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UNITED AIRLINES-US AIRWAYS MERGER

HEARING

BEFORE THE

SUBCOMMITTEE ON ANTITRUST,
BUSINESS RIGHTS, AND COMPETITION

OF THE

COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

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UNITED AIRLINES-US AIRWAYS MERGER

MONDAY, JUNE 26, 2000

U.S. SENATE,
SUBCOMMITTEE ON ANTITRUST, BUSINESS RIGHTS,
AND COMPETITION,
COMMITTEE ON THE JUDICIARY,
Philadelphia, PA.

The subcommittee met, pursuant to notice, at 9 a.m., in the Ceremonial Courtroom, 1st floor, Federal Courthouse, 601 Market Square, Philadelphia, PA, Hon. Arlen Specter presiding.

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

Senator SPECTER. Good morning. The hour of 9 o'clock having arrived, we shall proceed with this hearing of the Antitrust Subcommittee of the Judiciary Committee of the United States Senate. We have moved the time to 9 o'clock because after this hearing was scheduled, Senator Lott, the Majority Leader, called for floor action on the appropriations bill on the Labor, Health and Human Services, and Education Subcommittee which I chair so that it is necessary for me to be in Washington in the early afternoon, so we wanted to move the hearing up and conclude it a little before 11 o'clock since I had to catch the 11:11 a.m. Metroliner.

Now, this is the first in a series of three statewide hearings on the proposed merger of United and US Airways. We will have a hearing in Pittsburgh on July 10 and a hearing in Lehigh Valley on July 24. There has already been one hearing of the Antitrust Subcommittee before, and we are going to focus on the broad array of issues involved in this proposed merger.

Senator Biden, who used to be chairman of the full Judiciary Committee, will be joining us shortly. Senator Santorum had wanted to be here but had other commitments.

We are going to focus on the issue of competition which is the central national issue as to whether this merger would lessen competition. United is the biggest of the carriers. US Airways is number six, and the essential purpose of the antitrust laws is to protect competition. We will also be taking a close look from a Pennsylvania perspective as to what the impact would be on our State since two major US Airways hubs are located here employing some 17,000 individuals.

There is a major issue involving Pittsburgh on the maintenance center, which has been a prospective addition by United and by US Airways for some time, and we have yet to get a definitive answer on that subject. It implicates the United maintenance center in In-

dianapolis as to whether US Airways is going to proceed to construct the maintenance center in Pittsburgh.

There have been major commitments made on the undertakings by both Pittsburgh airport and the Philadelphia airport in terms of capital improvements for the hub. Obviously if the merger is concluded, United will assume US Airways' obligations, but there is more than just the contractual obligations. That is a presetting of the stage.

I would like to call our first witness the distinguished Attorney General of Pennsylvania, Mike Fisher.

The Honorable Michael Fisher comes to the Attorney General's Office after an extraordinary career in public service in the State Senate, and prosecuting attorney in Pittsburgh, candidate for Lieutenant Governor, candidate for Governor, very deeply involved in the law and the public aspects of this proposed merger.

Mr. Attorney General, we welcome you here and look forward to your testimony.

STATEMENT OF HON. MIKE FISHER, ATTORNEY GENERAL, COMMONWEALTH OF PENNSYLVANIA

Mr. FISHER. Thank you very much. It is a pleasure for me to be here, Senator.

I first of all would like to commend you and Senator Biden and Senator Santorum for the interest that you have shown in this issue. I know that you participated in the hearings of the subcommittee in Washington week before last, and you have these hearings scheduled across Pennsylvania and I commend you for taking the extra effort to do that.

We have submitted a written statement, but I would like to just summarize a couple of issues that I think are important for you.

Senator SPECTER. Your full statement will be made a part of the record. We have set the time clocks at 5 minutes since we have so many witnesses. That will leave us some time for some dialog and Q&A.

Mr. FISHER. Let me just start with a couple things which we mention in our statement.

First of all, I think it is important for you and your colleagues to know that the State attorneys general, not only in this State but across the Nation, have a deep interest and concern in this proposed merger and that we have in 10 years been working together with the U.S. Department of Justice and Federal Trade Commission and have firmly established our role in working with them as partners in review of these mergers, and this is no exception.

We have already entered into an agreement with the parties involved here as well as with Justice as to how our review will proceed together with Justice. I, together with Attorney General Elliott Spitzer—our offices will be heading the State review.

I have with me today Jim Donohue who is the chief of my antitrust section. Mr. Donohue together with his partner from New York will be the ones working with, at this point, 23 other State attorneys general in looking at the State perspective.

There is no State in which this new merger will have a bigger impact than Pennsylvania. That is why we have taken the lead and that is why our participation is so important. Quite frequently, in

merger reviews like this, although we work in partnership—and we will be looking at some of the impact, looking at some of the local data to determine the local impact—Justice will be looking at some of the international impact.

We work together but we are not necessarily bound by the same conclusions. So that even though the United States Justice Department and the Federal Department of Transportation could give their blessing to this merger, that does not preclude us from State powers if we disagree with the conclusion from going to the courts to try to get either additional concessions or to attempt to stop a merger based on popular authority that I hold on behalf of people of Pennsylvania.

There are, I think, a couple of questions that are important here. Obviously the presence of two of the three major US Air hubs being in Pennsylvania is very significant. And you know hubs provide great benefits for air travelers; there is no question about that. The ability to travel to a wide variety of destinations nonstop from Pittsburgh and Philadelphia across the Nation and now Philadelphia across the world is very important to the people of Pennsylvania. But larger carriers and hubs—and this is clearly what we will have here, as the Nation's number one carrier now being firm, and we hope firmly entrenched in hubs if this goes through in Pennsylvania does create additional problems. And these additional problems which we will be looking closely at are some competition problems.

Our investigation is in the early stages so we cannot exactly tell you all—obviously cannot appear here to tell you the findings, but our concern of what we will be looking at in a fashion that is somewhat different than what other governmental leaders may be looking at. We recognize the economic importance of this merger in Philadelphia, its importance to Pittsburgh, and obviously many of the governmental leaders who will be involved will look at those aspects.

Clearly my job as Pennsylvania's Attorney General is to look at the competition issue and to make sure that this merger goes through, and, in fact, the merger does not create an anticompetitive situation in Pennsylvania.

Senator Specter, at this stage, quite frankly, I have deep concern as to what the impact will be in Pennsylvania. I looked today and realized—I met with officials from both airlines and told them, yes, a lot of people in Pennsylvania would like to travel abroad and so, too, a lot of people in Pennsylvania would like to be able to get to Boston; Philadelphians would like to be able to get to Pittsburgh and vice versa for affordable prices.

We have checked some of the prices that are currently available; one of the cheapest fares out of Philadelphia is the route to Atlanta; that is because Atlanta has competition. There is not any Delta flying; there is AirTran and there is US Air. You can fly to Atlanta literally on a walk-up fare for less than $300. You yourself know that that fare between here and Pittsburgh where there is no competition is sometimes close to $500.

So these are the issues that we will be looking at, and I believe that as you and your colleagues look at the impact of what this merger may mean for the other existing companies, that if you

really have to look, in my opinion, as to whether or not there needs to be a new international policy dealing with the airline industry, I believe that only the Congress working with the President may be able to establish what the policy should be as to size and presence, and there are a lot of issues we look forward to working with you on.

But we are in a position with antitrust power to do certain things. As I see it, the Congress of the United States is also in a position to suggest other things to the contrary.

I am not sure that we want to see an airline oligopoly in this Nation, and I am concerned that this merger may be the first step to an airline oligopoly as opposed to a monopoly and that oligopolies or monopolies do not generally bode well across this Nation.

And with that, Senator, I would be glad to answer any questions that you may have.

Senator SPECTER. Well, thank you, Attorney General Fisher. The mergers and conglomerates and enormous increase in size have been a major matter of concern. The Philadelphia area has been impacted in the last couple of years with major acquisitions of Conrail by Norfolk Southern and by CSX; there are many problems which have yet to be worked out there. I personally was opposed to that acquisition. We had a long fight to keep Conrail from Norfolk Southern back in the early to mid-1980's. We had extensive hearings before the Judiciary Committee, and I think Congress effectively stopped it with our Senate hearings and hearings of the House with Congressman Dingell.

We had recently the First Union acquisition which has not worked out well and is characterized as the worst consumer service in the country.

The pricing of airlines is a matter which is virtually unintelligible as to how the fares are set. United has made a commitment not to change fares within 2 years, but it is hard to calculate what their fares are when there are so many variables in the fares. The fares are really mysterious with a flight from Harrisburg to Pittsburgh being more expensive than a flight from Harrisburg to San Francisco with an intermediate stop in Pittsburgh.

To what extent have you or will you look at the pricing? And do you have any thoughts on that matter at the moment?

Mr. FISHER. We will be looking extensively at the fare pricing. We will track that as one of the assignments which we have agreed to undertake in this review process of other domestic pricing issues. The impact we will be speaking to is not only to travelers, but to travel agents and to local officials and travelers all across this State and with our colleagues across the country. But pricing is a very significant aspect of this and how prices are set.

There is no question when you look at the hub arrangements across the country that dominant hubs have higher prices. There are a few exceptions to that. Part of the problem here in Philadelphia—and this will impact on the ability of Philadelphia to compete—is the absence of gates in this hub for other interested entrants.

So there are a lot of issues that we will be looking at that we have pledged to do with Justice, and hopefully we will have them completed as quickly as possible.

Senator SPECTER. The deregulation of the airline industry has raised perhaps more questions than answers. I personally am not in favor of going back to regulation, but I frequently hear among your constituents and mine in this State the question about regulation. When there was regulation, TWA had a competitive flight that went Pittsburgh. We have the issue of the slots, the landing gates, the prospects of bringing a Southwest or some other competitor into Pennsylvania as one which has been talked about. Do you have any views as to how competition might be stimulated?

Mr. FISHER. Well, I do have some thoughts on how competition would be stimulated, but what is discouraging, even prior to this merger I had conversations with Southwest Airlines, as did the county executive of Allegheny County, Jim Rodman, about whether or not they had any interest in trying to come to Pittsburgh to fly some of the interstate and interregional flights. And quite frankly even facing—you know, at the time, Southwest Airlines' attitude was that with US Air's dominance in the State, they did not think it was a good business venture for them to be coming to Pennsylvania at that time.

I cannot see that that issue will be more favorable for competitors like Southwest if, in fact, the airline that is present will be an even bigger airline—United.

So I think those are the issues that need to be examined as this merger is reviewed. And as I say, even if there were piers today, we need to obviously check more details on this. But it would be very difficult to bring additional airlines to Philadelphia without gates existing in Philadelphia. You may be able to do it in Pittsburgh, but the mere fact they take off from Pittsburgh does not mean that they will be able to lay over elsewhere.

You also need to look at—we think it is important to look at what this means for the smaller communities across Pennsylvania, the Johnstown hub, Scranton/Wilkes-Barre, Allentown, Erie, and all of these issues are issues that we will be reviewing very thoroughly as we go through the process.

Senator SPECTER. The Antitrust Division of Justice is now pursuing a case involving American Airlines and a small would-be competitor out of Wichita to Texas; the competitor opened up, American dropped the rates, and the competitor had to go out of business. Now there is litigation as to whether there was a violation of the antitrust laws there.

Do you think that more concentration into the hands of fewer airlines would increase the likelihood of competitive practices such as that which American is charged with?

Mr. FISHER. Senator, I think that is obviously very likely unless other laws were in place. If, in fact, the larger airlines have the ability to dominate a market, even if a smaller airline, whether it be JetBlue out of New York or a new airline out of Minnesota, or whether it be TransAm or any of the other airlines, if they come in and whether it be a major airline, whether United or whether it be a survivor out of Northwest or American or merely able to match and to be able to do so in a way that drove their competitor out of the State, then have the right to go back up to the original price. No one is going to come in and invest the capital on flights where one airline is so dominant.

So these are the issues that I believe are important for our review and for yours.

Senator SPECTER. I had just about finished my questioning, but I am going to ask one, two, or three more questions since the television cameras arrived, Attorney General Fisher.

They have about gotten you in focus now.

With respect to the smaller markets, is it fair to ask United for some commitments? Because US Air does serve Penn State, Johnstown, and Altoona, and Bradford, et cetera, et cetera. Do you think that is a fair request or is that too aggressive on trying to tie down the free enterprise system?

Mr. FISHER. Well, I think it is fair to ask for those commitments. I think it is important that we look at the commitments that US Air has already made in the smaller markets. US Air has made some significant commitments in the smaller markets. Those commitments with operated planes need to be examined.

Senator SPECTER. Are those commitments contractual or just informal understandings?

Mr. FISHER. I believe they are informal understandings or service commitments to a particular area. But I think it is important that obviously when you look at one of the ways and get some of the negative impacts of a merger can be overcome as the benefits to a particular region and we would certainly look at those benefits as we review this merger. You know, we may yet in our bottom-line analysis find that the merger is anticompetitive; but the courts have said that the anticompetitive mergers can be offset by the substantial benefits to communities. But it is in defining what those substantial benefits are that will lead us to our final conclusion.

We obviously need to look at some of the overall factors that go into the plan, and you have to see how long those commitments will be in place. A commitment to merely fly to, say, Johnstown for a few years would not be something that would be satisfactory.

Senator SPECTER. The issue has arisen as to the employment status of some 17,000 Pennsylvanians, and United made a commitment not to have any furloughs, which sounds good on the surface but that is not a complete answer because there could be considerable reduction in the job force by attrition. And I asked the CEO of United that question in the hearings in Washington, and this is a ticklish matter to the extent as to whether it is appropriate to get commitments of maintaining the employment level. If some leave, would those spots be open for new jobs very important to our State? Do you think that is a fair kind of a commitment to ask for a period of time, 2 years, say, that the number of jobs should remain the same?

Mr. FISHER. I do, Senator, and I would hope that those are the kind of issues that not only you will ask but other government leaders who are part of this discussion will ask, and those kinds of commitments are, once again, the kind of commitments which we would be looking at in the overall picture in trying to assess the impact of the merger on the people of Pennsylvania.

Senator SPECTER. I also asked the CEO of United if his company would be willing to promise to maintain rates at the same level for 2 years in a binding agreement and a consent agreement. There

may have been some confusion as to what a consent agreement was, so I rephrased it in terms of some binding contractual commitment. But my view is that if they are going to make a promise to be meaningful, it has to be binding, either by a consent decree or some other form of contractual commitments.

Do you have a comment about that?

Mr. FISHER. Well, one of the things which we always seek to attain is the conclusion of any antitrust review—even if we end up giving our blessing to the merger—is a consent decree because we feel that by putting the agreements in a consent decree, and filing that agreement with the appropriate court, not only does the Justice Department but we have recourse back to the courts if, in fact, the provisions of that consent decree are not carried out in future years. So that is something that we would be working for.

I would hope that we would have your support and that of the other Members of the Senate, interested membership of the Senate, in trying to arrive at a decree if that is where we end up. That could truly be——

Senator SPECTER. Well, I think we should press for that so that any undertakings are firm and enforceable.

Attorney General Fisher, I want to compliment you and the other attorneys general for your action across the country. When you unite the attorneys general from across the country, you are a very formidable force and you demonstrated that in the tobacco case. You got a $3 billion settlement and $11.3 million is coming to Pennsylvania through your efforts. And I think working together you can be a very powerful force on the issues of mergers where you have a national and international aspect. It is not too easy for one State attorney general to act by himself or herself, but together you can.

So we appreciate your diligence in this field, and we appreciate your coming in. Our Judiciary Committee will be working closely with you and the other attorneys general.

Mr. FISHER. Thank you, Senator. As we proceed through this process, and particularly through the review and getting some of the—you know, obviously some of the large facts, if there is any information that you and your committee would like to have so that we can have available to us, we certainly want to work with you and try to make sure that everybody has the facts before them when they make a determination as to whether——

Senator SPECTER. Attorney General, let me ask you just a few more questions. Two more cameras have arrived, Mr. Attorney General.

With respect to the—pardon me, three more cameras have arrived. I am going to be here all morning, but you do not have to be but a little while longer.

With respect to the maintenance facility in Pittsburgh that has been dangling, so to speak, for a long time—and there have been very substantial efforts made to get a handle on what US Air is to do. Here again there is an issue of some delicacy as to how hard government ought to press on matters related to job expansion contrasted with issues which bear more directly on competition. If it appears on competition, there is no doubt that we have a full right

and ought to be pressing very hard to maintain competition to make sure that there is no violation of the antitrust laws.

But the practical reality is that when a merger comes up, there is considerable governmental leverage as to what will happen in the future. It is a matter of balance as to how far we go on a judgment call, as to how much we think it appropriate to demand. I think the maintenance facility is a pretty good illustration of that. That is a major, be it enormous, addition to Pittsburgh, western Pennsylvania, generating a tremendous number of jobs, and it is entirely appropriate for a community, a State, to compete to try to bring those jobs to the State.

I would be interested in your judgment as to how hard we ought to push the Judiciary Committee, Senator Santorum and myself, the Pennsylvania delegation, you, a State attorney general, to land that maintenance facility in Pittsburgh.

Mr. FISHER. Well, obviously an agreement to move forward with that maintenance facility is another indication of commitment for the region, whether it be western Pennsylvania or to the Philadelphia area. But it is a commitment to the State, and obviously that kind of a commitment would show more clearly what United's intention would be for the long term in maintaining their continued presence in Pennsylvania.

I believe that it is realistic and appropriate for the various players involved to put an issue like that on the table. So I would encourage you and others to support that. It is all positive for the Pittsburgh region to keep that issue on the table, and hopefully United will firm up what has been at least a tentative commitment by US Air.

Senator SPECTER. One other issue has arisen which falls into roughly the same category, and I have not taken a position on this, but there are some who have questioned whether Airbus is an appropriate purchase for US Airways contrasted with those in the Senate who represent, say, the State of Washington who are interested in Boeing.

I would be interested in your thinking as to what extent buy-American ought to figure in our recommendations or in our efforts to achieve some U.S. and national interest?

Mr. FISHER. That is an issue that is obviously a little—it is one that is probably a larger national issue than a State issue, but obviously, once again, that kind of a commitment shows a commitment by the airlines to get moving forward on a buy-American policy. At the same time I think it is probably one of the issues that when you are talking about the size of the fleet, the type of the fleet that is involved, it is one of those issues that gets closer to the—you know, one of those business decisions that the government should stay a little further away from. But certainly once again it is another showing of good faith on the part of the airlines as to their commitment to this country and its working men and women.

Senator SPECTER. Thank you very much, Attorney General Fisher. I think in resetting the time from 9:30 to 9:00 the media wasn't perhaps as fully informed or able to respond to that. And I think, in a very serious vein, it is very important for the people of Pennsylvania to know that the State Attorney General is weighing in

on the subject as well as Senator Santorum and myself and Senator Biden. Delaware has a very big interest since the Philadelphia International Airport is their airport as well.

So thank you very much for coming in and we will continue to work closely together.

Mr. FISHER. Thank you very much, Senator, once again, for holding this hearing and the other hearings that are scheduled later.

Senator SPECTER. Thank you.

[The prepared statement of Mr. Fisher follows:]

PREPARED STATEMENT OF MIKE FISHER

Senator Specter, Senator Biden: Thank you for the opportunity to address you about the acquisition of US Airways by United Airlines. This acquisition is of particular interest to us in Pennsylvania since US Airways operates hubs in Philadelphia and Pittsburgh and for years has had its major base of operations in Pittsburgh. In fact, US Airways is the largest employer in the Greater Pittsburgh area with more than 15,000 employees. Its employment far exceeds that of the steel industry for which Pittsburgh is most famous. US Airways is also a major employer here in the Philadelphia area with approximately 5,000 employees. Our Office has authority under the federal antitrust laws to bring actions to stop mergers as *parens patriae* to protect our consumers and businesses. In addition, we have our own proprietary interest to protect. Pennsylvania's government agencies are large purchasers of airline travel. In fact, I flew here from Pittsburgh this morning. I want to address the process our Office will use to review this merger, the nature of the concerns I have with the merger and the overall impact of quality, cost-effective air travel on our economy.

Pennsylvania was one of the first states to actively review and ultimately challenge a large national merger. In 1987, the Commonwealth joined Allegheny County and the City of Pittsburgh in *City of Pittsburgh* vs. *May Company* in a suit to block the merger of the May Company and Associated Drug Goods. This merger would have resulted in the consolidation of Pittsburgh's only two major department stores. We successfully settled that case and, to this date, competition between department stores in Pittsburgh has been preserved. In 1990, the Supreme Court upheld the ability of state attorneys general to challenge mergers in the case of *California* versus *American Stores*. Both the Pennsylvania and California cases were brought without cooperation of the federal antitrust authorities. Since then, both the United States Department of Justice and the Federal Trade Commission have established procedures for joint review of mergers. These joint reviews have benefits for all concerned. The states have gotten the benefit of the federal authority's vast experience in merger enforcement, and the federal government profits from the states' insights and expertise in their local markets. Both sides are able to share resources in reviewing what, at times, seems like a never ending onslaught of mergers. Even for the merging parties, this cooperation has been beneficial. Usually they face only one review process, and simply provide a duplicate of the information provided to the federal government. I am sure that no merger partners relish the thought of being told by both federal and one or more state governments that they will sue to block a merger. However, even in that situation, they are better off than litigating the legality of the merger two or more times.

That brings me to this merger. My office will be working closely with the United States Department of Justice to review the merger. We, along with Attorney General Spitzer of New York, will be coordinating the states' review. We have reached agreements with the parties that will allow for such a joint review.

As I and several of my colleagues in other states have said, the merger of US Airways and United Airlines causes us concern. Part of that concern arises from the sheer size of this transaction. United is the country's largest airline. US Airways is the sixth largest. Moreover, despite the popular generalization that US Airways is a north-south airline and United is an east-west airline, United offers connecting service to cities in Florida through its Dulles hub from the cities it serves in Pennsylvania. US Airways has been proudly advertising the fact that it has increased its flights to the West Coast from both Philadelphia and Pittsburgh. Thus, at first blush, these two airlines compete for business in Pennsylvania and nationally.

We are still in the early stages of our investigation, so we have not come to any conclusions about its legality. Nonetheless, one fact about the airline business is apparent—where there is competition, consumers get lower fares. I can give an example of this based on my experience this morning. A round trip airfare on short notice

between Philadelphia and Pittsburgh is $550. That route is served only by US Airways non-stop. However, if I were to go from Philadelphia to Atlanta, a route served by three airlines non-stop, the fare is less than $300, even on a short notice basis. As a result, I firmly believe that if this merger reduces competition in any market, that loss of competition must be addressed. Another concern I have is how the merger will impact the entry of new airlines into Pennsylvania markets. If new airlines are deterred from entering Pennsylvania markets because a combined United/Us Airways will have 50%, 60% or 70% of the market, those barriers will need to be addressed as well. However, at this stage, I am not prepared to discuss how these issues should be addressed.

In Pennsylvania and throughout the Northeast, the cost of intrastate and intra-region travel is often prohibitive, especially when flights are booked on short notice. I've already described the high cost of travel from Philadelphia to Pittsburgh. To fly from Harrisburg to Boston tomorrow would cost more than $800. That route, which is served by United and US Airways, previously had also been served by Continental airlines, which canceled its flights after it started its joint venture with Northwest. Although it was expensive then, it was not as expensive as that route is now. To fly from Philadelphia to Buffalo would cost $735. These are just two of many examples of very high prices consumers face for short distance/short notice travel in Pennsylvania, New York and the other Northeastern States. The question we will be trying to answer over the coming weeks is whether the loss of competition between these two airlines will result in even higher fares or result in the loss of the potential for United to expand its service in the Northeast. After we have completed our review, we will determine whether the merger of the two airlines will substantially lessen competition or tend to create a monopoly as prohibited by the antitrust laws.

To date, much of the discussion on this merger has involved the impact on Philadelphia and Pittsburgh, but United and US Airways also serve Harrisburg, Lehigh Valley, Scranton and State College. The effect of this merger on service and fares to these smaller Pennsylvania airports is another area my Office will look at closely.

Finally, in Philadelphia, US Airways has made its hub operation a major international gateway to Europe—a fact that benefits not only passengers but also shippers who want to send cargo to or from Europe. The airline business is important to communities like Pittsburgh and Philadelphia, not only because of the employment it brings to the community, but also because of the benefit access to quality/cost effective airline service can bring. However, I have to admit that many in Pennsylvania look with envy at BWI in neighboring Maryland. Since Southwest entered that airport, the reduction of airfares from BWI has been a boon to the airport, the surrounding hotels and restaurants. More importantly, BWI's low fares and plentiful flights have made the Baltimore/Washington corridor a very attractive place for businesses to locate. There are many parts of Pennsylvania, Altoona/Johnstown, Scranton, Erie, State College and Harrisburg, as well as Philadelphia and Pittsburgh, that would become more attractive locations for businesses to locate if they had better airline service and better prices. One of our concerns in reviewing this merger will be to try determine whether it will make such service a reality for those communities.

Thank you for your time today. I will be happy to answer any questions.

Senator SPECTER. I would like to call the second panel now: Shelley Longmuir and Larry Nagin.

Ms. Shelley Longmuir is senior vice president of International Regulatory and Government Affairs for United Airlines, magna cum laude on a double bachelor's degree from Brown University, a J.D. from New York University School of Law. Prior to joining United she held senior positions in the Bush Administration at the U.S. Department of Transportation.

Thank you very much for joining us, Ms. Longmuir, and we look forward to your testimony.

PANEL CONSISTING OF SHELLEY A. LONGMUIR, SENIOR VICE PRESIDENT, INTERNATIONAL REGULATORY AND CORPORATE AFFAIRS, UNITED AIRLINES; AND LARRY NAGIN, EXECUTIVE VICE PRESIDENT, CORPORATE AFFAIRS AND GENERAL COUNSEL, US AIRWAYS

STATEMENT OF SHELLEY A. LONGMUIR

Ms. LONGMUIR. Thank you very much, Senator.

Senator, on behalf of United Airlines' more than 100,000 employees worldwide, I appreciate the opportunity to be here today to discuss our merger with US Airways. The transaction will deliver exciting new travel opportunities to consumers here in the Philadelphia area while guaranteeing job security for employees of US Airways in Pennsylvania.

My name is Shelley Longmuir. I am senior vice president for International, Regulatory and Governmental Affairs at United Airlines.

Senator Specter, I want to thank you for the attention you have paid to our merger with US Airways.

As you know, our chairman and CEO, Jim Goodwin, testified before your subcommittee 2 weeks ago in Washington and has met with you twice in recent weeks to discuss the transaction and your concern as well. Members of your staff also spent time last week with our senior financial team from Chicago to review details about this merger.

United started flying from Philadelphia on June 20, 1940—the same day that the Philadelphia Municipal Airport was opened for business. Back then we flew three nonstops a day to Cleveland, a trip that took two and a half hours on one of our "spacious" DC–3's. We could also fly you from Philadelphia to Los Angeles in 1940, but the trip would take overnight and five stops before ultimately reaching California.

Today, we fly to Los Angeles three times a day from Philadelphia. United now has 32 daily departures from Philadelphia. We also fly nonstop to Chicago, San Francisco, Denver, and Washington with connections to destinations around the world.

I would like to spend a few moments discussing the very positive impact that the United-US Airways merger will have in Philadelphia. Today, Philadelphia is a major domestic and international hub for US Airways. When our merger is complete, it will become an even more significant hub for United Airlines.

What does the merger mean for Philadelphia? By connecting this city to a larger national and international network, the United-US Airways combination will mean an exciting expansion of service to and from this region. Philadelphia will enjoy the benefits of more nonstop flights to the Western United States, Europe, and the Caribbean, along with improved access to Asia and Latin America.

In all, United plans to offer nonstop or one-stop service from Philadelphia to 273 domestic and international destinations. That is 102 more than US Airways serves today from Philadelphia and 114 more than United.

I would like to quickly run the numbers: United plans to offer 10 additional nonstop flights from Philadelphia to five U.S. cities and five international destinations. The planned new nonstops in-

clude the only daily service to Portland, Oregon, to Orange County, and to San Jose, California. We also plan to add additional daily nonstops to Los Angeles and San Francisco.

In addition, we plan to introduce the only nonstop service from Philadelphia to Vancouver, British Columbia, Amsterdam, Brussels, and Barbados. And we will also add a daily nonstop flight a day to Frankfurt.

The expansion of service in Philadelphia will help grow this region's economy by expanding tourism, increasing global trade opportunities, and attracting new investment.

In short, Philadelphia will be a big winner.

Senator Specter, this merger will create an airline for the 21st century that will offer consumers significantly improved choices for more convenient, single-carrier service on thousands of routes. It will bring together two complementary route systems—combining US Airways' north-south routes on the East Coast with United Airlines' east-west and international routes. This combination will not simply add one set of routes to another; it will add many more travel options while increasing competition. Among other things, United will bring new competition to the Southeast and along Southern cross-country routes, taking on the stronghold that Delta and American airlines have in that region.

United also plans to provide nonstop service where no nonstop service currently exists. Nationwide, the service includes 93 new nonstops; half of these 93 flights will be on routes where no airline provides nonstop service today. United also plans to add new competition on 560 city-to-city routes. These are routes on which neither United nor US Airways competes today.

This combination will create the first truly nationwide airline network.

Senator, thank you for inviting me to be here today and for allowing me to discuss our transaction and the travel opportunities it offers consumers in Pennsylvania and around the country.

Senator SPECTER. Thank you very much, Ms. Longmuir.

We turn now to Mr. Larry Nagin, executive vice president, Corporate Affairs, and general counsel of US Airways; he has a bachelor's in International Relations from the University of Southern California, and a law degree from the University of California, Hastings School of Law.

Welcome, Mr. Nagin. We thank you for joining us and look forward to your testimony.

STATEMENT OF LARRY NAGIN

Mr. NAGIN. Senator Specter, thank you. I am happy to be here and appreciate the opportunity to discuss these important issues with you.

Much concern has been expressed about hypothetical outcomes of this proposed union. I am here to address those concerns, respond to your questioning, Senators, and, more importantly, to answer the central question before us today: How will the merger of US Airways and United Airlines benefit the city of Philadelphia and the surrounding regions in Pennsylvania, Delaware, and New Jersey?

Today a close partnership exists between US Airways and the tri-state area.

Along with the Philadelphia International Airport, our total investments in recent airport enhancements exceed $1 billion; highlighted by the new commuter runway and the new international and commuter terminals now under construction.

As part of our continuous effort to connect Philadelphia travelers to more locations throughout the world, US Airways has added 28 destinations since 1966, including five each to Europe and the Caribbean. We have increased the number of our international flights from Philadelphia by 70 percent during this period.

Overall, US Airways' capacity here has doubled in just 5 years. And in the past 4 years, the number of US Airways employees based here in Philadelphia has increased by more than 65 percent, with the addition of more than 2,300 jobs. Today, more than 5,700 US Airways employees call this area their home. The great majority are members of unions and all of them—all of them—are protected under a job guarantee under the merger agreement.

Just 4 years ago, after suffering through a long period of underperforming service and unsatisfactory financial results, US Airways adopted a five-point strategic plan to restore financial stability to our company. With our dedicated employees, we have made enormous strides in attaining our goals. We have established new labor agreements, begun fleet modernization and expanded our international service, largely right here in Philadelphia.

And yet, Senator, we are the only midsized, mature-cost player left 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.

We at US Airways have learned an invaluable lesson: The road to failure is littered with other mid-sized, mature-cost carriers that were in existence at the time of deregulation. Braniff, Eastern, and Pan Am tried to forge ahead alone and, Senator, they failed.

TWA and Continental have been through the Federal bankruptcy court not once but twice each to shed their debt and materially reduce their costs.

This leaves US Airways as the only mid-sized, mature-cost carrier still flying in the United States.

In forming this union, US Airways has the opportunity to build 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 worldwide service that travelers in Pennsylvania and nationwide both deserve and expect in this intensely competitive era.

In short, we have cost parity with the big four air carriers without their broad network over which to spread our costs.

The lesson is this, Senator: If we are to expand into the global market and realize our full potential, we must join with a partner that has more expansive reach with a route network that primarily complements ours. United Airlines is that ideal partner. All told, the enhanced United will offer nonstop or one-stop service to 102 more domestic and international destinations than US Airways

now serves from Philadelphia and even 114 more than United serves today.

The benefits of this merger are pervasive. In the Midatlantic, for example, United's Philadelphia hub will be able to go head-to-head with Continental's hub in Newark. In the Southeast, United's hub in Charlotte will be able to take on Delta's hub in Atlanta.

In sum, the fear of price hikes and reduced competition surrounding the US Airways/United merger are misplaced. The long-term picture in Philadelphia is one of healthy competition. Battles on the regional level will create new service options and thus put downward pressure on fares, continuing a trend that started with the industry's deregulation over 20 years ago. Airlines such as AirTran, Midway, ATA, National, and America West attest to the fact that competition is alive and flourishing in Philadelphia.

Senator Specter, this transaction should be evaluated on its own merits. It is fair freeze, it is job guarantee, it is creation of a new entrant carrier, DC Air at Washington National Airports, and it has pervasive, pro-competitive, and dramatic economic development benefits.

Thank you.

Senator SPECTER. A major concern on my mind is what the effect is going to be on the industry. Attorney General Fisher characterized it as the risk of an oligopoly, and the expectation is that other airlines would respond and merge as well, leading to a potential situation where there could be as few as three airlines serving the United States. Ms. Longmuir, how do you assess that risk?

Ms. LONGMUIR. Well, certainly, Senator, we can't predict what will happen in the future. It is our belief that this is a highly competitive industry. We have looked for quite a while for a partner, as our chairman testified before you 2 weeks ago in Washington, and it took us quite a while to find a pairing that we thought offered as many benefits that will overlap and potential for growth as this one does. So I believe that we really can't determine when or what other merger might be proffered in the industry, but we are comfortable with this one.

Senator SPECTER. Mr. Nagin, I asked your CEO, Mr. Stephen Wolf, as well as United's CEO, Mr. James Goodwin, the question of on-time arrivals, which is a very important point for consumers; that question was posed on June 14 and hasn't yet been answered. I am advised that the Department of Transportation's June 2000 air travel consumer report places US Airways 8th out of 10 for on-time arrivals and United 7th for on-time arrivals.

On that very critical point for consumers, one expectation is that there would be better performance if these two airlines were put together and made it more complicated to manage and to operate.

Mr. NAGIN. Sir, I don't know if it is more complicated. As Ms. Longmuir said, they are complementary route structures. It is certainly a larger network.

With respect to managing it, I think you could have the best management in the world and that management is going to have no say-so on thunderstorms, infrastructure problems, and the like.

Senator SPECTER. Other airlines may have thunderstorms as well.

Mr. NAGIN. Indeed, they do not discriminate. But in terms of US Airways, we operate short hauls in the predominantly Eastern corridor and because of that constriction of our network, we do not have the ability to spread out as United does, or we will after the merger to address this issue.

We have been hit particularly hard and not very happily by the weather in the last months, and air traffic delays have just crippled the industry, and there has been, in fact, a greater hit on US Airways than most carriers.

Senator SPECTER. Well, the problem with that explanation or excuse, Mr. Nagin, is that other airlines have the same problems. They have the same infrastructure problems, they have the same weather problems.

When we take up the issue of size—and I'm not an advocated of "big is bad," but we have had a lot of historical commentary since Jefferson's day and Brandeis, up to the present time. The bigger it gets, the more difficult it is to manage, invariably.

When you talk about job guarantees, Mr. Nagin, those are your words; and, Ms. Longmuir, you talk about job security, so that is an issue which is fair comment even though it is a parochial issue.

I have asked about the prospect for assurances, if not guarantees, as to what would happen with the 17,000 jobs. It is not a sufficient answer to say that there are not going to be any furloughs because that leaves a lot of job potential on attrition spots which would not be filled. What job guarantees are you in a position to talk about, Mr. Nagin? That is your word, "guarantee." Anything beyond simply no furloughs?

Mr. NAGIN. Well, I think with the job guarantee there are two things. I was part of the negotiating team that negotiated the agreement and that is a 2-year guarantee. However, Mr. Goodwin, their chairman and CEO, on the date of the announcement went beyond that and said that everyone who was employed on the date of the merger is promised a job, over and out, he said categorically. And that is quite unusual. Most mergers occur, they look to get rid of people, shut plants, do the like.

United Airlines has said very, very categorically, through Mr. Goodwin, we are not reducing service, we are not taking service out of any communities, and everyone will have a job. And that makes a lot of sense, especially for our employees here in Pennsylvania who call this home; they work here. There is a huge investment, as I pointed out in my testimony, from US Airways, not only in Pittsburgh, but in Philadelphia, and I was very pleased to hear General Fisher's comments about our commitment to the smaller communities as well. And these are folks who are going to have jobs that are promised to them by the chairman and CEO of United Airlines.

Senator SPECTER. Would you now come to my question about the job spots, somebody please, attrition, will those job opportunities remain open so that the total number will be the same or about the same?

Mr. NAGIN. I heard Mr. Goodwin's response to you, Senator, in your hearing where he said, no, he could not make that promise because of improvements that may be made in systems——

Senator SPECTER. Well, I heard that, too. Now I want a little more.

Mr. NAGIN. I am sure. And it makes abundant sense. But I think if you step back, Senator, and look at the investment US Airways has here in this Commonwealth, the vast hub that is being built and the improvements that are being done in Philadelphia, the terrific facilities that we have in Pittsburgh, if you look at all of that, logic dictates that there are going to be jobs that are going to go with those facilities and those route expansions that Ms. Longmuir just outlined that United will bring as a result of this merger. You need people to operate. And my sense is that those people are going to be the employees we have here, and United is not known for slacking on staffing and I think they will have those jobs here.

But to make it part of a covenant or a consent decree in terms of filling vacancies, I think holding United to that probably goes a little bit across the line, Senator. I understand it.

Senator SPECTER. Well, Ms. Longmuir, with respect to covenant, commitment, consent decree, whatever form it takes—and I think Mr. Goodwin said he doesn't understand what a consent decree was, then I explained it to him, and I still think he didn't understand it. You are going to have to explain it to him. Whatever commitments United undertakes, will United put it in writing?

Ms. LONGMUIR. I think, Senator, if I might double back first just to add a footnote to the exchange you had with Mr. Nagin——

Senator SPECTER. Well, that is fine to do that, but answer my question first.

Ms. LONGMUIR. I think that any agreement or any assurances that the Department of Justice wishes to obtain from United Airlines in the course of analyzing and approving this merger United will take very seriously and look forward to entering into—provided, of course, it is harmonious with commercial best interests of the company. But as Mr. Goodwin said to you, we had hoped, clearly—but I understand there was confusion. We are committed to trying to get this merger approved. If that kind of an assurance from the Department of Justice when they perform this analysis is required, I think we will look at it very welcomely.

Senator SPECTER. I take that to be a no?

Ms. LONGMUIR. I am not clear how you get that.

Senator SPECTER. Well, I take that to be a no because you are going to look at it seriously if it is harmonious with your commercial interests.

Ms. LONGMUIR. I think it is very hard, Senator, in the abstract to agree to a hypothetical provision that the Department of Justice may or may not wish to obtain from United Airlines upon the completion of its merger analysis.

Senator SPECTER. Well, you are on two points now, Ms. Longmuir. You are on what the Department of Justice wants and what the United States Senate Antitrust Subcommittee may want. We have standing as well. And the purpose of these hearings is to find out what you are prepared to do. And when you tell us what you are prepared to do, my question to you is: Are you prepared to make that as a commitment? I am not prepared to rely upon what the Department of Justice may ask you to do in assessing my own position or the subcommittee's position. So that is one point.

The second point is: If you make statements as to what you are going to do, the price rates are not going up for 2 years; everybody who has a job now will be guaranteed that job; I don't expect an answer "we will give it careful consideration" or that "it will depend upon the harmonious economic interests of the company." If you can't say yes, then I take it to be no.

Are you prepared to make a commitment in writing, binding, as to all the representations you are making? Number one, nobody is going to lose a job. Number two, the rates are going to stay the same. Number three, you are going to have all of these new routes. Are you prepared to back up that talk with a binding obligation?

Ms. LONGMUIR. Senator, the whole purpose of this merger was to grow our company. It envisions growth. The manner in which United can make a commitment for no furloughs, for a fare cap is because we believe that the dynamics of these two merged networks will mean greater opportunities, a lager network, a larger revenue base so that we will easily meet and exceed those commitments. We believe it is a commitment. You want it in a contractual, written form, and I am afraid I am not empowered to make a representation on behalf of United Airlines other than what Mr. Goodwin has already said before your subcommittee.

Senator SPECTER. OK; that is fine. If you are not authorized to make the commitment, I can understand that. But I hope you will understand that we do not weigh your commitments very heavily—what you say you will do—unless you are prepared to back it up and make them enforceable.

OK; thank you very much.

Senator SPECTER. We will turn now to our third panel: Mr. Paul Hudson, Mr. Charles Isdell, Mr. Joe Mahoney, and Mr. Kevin Mitchell.

The first witness here is Mr. Paul Hudson who serves as executive director of the Aviation Consumer Action Project Group, president of the Families of PanAm 103 Lockerbie, general counsel to the New York State Crime Victims Board, graduate of the University of Michigan and Cleveland Marshall College of Law. Thank you for joining us, Mr. Hudson. We look forward to your testimony.

PANEL CONSISTING OF PAUL HUDSON, EXECUTIVE DIRECTOR, AVIATION CONSUMER ACTION PROJECT; CHARLES ISDELL, ACTING DIRECTOR OF AVIATION, PHILADELPHIA INTERNATIONAL AIRPORT; JOSEPH W. MAHONEY, JR., VICE PRESIDENT, GREATER PHILADELPHIA CHAMBER OF COMMERCE; AND KEVIN P. MITCHELL, PRESIDENT, BUSINESS TRAVEL COALITION

STATEMENT OF PAUL HUDSON

Mr. HUDSON. Thank you for inviting me, Senator.

The Aviation Consumer Action Project was founded by Ralph Nader in 1971 to act as a voice and ear for air travelers on national aviation issues. We have thousands of members nationwide who are very concerned about consolidation in the airline industry and, of course, the merger that is the subject of this hearing today.

There have been several hearings in Congress on the proposed merger of United Airlines and US Airways. So as not to be repet-

itive and to move the process forward, I would like to address really two issues. One is the effect this will have on consumers, particularly in the northeast and, of course, in Pennsylvania as well as nationally; and secondly, what, if anything, Congress can do about the likelihood of three or four major carriers nationally and even internationally if the merger is approved as is proposed.

First, let us be clear that this is not just another merger. This merger could well mark the end of the era of airline competition and the beginning of an oligopoly or cartel industry. The approval of this merger will quickly lead, we believe, to merger proposals by American and Delta, the number 2 and 3 airlines. Already there are published reports that these airlines are talking to Northwest and Continental about mergers. Moreover, TWA and AirTran have announced merger talks. Internationally, BA—British Airways—is proposing acquisition of KLM, Air France and Alitalia have said they are looking to merger partners. Finally, Northwest and Continental have previously proposed a de facto merger that has temporarily been blocked by the Justice Department in court.

In 1998 I testified before the House Judiciary Committee on domestic airline alliances. At that time it was just a Northwest/Continental proposal, but it was quickly followed by two others. It was predicted at that hearing by a representative of United Airlines, as well as myself, that if these alliances went ahead as proposed—and, by the way, United opposed them at the time, and American opposed them—within a year there would be a stampede of other airlines to join up and that there would shortly be, this representative of United felt, only four major carriers in the world. These alliances did not materialize as planned because the Justice Department blocked one, and the union opposition and management changes derailed, at least temporarily, the other two.

In the interest of time, I don't have time to go through a historical perspective, but at the time that that Congress—and I have it in my written testimony which I would ask be made part of the record.

Senator SPECTER. Your written statement in full will be made a part of the record.

Mr. HUDSON. The Congress was told that there would be, at a minimum, eight to ten vigorous competitors in this industry. Alfred Kahn, who most people recognize as the father of airline deregulation, has recently calculated that fares are now over 30 percent higher than before deregulation, after adjusting for inflation. The average air travel time has increased in the 1990s for the first time in history. And last year, consumer complaints increased more than 50 percent while flight delays reached all-time highs. Approximately one in four flights are delayed and one in 33 are canceled.

At 25 percent to 28 percent of all airline seats in the USA, the merged United would have a dominant position in many markets and a near monopoly in about two dozen routes. Presently these two airlines compete on about 1,700 destinations.

What does the future hold? Well, if you like Greyhound buses or Amtrak train service, you will love the United-American-Delta seamless airline of the future. We would expect higher fares, poorer service, and few to no consumer choices, and probably very few frequent flyer rewards.

In our view, this merger should not be approved unless it is clearly shown to be pro-consumer and pro-competitive. This is a tall order, but it can be done by robust divestiture of overlapping routes, one or two hubs and some international routes, and a spin-off of Metrojet, as well as the Washington National flights; and, second, by Congress passing robust procompetitive and consumer protection legislation.

There are also issues of safety and operational problems.

Senator SPECTER. Mr. Hudson, the red light is on, so if you could summarize, I would appreciate it.

Mr. HUDSON. OK; the proposals that we have on pro-competition for Congress are in my written testimony, and I would allow them to be addressed at the question period if you wish.

In conclusion, we don't oppose this merger, per se, but we feel that unless it is done with a combination of very robust divestiture and Congress essentially engaging in some major changes in the industry to make it procompetitive and consumer friendly again, we will see the cartel semimonopoly that is clearly coming down the pike.

Thank you.

[The prepared statement of Mr. Hudson follows:]

PREPARED STATEMENT OF PAUL HUDSON

Good morning Chairman Spector and members of the Antitrust Subcommittee of the Senate Judiciary Committee.

The Aviation Consumer Action Project was founded by Ralph Nader in 1971 to act as a voice and ear for air travelers on national aviation issues. We have thousands of members nationwide who are very concerned about consolidation in the airline industry that has caused the industry to become more concentrated today than before airline deregulation in 1978.

There have been numerous hearings by the Congress on the proposed merger between United Airlines and US Airways. So as not to be repetitive of what others have said and to move the process and debate forward, I will concentrate first on the likely consumer effects of the merger, particularly in Pennsylvania, the Northeast and nationally. Secondly, what if anything can and should the Congress do about the likelihood of 3 or 4 major carriers nationally and even internationally, if this merger is approved as proposed.

UNITED-US AIRWAYS = AMERICAN PLUS DELTA MINUS NORTHWEST AND CONTINENTAL—TOWARD ONE TO FOUR WORLD AIRLINES

First, let us be clear that this is not just another merger. This merger could well mark the end of the era of airline competition and beginning of an oligopoly or cartel industry. The approval of this merger will very quickly lead to similar merger proposals by American and Delta, the number 2 and 3 US airlines after United. Already there are published reports that these airlines are talking to Northwest and Continental about mergers. Moreover, TWA and Airtran have announced merger talks, and internationally BA is proposing acquistion of KLM, Air France and Alitalia have said they are looking to merger or alliance partners. Finally, Northwest and Continental have previously proposed a defacto merger that has temporarily been blocked by the Justice Dept. in court.

In 1998 I testified before the House Judiciary Committee on domestic airline alliances (then proposed between United-Delta, American-US Airways, and Northwest-Continental). It was predicted at that hearing by a representative of United as well as myself that if these alliances went ahead as proposed, within a year there would be a stampede of other airlines joining up so that there would shortly be defacto only four major carriers in the world (which would control 80 to 90% of all airline seats). These alliances did not materialize as planned because the Justice Department blocked one, and the employee union opposition and management changes derailed the other two.

Prior to deregulation in 1978, Congress was told that there would be a minimum of 8 to 10 vigorous competitors. In the early to late 1980's there was a major in-

crease in the number of airlines and air fares on average went down. But then airlines were hit hard by a recession, and many went bankrupt or were absorbed. By about 1995 major surviving airlines had learned how to survive by not vigorously competing, and how to drive new entrants out of business. With the economy booming air travel increased and so did fares, while service took a beating. According to Alfred Kahn, the father of airline deregulation average air fares are now over 30% higher, after inflation than before deregulation. The average travel time for air travel has increased in the 1990s for the first time in aviation history. And last year, consumer complaints increased more than 50% while flight delays reached all time highs (one of four flights delayed, one in 33 canceled.)

At 25% to 28% of all airline seats in the USA, United would have a dominant position in many markets and a near monopoly position on over two dozen routes. Many antitrust experts say that 25% is a threshold that leads to substantially reduced competition when crossed. United stated goal of having a comprehensive system in the US and abroad, would force other airlines to do that same or be at a severe competitive disadvantage.

What does the future hold? Well if you like Greyhound buses or Amtrak train service, you will love the United American Delta seamless airline of the future! Higher fares, poorer service, few to no consumer choices, and probably no frequent flyer rewards.

But what about low fare airlines like Southwest? The answer is that this merger will eliminate low fare competition in the Northeast by United eliminating, rather than spinning off Metrojet which has been engaging in low fares wars with Southwest. In western Pennsylvania this means that consumers who have been driving to Cleveland to get access to fares as low as $34 to BWI and similar low fares to Florida and other destinations are likely to see these fares triple, likewise in Philadelphia low fares are likely to become more scarce. Presently Metrojet competes with Southwest out of two to five airports in the Northeast.

In our view the *United-US Airways merger should not be approved unless it is clearly shown to be pro-consumer and pro-competitive.* This is a tall order, but it can be done by robust divestiture (of overlapping routes, one or two hubs and some international routes, and a spin off of Metrojet, and Washington National flights) and by Congress passing robust pro-competitive and consumer protection legislation.

POST MERGER POTENTIAL SAFETY, FINANCIAL, OPERATIONAL PROBLEMS

Also of concern are safety and operational problems likely to be a by-product of a United-US Airways merger. Major airlines are not decentralized corporate empires, but tightly controlled, complex, labor intensive and potentially very dangerous machines designed to deliver millions of people and pieces of cargo safely at over 500 miles per hour over long distances. Air travelers lives are literally in the hands of the airlines. And a merged United will have about 175 million passengers per year or about 500,000 per day on domestic flights.

Today airlines operate for competitive reasons very leanly with daily reserve capacity of 1% or less. Last month United pilots temporarily refused overtime causing the airline to cancel up to 15% of its schedule without warning inconveniencing tens of thousands of passengers. United pilots who were not consulted on the merger, although they and other unions own most of the United stock are reportedly unhappy with proposed merger, which could force some of them out or limit their advancement based on the higher seniority of the average US Airways pilot.

Past history shows that large airline mergers are so difficult to accomplish smoothly. Accordingly, a large financial and operational reserve should be set aside to prevent regional and even national disruption in the air transportation system. It should be recalled that the Allegheny Piedmont merger that created US Air nearly caused the airline to go bankrupt, and Peoples Express was done in by a too large acquisition. United has no experience in merging or acquiring another carrier that would nearly triple overnight its number of flights. As the merged airline would control about 25% of all airlines seats, far more in the Northwest and Pennsylvania, the impact of the inevitable post merger disruptions can be expected to be greater here.

PRO-CONSUMER AND PRO-COMPETITION MEASURES CONGRESS CAN TAKE TO MAINTAIN AND IMPROVE A COMPETITIVE AIRLINE INDUSTRY

The main antidote for reduced competition caused by mergers and industry concentration is to permit and encourage new entrants. The domestic airline industry is one of the only US industries that because of some Cold War era laws operates in a market sheltered from foreign competition. Current laws provide that no foreign person or corporation can control or own more than 25% of domestic carrier,

and cannot operate a US subsidiary for intra US air travel. As a result, air fares in the US, especially for unrestricted week day travel are far higher than international air fares, which are open to free market competition with several dozen major carriers. Domestic airline passengers, especially business travelers in the Northeast and Midwest are being gouged by airlines such as US Airways and the other five major high cost carriers with fares of 50 cents to 2 dollars per passenger mile while international air fares are usually under 10 cents per mile, and virtually never exceed 30 cents per passenger mile. (1)

Accordingly, Congress should repeal these Cold War era laws and the US should invite foreign airlines with superior safety and service records to compete on domestic routes or set up US subsidiaries. Airlines based in countries such as the UK, Canada, Australia, and some western European countries now have comparable or better safety and service standards than American carriers. This would also kick start the Open Skies initiative, which is stymied by large US and foreign carriers who block any significant progress on bilateral treaty negotiations to protect their own interests. Negotiation of bilateral is a somewhat archaic process in a age of economic globalization and over 150 nations. As things stand, US airlines operate in a manner similar to Japanese TV makers in the 1970s selling $500 color TV sets to Japanese consumers for high profits and $250 sets to American consumers to gain market share. Today however Japanese auto makers have built many plants in the USA, and the competition has so improved US car makers that US car makers now export easily. Accordingly, a Daimler-Chrysler merger caused hardly a ripple of protest.

Another pro-competition, pro-consumer step Congress can take is to phase out fortress hubs which even the airlines admit are responsible for higher air fares for passengers traveling to and from those hubs (rather than through them). This can be done by (a) mandating shared use agreements at airports with limited gate facilities (as was previously done at railroad stations when rail was the primary means of long distance travel), (b) by banning as a unfair trade practice and against public policy the majority in interest clause in airport leases and bond indentures commonly is used by the dominant airline(s) to obtain veto power over airport expansions and freeze out competing carriers, (c) requiring that slots not used by an airline be made freely available to other carriers that would use them to provide service to the public, and (d) placing a five year limit on all gate leases and prevent profiteering in gate leases at restricted access airports.

As to new entrants the US government must become much more pro-active to prevent major carriers from using anti-competitive methods to squash them and prevent real competition. Practices such as temporarily reducing fares and flooding a route with many new flights to drive out a new entrant and then immediately raising prices and reducing service when the new entrant is driven out need to be banned or at least severely penalized, while still protecting the consumer interest in low fares and convenient service.

Union contracts that prohibit or limit the use of regional jets (which carry 30 to 60 passengers distances of up to 1500 miles) are also anti-competitive and anti-consumer. The Congress should ban such labor contract provisions that are responsible for higher fares and poorer air transportation service to small and medium size cities, who must now rely on slower and noisier prop planes to bring them to major hub airports and then change planes one or two time and fly on 100–250 passenger jets.

Another side benefit of de-emphasizing hubs would be a reduction in flight delays which have soared due to highly concentrated air traffic at hub airports at certain times of the day. In 1998, the top 15% of airports controlled 94% of all air traffic and the top 20 airports controlled 55%, while the skies over the other 85% of airports were still mostly empty with only 6% of commercial air traffic. There are 450 airports in the USA.

On the consumer protection side, Congress needs to enact strong Passengers Rights legislation, key provisions of which would be a domestic anti-price gouging or fare cap (there is a reasonableness fair cap on international fares but not on domestic routes, as a result there is robust fare competition on international routes and enormous incentives to price gouge on domestic routes especially in the Northeast and for short haul flights and for smaller cities), repeal of the airlines exemption from state and local consumer protection laws, repeal of the airline exemption from OSHA and sanitary health codes, restrictions on price discrimination, availability of benefit disclosure requirements for frequent flyer programs, full compensation for lost luggage and compensation for passenger out of pocket expenses from delays leaving passengers stranded, updated compensation for bumping caused by airline over-booking, giving passengers the right to depart from any airliner delayed for more than two hours on the runway, and treble penalties payable to passengers

for issuing false or deceptive announcements by airlines regarding flight delays or cancellations, setting minimum standards for size and distance between seats and air quality consistent with standards for other confined public spaces. Finally, Congress should charter and provide initial funding for an airline passenger association to level to playing field in Washington, DC where airline industry lobbyists and campaign contributions make the voice and interests of the traveling public nearly impossible to be heard. Thanks for giving me the opportunity to testify. I would be glad to take any questions you may have.

1. The only major exception in the USA is Southwest whose fares average about 68% of the Big Six carriers (United, American, Delta, Northwest, Continental and US Airways) and can be as little as 15%. However, this lone exception is based on a business philosophy of a 72 year old founder and CEO, that could well change in the not too distant future. In the past several years, Southwest has moved into the Northeast and now flies out of BWI (between Baltimore and Washington, DC), Long Island, Hartford, CN, Providence, RI, Albany, NY, Manchester, NH, Cleveland, OH putting great pressure on US Airways high fare routes, and potentially threatening the future of US Airways.

Senator SPECTER. Thank you very much, Mr. Hudson.

We are proceeding in alphabetical order on this panel. Mr. Charles Isdell has been serving as Acting Director of Aviation at the Philadelphia International Airport since March 13th of this year. He previously held the position of acting deputy director. Bachelor's of liberal arts from Temple, master's degree in education, also from Temple. Thank you for joining us, Mr. Isdell, and we look forward to your testimony.

STATEMENT OF CHARLES ISDELL

Mr. ISDELL. Good morning, Senator Specter, and thank you for inviting me to discuss the implications of the proposed United Airlines and US Airways merger.

I am joined today by Dan Canto Hertzler, the City of Philadelphia's chief deputy city solicitor for regulatory affairs. And I would like to mention Dan is behind me. He is the person working on cooperating with Attorney General Fisher's collection of data relative to this matter, and also by Ed Anastasi, our deputy director of aviation for business and finance.

Naturally, this merger is of great interest to Philadelphia International Airport, where US Airways is currently the dominant carrier, accounting for 13.6 million, or 58 percent, of our passengers last year. The regional economy benefits from the almost 400 daily US Airways departures at Philadelphia, from the 5,800 US Airways employees currently stationed at Philadelphia, and from three US Airways-supported major construction projects valued at over $400 million that are presently in full swing on our premises.

In addition, United Airlines accounted for another 1.2 million, or 5.5 percent, of our passengers in 1999. Approximately 700 United employees currently support a total of 30 daily departures.

Key issues for Philadelphia include the continued growth of our airport as a domestic and international hub, reasonable airfares for our citizens, continued employment for current US Airways and United Airlines staff, and continued investment in our airfield, terminal, and landside infrastructures, which are currently at or near capacity.

We were encouraged by the strong positive statements regarding Philadelphia's role in the merged airline's network that were included in the public announcement on May 24th and by subsequent comments made by senior management officials from both airlines.

However, as a prudent airport operator, we are evaluating the potential impact of the proposed merger on all aspects of airport operations, including financial considerations, customer service concerns, and meaningful competition. We believe it is too soon to determine with any real certainty the ultimate results of the merger at this time.

With the assistance of the City Solicitor's Office, we are reviewing our existing leases with both airlines, which run through the year 2006. We have been monitoring, of course, the speculation in the media regarding this and other possible airline mergers as well as the ongoing congressional debate and positions taken by numerous State attorneys general. It is our intention to meet with senior officials of United and US Airways at an appropriate time in the near future in an attempt to clarify the local impact and our response to it. At that time, we will seek formal assurances that Philadelphia will be treated as its very valuable passenger market deserves. We will take appropriate steps to protect the traveling public who use Philadelphia International Airport.

As you know, Senator, the recent FAA reauthorization Act requires Philadelphia, along with 40 other major U.S. airports, to prepare and submit a competition plan by October 1st in order to maintain airport improvement program and passenger facility charge funding eligibility.

The airport can document numerous ongoing and future efforts and initiatives conceived in the interest of fostering competition at our facility. However, the proposed merger presents us with an additional challenge in the accomplishment of this task. Given the assurances we will expect from United and US Airways, we are confident that PHL will meet this challenge for the continued benefit of the citizens that we serve.

Thank you again for the opportunity, and I will be happy to answer any questions.

Senator SPECTER. Thank you very much for your testimony, Mr. Isdell.

We turn now to Mr. Joe Mahoney, vice president of the Greater Philadelphia Chamber of Commerce. He has held that position for almost a decade. He was the administrative assistant to Congressman Croflin from 1982 to 1990 and has been a very strong force for economic development in the area. We welcome you, Mr. Mahoney, and look forward to your testimony.

STATEMENT OF JOSEPH W. MAHONEY, JR.

Mr. MAHONEY. Thank you, Senator Specter. I appreciate the opportunity to testify this morning on the proposed merger between United Airlines and US Airways.

We at the Chamber support the combination of United and US Airways. It is our belief that this combination will bring enhanced service to Philadelphia and open routes not currently served in a direct flight mode. Increased service east/west as well as additional destinations in Europe will better position our airport as well as our businesses for the global economy.

We have seen Philadelphia International Airport grow over the years and truly become an economic engine for our region. We believe that there was a correlation between this growth and the fact

that we had become a major hub for US Airways international service. US Airways annual expenditures in Philadelphia total $528 Million. Since 1996, they alone have added 28 destinations. In fact, many companies have told us the importance of obtaining more flights out of Philadelphia. These companies have said that one of the reasons for locating their facilities here was the ease of air transportation, particularly internationally, as well as the favorable cost of living compared to other cities along the Northeast corridor.

The routes currently served by each airline seem to us to be a good fit. By combining United's east/west service with the north/south and Europe connections presently served by US Airways, Pennsylvanians will have more options and be better positioned for growth. New destinations will be added, and more direct flights will be possible with the advantages of same-carrier ticketing and baggage handling. United plans to offer nonstop or one-stop service to 273 domestic and international destinations from Philadelphia. That is 102 more destinations than US Airways currently services today.

Our Chamber has worked hard to promote our region as a major technology center. In fact, two of the largest IPO's of 1999 were companies headquartered in southeastern Pennsylvania: Internet Capital Group and Vertical net. We believe that the added flights to the west coast and the scheduled flight to San Jose will make for added commerce and enhance our efforts to promote our companies to this technology hub.

We are pleased that there have been assurances that current US Airways employees will not be displaced and that the construction currently underway at Philadelphia International Airport will be completed. We recognize that US Airways has had financial challenges over the years and believe that this combination will provide employees with greater financial stability. We likewise believe that this strength will be advantageous to the long-term success of the Philadelphia International Airport. While the US Airways presence in Philadelphia has proven to be a plus for our region, concerns have existed over the long-term financial viability of the carrier.

At a recent House Transportation Committee hearing, Chairman Shuster was quoted as saying, and I quote, "The sad fact is US Airways has been hemorrhaging with losses. It is my judgment we will see US Airways in bankruptcy, if not out of business, in the coming years." If the chairman is correct, this would not bode well for Philadelphia. The combination proposed by this merger provides more comfort about the financial viability of the airline.

We recognize the concerns surrounding competition and possible price increases for the traveling public. Those issues are certainly of concern to us as well. We recognize that fares depend on a number of factors. With a little planning, competitive fares can be obtained and certainly alternate routing is available.

Most people can compare fares through the use of both travel agents and the Internet. With these options available, price-conscious consumers can identify flights best suited to their individual situations. We must assure, though, that small businesses do not get priced out of the market. These business travelers may not

have the flexibility of leisure travelers in meeting the advanced bookings often required for cheaper fares.

It is important that Philadelphia encourage the entrance of competitors into the carrier mix at the airport. This marketing effort can assure that prices remain pro-consumer and competitive.

In conclusion, the Greater Philadelphia Chamber of Commerce believes that the proposed merger is good for Philadelphia. While protecting current jobs at the airport, we believe that the increased service will prove to be an economic development engine that will add more jobs to the regional economy.

I appreciate your invitation to testify today.

Senator SPECTER. Thank you very much, Mr. Mahoney.

We turn now to Mr. Kevin Mitchell, chairman of the Business Travel Coalition. Previously he served for 12 years as vice president for human resources and services at Signet Corporation. He was recognized by the Business Travel News as one of the 25 most influential travel industry executives for 1994, 1996, 1997—what happened to 1995, Mr. Mitchell?—and was designated Man of the Year in 1998 by the Commercial Travelers Association.

Thank you for joining us and you can disregard my question about 1995.

STATEMENT OF KEVIN P. MITCHELL

Mr. MITCHELL. Thank you, Senator. Thank you for inviting me here this morning.

BTC is opposed to the combination of United Airlines and US Airways. Since the proposed transaction was announced on May 24, BTC has been surveying large buyers of air transportation services to secure their views.

In a recent BTC survey of 172 veteran corporate buyers of air transport services, only 17 percent supported the buyout. Some 61 percent were opposed, and 22 percent said they needed additional information prior to taking a position.

There are numerous potential short-term negative consequences associated with this buyout. But as serious as they are, customers who oppose this combination are most concerned with its potential long-term negative outcomes.

It is assumed by most experienced corporate purchasers that as a consequence of fewer competitors, business airfares will climb above current record levels. It is likewise believed by most industry observers that should the United Airlines-US Airways transaction be approved, the industry's top ten airlines will collapse to three superpower carriers, and Southwest Airlines.

BTC disputes the last portion of this assumption. Believing that Southwest is golden, that Southwest will continue to compete as an independent firm, and as the champion of deregulation, is a dangerous assumption that needs to be reconsidered in light of the potential collapse of the industry to a few superpower airlines.

It is true that heretofore major airlines have responded to Southwest Airlines' entry into a market in a rational manner with respect to pricing and capacity. Losing millions of dollars attempting to run Southwest Airlines from a market is an irrational strategy—as almost guaranteed failure prevents the investment in such a strategy from being recouped.

Of deep concern, though, is that a combined United US Airways, and the other resulting mega airlines, will possess massive new resources of all manner—political, financial, airport facilities, network scale and scope, code sharing and, importantly, the strategically targeted frequent flyer, commission override and exclusive corporate discount programs. These resources will be available to attack Southwest on all fronts at once.

No longer might strategies to run Southwest from markets be considered irrational. Such strategies of predation could succeed and greatly slow Southwest's expansion—even weakening the low-fare pioneer to a point where it is acquired, either voluntarily or involuntarily. What would happen to the legacy of deregulation in an industry controlled by three superpowers—without Southwest Airlines' overarching disciplining presence?

Significantly, if three superpower network carriers could inflict this type of harm on Southwest, the survival of current and prospective low-fare new entrants must be seriously, seriously questioned. Just at a time in the history of U.S. deregulation when new entry is needed more than ever, it will become exceedingly more difficult for start-ups to secure financial backing and to compete.

Mr. Chairman, the risks of an industry consolidation on this scale to competition, consumers, communities, and corporations are indeed great. However, a few industry participants justify the risks by questioning whether US Airways is financially viable as a stand-alone firm given its high costs. But there are other relevant questions to be asked.

If the transaction is not approved, and if US Airways were to go out of business, how long would it likely take for existing competitors to replace it in the marketplace? What is the probability of a US Airways business failure? What would be the likely economic impact of a US Airways failure?

Indeed, the Philadelphia Inquirer recently reported a Southwest Airlines' spokesman as saying, "It is fair to suggest that Mr. Mitchell's scenario is not only plausible, but altogether likely."

Of great, great concern is if three colossal network carriers could inflict this type of harm on Southwest, the survival of current and prospective low-fare new entrants must be seriously questioned. Just at a time in the history of deregulation when new entry is needed more than ever, it will become exceedingly more difficult for start-ups to secure financial backing and to compete.

Senator, the United-US Airways development confirms the intention of some airlines to radically consolidate the industry. This should represent a clarion call—were one needed—that new entry must become the number one public policy priority with respect to competition in air transport. To this end, Senator, BTC urges you to support or to seek transmission from the Department of Transportation of its finalized Competition Guidelines, and to request that the Department immediately implement the guidelines, perhaps with congressionally authorized increases to DOT's authority.

Thank you for your interest in the views of the customer today.

[The prepared statement of Mr. Mitchell follows:]

PREPARED STATEMENT OF KEVIN P. MITCHELL

My name is Kevin Mitchell. I am chairman of the Business Travel Coalition (BTC), which represents the business travel interests of major corporate buyers of air transport services, as well as 21,000 independent business travelers who are members of the Commercial Travelers Association.

BTC is opposed to the combination of United Airlines and US Airways. Since the proposed transaction was announced on May 24, BTC has been surveying large buyers of airline services to secure their views regarding the potentially profound impact of this development of the long-term cost structure of business travel activities. Attached is a supplemental BTC document that outlines forty-eight issues and questions raised by this monumental industry development.

Some corporate buyers perceive potential benefits associated with this transaction. For example, buyers in the Boston market would have access to United's large domestic network. Likewise, smaller companies in the Northeast with travel volumes to the West Coast that are presently insufficient to qualify for a discount with United may now enjoy a discount with the combined airline. Clearly, the expanded frequent flyer program will also be attractive to the individual traveler.

However, in a BTC survey last week of 172 veteran corporate buyers of air transportation services, only 17 percent supported the buyout. Some 61 percent were opposed, and 22 percent said they needed additional information prior to taking a position.

Members of the Committee, there are numerous potential short-term negative consequences associated with this buyout. The huge costs of integrating these firms will likely be indirectly financed by business travelers in cities like Rochester, Pittsburgh, Charlotte and other captive markets where the new mega airline will be able to extract supra premium airfares.

Moreover, customer service problems will likely be serious if experienced from previous mergers such as Northwest and Republic, or US Air and Piedmont have taught us anything. Finally, the resulting network will be over hubbed, and consequently, many mid-size communities will undoubtedly lose non-stop service, or find service degraded to important business centers.

As serious as the short-term implications are, customers who oppose this combination are most concerned with its potential long-term negative outcomes. It is assumed by most experienced corporate purchasers, that as a consequence of fewer competitors, business airfares will climb above current record levels. It is likewise believed by most industry observers that should the United Airlines-US Airways transaction be approved, that the industry's top ten airlines will collapse to three superpower carriers, and Southwest Airlines.

BTC disputes the last portion of this assumption. Believing that Southwest is golden, that Southwest will continue to compete as an independent firm, and as the champion of deregulation, is a dangerous assumption that needs to be reconsidered in light of the potential collapse of the industry to a few superpower airlines.

It is true that heretofore major airlines have responded to Southwest's entry into a market in a rational manner with respect to pricing and capacity. Losing millions of dollars attempting to run Southwest from a market is an irrational strategy—as almost guaranteed failure prevents the investment in such a strategy from being recouped.

Alternatively, major airlines have responded to Southwest with Shuttle By United, Delta Express and MetroJet further extending the reach and positive impact of Southwest Airlines in a deregulated industry. These innovations, and attendant consumer benefits, are at risk of being scaled back in the short term and abandoned altogether in the long term, e.g. MetroJet at Baltimore Washington International Airport (BWI).

However, if major airlines were forced to respect Southwest in terms of pricing and capacity policies, they developed other fronts from which to mount attacks on Southwest. For example, knowledgeable observers state that US Airways and other major airlines hold onto unused gates at BWI and other airports to prevent Southwest's optimal expansion. Similarly it has been charged that gates are often leased without an intended use to keep them out of the hands of Southwest. Can there be positive outcomes with a much larger single airline controlling even greater assets at these airports?

Of deep concern is that a combined United-US Airways, along with the other resulting airline behemoths, will possess massive new resources of all manner—political, financial, airport facilities, network scale and scope, code sharing and strategically targeted frequent flyer, commission override and exclusive corporate discount programs—to attack Southwest on multiple fronts all at once.

No longer might strategies to run Southwest from markets be considered irrational. Such strategies of predation could succeed and greatly slow Southwest's expansion—even weakening the low-fare pioneer to a point where it is acquired, voluntarily or involuntarily. What would happen to the legacy of deregulation in an industry controlled by three superpower airlines—without Southwest Airlines' overarching disciplining presence?

Significantly, if three superpower network carriers could inflict this type of harm on Southwest, the survival of current and prospective low-fare new entrants must be seriously, seriously questioned. Just at a time in the history of U.S. deregulation when new entry is needed more than ever, it will become exceedingly more difficult for startups to secure financial backing and to compete.

Mr. Chairman the risks of an industry consolidation on this scale to competition, consumers, communities and corporations are indeed great. However, a few industry participants justify the risks by questioning whether US Airways is financially viable as a standalone firm given its high costs. But there are other relevant questions to be asked.

If the transaction is not approved, and if US Airways were to go out of business, how long would it likely take for existing competitors to replace it in the marketplace? What is the probability of a US Airways business failure? What would be the likely economic impact of a US Airways failure?

Indeed, Alfred Kahn, and other proponents of deregulation, argued that inefficient carriers would simply go out of business and their assets would be acquired by efficient carriers who could offer a better, less costly product to consumers.

At issue with this proposed transaction is that one inefficient airline (United) is acquiring another ultra-inefficient airline (US Airways) to create a mega airline that will have high labor costs, huge overhead and multiple congested hubs, but that will also have overwhelming market and pricing power that can crush smaller more efficient competition.

BTC believes that consumers would be better off if US Airways would be required by the marketplace to either fix its cost problem or leave the field of play through liquidation or bankruptcy. In other words, the "failing carrier doctrine" that leads to the approval of a merger on the basis that it would save a failing airline should be abandoned. To save US Airways in the short run, only to lose Southwest in the long run, would represent the ultimate expression of unintended consequences in air transport public policy.

Likewise, this airline combination is justified by some with the argument that the airline industry is largely a network-based one, where in order to make the network viable, more and more revenue must be flowed through it. Thus, it is posited that there is a "natural" tendency toward consolidation of traffic feeds and networks. Well, by logical extension, it could then be argued that perhaps instead of three mega carriers the right number is two, or even one. Indeed, the very discussion of an airline industry controlled by just a few firms seems so surreal that it suggests other United Airlines' motives.

In January 1998 Northwest and Continental airlines announced an alliance, which DOJ is currently suing to undo. That announcement quickly led to alliance proposals by United and Delta, and American and US Airways. The atmosphere in Washington then regarding concerns over competition levels in U.S. commercial air transport effectively restricted ties among these latter airline partners to joint frequent flyer and airport club programs.

The prospect of virtually the entire U.S. airline market ultimately falling under the control of just three firms could make the alliance proposals of 1998 appear like an attractive compromise which could be advanced by United's allies as a "breakthrough" solution. For United such a result would represent a triumph, and one that it may indeed be attempting to engineer as evidenced by the very low breakup fee of some $50 million.[1]

Industry conditions and carrier behaviors that in 1998 made unacceptable a scenario in which three superpower network alliances would dominate the U.S. airline marketplace, have not changed. In fact, that DOT has not transmitted its proposed Competition Guidelines to Congress has only deepened concerns over competition.

[1] If an approved alliance is the outcome, then United might have cleverly: (a) locked up US Airways' assets by having offered $60.00 per share in calculation that American Airlines would not attempt to top the offer; (b) preemptively secured East Coast feed traffic into the Star Alliance that it may have lost to another global alliance competitor this year; (c) avoided paying a 130% stock premium to US Airways' shareholders; (d) satisfied its pilots union's concerns regarding seniority losses in a fully merged company; (e) kept DCA assets out of competitors' hands who would use them against United for the benefit of consumers; and (f) secured the alliance outcome it wanted in 1998, but without onerous government remedies.

The collapse of the airline industry to three mega networks—either by out right acquisitions or by deeply integrated alliances—would be an outcome of ominous consequence.

Major airlines often point to the aircraft manufacturing industry where just two firms dominate—Airbus and Boeing—to dispel concerns over competition levels resulting from fewer competitors. However, either Airbus or Boeing can meet nearly all the needs of a customer seeking to purchase airplanes. Consequently, there is robust price competition and price variation in the marketplace, and innovative contract terms and conditions in that industry.

In contrast, no one airline can meet all the needs of its corporate customers, so, negotiating leverage is greatly diminished via-á-vis customers of the aircraft manufacturing industry. Indeed, in many cases there is only one real competitive airline choice for business travelers. Thus, what is relevant is choice in individual city-pair markets. Further industry consolidation will likely lead to many more monopolized city-pair markets. In an industry already marching in near competitive lockstep with regard to pricing decisions, this would not represent a pro competitive result.

Mr. Chairman, and Members of the Committee, the United-US Airways development unequivocally confirms the intention of some airlines to radically consolidate the industry. This should represent a clarion call—were one required—that new entry must become the number one public policy priority with respect to competition in air transport. To this end, BTC urges this Committee to: (1) seek transmission from DOT of its finalized Competition Guidelines; and (2) request that DOT immediately implement the Guidelines, perhaps with Congressionally authorized increases to DOT's authority.

Thank you for your interest in the views of the customer of the air transportation industry.

UNITED AIRLINES-US AIRWAYS PROPOSAL RAISES QUESTIONS

PHILADELPHIA, PA. June 26, 2000.—The proposed United Airlines (UA)-US Airways (US) transaction represents a watershed event in commercial aviation history with significant long-term implications for consumers, communities and businesses. As such, according to this Business Travel Coalition (BTC), the transaction deserves vigorous debate.

This document contains issues and questions that should be examined thoroughly by government, customer and media representatives. Three broad categories—Customers—Costs—Competition—will serve as organizational themes in this document.

CUSTOMERS

1. Is UA's proposed airfare freeze truly a freeze, or can the number of low fares in various "buckets" be manipulated to drive yields up, and effectively, the prices leisure and business travelers will pay? Will anyone monitor this?
2. Is the proposed airfare freeze indicative of UA's concern regarding scrutiny of the pricing power this new airline will possess?
3. Which mid-size communities will likely see service to important hub markets eliminated as UA rationalizes an over hubbed network? To what extent will each of these communities be impacted by reduced frequencies, the use of smaller aircraft and the transferring of flying to regional affiliates?
4. What would be the economic impact on communities and businesses were the proposed new mega airline to experience a 15-day or longer pilots strike?
5. In terms of providing the highest level of service (frequency) at the best possible prices to the greatest number of passengers and communities, what is the highest and best use of DCA slots and other assets proposed to be acquired by "DC Airlines"?
6. What are the likely economic benefits to businesses and communities that are expected to see an expansion of air services, such as in the Boston market area?
7. What is the economic significance for smaller businesses in the Northeast (US customers) that currently have insufficient East Coast to West Coast traffic to qualify for a discount on UA, that might now have such an opportunity?
8. What are pro competitive negotiating opportunities might Northeast-based businesses have with a carrier (UA-US) that could provide combined offerings that are superior to AA, DL, CO?
9. Are the 47 new routes that UA has committed to adding non-stops? Are they valuable routes to the business travel customer? What size and type of equipment would be used; what frequencies would be implemented? What real guarantees are there that UA will fulfill this commitment?
10. What new cities will receive new service to DCA?

11. What are the results of UA's public commitment to improve customer services levels vis-a-vis pressure from Congress in 1999?

12. What expectations should customers have with respect to a successful integration of customer service operations given UA's relatively poor baggage handling and on time performance results as a stand-alone company? What is the economic price customers will pay should such an operations integration be a worst case failure?

13. Were the industry to collapse to just three major airlines, with attendant customer service integration problems, what would be the likely associated financial and non-financial impacts on customers.

COSTS

1. Given the exceedingly high costs associated with airline mergers, how many years will it take for UA to realize any efficiency benefits premised within this transaction?

2. What is the likelihood that business travelers in monopoly markets will in effect finance the integration costs associated with this transaction through higher airfares?

3. If the transaction is not approved, and if US were to go out of business, how long would it likely take for existing competitors to replace US? What is the probability of a US business failure? What would be the likely economic impact of a US failure?

4. Given the proposed benefits of a US-UA merger, and given the collapse of the domestic U.S. airline industry to three mega airlines, what is likely to be the sum net benefit or cost to consumers, communities and businesses?

5. Given a domestic industry where three airlines would control 85% of the market, with attendant pricing power, at what point do airfare increases cancel out incremental frequent flyer program benefits for travelers who have new found access to more award program choices?

COMPETITION

1. Will UA oppose other mergers and acquisitions by its major competitors?

2. The loss of US as independent firm removes one more competitor who can break ranks with industry-wide fare hikes. Would not the collapse of the industry to three mega airlines allow across-the-board fare increases to stick much more easily?

3. What is the annual passenger count in overlapping UA–US markets? Are these currently high or low-yield markets?

4. What percentage of city-pairs in the combined network will UA be considered to have monopoly positions in?

5. Will UA surrender slots at ORD, DCA, LGA to permit service by new entrants? Likewise at BWI, DCA and IAD from which both carriers serve New York?

6. Will UA maintain code share arrangements with all US regionals and commuters?

7. Will US's MetroJet product be discontinued by UA?

8. Why does US have a yield significantly higher than that of UA? Is there a danger that the combined organization will use its monopoly positions in markets such as Charlotte, Pittsburgh and Denver to force higher fares?

9. What is the percent of total operations, revenue and traffic for the combined airline in these major markets: New York, Los Angeles, Chicago, Boston, Philadelphia, San Francisco, Washington, Seattle, Portland, San Diego, Pittsburgh, Charlotte, Dayton, Indianapolis, Kansas City?

10. How does the merged airline's international route structure compare with that of other airlines? What adjustments are needed to reduce monopolies on international routes?

12. Were this transaction approved, and were this over hubbed airline to rationalize its assets, is there a role for government in ensuring shed assets such as slots, gates and equipment are distributed to viable competitors—especially new entrants?

13. What will be the effect of the merger on airline industry suppliers and on travel agencies?

14. How many slots will UA keep at DCA, and how many will it give to DC Air?

15. Do UA and US exhibit an appropriate level of concern for shareholder value and revenue maximization via their preemptive sale of DCA slots to a US Board member? Does the sale of these assets represent the going rate for such assets, let alone the potential stand-alone value of a hub-and-spoke operation?

16. As proposed, DC Air is to be a "low fare" airline. Is this not counter to all logic in that DCA is a high yield airport? This ostensibly is the price users are willing to incur for the airport's convenience. Low fare service to the region has always

taken place at either BWI or IAD, but rarely at DCA. Why would the management of an airline willingly charge fares substantially lower than the market will reasonably bear?

17. Is there concern that DC Air is simply an attempt by UA to keep powerful assets out of the hands of those competitors who would turn them against UA to the benefit of consumers?

18. As restricted as access is to DCA, and in light of the high fares generally charged there, would not many other airlines be expected to bid for these assets?

19. How competitive is DC Air likely to be given UA's ongoing involvement in the airline? Would a DC Air seek increased earnings from aggressive network expansion and price competition, or would it likely seek to take advantage of the high yield markets it will have presence in to extract higher airfares from business travelers?

20. Were this transaction approved, and as a consequence were 85% of the domestic U.S. airline industry controlled by three mega airlines, what forms of market power abuse would be likely given the history of the industry? Will Southwest Airlines survive as an independent firm?

21. If three colossal airlines resulted from the approval of the US–UA transaction, what incentives would these airlines have to use low fares as a tool to win the loyalty of business travelers? Would they seek to expand into each other's hub markets? Will UA really give DL a run for its money?

22. The proposed US–UA transaction underscores more than ever the need for consumers to rely upon new entrant competitors to discipline major airlines' pricing policies. In addition to the proposed U.S. DOT competition guidelines—which are essential, what other tools, legislatively or otherwise, would DOT require to guarantee a steady stream of new entrant applications into the Department?

23. How does the prospect of three airlines controlling 85% of the U.S. domestic commercial air transport market square with the intentions of Congress and other advocates of deregulation some 20 years ago?

24. As a counter-balance to a potential "Fortress America", should Members of Congress immediately consider proposals to modify restrictions on foreign ownership of U.S. airlines to boost competition? Should approval of the US–UA transaction be contingent upon the competition of an agreement with the EU to establish a transatlantic free trade zone which would lower airlines' costs and increase new entry competition?

25. Are there recommendations that the TRB issued in July 1999 that should be given high priority consideration by Congress and DOT given what we now know regarding the intentions of some airlines to further consolidate the industry?

26. As per Congressman Oberstar's 5/31 letter to DOT Secretary Slater, should Congress immediately consider legislation that would specifically provide DOT with regulatory authority to disallow airline transactions with significant negative "downstream" effects on the competitive structure of the industry?

27. Are there competitive concerns associated with airlines' code name "T2" Internet portal initiative that become exacerbated given the potential control of the distribution system by three mega airlines in any of the areas that follow?

—Relevant measures of market power
—Leveraged use of current airline market power
—Exclusive website-airline arrangements
—Exclusionary powers of airline-owned mega sites (T–2, "T–2")
—Competitive impact of third party internet sites
—Competitive impact of GDSs
—Control and use of competitive data
—Application of existing consumer protection regs
—Relevance of current CRS rules
—Consumer access to Internet fares
—Consumer privacy protection
—Competitive role of travel agents

28. Will three controlling airlines, especially with the additional potential leverage available through a T2 portal, likely force travel agencies into exclusive dealership-type arrangements through commission override programs that will effectively foreclose on competition from new entrant airlines who will not have easy access to the travel agency distribution system—and perhaps not to T2?

29. Will three controlling airlines, especially with the additional potential leverage available through a T2 portal, likely accelerate the use of exclusive corporate discount programs to lock customers into expansive networks in return for deeper discounts, but at the cost of frustrated new entry and higher fares over the long-term?

30. Will three controlling airlines, especially with the additional potential leverage available through a T2 portal, likely use vastly more powerful frequent flyer programs to frustrate new entry.

31. Is the illegal use of combined and strategically targeted commission override, exclusive corporate discount and frequent flier programs to block new entry for the purpose of maintaining monopoly market positions more likely if the industry collapses to three super network carriers?

Senator SPECTER. Thank you for your testimony, Mr. Mitchell.

Starting with you, Mr. Isdell, on the impact on the Philadelphia International Airport, when you talk about the competition plan which you are required to submit in order to be the beneficiary of additional Federal funding, I think that is a very, very important item. Senator Santorum and I battle every year, as do Congressman Weldon and Congressman Greenwood and others, both Democrats and Republicans, for the very substantial funds which we bring to Philadelphia from the Department of Transportation. I am the senior Republican on that subcommittee, and it is an ongoing battle.

What can the airport do to try to open slots engaged to try to bring, say, Southwest in? We have heard testimony about the difficulties that a respected competing airline would face in trying to come in against US Airways. Well, if it is tough against US Airways, it is going to be a lot tougher if it is United and US Airways in a merged company. So what can the airport do? Can you make slots available, gates available? And what inducements can you give to competitors?

Mr. ISDELL. Well, currently, with our existing 30-year lease agreements that run through 2006 in our existing domestic terminals, it is very difficult, Senator. And what we have really only been able to do in recent years is approve as the landlord subtenancies by airlines such as Midway that operates in Terminal A right now.

Senator SPECTER. Well, who is going to be the sublessor? Who is going to give them a slot; US Airways?

Mr. ISDELL. That is a good question.

Senator SPECTER. Good question?

Mr. ISDELL. Yes.

Senator SPECTER. Let's have a good answer.

Mr. ISDELL. At the present time there are no subtenants of US Airways. United does have a subtenant in AirTran at the present time. Delta——

Senator SPECTER. That is just as United's—can it compete with United?

Mr. ISDELL. I would say not, no. So, again, to really give you a more direct answer, I just wanted to give you the background that brings us up to the present.

Senator SPECTER. Well, would it be fair to ask the new merged company, if they are to approved, to provide some subtenants?

Mr. ISDELL. I think that is one approach. Also, the possibility of regaining some of the gates that would be the combined total gates between the two airlines. But I do want to mention that our present construction——

Senator SPECTER. If they merged, they have to give some gates up; is that your suggestion?

Mr. ISDELL. I would suggest that we approach the gate utilization the way we will be doing gate utilization in the two new terminals that are under construction right now, which is a preferential

rather than a non-exclusive type of lease. It gives the airport the ability to utilize gates that are leased to a given airline such as US Airways or Untied if those gates are not utilized fully during the course of any given day.

And that is currently one of our problems. We have four domestic terminals and our one common-use international terminal right now with 63 gates, all of the four domestic terminal gates are exclusively leased, and at different points during the day and evening some of those gates are really underutilized. So not only are we losing—we the city and the airport are losing the opportunity to make revenues on those gates, but in addition, we lose the opportunity to bring in competition.

Senator SPECTER. Mr. Mahoney, when Mr. Isdell talks about assurances—and I am going to ask the question to you instead of him since I have already questioned him. You have some very expansive ideas going to San Jose, going to Portland, no furloughs, job security, pricing, but when United comes in and says we want to acquire US Airways and things are going to be better and you take away US Airways as a competitor, which gives some assurance financially to the economic forces, isn't it sensible to ask for binding commitments on these matters?

If it turns out the way they want to do it anyway, the assurances are really, really meaningless if it is in their economic interest. But shouldn't we have something which gives some binding force to what Philadelphia consumers are going to have the opportunity to enjoy?

Mr. MAHONEY. Senator, we think that it is—while we certainly would hate to limit the company's ability to transact business, we do think that those are legitimate questions that you are asking, and we would not have a problem if they were to go in that direction.

Senator SPECTER. Mr. Mitchell, your survey is kind of stark: 61 percent immediately said it is a bad deal, only 17 percent said it was a good deal, and 24 percent withheld judgment. How do you account for that kind of sharp, negative response?

Mr. MITCHELL. Well, first of all, Senator, the National Business Travel Association recently conducted a survey as well, 80-some—81 or 82 percent of their members opposed the merger.

How I account for it is that these are seasoned purchasers that were around during the 1980s when we had the last wave of major consolidation mergers in the industry. And those purchasers are experienced enough to know that what took place there and the resulting fortress hubs that we now have in this country and the high airfares, business airfares that resulted are. We have the same conditions right now with this next wave of consolidation down to three carriers, three major carriers.

So it is based on experience, their concerns.

Senator SPECTER. Mr. Hudson, would you be satisfied to let this merger go through if we took the long list of representations—don't call them commitments—but representations, no fare increase for 2 years, no furloughs for 2 years, all of these lines? We are going to pursue the question as to why the lines make sense after the merger and why not before the merger? Why not go to San Jose now? But if you take all of the representations which were made

by United and US Airways, and you had contractual commitments, maybe you want to think it over, but I would be interested in your view as to whether binding commitments would turn the tables for you and being for this kind of a merger.

Mr. HUDSON. The short answer is no, Senator, because the——

Senator SPECTER. That is a short answer.

Mr. HUDSON. The commitments, even if they were enforceable, which of course, they are not in the present context, and even if they were put in writing, they would always be subject to market forces.

The situation——

Senator SPECTER. So your basic point is that the market is going to govern whatever anybody says even if it is in writing?

Mr. HUDSON. It really doesn't matter. I mean, I wouldn't think it is a path that is worth treading.

Senator SPECTER. Adam Smith would agree with you. We don't have any written testimony, but he would agree with you.

Mr. HUDSON. If I could just address briefly a question you asked regarding the airport authority here, Pennsylvania presently has two fortress hubs, one in Pittsburgh and one in Philadelphia. This will reinforce this merger. The kinds of things that we would suggest be done would be to phase out fortress hubs. And we have listed in our testimony some things—things like "require shared use agreements" which were used in railroad stations when that was the main form of long-distance transportation; banning the "majority and interest" clause which is used in leases and bond indentures to——

Senator SPECTER. What is that again?

Mr. HUDSON. It is called the "majority and interest" clause. Basically what it says is that one or a few airlines have veto power over any expansion of the airport.

Then there is also the issue of slots being tied up for as long as 30 years. That is an excessively long period. It should be no more than five, in our view.

These are things that could be looked at by the antitrust Subcommittee and the Congress as anticompetitive practices.

Senator SPECTER. Those are very good suggestions.

Well, thank you very much. We really appreciate you coming in today.

Senator SPECTER. Now turning to panel four, Mr. Patrick Gillespie, Mr. Richard Delgadillo, Mr. Vincent Maisano, Mr. Randy Canale.

Mr. Gillespie, we will start with you.

Mr. GILLESPIE. Can I sit down first?

Senator SPECTER. You can start your testimony on the way up, Pat.

Patrick Gillespie has served as business manager of the Philadelphia Building and Construction Trades Council since 1982. He represents 70,000 employees, 2,000 of whom work on construction projects at the Philadelphia International Airport. Very active and incisive labor leader. Good morning, Mr. Gillespie.

Mr. GILLESPIE. Good morning, Senator.

Senator SPECTER. We look forward to your testimony.

PANEL CONSISTING OF PATRICK B. GILLESPIE, BUSINESS MANAGER, PHILADELPHIA BUILDING AND CONSTRUCTION TRADES COUNCIL; VINCENT J. MAISANO, INTERNATIONAL VICE PRESIDENT, DISTRICT 13, COMMUNICATIONS WORKERS OF AMERICA; RANDY CANALE, PRESIDENT AND DIRECTING GENERAL CHAIRMAN, MACHINISTS DISTRICT 141; AND RICHARD DELGADILLO, PRESIDENT, LOCAL 40, ASSOCIATION OF FLIGHT ATTENDANTS

Mr. GILLESPIE. Senator, I have prepared text.

Senator SPECTER. All of it will be included in the record.

Mr. GILLESPIE. Wonderful, because what it does is just parrots those who have been supporting the merger. I would just like to say the Building Trades Council met with US Airways. We had an agreement with US Airways, a project labor agreement down on that construction project that is ongoing now, and my concern was, would that continue and would we finish. And I have been sufficiently satisfied that will, in fact, happen and also that the look of it with this major United Airline now or is it US Airways? Is that what they are going to call themselves? US Airways?

Senator SPECTER. US Airways.

Mr. GILLESPIE. So they are just dropping the "state" and it was US Airways and now it is United. So they will have fun with that, that changing their name around.

But our concern is that the relationship that United has in Philadelphia, it could very well lead to further expansion of the airport and the other infrastructure projects that are relative to that. So, of course, we are in favor of that expansion. That is where the Building Trades Council comes down. I will give this to your guy, the written text.

By the way, thank you for having me here. It is very nice, and I'm sorry Senator Biden couldn't find Philadelphia, but he knows where it is.

Senator SPECTER. Well, he may arrive yet. I talked to him last Thursday and he expected to be here, and if he is not here, there is some very good reason, and he may yet be here.

[The prepared statement of Mr. Gillespie follows:]

PREPARED STATEMENT OF PATRICK GILLESPIE

Good morning Senators. My name is Patrick Gillespie of the Philadelphia Building & Construction Trades Council. The members of the Philadelphia Building & Construction Trades Council represent more than 60,000 hard working men and women in the Philadelphia area. Our members literally built this great city.

Our members have been, and continue to be, deeply involved in building four major capital improvements at the Philadelphia Airport:

—The new international terminal and the new commuter terminal currently under construction will cost more than $500 million.

—$220 million has been invested in a new commuter runway, which opened last December.

—We have recently completed work on $150 million in improvements to the baggage claim, ticketing and US Airways' club facilities.

—We are currently building a new $35 million hangar to accommodate US Airways wide-body aircraft to be used on its expanded Philadelphia-trans-Atlantic service.

In addition to this substantial development—over $1 billion—we understand that further significant investment will be needed in the future so that the airport can continue to grow. It is from the perspective of the hard-working men and women who build our infrastructure that I come before you today to address the implications of the proposed merger between United and US Airways.

Historically, although mergers and acquisitions are often good for the short-term gain of shareholders, they have not always been good news for employees. In the rush of many major corporations to take advantage of the so-called synergies and efficiencies that a merger can bring, often it is to the detriment of working men and women, who may face lay-offs or furloughs.

Unlike many mergers, however, the authors of the United and US Airways merger should be commended for their approach to labor. Every corporation offers its employees rhetoric about their future after a merger, but the management of United and US Airways have backed that rhetoric with tangible commitments. We understand that the proposed merger will offer:

–Job guarantees and no furloughs

—Complete fulfillment of US Airways' commitments, including its commitments to the Philadelphia Airport

—Immediate announcements of expanded service from Philadelphia by United

On jobs, as part of the merger, it is my understanding that United guaranteed that all employees (except senior management) will be offered a job and that no employee will be furloughed for at least two years as a result of this merger. Even beyond that commitment, we hear that the Chairman of United, Mr. Goodwin, has announced publicly, even before your very Committee, Mr. Specter, that he was extending the "no furlough" promise indefinitely. We believe that demonstrates the enormous value of the contributions from the employees of both airlines, and is a welcome recognition.

Further, we have been told that United will honor all of US Airways' commitments to the ongoing capital improvements, including those now underway at the Philadelphia International Airport. This includes US Airways' obligations toward the new international terminal—to accommodate additional wide-body aircraft—and also US Airways' obligations toward the new commuter terminal—to accommodate additional regional jets. These two projects alone promise approximately 5000 construction jobs per year on average, from 1999 to 2002, until they are completed. [the information on construction jobs is from the approved PAID financing application and the Executive Summary for City Council]

United's pledge to expand air service out of Philadelphia is a promise from which all Philadelphians will benefit immediately. New non-stop flights will now link Philadelphia to the high tech business centers in Portland, Oregon and Orange County and San Jose, California.

Finally, all of us who live and work in this area benefit from economic growth and development in the greater Philadelphia region. A key component to the economic growth of any area is access to efficient and well connected air service—something that US Airways has dramatically improved in recent years. This merger will only add to the pattern of growth that US Airways has built in Philadelphia. It will bring more commerce, more jobs and more economic development to Philadelphia and benefit workers throughout the Philadelphia area. As Philadelphia grows, the entire region benefits.

Senator SPECTER. Mr. Vincent Maisano currently serves as International Vice President of Communications Workers of America, District 13 in Philadelphia. Elected to the Pennsylvania AFL–CIO Executive Committee in 1994; sits on the Philadelphia Council of AFL–CIO as vice president, represents 2,000 airline employees who work in customer service and reservations.

Thanks for joining us, Vince, and we look forward to your testimony.

STATEMENT OF VINCENT J. MAISANO

Mr. MAISANO. Good morning, Senator, and thank you for the invitation to testify here today. CWA represents nationwide 10,600 passenger service employees at US Airways, the largest employee group at the airline. Our members work at the ticket counters, the boarding gates, special assistance services, city ticket offices, reservations and baggage call centers, US Airways Clubs, and the Dividend Miles service center.

CWA has not, as yet, taken a position on the merger. But we have several concerns and issues that we would like addressed. In addition, we are currently polling our members at US Airways to tally their full range of concerns.

Approximately 2,000 of our members at US Airways work in Pennsylvania. They work at the reservations call center in Pittsburgh and the two hub operations at both Philadelphia and Pittsburgh airports. They also work at the smaller city airports in Allentown, Erie, Harrisburg and Wilkes-Barre/Scranton. Many US Airways Express employees at the small regional airports, while not being part of the US Airways mainline operation, will be affected by the proposed merger, such as Johnstown, Williamsport, Altoona, Bradford, Jamestown, Reading, and State College, to name a few.

We are very concerned about these jobs in Pennsylvania. These jobs are critical to the local economy and will be extremely difficult to replace. Many of these jobs are industry-specific, and displaced employees will have a difficult time finding employment with pay commensurate with their skills and experience. I am proud to say that CWA-represented passenger service employees at US Airways are the best paid in the industry. The top rate is $22.23 per hour—almost $2.50 more per hour than passenger service employees at United. Displaced or furloughed employees will likely have to take jobs within the region that pay between $7 and $10 per hour without benefits and union protection. US Airways and United have said this merger is about growth. We understand that this may help to grow the profits of United. But we also understand very well that consolidation of overlapping and redundant operations is a by-product of most mergers. We believe that passenger service employees, particularly those who work at the reservations call centers, and other support operations, such as the baggage call center, administrative personnel, crew schedulers and training personnel, are the most vulnerable to consolidation and loss of jobs.

United has promised not to lay off any employees for a period of 2 years as a result of the merger. We don't believe this promise is good enough. Mergers can result in forced relocations, where employees are given the choice to move or lose their jobs. For example, in the 1986 Delta/Western merger, 2,000 of Western's 11,000 employees were told they had to move from Los Angeles to Atlanta or lose their jobs.

Senator, I applaud your questioning this morning and your getting to the point and getting underneath the veneer of the job protection.

Will US Airways employees be asked to relocate? And if they refuse, will they be allowed to continue employment at their current location? My experience in the labor business, if you will, is that a furlough is when someone is actually laid off. But if someone doesn't take a transfer, then it is job abandonment, therefore not a layoff. Is this going to be the situation?

I like very much, Senator, when you want a yes or a no answer. Is it going to be a written commitment and a positive answer?

I am particularly concerned about the reservation center, approximately 900 jobs just outside of Pittsburgh, and will these be guaranteed. United now has 17 reservation centers across the

country. Will they keep the reservation center in Pittsburgh? We have to understand the impact on a community since most of these employees are located in those particular communities surrounding that center, what effect will it have on those towns?

My testimony will be part of the written record.

Senator SPECTER. It will.

Mr. MAISANO. I see the caution light going on. I also ask, Senator, about the competition and what effect it will have on consumers. Two of US Airways' three hubs are in our State. The other is in Charlotte, North Carolina. United has five hubs. They are in San Francisco, Los Angeles, Denver, Chicago, and Washington. After the merger, consumers wanting to fly between the hubs of the respective communities will have far less choice. And I have statistics of market share within my testimony, Senator, which I would like you to take notice of.

Once again, thank you very much, Senator, for these hearings and your concern for these jobs and the fact that you want to get underneath just the guarantee of no layoffs and a guarantee of the jobs that they stay here, are not transferred away, and they are not lost to attrition.

Thank you once again.

Senator SPECTER. Thank you very much, Mr. Maisano.

[The prepared statement of Mr. Maisano follows:]

PREPARED STATEMENT OF VINCENT J. MAISANO

Good morning Senator Specter and fellow Pennsylvanians. My name is Vincent J. Maisano. I am a Vice-President of the Communications Workers of America, the CWA. I have the privilege of representing all CWA members in Pennsylvania and Delaware. Thank you very much Senator Specter for the opportunity to speak on issues of great concern to us about the proposed merger between US Airways and United.

CWA represents 10,600 passenger service employees at US Airways—the largest employee group at the airline. Our members work at the ticket counters, the boarding gates, special assistance services, city ticket offices, reservations and baggage call centers, US Airways Clubs, and the Dividend Miles service center.

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We are very concerned about these jobs in Pennsylvania. These jobs are critical to the local economy and will be extremely difficult to replace. Many of these jobs are industry specific and displaced employees will have a difficult time finding employment with pay commensurate with their skills and experience. I am proud to say that CWA represented passenger service employees at US Airways are the best paid in the industry. The top rate is $22.23 per hour—almost $2.50 more per hour than passenger service employees at United. Displaced or furloughed employees will likely have to take jobs within the region that pay between $7 and $10 per hour without benefits and union protection.

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call center, administrative personnel, crew schedulers and training, are the most vulnerable to consolidation and loss of jobs.

United has promised not to lay-off any employees for a period of two years as a result of the merger. We don't believe this promise is good enough. Mergers can result in forced relocations, where employees are given the choice to move or lose their jobs. For example, in the 1986 Delta/Western merger, 2,000 of Western's 11,000 employees were told they had to move from Los Angeles to Atlanta or lose their jobs.

Will US Airways employees be asked to relocate? And if they refuse, will they be allowed to have continued employment at their current location? If they are willing to relocate, will they have similar seniority, compensation and benefits? The airlines say they will reduce the workforce through "normal attrition." Does this mean that jobs left vacant through "attrition" will not be replaced, thereby reducing the number of well paying jobs in the local economy? When good paying jobs are lost, families of the affected spend less and local businesses get hurt as a result.

A two-year job guarantee isn't very long. US Airway's own history of mergers and layoffs demonstrates that the effects of airline mergers are sometimes not felt until years after the merger. When US Airways merged PSA's operations into its own in 1988, about half of PSA's headquarter staff lost their jobs. In the years following that merger US Airways merged with Piedmont. US Airways announced a total of more than 10,000 layoffs, including layoffs of more than 3,600 passenger service employees, as it struggled to integrate operations of all three carriers. The merger with United dwarfs those mergers in terms of sheer size and potential job impacts.

This merger is likely to have an adverse impact to consumers in Pennsylvania, as well as the workers—and more so than in any other state. Two of US Airways' three hubs are in our state. The other is in Charlotte, North Carolina. United has five hubs. They are in San Francisco, Los Angeles, Denver, Chicago and Washington. After the merger, consumers wanting to fly between the hubs of the respective companies will have far less choice. The flying public throughout Pennsylvania who rely on the Philadelphia and/or Pittsburgh hubs to reach their ultimate destinations will have significantly less choice.

Let me give some numbers to illustrate this point. United and US Airways are the two main competitors in several westward routes from Philadelphia. From Philadelphia to San Francisco, United and US Airways each have a market share of 40%. After the merger the combined company will dominate the market with 80% market share. From Philadelphia to Denver, United's market share is 50% and US Airways' is 28%—a combined 78% market share. From Philadelphia to Los Angeles, United's market share is 29% and US Airways' is 41%—a combined 70%. To Chicago O'Hare the combined market share will be 71%. The merger will also have serious anti-competitive impacts on certain non-hub to hub routes as well. For example, from Philadelphia to Seattle, United's market share is 16% and US Airways' is 51%—a combined 67% market share. From Philadelphia to San Diego, United's market share is 13% and US Airways' is 42%—a combined 55% market share.

Competition for non-stop service on certain routes from Philadelphia will completely disappear and consumers will be left with no choice whatsoever. United and US Airways are the only two carriers to offer non-stop service from Philadelphia to the United hubs of Denver, San Francisco and Los Angeles. US Airways is already the only airline to offer non-stop service from Pittsburgh to the same United hubs. So, there will be a significant reduction in choice for residents in the Philadelphia area traveling to United hub cities—and no improvement for residents in the Pittsburgh area.

As I stated previously, CWA hasn't taken a position on the US Airways-United merger. However, we believe that Congress and the Department of Justice should evalute the broad consequences of approving this merger which is likly to lead to the consolidation of the entire airline inustry, going from six carriers today to three. We also do not believe that any remedies to the anti-trust issues should lead to a divestiture that would break-up our group of represented passenger service employees. These hard working employees have been through a lot at US Airways in the past five years: wage freezes, benefit reductions, and three union representation elections. They won their first union contract only six months ago after years of struggle and determination. They deserve your consideration and protection. Thank you.

Senator SPECTER. We turn now to Mr. Randy Canale, who served as president and directing general chairman of Machinists District 141. He has assumed the role as lead negotiator for the International Association of Machinists Committee located with United Airlines on behalf of nearly 30,000 IAM members.

The Machinists Union represents more than 7,000 US Airways members in Pennsylvania, some 4,000 in Pittsburgh, 2,000 in Philadelphia and the remainder throughout the State.

Thank you for joining us, Mr. Canale, and we look forward to your testimony.

STATEMENT OF RANDY CANALE

Mr. CANALE. Thank you for the invitation to be present today for your committee, Senator.

Also, I have served as a local president in the area in Delaware County, as president of the Delaware County Central Labor Council for the previous 20 years as well, and have been a resident in the Philadelphia area for over 50 years.

I am also an employee of United Airlines on a leave of absence. I have 37 years of airline experience going back to May 10, 1963, at the Philadelphia International Airport.

Senator SPECTER. Mr. Canale, would you pull that microphone just a little closer? Thank you.

Mr. CANALE. The International Association of Machinists and Aerospace Workers is the largest union in the airline industry and is the largest union at both United Airlines and US Airways, representing over 67,000 employees at these two carriers. The IAM represents more than 7,000 US Airways members in Pennsylvania, with 4,000 members in Pittsburgh, 2,000 members in Philadelphia, and approximately 1,000 members in smaller cities throughout the State.

The IAM has represented employees at United and US Airways and its predecessor companies for over 50 years. During that period of time the IAM has had to confront on behalf of its members numerous complex and difficult challenges to members' job security, wages, and working conditions. Despite these challenges the IAM successfully negotiated numerous collective bargaining agreements with both carriers which have provided the highest level of job security and the best wages and working conditions in the airline industry.

Among the most significant of those achievements has been the negotiation of the employee stock ownership plan, ESOP, at United which resulted in the largest employee-owned company in the world.

Although the airline industry, like most industries, has been the subject of substantial change, this has particularly been the case in the airline industry since the Airline Deregulation Act was passed in 1978. It is, therefore, not surprising that we are once again faced with changes in the industry which raise significant challenges, job security, and working conditions of the members we represent. But the issue is not whether change will take place, but whether the change will work to the benefit or detriment of the employees of these two carriers.

We are determined to work aggressively to ensure that the acquisition of US Airways by United will only take place if it will work to the benefit of the employees of both carriers.

We do not believe that any acquisition can be successful without our endorsement and cooperation. Our belief in this regard stems from the fact that we represent over 60,000 employees at both of

these carriers, that we are currently involved in contract negotiations at United, that we have significant involvement in the corporate government of United because of the ESOP. And our belief in this regard is based on our corporate governance of United because of the ESOP, and in this regard our success or the success in meeting equally significant challenges of these carriers and other carriers over the past half a century will hinge on that being negotiations at the bargaining table.

If this acquisition results in stable employment, greater job security, a more competitive carrier, and enhanced wages and working conditions for our members, we will support this acquisition. We have communicated that view to management of both carriers. We have also communicated our view to those carriers. We are confident that management has heard us and that they will do what is necessary in this regard. If they do, the merger will be a good thing for the carrier, for the employees, and for the State of Pennsylvania.

Thank you, Senator, for the opportunity to testify before your committee today.

Senator SPECTER. Thank you very much, Mr. Canale.

We turn now to Mr. Richard Delgadillo. He currently serves as President of the Association of Flight Attendants Local in Pittsburgh. He represents 34,000 flight attendants, 2,000 of whom live in Pennsylvania. Thank you for joining us and we look forward to your testimony.

STATEMENT OF RICHARD DELGADILLO

Mr. DELGADILLO. Good morning, and thank you for this opportunity to sit before this committee at your invitation to discuss the implications as a result of the proposed buyout of US Airways. I represent US Airways flight attendants domiciled at the Pittsburgh International Airport. I bring warm wishes from Lynn Lenosky, our US Airways Master Executive Council President.

Today I am speaking on behalf of the Pennsylvania US Airways flight attendants, which include our Philadelphia Local 70. There are approximately 6,000 cabin safety professionals. Philadelphia Local 70 president, Luther Riggs-Zeign, unfortunately could not be here with us today. Lucky for him, he is on vacation.

I have provided a brief fact sheet on my union for your review.

Senator, my union is no stranger to airline consolidations and their implications on our members. It is a result of the union's merger protection policy in our constitution that creates some sort of stability for our members in the midst of turmoil in terms of the integration of the work groups. However, this applies only to those air carriers who are represented by the AFA.

I was stunned by the news of the proposed buyout on the morning of May 24th. My initial reaction was, "Well, here we go again," since this will be my third airline merger as a labor leader. I can assure you, AFA is well poised to oversee the integration of our work groups if and when we reach that point.

My local's perspective on the implications of the proposed buyout is broad based. Indeed, I am concerned with the livelihood of our members currently and post-merger. A transaction of this sort will affect job security, location of jobs, working conditions, and how we

deal with the potential disappearance of our airline. All these issues are being addressed the best way we can given the limited information from the US Airways and United management. In fact, the details have not been divulged to my union as of today. And, therefore, in the words of my international president, Patricia Friend, "We cannot make an endorsement of this proposed transaction until many details are fully explained. United and US Airways must be much more forthcoming with its unions than it has in the past. United must work with us to make the proposed transaction a successful one. If they are willing to do that, so are we." Further, she states, "In order to merge the operations of the two airlines, a new flight attendant contract must be negotiated. We are dedicated and will be singularly focused on creating the premier flight attendant contract in the industry, with the absolute best in terms of wages, benefits, work rules and scheduling."

Senator, we have heard from both Chairman Wolf and Goodwin that they intend to expand flights in and out Pittsburgh. They intend to use Philadelphia as a major international gateway. Imagine, me, content to fly from Pittsburgh to Buffalo or Erie, I will be able to fly one-stop service to Taipei and other worldwide destinations. These changes will be dramatic and will continue to contribute to the regional economies.

Flight attendant staffing needs are based on the number of flights and service especially at domiciled hub cities such as Philadelphia and Pittsburgh. With increasing flights in Pittsburgh and Philadelphia, as stated by the chairman, it is music to my ears. However, we have received no commitments in writing. In fact, we are void in terms of anything in writing. To put our members at ease, especially our brothers and sisters at the IAM with regard to the maintenance facility in Pittsburgh, commitments in writing must be forthcoming. The livelihoods of thousands of workers are at stake.

Where the leaders of both corporations have stated the jobs for the next 2 years will remain intact—the question is where? Yes, jobs may be available, but will this mean members would have to uproot their families and move?

Indeed, I am deeply concerned with these events. But, it seems to me the airline industry is in constant flux one way or another. And workers take the brunt of any change in our industry. Nevertheless, I remain hopeful and cautiously optimistic that this event will take into consideration working families who have made the airline what it is today.

And, finally, the real heart and soul of any integration of work groups is a process by which the groups will obtain a new contract—that is, through the bargaining process. Yes, in the midst of our fight to gain OSHA protection for all flight attendants and to organize our brothers and sisters of Delta, I can assure you that our locals will make every effort to secure and protect jobs and ensure that the biggest airline has the best contract. It goes with the territory. Later this week, the leadership of both airlines, the AFA leadership at United and US Air will be meeting to begin the process of integration.

I thank you for this opportunity to share my concerns with regard to the Pennsylvania State working flight attendants, and I am open to any questions.

Senator SPECTER. Thank you very much, Mr. Delgadillo.

Mr. Canale, you referred to the ESOP which is an equity interest which United Airline employees have. How much of the company is owned by the employees?

Mr. CANALE. Fifty-five percent.

Senator SPECTER. Fifty-five percent?

Mr. CANALE. Yes.

Senator SPECTER. So if the employees decide this is a bad merger, can you stop it?

Mr. CANALE. I think we could probably look at history to determine what course of action we could take in the future. Currently we are at the bargaining table. We impact the most significant area of job security. Our view quite simply is, if we don't have job security for the employees above carriers, we will not support any agreement.

In the past the ESOP was negotiated through both job rule negotiations and investment by our members and other employees of United—all employees of United including management entered the contract to establish the ESOP in additional to sweat equity.

Senator SPECTER. Well, if the ESOP were to decide for whatever reason job security for whatever reason, does your ESOP at 55 percent of the shares in the company have the power to stop it?

Mr. CANALE. In 1994 when the ESOP was consummated within 6 to 8 months after the agreement, before the ink was dry, so to speak, United and US Airways were talking about a merger. At that particular time we reviewed the details of that particular effort at that time and we determined that it was not in the best interest of our members on either carrier because of loss of jobs.

Senator SPECTER. So were you able to stop it?

Mr. CANALE. At that time we exercised what was veto majority status under the agreement. It is one of either ALPA is represented on the board of directors as well as the Machinists Union.

Senator SPECTER. So if the ESOP decides that Mr. Canale should be CEO instead of Mr. Goodwin, can you do that too?

Mr. CANALE. Well, as a matter of fact, we interviewed Mr. Goodwin for his current job today and he is the corporate——

Senator SPECTER. You interviewed him. Did he interview you for your job?

Mr. CANALE. It doesn't work that way. The membership interviewed me.

I would just say that with this acquisition our current board of director Mr. John Peter Paul, who was our former general vice president of the international for over 35 years, was instrumental in negotiations with numerous agreements in the industry, did cast a vote this time around to proceed with the process of acquisition.

Senator SPECTER. The process of acquisition? Could that be reversed?

Mr. CANALE. We do not have standing now to cast the vote to block that, but we do have 67,000 members on both carriers, and it is our belief that if there is no labor agreement or cooperation

that the all-important court of public opinion, we could stop the acquisition without question.

Senator SPECTER. Court of public opinion, that is what this court is, the Ceremonial Courtroom.

Mr. Gillespie, you say you are for this deal because they assured you the construction would go forward.

Mr. GILLESPIE. That is correct.

Senator SPECTER. But what about the next construction deal and the one after that? And the one after the one after that?

Mr. GILLESPIE. Well, fortunately for the Philadelphia Building Trades members, Senator, we take those deals as they come. We don't need the assurances of some future deal. What this holds out for us, however, is having a viable owner down there at the airport who promises more expansion. They have, though one of the problems that US Airways had getting off the ground down there in getting started was finding capital to expand.

So having an owner with some vitality that is owned 55 percent by the union members lends itself to give the manager of the Philadelphia Building Trades Council a comfort in knowing that we have a potential job producer down there that is sensitive to organize labor and the sanctity of collective bargaining.

Senator SPECTER. There are a good many more questions I would like to ask, but I am on the railroad, I am not on the airlines, so I have to make the 11:11.

Mr. Maisano, we will keep very much in mind what you have said about the relocation. A job commitment is not very good if you have to move someplace which is unrealistic.

And, Mr. Delgadillo, you talk about written commitments. That is right in the front of my mind because if it is to be meaningful, it has to be binding. And it is fine to listen to expectations as long as you know they are expectations. But if you are talking about a commitment, for example, to keep rates the same for 2 years, I don't—it is not meaningful to talk about a commitment unless it is binding. And we will keep that in mind and stay tuned.

Mr. MAISANO. If I could?

Senator SPECTER. Sure.

Mr. MAISANO. In my testimony is an example of folks who were offered in a previous merger jobs in Atlanta. Well, they certainly couldn't go, so therefore, they lost their job. Also at the Pittsburgh hearing we will be pinpointing what is happening in those communities right there with that reservation center.

Senator SPECTER. OK; very good point.

Thank you. Thank you all.

[Whereupon, at 10:48 a.m., the subcommittee was adjourned.]

SUBMISSION FOR THE RECORD

FLIGHT ATTENDANTS' STATEMENT ON UNITED AIRLINES' OFFER TO ACQUIRE US AIRWAYS

WASHINGTON, DC.—United Airlines announced yesterday that it has offered to acquire US Airways. United said it intends to merge the operations of the two airlines, creating the single largest airline in the world.

Following is a statement from Association of Flight Attendants, AFL–CIO International President Patricia Friend:

"We cannot make an endorsement of this proposed transaction until many details are fully explained to us. In order to win the support of the flight attendants in the proposed transaction, United Must be much more forthcoming with its unions that it has been to this point. United must work with us to make the proposed transaction a successful one. If they are willing to do that, so are we.

"If United does work closely with us to resolve some significant contractual problems that arise out of this offer to purchase US Airways, there is tremendous potential for flight attendants and their families.

"In order to merge the operations of the two airlines, a new flight attendant contract must be negotiated. We are dedicated and will be singularly focused on creating the premiere flight attendant contract in the industry, with the absolute best in terms of wages, benefits, work rules and scheduling.

"Any new deal must also protect and enhance the jobs of all flight attendants involved, those at United and US Airways, and those at US Airways' wholly-owned subsidiaries PSA, Piedmont and Allegheny."

PITTSBURG FACT SHEET

Daily Departures: US Airways 1,940; US Airways Express 2,340; US Airways Shuttle 66; MetroJet 212; Combined US Airways system 4,588.

Airports Served: US Airways 110; US Airways Express 171; US Airways Shuttle 3; MetroJet 20; Combined US Airways System 206.

US Airways Daily Departures from the Pittsburgh International Airport: 276 US Airways + 228 US Airways Express = 504 daily departures.

Scope of US Airways Pittsburgh Hub Operation:

Pittsburgh is US Airways' largest Hub. US Airways operates from 41 jet gates in Concourses A, B, with international flights on Concourse C. US Airways Express at Pittsburgh operates from 32 regional aircraft parking positions.

US Airways and US Airways Express operate the most flights of any carrier at Pittsburgh, offering customers more than 41,737 seats to 110 destinations nonstop each day.

US Airways and US Airways Express boarded 8,069,256 million passengers in 1999 at Pittsburgh.

At Pittsburgh, US Airways' transatlantic service is comprised of daily non-stop roundtrip flights to Frankfurt and Paris. US Airways has an application pending to operate daily nonstop roundtrip service to London.

US Airways operations in the Pittsburgh metropolitan area include, reservations, flight operations, maintenance and in-flight services.

US Airways operates three US Airways Clubs at Pittsburgh International Airport.

US Airways first began serving the Pittsburgh community in 1949.

Systemwide, US Airways flies nonstop to 202 destinations in 38 states in U.S., Canada, District of Columbia, Commonwealth of Puerto Rico, Bermuda, and the U.S. Virgin Islands.

Economic Impact:

$941,412,050 in Annual Salaries in 1999.

$1,566,672,157 in Annual Expenditures in 1999.

The 5th Largest Employer in Pittsburgh with 11,647 employees as of April 27, 2000.

ASSOCIATION OF FLIGHT ATTENDANTS, AFL–CIO FACT SHEET

SIZE

The Association of Flight Attendants (AFA) is the collective bargaining agent for 46,000 flight attendants on 26 air carriers. AFA is the largest flight attendant union in the world.

CARRIERS

AFA represents all flight attendants from the following air carriers: AirTran Airways, Air Wisconsin, Alaska Airlines, Allegheny Airlines, Aloha Airlines, America West, American Eagle, American Trans Air, Atlantic Coast Airlines, Atlantic Southeast, Business Express, CCAir, Hawaiian Airlines, Horizon Airlines, Mesa Airlines, Mesaba Airlines, Midway Airlines, Midwest Express, PSA Airlines, Pan Am Airways, Piedmont Airlines, Pro Air, Tower Air, US Airways, US Airways Shuttle and United Airlines. AFA represents every type of carrier; global, national, regional, and charter.

OFFICERS

AFA's international president, vice president and secretary-treasure are elected flight attendants. These officers are elected every four years by the AFA Board of Directors, the highest governing body of the union.

FOUNDING

The union which became AFA was founded in 1945 and later became part of the Air Line Pilots Association. In 1973, the flight attendant leadership voted to make AFA autonomous from ALPA. In 1975, AFA was first certified as a collective bargaining agent for flight attendants. The union was chartered by the AFL–CIO in February 1984.

MEMBER SERVICES

As a labor union, AFA negotiates and enforces labor contracts. It also fights for flight attendant interests in Congress and in federal agencies. AFA maintains a collective bargaining staff of attorneys and national bargaining representatives, as well as research government affairs, organizing and communications departments. AFA is the only flight attendant union staffed with a full-time air safety and health department and employee assistance program.

LOCAL STRUCTURE

There are 66 Locals in total for the various airlines. Major carriers form a Master Executive Council (MEC) which is the highest governing body for that air carrier. Each air carrier has its own labor contract. Smaller, regional air carriers form a "regional" MEC even though they have their respective contracts.

US AIRWAYS STRUCTURE

There are 9 Locals and each Local president is a member of the MEC. The MEC has 3 officers who are elected by the Local presidents. The MEC president oversees the 9 Locals at US Airways.

MEC President: Lynn Lenosky, PA resident.

MEC Vice President: David Guerrierro, PA resident.

MEC Secretary: Bob Kenia, VA resident.

The MEC office is located: One Thorn Run Center, Suite 320, 1187 Thorn Run Road Ext., Moon Township, PA 15108, (412) 262–3110.

STATE OF PENNSYLVANIA

Pittsburgh Local 40: President: Richard Delgadillo, 1009 Beaver Grade Road, #130, Moon Township, PA 15108, (412) 262–3375.

Members: 3,400. Approx. 2,000 live in Southwestern Pa. Member of the Allegheny Labor Council (Jack Shea, President), Member of the PA State AFL–CIO (William George, President).

All workers are covered by the PA State Worker's Compensation Laws.

Philadelphia Local 70: President: Luther Riggs-Zeign, 2124 South Street, Philadelphia, PA 19146, 215–735–1834.

Members: 2,600. Approx. 1,500 live in the Phila. Area. Members of the Philadelphia Labor Council.

All workers are covered by the PA State Worker's Compensation Laws.

WHOLLY OWNED US AIRWAYS SUBSIDIARIES

PSA, Piedmont and Allegheny Airlines flight attendants are all represented by the Association of Flight Attendants.

The PSA carrier does have approximately 35 flight attendants domiciled in the Pittsburgh area. (Piedmont and Allegheny do not have any flight attendants domiciled in the southwestern portion of PA.)

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