, a concentration down to only three super-giants would make it far easier for any one of them to make price hikes stick.

The fare-cutting process works the same way. It takes only one of the six giants to kick off a nationwide fare war. And, as you probably know, that's when a lot of ordinary consumers buy their tickets. When it comes to starting a far war, six chances for a price cut are far better than five, four, or three.

Labor issues, too, militate against further concentration. With the largest U.S. line owning no more than about a 17% share of the domestic market, the nation's economy can survive the complete shutdown of any one giant airline. But only barely: The last American shutdown showed us how much disruption resulted from a loss of just 11% of the domestic lift, as measured in passengers.

If you liked that strike, you'd love a shutdown of a merged United-US Airways system. That would represent just about twice the American share. Even worse, of course, would be a merged American and Delta, with a staggering 28% share of total passengers.

We made it through the American stoppage as well as we did, at least in part, because the other five giant airlines—plus the smaller players—managed to absorb most of American's travelers, over an extended period. But could fewer other airlines absorb twice as many displaced passengers without far more serious disruption? Or, in the worst case, could two remaining super-giant lines absorb 28% of the passengers? I don't think so. Instead, the effects of a super-giant strike would be devastating to the economy, and certainly to the travel plans of millions of consumers. As with pricing, for labor reasons alone, we just can't risk more market concentration.

One more point: let's not forget the largely negative effects of an earlier wave of mergers and acquisitions. How such user-friendly lines as Air California, New York Air, PSA, Piedmont, and Republic disappeared in the black hole of mergers? Don't take my word for it; ask someone from Charlotte or Detroit.

"It needs more study" is the classic way of evading a tough-minded decision. Or, in Carleton Green's construct, it's a way of handling a tough question by "dissolving it in a weak solution." I would submit that we don't need any more study on the merger question. We can't afford a weak solution. This is one of those cases that should be decided by basic principles and common sense, not statistical models.

And those basic principles come in with a clear message: No more concentration by merger. No more buying out potential competitors rather than competing with them. We should take merger and acquisition among any of the six giant lines completely off the table, starting now. If any one of those lines is desperate to increase its market share anywhere in the U.S., let that line do it the old-fashioned way: earn it, with better service and lower fares.

Thanks for your attention.

PREPARED STATEMENT OF C.A. HOWLETT, SENIOR VICE PRESIDENT ON BEHALF OF AMERICA WEST AIRLINES, INC.

America West Airlines, Inc. offers these comments in conjunction with the Committee's evaluation of the public interest impact on competition of the proposed merger between United Airlines and U.S. Airways and the sale of Washington Reagan National Airport slots to a proposed new airline DC Air. America West is very concerned that already serious competitive barriers, particularly at airports where United and U.S. Airways have dominant or strong positions, will only be exacerbated should the merger be approved in its proposed form.

For America West and other post deregulation carriers, government imposed or sanctioned competitive barriers including the perimeter rules at Reagan National and LaGuardia airports, continuing slot constraints at National, LaGuardia and Kennedy, and the unavailability of economically usable gates at many metropolitan airports including National, LaGuardia, Newark, Logan and O'Hare, make it virtually impossible for new post deregulation carriers to launch meaningful competition at these airports. America West appreciates the positive changes to the slot rules enacted by Air 21. However, the proposed merger highlights the immediate need, before any merger which contributes to these constraints goes forward, for more expansive Congressional action to induce badly needed new competition to key airports in the East and in Chicago.

BACKGROUND

In 1977, Alfred Kahn, chairman of the Civil Aeronautics Board, noted that "Whenever competition is feasible it is, for all its imperfections, superior to regulation as a means of serving the public interest." The following year, the Airline Deregulation Act was implemented, phasing out government control over fares and service. From that point on, Congress intended that market forces would dictate the price, quantity and quality of domestic air service. In the deregulated environment, consumers would reap the benefits of open competition in a free marketplace.

America West Airlines provides the model for post-deregulation success. It initiated service on Aug. 1, 1983, with three aircraft, 280 employees and a route system consisting of five destinations. As a small start-up carrier competing head-to-head against much larger and better-established airlines, its potential for success would be defined by its ability to effectively distinguish itself from the competition and build a solid base of loyal customers. Today, America West, the nation's ninth largest commercial airline, is the only post deregulation airline to achieve major carrier status. It has established an effective marketing and operational niche as the only major network airline to offer a combination of full-service and low fares. Its customers enjoy the same full range of services provided by larger airplanes, including advance seat assignments, First Class cabins in every aircraft, a competitive frequent-flyer program, an airport lounge club, electronic and online booking, onboard audiovisual entertainment systems and inflight meal service. America West's 1999 unit cost of 7.52 cents per available seat mile was, for the sixth consecutive year, the lowest unit cost of all full-service major carriers. These low costs enable America West to deliver upon deregulation's promise of expanding the reach of commercial air service by developing new markets to smaller communities not otherwise served by major carriers. America West's East Coast to West Coast "walk-up" fares and average fares are substantially below those of the largest incumbent carriers.

America West has achieved this success while weathering the storms of the marketplace. Mergers, bankruptcies, severe increases in the price of fuel, and deep traffic losses caused by war and recession have all been overcome. America West is committed to bringing more East-West competition to key Eastern airports like Logan, LaGuardia, Newark and Reagan National, and to expand at O'Hare. To provide viable competition for business travelers, America West must offer a total of at least five roundtrips a day to its hubs. Slots, perimeter rules and lack of gates prevent the full development of this service and deprive the public of the benefits of competition by America West and other lower cost carriers. These barriers to competition remain as a result of government inaction. Without Congressional action, regardless of the outcome of the pending merger these barriers will remain. Further consolidation of the industry without government action to alleviate these barriers to entry will doom the competitive environment. Congress must act to ensure complete and unfettered access to the marketplace by eliminating archaic slot and perimeter rules while ensuring all competitors have access to gates and associated facilities at federally funded airports.

Slots

Congress recently made some additional new entrant slots available at O'Hare, LaGuardia and Kennedy airports and repealed the High Density Rule (HDR) governing Chicago's O'Hare to be fully effective in 2001 and New York's LaGuardia and Kennedy airports in 2007. While this action was important, LaGuardia and JFK will remain subject to slot rules for seven more years. At these airports, slots will continue to hinder competitive entry. Moreover Air 21 did very little to stimulate competition at Reagan National Airport where the HDR restricts the number of hourly slots allocated for commercial takeoffs and landings to 37 for jets and 11 for commuter aircraft which total to approximately 760 commercial operations per day. The 24 daily exemption slots provided under Air 21 constitute only a three percent increase in slots. America West hopes to stimulate competition to the West at Reagan

National with the slot exemptions it received under Air 21. However, its ability to do so is limited by the fact that it can operate only three daily round trips rather than the five it requested from the Department of Transportation. As a result of slot restrictions, DCA is one of the highest cost airports in the country, with virtually no ability to expand capacity or otherwise improve the competitive environment.

As America West has pointed out over the last decade, DOT/FAA attempts to increase competition at slot-controlled airports in general and at DCA in particular have been woefully inadequate. See Government Accounting Office, Airline Deregulation: Barriers to Entry Continue to Limit Competition in Several Key Domestic Markets, Letter 3 (Letter Report, 10.18/96, GAO/RCED–9704) (hereafter, "GAO Airline Deregulation Report"). According to the GAO, the trend toward market concentration at slot-controlled airports has continued throughout the past decade:

Since the early 1990s, a few established carriers have continued to build upon the favorable positions they inherited as a result of grandfathering. By contrast, the share held by the airlines that started after deregulation has remained low.

Because the number of slots is largely fixed and the holding of those slots is concentrated among a few established carriers, a seller's market has emerged, and slots have become very expensive. . . . Moreover, in order to mount competitive service in a market, an airline generally needs about six slots, with at least three slots falling during the peak periods so that the airline can offer a flight schedule that is attractive to business travelers. As a result, for the airlines that started after deregulation, the cost of purchasing the slots necessary to compete effectively may be prohibitive.

Even if financing can be arranged, buying slots is extremely difficult for newer airlines because the established carriers rarely sell their slots, and when they do, the buyer is usually an airline that already holds a large number of slots at the airport.

GAO Airline Deregulation Report, Letter 3:1. The net result, according to the GAO: "[L]ittle or no entry has occurred at" Reagan National and other slot-controlled airports. GAO Airline Deregulation Report, Letter 3. America West urges Congress to advance the date for the termination of slots at LaGuardia and JFK, and to also act to abolish slots at Reagan National.

If the High Density Rule at Reagan National cannot be repealed, then slots must be added. In its 1995 slot study the Department of Transportation reported that DCA could easily handle an additional 7 slots an hour or 126 flights per day. Given the Stage 3 noise requirement, these slots could be added with no significant impact on noise or increase in delays. If Congress added 100 slots (50 additional round trips) for either inside or outside perimeter flights, to post deregulation carriers operating large aircraft, it would generate substantial new competition. Since 50 additional round trips by post deregulation carriers like America West could have a substantial competitive impact in many markets, the competitive concerns associated with the proposed transfer of slots to DC Air would be lessened. However, without a substantial increase in slots, any approval of the proposed merger should require the transfer of the proposed DC Air slots to post deregulation carriers that can maximize competition.

PERIMETER RULES

Washington Reagan National

The perimeter rule at Reagan National limits non-stop flights to a distance of 1,250 miles. The perimeter rule never served any safety purpose. It was a tool created to divert traffic to the fledgling Washington Dulles International Airport. However, the primary effect of the rule has been to bolster the ability of the large incumbent carriers to flow East-West traffic through their primary hubs by offering multiple daily connecting flights and preventing new low fair competition. A recent GAO study shows that unrestrained access to Dulles and BWI by low-fare carriers has had little or no impact on fares at Reagan National, primarily because, for reasons of convenience, air travelers in the Baltimore Washington region (particularly business travelers) are unlikely to switch airports. GAO Letter Report, Reagan National Airport: Capacity to Handle Additional Flights and Impact on Other Area Airports, Letters 1 and 5 (GAO/RCED–99–234, Sept. 1999). This situation would only be exacerbated if the proposed merger was permitted to go forward while the perimeter rule remains in effect.

Moreover, there is no longer any need to protect Dulles, which has established itself as a significant domestic and international destination. The airport's emplacements are already comparable to those at DCA. In addition much of the area's growing high tech enterprises and new residential development are located near Dulles which is the fastest growing airport in the United States as reflected in the recently announced a six year $3.4 billion building plan that includes a new runway. Dulles to Undergo Major Expansion, The Washington Post, July 20, 2000 at A–1. The pending transaction demonstrates the importance of Dulles and United's commitment to it. When faced with the perceived need to divest overlapping routes involving the Washington, D.C. area, United And US Airways voluntarily chose to retain Dulles and substantially reduce service to National. Today, the perimeter rule simply distorts the market while conferring no consumer benefits.

New York LaGuardia

The perimeter rule governing LaGuardia was imposed decades ago primarily to control ground congestion at and around the facility and to generate service at the newly developed JFK. Subsequent changes at LGA and JFK as well as aircraft technology over the intervening years makes the rule a superfluous barrier to entry that deprives New York travelers the full range of options that should be available at all three airports serving the New York metropolitan area. The Department of Transportation has found LaGuardia constitutes a unique market apart from these other airports. Barring action by the Port Authority of New York and New Jersey, only Congress is in a position to enact legislation to preempt the locally imposed perimeter rule—a significant barrier to competition at this critically important New York airport. The proposed merger would likely further restricted East-West competition from LaGuardia unless the perimeter rule is abolished.

GATES

Lack of adequate gate access and related facilities has hindered new entrants at many major Airport. Inability to obtain gates has hurt America West's ability to compete at major airports and remains a serious problem at eleven major airports including Newark, LaGuardia Philadelphia, Hartford, Baltimore-Washington, O'Hare, Atlanta and San Francisco. America West believes consumers would reap a high benefit from improved access by America West and other post deregulation carriers if gates at these airports were available.The gate and airport facilities problem will only be exacerbated by regulatory approval and closure of United—U.S. Airways merger, which consolidates gate holdings of United and US Airways at many of these airports. Without reasonable access to adequate gates and related facilities, new entry at key airports is effectively blocked. See Department of Transportation, FAA/OST Task Force Study, Airport Business Practices and Their Impact on Airline Competition, October 1999. Congress has responded to the Task Force Study by including in Air 21 a requirement for major airports to prepare a competition plan and requiring the Secretary of Transportation to "ensure that gates and other facilities are made available at costs that are fair and reasonable." America West applauds this action but believes Congress needs to take more aggressive action in this area.

Airport officials at Newark where 84 percent of the gates are subject to exclusive-use leases recently confirmed there are currently no gates available at that airport. At LaGuardia and O'Hare, 83 percent and 85 percent respectively of the gates are the subject of exclusive use agreements. According to the Metropolitan Washington Airports Authority (MWAA), all 42 gates available for jet operations at Reagan National are leased to the incumbent tenant airlines until 2014. Reagan National Airport: Capacity to Handle Additional Flights and Impact on Other Area Airports (Letter Report, 09/17/99, GAO/RCED–99–234). Although MWAA officials are committed to addressing gate access, a recent GAO report remains decidedly pessimistic:

MWAA may make a gate available to another airline when it is not needed to support the tenant airline's scheduled operations. While a tenant airline cannot prevent another airline from using the gate when it does not need it, the only effective opportunity for a new entrant to initiate service at key business times of the day or for an incumbent to expand service is through a contractual arrangement with the tenant airline. To date, this is how new entrants have gained access to the airports.

These arrangements have been generally inadequate for new entrants and today the incumbents are withdrawing gates they have made available in the past. While incumbents may not use some gates and under utilize other gates at these airports, America West has been unable to obtain its own gates and is forced to enter into short therm handling agreements with incumbents subject to 30 or 60 day termination clauses to operate at these facilities. For example, at O'Hare America West uses Continental gates under a master handling agreement. However, if as expected, Continental expands its O'Hare service, America West may be forced out of the airport. In this connection, the rapid growth of regional jets will soon put additional pressure on gate availability and post deregulation carriers will likely be squeezed out of many key airports if action to protect access is not taken soon. In addition, at O'Hare where America West has attempted unsuccessfully for over a year to obtain its own gates, it pays an annual fuel surcharge of between $250,000 and $300,000 because it is not a signatory airline. These additional charges place America West at a competitive disadvantage to incumbent carriers. At BWI, America West's short term agreement with Continental was recently terminated forcing America West to relocate to the International terminal, where it is the only domestic airline using international gates for domestic service. Moreover, BWI officials have stated that if it obtains additional international flights America West must give up these gates. If America West cannot locate gates with another incumbent it will be forced out of this important airport. Finally at San Francisco, another United stronghold, America West currently is handled by TWA. America West has requested two own gate from the airport. However, despite the renovation of the airport and Congressional concern that airports be pro-active in providing access for new entrants, America West's request will be considered only if Delta, which as a signatory airline has a preference does not take these gates.

America West's experience confirms the findings of the Department of Transportation and the GAO that exclusive use leases and majority in interest agreements to be barriers to entry. Task Force Study at 38. America West believes Congress should direct DOT to take immediate action to compel airports to provide reasonable gate access and other facilities to new entrant carriers where exclusive use or other agreements that are vestiges of the pre-deregulation system block competitive new entry. It is clear from the Task Force Study that current federal law—including Section 155 of Air 21, airport grant agreements with the FAA, and DOT's authority to prevent unfair trade practices by airlines—is sufficient to enable DOT to act aggressively to ensure new entrants gain reasonable access to gates. Should the Department of Justice consider approval of the merger, it must require United and US Airways to make available a reasonable number of gates at Reagan National, LaGuardia, Boston Logan, O'Hare and Newark to permit needed competition to be introduced by post deregulation carriers.

DC AIR

Like many of the witnesses who testified on the proposed merger at the Committee hearings, America West questions whether DC Air represents a real competitive force at Reagan National. Certainly, DC Air will not be independent of United and this lack of independence means there will not be real competition against the merged carrier. DC Air will wet-lease ten 737–200 aircraft from United for at least two years. United will provide gates to DC Air, which as emphasized above, it is not prepared to do for other new entrants at Reagan National that could compete against it. United will also provide maintenance services and DC Air will participate in United's frequent flyer program. Such dependence, as members of this Committee have pointed out, does not create the true independence required to provide meaningful competition to the combined United/US Airways in any market.

America West and other post deregulation carriers have been essentially excluded from serving Reagan National. In this light, it would be unconscionable to permit United and US Airways to determine that a single start-up airline serving predominantly short-haul routes, dependent on United for aircraft and support and linked to United's frequent flyer program and international alliance will solve any competitive concerns at the airport. In essence this would be like allowing American and British Airways to spin off a "new" airline at Heathrow that uses BA aircraft and crews and is a member of their oneworld alliance, to provide new competition at that airport.

CONCLUSION

Regardless of any conditions the Department of Justice may propose to United and US Airways to find this merger acceptable, America West believes additional Congressional action is necessary to eliminate those vestiges of the pre-1978 regulatory environment that continues to inhibit competition at key airports. Specifically, America West believes Congress should immediately:

- Advance the date for abolishing the slot restrictions at LaGuardia and Kennedy airports.
- Abolish slot restrictions at Reagan National or in the alternative provide 100 additional slots to be made available to post deregulation carriers.
- Abolish the perimeter rules at Reagan National and LaGuardia airports.
- Instruct the Secretary of Transportation to take the necessary steps to ensure that any post deregulation carrier can obtain sufficient gates and related facilities at major airports to operate up to five round trips a day to that carrier's primary hub airports.

By taking these steps, Congress will bring the benefits of deregulation to key airports in the East and Midwest where government policies and the historic dominance of the pre-deregulation carriers has prevented meaningful competition and unfairly tilted the playing field in favor of the major high fare carriers. Congress took an important first step in Air 21 to open up slots, and by permitting a few beyond perimeter flights at Reagan National. Now is the time for Congress to complete the process of deregulation and level the playing field so America West and other low cost highly competitive carriers can serve these important markets that remain subject to restraints that serve no purpose but to protect the largest incumbent airlines.

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