AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

COMPETITION IN THE AIRLINE INDUSTRY

HEARING

BEFORE THE

TASK FORCE ON COMPETITION POLICY
AND ANTITRUST LAWS

OF THE

COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

APRIL 24, 2008

Serial No. 110–106

Printed for the use of the Committee on the Judiciary

Available via the World Wide Web: http://judiciary.house.gov

U.S. GOVERNMENT PRINTING OFFICE

41–905 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON THE JUDICIARY

JOHN CONYERS, JR., Michigan, *Chairman*

HOWARD L. BERMAN, California
RICK BOUCHER, Virginia
JERROLD NADLER, New York
ROBERT C. "BOBBY" SCOTT, Virginia
MELVIN L. WATT, North Carolina
ZOE LOFGREN, California
SHEILA JACKSON LEE, Texas
MAXINE WATERS, California
WILLIAM D. DELAHUNT, Massachusetts
ROBERT WEXLER, Florida
LINDA T. SÁNCHEZ, California
STEVE COHEN, Tennessee
HANK JOHNSON, Georgia
BETTY SUTTON, Ohio
LUIS V. GUTIERREZ, Illinois
BRAD SHERMAN, California
TAMMY BALDWIN, Wisconsin
ANTHONY D. WEINER, New York
ADAM B. SCHIFF, California
ARTUR DAVIS, Alabama
DEBBIE WASSERMAN SCHULTZ, Florida
KEITH ELLISON, Minnesota

LAMAR SMITH, Texas
F. JAMES SENSENBRENNER, JR., Wisconsin
HOWARD COBLE, North Carolina
ELTON GALLEGLY, California
BOB GOODLATTE, Virginia
STEVE CHABOT, Ohio
DANIEL E. LUNGREN, California
CHRIS CANNON, Utah
RIC KELLER, Florida
DARRELL ISSA, California
MIKE PENCE, Indiana
J. RANDY FORBES, Virginia
STEVE KING, Iowa
TOM FEENEY, Florida
TRENT FRANKS, Arizona
LOUIE GOHMERT, Texas
JIM JORDAN, Ohio

PERRY APELBAUM, *Staff Director and Chief Counsel*
SEAN MCLAUGHLIN, *Minority Chief of Staff and General Counsel*

TASK FORCE ON COMPETITION POLICY AND ANTITRUST LAWS

JOHN CONYERS, JR., Michigan, *Chairman*

RICK BOUCHER, Virginia
ZOE LOFGREN, California
SHEILA JACKSON LEE, Texas
MAXINE WATERS, California
STEVE COHEN, Tennessee
BETTY SUTTON, Ohio
ANTHONY D. WEINER, New York
DEBBIE WASSERMAN SCHULTZ, Florida

STEVE CHABOT, Ohio
RIC KELLER, Florida
F. JAMES SENSENBRENNER, JR., Wisconsin
BOB GOODLATTE, Virginia
CHRIS CANNON, Utah
DARRELL ISSA, California
TOM FEENEY, Florida
LAMAR SMITH, Texas, *Ex Officio*

PERRY APELBAUM, *Staff Director and Chief Counsel*
SEAN MCLAUGHLIN, *Minority Chief of Staff and General Counsel*

CONTENTS

APRIL 24, 2008

Page

APPENDIX

Material Submitted for the Hearing Record

COMPETITION IN THE AIRLINE INDUSTRY

THURSDAY, APRIL 24, 2008

HOUSE OF REPRESENTATIVES,
TASK FORCE ON COMPETITION POLICY
AND ANTITRUST LAWS
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Task Force met, pursuant to call, at 10:36 a.m., in Room 2141, Rayburn House Office Building, the Honorable John Conyers, Jr. (Chairman of the Task Force) presiding.

Present: Representatives Conyers, Lofgren, Jackson Lee, Cohen, Johnson, Sutton, Wasserman Schultz, Ellison, Smith, Chabot, Cannon, Keller, and Issa.

Also present: Representative Lewis of Georgia.

Mr. CONYERS. Good morning. The Judiciary Committee, namely the Task Force on Competition Policy and Antitrust Laws will come to order. We are happy to see everyone here.

And I want to begin by observing that today we are considering the issue of airline competition and the proposed merger between Delta and Northwest Airlines.

I come to this hearing with an open mind. I begin by reviewing the historical context of antitrust laws, since I started on this Committee before anyone else in this room, at least. And I wanted to put the discussion that we will have in some kind of context.

We have had a recent history of deregulation, widespread deregulation. And since airline deregulation first took effect some 30 years ago, we have gone from a highly competitive structure to an oligopoly.

Most of this has occurred under the Department of Transportation's watch, but the Department of Justice also has to come in for its share of responsibility, as literally scores of airline mergers have been approved.

Consumers have been prejudiced, as delays are on the increase, services in decline, and prices are rising. And we have fallen into a culture where business executives have opted frequently to the resort of bankruptcy as a means of avoiding their labor obligations while enhancing their own personal incomes.

All too often executives of Chapter 11 debtors receive extravagant bonus and stock option compensation packages while workers are forced to accept pay cuts or even job losses and retirees lose hard-won pensions and health benefits.

Example: Glenn Tilton, CEO of United Airlines, former Chapter 11 debtor, last year received $39.7 million compensation package.

During the course of the bankruptcy case, however, pension plans for 120,000 workers were terminated, and many others had to make significant wage concessions.

So we live in a time where organized labor and the idea of collective bargaining are faced with some pretty stiff barriers to organization and collective bargaining, aided and abetted, unfortunately, by an administration that almost always or usually sides with business on labor issues.

So it is no wonder that union membership is down to 12 percent of the population, that the income disparity between the top earners and the middle class is at a record high, that the vast majority of Americans go into their retirement years with little pension and negligible savings, and where 50 million Americans don't have health insurance and another 35 million are underinsured.

It is no secret that if you allow workers to organize, they usually can protect themselves. But under the current National Labor Relations Board, that has not been happening too much.

This is the context in which we come together this morning, ladies and gentlemen. We have an antitrust division that approves mergers left and right, frequently overturning judgments of the career staff at the Department of Justice.

The department has not attempted to block or modify any major merger over the last 7 years, including some of the largest, most controversial mergers among direct competitors. Remember Whirlpool-Maytag, AT&T-BellSouth, XM-Sirius. The department's hands-off approach has even encouraged companies with questionable merger justifications to give it a try.

And some analysts have stated that the government has nearly stepped out of the antitrust enforcement business, leaving companies to mate with whom they wish.

There has been a 59 percent decline in merger investigations over the past 4 years of this administration compared to the last 4 years of the Clinton administration. And with respect to merger challenges, the last 4 years reveal a 75 percent decline to the last 4 years of the Clinton administration.

So all I am suggesting is that we need to consider where this merger will take us. I am concerned that if this merger is approved it will simply result in a cascade of other mergers, such as Continental-United, American and US Airways. We might end up a situation where we have three mega carriers operating through hubs competing with a handful of low-cost carriers.

If the merger is rejected, however, we could end up with more carriers in bankruptcy, negating more union contracts, including pension and health care benefits.

And so at today's hearings, I believe we have several questions to address.

First, what is the rush? Or maybe, more fairly, is there a rush to get this in and heard, disposed of, and over with? This is a momentous matter, and we really need to ask whether giving this matter the adequate time it requires will accrue benefits for consumers and all the parties involved.

Next, how can we ensure that the flight attendants have a fair chance to organize themselves within the Delta organization? What guarantees can we give the Northwest pilots that they will not be disadvantaged by the merger or have their seniority diminished?

And, finally, how will this merger impact the affected communities and, most especially, the flying public?

For some, this merger has devolved into a question of which cities and regions will get more flights. And that is understandable. But I wonder how the larger flying public will be affected.

As a matter of fact, I believe that we will need further inquiry by this Committee on the subject so that we can obtain testimony from consumer groups and individual passengers who could not be with us here today.

So I am feeling better now that I have got that off my chest. [Laughter.]

And I turn to my friend, Steve Chabot, from Cincinnati, Ohio, for his comments, the Ranking Member of this Task Force.

Mr. CHABOT. Thank you very much, Mr. Chairman.

And I would like to thank the distinguished gentleman from Michigan, Chairman Conyers, for agreeing to hold this important hearing today.

We both have a particular interest in this merger, given the hub locations of Delta and Northwest Airlines, and the potential impact that this proposed combination would have on our respective regions. But it also, obviously, has implications across the entire country.

I would also like to thank our witnesses for taking the time to discuss their insights and predictions with us, particularly the second panel, Mr. Moormann, who is from Cincinnati and will be testifying on behalf of the Cincinnati USA Regional Chamber of Commerce.

Delta Air Lines has a long history with the Greater Cincinnati-Northern Kentucky area, dating back to the 1940's when it first started its passenger service, and later in the 1960's with its jet service. Delta has supported development in our region, fostering the creation of more 130,000 jobs in the Greater Cincinnati area, and facilitating a $2.85 billion annual economic impact on the region.

Business growth in Greater Cincinnati-Northern Kentucky has paralleled Delta's expanded nonstop domestic and international service with Greater Cincinnati-Northern Kentucky regional corporate customers now generating more than half of Delta's total revenues.

However, this progress has not been without challenges. Delta, along with many other airlines, has experienced financial and operational difficulties in the last several years.

With the surging price of oil, fuel is now the number-one operational cost that airlines must address. And just yesterday, Delta reported a first quarter loss of $6.4 billion due to some extent for those fuel prices, also a write-off.

But industry survival dictates that difficult business decisions need to be made, such as the proposed merger between Delta and Northwest, which would be the largest airline deal in U.S. history and arguably benefit both companies' operations.

Yet free market principles tell us that competition is what makes markets thrive, keeping prices low, although I have to say that our particular airport, the Greater Cincinnati-Northern Kentucky, unfortunately over the last couple of years has had either the highest or close to the highest rates of any other airport in the world.

And if one considers that our community historically has had relatively lower cost or at least middle-of-the-road costs in a lot of other areas, it has been a real burden on a lot of folks. And people literally have driven to Louisville and Indianapolis and Dayton and Columbus because of those airfares.

But consumers demanding more look forward to discussing with our witnesses today the aspects of competition that would be protected, arguably, by the merger, including fair pricing policies to protect consumer interests, the benefits that the airline industry would realize as a result of the merger, and any anti-competitive effects that might result, including barriers to entry by new airlines.

And, again, I want to thank the witnesses for being here today. We look forward to their testimony.

And I would now like to yield my time to the Ranking Member of the full Judiciary Committee, Mr. Lamar Smith of Texas, for his statement.

Mr. SMITH. I thank the gentleman from Ohio for yielding.

And, Mr. Chairman, my statement will be brief, but I do want to thank the Chairman for calling this hearing on competition in the airline industry.

Vigorous, unimpeded competition sustains our economy and keeps it strong. It leads to innovative products that better our lives and keep prices low.

The Judiciary Committee has a long history of oversight to ensure that American markets retain healthy competition. This hearing is evidence of the Committee's continued leadership in considering mergers of large companies that can affect American consumers.

Today's hearing gives us the opportunity to examine the proposed merger of Delta and Northwest Airlines, a combination that would create one of the world's largest airlines, but one that would not dominate the industry.

The question that the Department of Justice must answer in reviewing this merger is whether the proposed transaction will lessen competition and thereby harm consumers.

We will hear today from the CEOs of both Northwest and Delta that this proposed deal does not raise significant competition concerns because the two airlines do not have significant overlaps in the number of cities that the two serve. In fact, I think the number of overlaps is 13 out of 1,000 flights.

Even if this merger is approved on the basis of its own merits, I am interested in how it affects the airline industry as a whole.

Recent news articles suggest that a number of airlines, most notably United and Continental, are considering mergers in the wake of the Delta-Northwest deal. Such consolidation is something that the Committee should monitor closely.

I would like to thank our witnesses today, Mr. Chairman. We have two great panels.

And I will yield back the balance of my time.

Mr. CONYERS. Thank you.

Any Members want to put their statements in the record?

The gentleman from Tennessee, Mr. Cohen?

Mr. COHEN. Thank you, Mr. Chairman. I have submitted my statement. And my main interest is the hub in Memphis. That is it.

[The prepared statement of Mr. Cohen follows:]

PREPARED STATEMENT OF THE HONORABLE STEVE COHEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE, AND MEMBER, TASK FORCE ON COMPETITION POLICY AND ANTITRUST LAWS

I view the proposed merger of Delta Air Lines and Northwest Airlines with an open mind. Whatever the ultimate outcome of this proposed merger, my greatest concern is that Memphis International Airport continues to be a major air passenger hub, whether for a combined Delta-Northwest or for a Northwest that remains independent. I understand the economic realities faced by U.S.-based legacy airlines, and I hesitate to oppose this merger outright if such a merger is critical to preserving the hub in Memphis. I have received assurances from representatives of Delta and Northwest that the combined company would continue to operate a hub at Memphis International Airport and have no reason to doubt that these assurances were made in good faith. Additionally, both the Memphis Regional Chamber and the Memphis-Shelby County Airport Authority support the merger and I give weight to their opinions.

Nonetheless, for now, notwithstanding the good-faith arguments of merger supporters, I remain concerned that Memphis will lose its hub status once the proposed Delta-Northwest merger is consummated. While Delta and Northwest have committed to maintaining the Memphis hub, I recall that American Airlines made similar assurances that it would maintain TWA's St. Louis hub after its acquisition of TWA in 2001. Although St. Louis nominally remains a "hub" for American, American has dramatically reduced service at St. Louis since acquiring TWA, cutting the number of flights and passengers through St. Louis almost in half. Moreover, even though I take Delta and Northwest at their word, a combined carrier would have a strong incentive to close the Memphis hub eventually. One of the rationales for merging the two airlines is to achieve efficiencies by eliminating duplicative operations. Given that Memphis is less than 400 miles from the proposed new Delta's headquarters and hub in Atlanta, I believe that the new Delta will close or significantly scale back operations at Memphis.

The closing of an air passenger hub would be devastating to my district. The loss of jobs and economic activity would be significant. Residents in my district would suffer a dramatic loss in the number of nonstop flights to cities around the world. Moreover, I do not see any other airline that would be willing or able to play the role in Memphis that Northwest currently plays.

I also share some other concerns of merger critics. The Delta-Northwest merger threatens to spark a round of consolidation among the largest U.S. air carriers. Potentially, half of the air travel market could be controlled by just three mega-carriers. This loss of competition could lead to higher prices for consumers and poorer service. Moreover, given the intimidating size and potential market dominance of these carriers, I question whether any of the low-cost carriers could provide the necessary competitive pressure on the major carriers to keep air fares affordable for most consumers.

Additionally, I am concerned that workers at both carriers, but especially at Northwest, will be harmed by this merger. Somewhat disconcertingly, Delta appears to be actively discouraging its non-pilot employees, who are non-union, from seeking union representation. I fear that this is indicative of how a merged Delta-Northwest, which would primarily be run by current Delta management, intends to manage labor relations. I hope Delta will refrain from current and future unionization efforts and allow its non-pilot employees to decide, without management interference, whether they wish to be represented by unions.

Mr. CONYERS. All right.

Mr. COHEN. We have missed our free throws. We don't want to miss our hub. [Laughter.]

Mr. ELLISON. Mr. Chairman? Mr. Chairman?

Mr. CONYERS. Mr. Ellison?

Mr. ELLISON. Mr. Chairman, I am observant of the rules of the Committee. I understand I can't make a statement, but I do have one for the record and would appreciate it if the Chairman would allow it to be submitted.

Mr. CONYERS. Your statement will be welcomed into the record, as will all other Members.

[The prepared statement of Mr. Ellison follows:]

PREPARED STATEMENT OF THE HONORABLE KEITH ELLISON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA, AND MEMBER, COMMITTEE ON THE JUDICIARY

Let me start by thanking Chairman Conyers for holding this important hearing and for his leadership on this issue.

This hearing is particularly timely considering the recent announcement of the proposed merger between Northwest and Delta airlines.

My constituents and I have a personal stake and interest in this merger. Minnesota houses corporate headquarters for Northwest Airlines and the Minneapolis-St. Paul Airport, one of Northwest?s major hubs, is located in my Congressional District. I represent thousands of Northwest workers and employees, and thousands of jobs in my district both directly and indirectly depend on Northwest Airlines.

At this point I have several major concerns with this proposed merger. First and foremost, I believe this new airline will adversely affect competition and will ultimately lead to higher fares for consumers, reduced quality of services, and a reduction in routes and choices for consumers. Both companies have acknowledged that they will become the largest airline in the nation if the merger is consummated.

According to a number of studies, when a major airline carrier dominates a specific region, they essentially have the ability to control the prices in the market and block competition. For example: these studies have shown that these major carriers block competition with new carriers by dropping prices and flooding the market with new capacity; once the new airline competitor is unable to compete and driven out of the market, the incumbent airline often raised its prices in that region.

So again, my concern with this merger is that instead of helping consumers it will be positioned to hurt new competitors, squeeze them out of the market and ultimately damage competition in the long run. This scenario is bad for competition and bad for our consumers.

Second, if this merger is allowed to go forward, I believe this inevitably will lead to a domino effect of airline mergers and consolidations. Other major airlines will be forced to consolidate in order to compete with the new airline. While, arguably low-cost carriers may be able to compete with just one giant airline, these new carriers will almost certainly be put out of business if the industry moves to just a few major airlines. Speculations of a United-Continental as well as an American-US Airways merger have already been discussed. I believe a market dominated by just a few major carriers would be a disaster for competition and customer service.

In addition to the market competition issues the Justice department will be examining in the upcoming months. I am deeply concerned about the impact this will have on the labor force. Not surprisingly, Northwest?s pilots and ground workers are strongly opposing this deal. Northwest pilots are concerned that the seniority integration plan will severely reduce the career path for their pilots. Northwest flight attendants have approached my office with concerns that they are being pressured not to unionize under the new Delta airline. These are serious allegations merit further investigation by the Justice Department.

As Robert Roach, General Vice President of the International Association of Machinists stated, ?Airline industry consolidation will come at tremendous public expense.?

I wholeheartedly agree with this statement.

Thank you Mr. Chair and look forward to hearing today?s testimony.

Mr. CONYERS. And, yes, Ranking Member Smith and Jim Sensenbrenner, Chairman emeritus, your statement——

Mr. SENSENBRENNER. Mr. Chairman, I will just make a very brief statement.

All politics are local. And the concern that I have is the impact of this merger on the 47 percent passive interest that Northwest owns in Midwest Airlines, which is Milwaukee's hometown carrier and a very popular carrier in my part of the country.

And I would hope that, as this merger is consummated, that it will do nothing to impede upon the service that this carrier currently provides.

I thank the gentleman.

Mr. CONYERS. You are welcome.

Might I note that, before we begin with our witnesses, we have a number of non-testifying parties, as they are called.

We welcome Delta Pilots Association, the Northwest Pilots Association, the Air Line Pilots Association, and the Air Mechanics Fraternal Association. Their representatives and friends and supporters are all in the hearing room, as well.

I want to begin by introducing the CEO of Northwest Airlines. And then I am going to ask my colleague, John Lewis, the distinguished Member from Georgia, to introduce the CEO of Delta Air Lines.

I am pleased to introduce Mr. Douglas Steenland, who has served as Northwest's president since 2001 and its chief executive officer since 2004.

Before joining Northwest in the early 1990's, Mr. Steenland served in the Office of the General Counsel of Department of Transportation and the Washington law firm of Verner, Liipfert, and others. He earned his bachelor's degree from Calvin College in Michigan, his law degree with honors from George Washington University.

And, Congressman Lewis, I would recognize you to introduce our other witness.

Mr. LEWIS. Thank you very much, Mr. Chairman.

Mr. Chairman and Ranking Member and Members of the Task Force, thank you for holding today's hearing on competition in the airline industry.

I appreciate your allowing me to introduce Mr. Richard Anderson, the CEO of Delta Air Lines.

Delta's headquarters have been located in Atlanta for 67 years. They have 25,000 employees in Atlanta, and their hub, which is located at Hartsfield-Jackson Atlanta International Airport, has helped make our community home to the busiest commercial airport in the world.

Mr. Anderson has nearly 20 years of aviation experience. He entered the industry in 1987 at Continental Airlines, where he ultimately served as staff vice president and deputy general counsel.

In 1990, Mr. Anderson began a 14-year career at Northwest Airlines, where he served in many leadership positions over the years. He began as vice president and deputy general counsel, executive vice president, and eventually became the airline's CEO.

Mr. Anderson then left Northwest to serve as executive vice president of UnitedHealth Group and president of UnitedHealth's commercial market group. He also served as a director of Cargill and Medtronic, Inc.

Mr. Anderson became chief executive officer of Delta Air Lines on September 1, 2007. He joined Delta's board of directors in April 2007. After an extensive and long-reaching and broad search, Delta's board chose Mr. Anderson to lead the airline.

He is a native of Galveston, Texas. Mr. Anderson holds a bachelor's degree from the University of Houston and a degree in law from South Texas College of Law.

Again, thank you, Mr. Chairman, Mr. Ranking Member, for the opportunity to introduce Mr. Anderson to you and Members of the Task Force.

And I, too, Mr. Chairman, welcome these two executives here today.

Mr. CONYERS. Well, thank you very much.

I will check with the length of your introductions from now on, because I don't want Mr. Steenland to feel embarrassed that I just gave a few highlights of your illustrious career.

But we would like you to begin. Your statements will be included in the record. Please feel welcome.

TESTIMONY OF DOUGLAS STEENLAND, PRESIDENT AND CEO, NORTHWEST AIRLINES

Mr. STEENLAND. Thank you very much, Mr. Chairman. And I was pleased and flattered by the introduction. Thank you.

Chairman Conyers, Ranking Member Chabot, distinguished Members of the Judiciary Committee Antitrust Task Force, good morning. I am Doug Steenland, the chief executive officer of Northwest Airlines.

I appreciate the opportunity to appear here today to explain the benefits of the recently announced merger between Northwest and Delta and the fact that this merger will not lessen competition.

I am particularly honored, Mr. Chairman, to have the opportunity to appear before you on behalf of Northwest. We are proud to be Detroit's hub airline.

I would like to acknowledge my congressman, Congressman Ellison. We are proud to be the hub airline of Minneapolis.

I would also like to acknowledge Congressman Cohen. And we are very pleased to be the hub airline of Memphis.

The airline industry today is at a crossroads. It creates two choices for Northwest.

One choice is to continue on the road now traveled as a standalone airline, being whipsawed by incredibly rising oil prices, which will cost Northwest an estimated $1.4 billion more this year for its fuel bill, facing competition from discount carriers that have now captured one-third of the U.S. market, and internationally facing tightened competition for large, well-funded foreign airlines that have been allowed to consolidate and that are increasing their service to the United States under liberalized open-skies agreements.

The other choice is to merge with Delta, to create a single, stronger airline, better able to face these challenges. By combining the complementary end-to-end networks of two great airlines, we will achieve substantial benefits and build a more comprehensive global network.

Most importantly, the merged airline will be more financially resilient and stable, better positioned to meet customers' needs, better able to meet competition at home and abroad, and better able to provide secure jobs and benefits.

Let me jump to one aspect of these benefits and provide assurance to all of you here that, as a result of this merger, no hubs will be closed. In the United States, the hub at Detroit, the hub at Minneapolis, the hub at Memphis will be preserved.

I would like in particular to point to the strong support that we have received from this merger in Michigan. I would like to call attention to the support of the Detroit Regional Chamber and the support of Robert Ficano, the Wayne County executive.

In Memphis, we received the support of the Memphis-Shelby County Airport Authority and the Memphis Chamber.

And in Minneapolis, we have received the support of the Minneapolis Chamber, the St. Paul Chamber, and the Metro Coalition of Chambers, and the Minnesota Chamber.

The merger will create over $1 billion in annual benefits that will help the merged carrier withstand volatile fuel prices and cyclical downturns. All of these benefits will be achieved without harming competition.

The existing domestic and international routes of Northwest and Delta are complementary, so the two carriers compete only to a minimum extent. Let's start with international markets.

The question of whether there is any reduced international competition has already been asked and answered by the U.S. government. Recently, the U.S. DOT granted antitrust immunity to Northwest, Delta, Air France, and KLM, and in doing so found no reduction in competition over the transatlantic from the combination of Delta and Northwest.

Northwest doesn't serve Latin America, where Delta is a strong player. And Delta has only minimal service to Asia, where Northwest has been a historic competitor.

Domestically, Northwest routes are concentrated in the upper Midwest, while Delta is strong in the South, the East, and the Mountain West.

The most important fact regarding competition for everyone to remember in today's hearing is that between Northwest and Delta, in the United States, we serve over 800 nonstop routes together. And out of the total 800, we overlap on only 12. And on those 12 routes, there is also substantial competition from other carriers.

Furthermore, the domestic airline industry has undergone significant competitive change over the last several years. Low-cost carriers now dominate. Southwest Airlines is the largest domestic airline and carries more domestic passengers than any other airline and will continue to do so after this merger.

In addition, online technology such as Orbitz, Travelocity and Expedia have given consumers tremendous power and influence.

For Chairman Conyers, Congressman Ellison, Congressman Cohen, if we go back in time, we remember the merger between North Central and Southern, which at that point created Republic, which was the largest airline in the country, in terms of destinations served. In 1986, Northwest merged with Republic, which created our hubs in Minneapolis, Detroit and Memphis.

I think we can confidently say today that, but for the merger of Northwest and Republic, neither carrier would be here today. As a result, we have strong, vibrant hubs that support growing business communities, and we have great consumer service as a result.

Thank you, Mr. Chairman. I appreciate the opportunity to provide the statement and look forward to any questions that you might have.

[The prepared statement of Mr. Steenland follows:]

PREPARED STATEMENT OF DOUGLAS M. STEENLAND

STATEMENT OF DOUGLAS M. STEENLAND,
CEO OF NORTHWEST AIR LINES, INC.
BEFORE THE HOUSE JUDICIARY COMMITTEE
TASK FORCE ON COMPETITION POLICY &
ANTITRUST LAWS
APRIL 24, 2008

INTRODUCTION

I am Doug Steenland, the Chief Executive Officer of Northwest Airlines. I appreciate the opportunity to appear here today to explain the benefits of the recently announced merger between Northwest Airlines and Delta Air Lines.

The U.S. airline industry is at a crossroads, creating two choices for Northwest. One choice is to continue on the road now traveled: being whipsawed by the high price of oil; facing nationwide competition from discount carriers while unable unilaterally to achieve the cost and revenue synergies that the merger will produce; and struggling to remain competitive in the face of heightened competition from large, well-funded foreign airlines that are increasing service to the United States following implementation of Open Skies agreements that have liberalized aviation markets around the world.

The other choice is to merge with Delta to create a single global network by combining the complementary end-to-end networks of two great airlines. By achieving substantial cost savings and building a more comprehensive and balanced network, the combined company will be more financially resilient, better positioned to satisfy customers' demands, and better able to meet the challenges of the future at home and abroad.

From the outset, we have promised that we would consider a transaction only if it benefits all of our key stakeholders. We are confident that we have met this objective. Our customers and the communities we serve will benefit because this is a merger of addition, not subtraction. Combining the end-to-end networks of two great airlines means that Delta/Northwest will serve more U.S. communities and connect to more worldwide destinations than any global airline. Our passengers will benefit from direct service from the United States to all of the world's major business centers in Asia, Latin America, Europe, Africa, and North America. Because the networks of the carriers are complementary, no hubs will be closed. All stakeholders, and our employees in particular, will benefit from the improved financial resiliency and better competitive positioning of the combined carrier. The merger will create over $1 billion in annual synergies that will help the new carrier withstand volatile fuel prices and cyclical downturns. The proposed combination also will allow us better to use Northwest's valuable Pacific franchise, better develop both carriers' domestic hubs, and better match the right planes with the right routes. Northwest has already integrated many aspects of its technology with Delta through the SkyTeam alliance, paving the way for a smooth integration process.

All of these benefits will be achieved without a substantial lessening of competition. The existing domestic and international route networks of Northwest and Delta are complementary, so the two carriers compete only to a minimal extent today. Of the more than 800 domestic non-stop routes that NW and DL collectively fly, there are only 12 non-stop city-pair overlaps. The vast majority of these non-stop overlaps enjoy substantial competition from other carriers, and all consumers will benefit from the significant cost savings that the transaction will create.

We did not come easily to the decision to merge with Delta. Northwest is proud of its long and distinguished history as a stand-alone carrier, and the company has made Herculean efforts in recent years to preserve its ability to continue operating independently. As you know, Northwest filed for Chapter 11 protection in September of 2005. As part of the Chapter 11 reorganization process, employees at every level of the organization made substantial sacrifices to insure that Northwest could emerge successfully from bankruptcy. We saw the success of this reorganization effort in 2007 when Northwest earned $760 million in profit, $125 million of which went to our employees as profit sharing and incentive payments. Yet, with fuel prices at record highs and amidst an economic slowdown, we remain financially challenged. The bottom line is that we have achieved our goal of crafting a transaction that creates significant value for all stakeholders. The combined company will be more stable and better positioned to meet the challenges of the future, both at home and abroad.

The testimony proceeds as follows. Section I of the testimony discusses why the merger of Delta and Northwest is procompetitive and consistent with regulatory requirements. The domestic airline market today is highly fragmented and will remain so post-merger. Furthermore, because this merger will combine complementary end-to-end networks, it will result in only 12 domestic non-stop overlaps, none of which will cause competitive problems. In addition, the merger presents no international competitive issues. Section I also examines how competition in the airline industry has been transformed since 2000. Low-cost carriers have changed the industry, and technology has created a transparency revolution that enables customers to compare airline fares quickly and easily. These factors will assure that a combination between Delta and Northwest will not reduce competition or harm consumers.

Section II of the testimony discusses market conditions in the airline industry, particularly the effect on network carriers of the dramatic increase in oil prices, the slowdown in the economy, the Open Skies treaty, and the consolidation of foreign flag carriers. These conditions require that Delta and Northwest respond proactively, and the merger accomplishes that goal.

Section III of the testimony explains how the Delta/Northwest merger benefits U.S. customers. The combined carrier will offer access to more worldwide destinations, accelerate investments to enhance the flying experience, and create the world's largest frequent flyer program. Section II also discusses how Delta and Northwest are uniquely positioned for a smooth integration process given their past coordination as part of the SkyTeam alliance.

Finally, Section IV explains how the combined carrier will continue to deliver exceptional service to U.S. communities by bringing increased single-carrier connectivity to smaller communities across the nation. In addition, this section discusses our commitment to maintaining all current hubs.

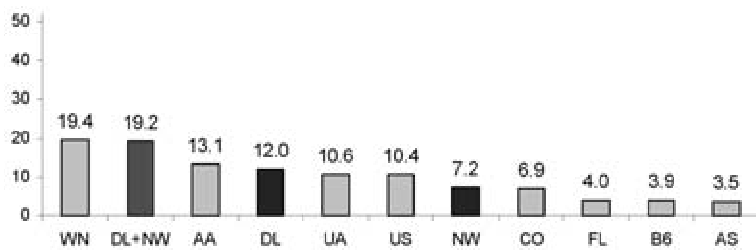
I. THIS MERGER IS PROCOMPETITIVE AND CONSISTENT WITH REGULATORY REQUIREMENTS

The domestic airline market is highly fragmented and there is little overlap between the networks of Delta and Northwest, proving that a merger of the two carriers will not substantially lessen competition. The fundamental characteristics of the airline business will continue to constrain any hypothetical anticompetitive effects of the merger. Most notably, low-cost carriers have achieved rapid growth in this decade, changing the competitive dynamics of the industry. In addition, new Internet search tools have created a transparency revolution in airline fares to enable customers to access low fares easily. Finally, customers will benefit from enhanced competition in the industry as the combined company becomes a stronger airline, better able to compete with discount carriers and growing international airlines that are now serving more markets in the United States.

The Domestic Airline Market Is Highly Fragmented.

The domestic airline market is not concentrated; no airline currently has greater than a 20 percent domestic passenger share. Even post-merger, a combined Delta/Northwest would capture less than 20 percent of the domestic passenger share, and Southwest would continue to have the highest domestic passenger share. (See Figure 1).

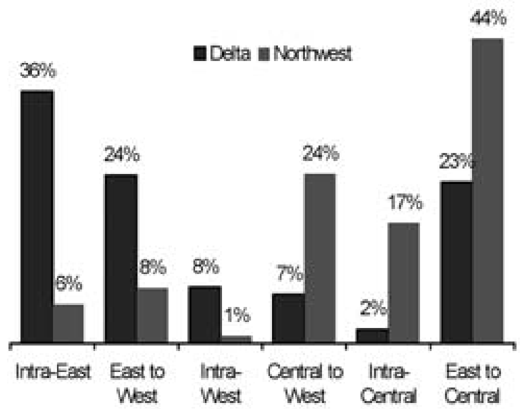
FIGURE 1: DOMESTIC PASSENGER SHARE (3[RD] QUARTER 2007)



There Is Very Little Domestic Overlap Between Delta's and Northwest's Networks.

There is very little overlap between the route systems of Delta and Northwest. Delta has a strong presence in the East and Mountain West, whereas Northwest's domestic route network is focused in the Midwest. As Figure 2 demonstrates, Delta and Northwest operate very different domestic route structures.

FIGURE 2: DELTA AND NORTHWEST CARRY DISTINCT PASSENGER BASES



The domestic overlap between the two airlines that exists is minimal and raises no competitive concerns. Because Delta and Northwest have complementary networks, the two carriers provide overlapping non-stop service on only 12 of the more than 800 domestic non-stop city-pairs that they collectively fly.

TABLE 1: DELTA/NORTHWEST NON-STOP OVERLAPS

Route	Other Competitors (non-stop competitors in bold)
Atlanta-Detroit	**AirTran** offers 8 daily non-stop round trips and has a 32% share
Atlanta-Memphis	**AirTran** offers 5 daily non-stop round trips and has a 36% share, with one-year growth of 9%
Atlanta-Minneapolis	**AirTran** offers 4 daily non-stop round trips and has a 22% share, with one-year growth of 10%
Cincinnati- Minneapolis/St. Paul	American and United offer connecting service; Midwest and AirTran both serve Dayton (only 57 miles from downtown Cincinnati) and Minneapolis
Cincinnati-Detroit	Competitors offer connecting service through Chicago and Cleveland; AirTran already serves both Detroit and Dayton (only 57 miles from downtown Cincinnati), and Southwest already serves Detroit; driving is an option, as the trip takes little more than four hours by car; non-stop entry can easily occur on this route with gate availability at both airports
Detroit-New York	**American, Continental, Spirit**
Detroit-Salt Lake City[1]	American, Frontier, Southwest, United, and US Airways offer connecting service with a collective share of 40%
Honolulu-Los Angeles	**United, American, Continental,** and **Hawaiian**
Indianapolis-New York	**Continental** and **US Airways**
Los Angeles-Las Vegas	**United, American, Southwest, US Airways**, and **JetBlue**
Minneapolis/St. Paul-New York[2]	**Continental** and **SunCountry**
Minneapolis/St. Paul-Salt Lake City	American, Frontier, United, and US Airways offer connecting service; Southwest and JetBlue serve SLC and AirTran serves MSP

Notes: 1) Northwest will launch service on Detroit-Salt Lake City in June 2008; 2) Delta will launch non-stop service on New York-Minneapolis in June 2008

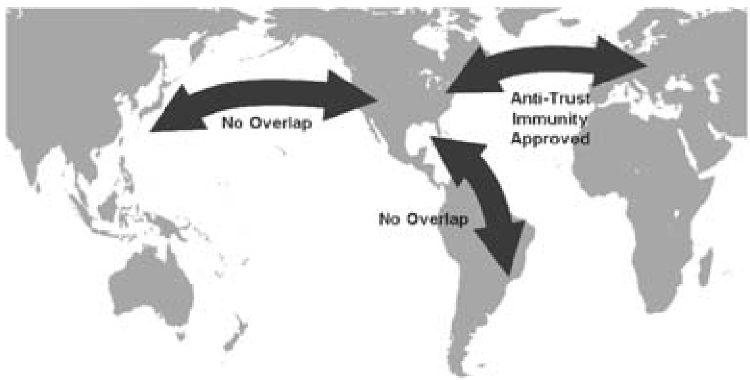
As Table 1 demonstrates, Northwest and Delta currently face significant competition from other non-stop and connecting competitors on most of these routes. In addition, other factors lessen potential antitrust concerns. Both discount carriers and legacy carriers can easily enter routes and provide competing service, and nearby airports provide competitive alternatives. Moreover, relatively few passengers travel on these non-stop routes; overall, passengers will derive benefits from the merger far greater than any potential competitive concerns raised by these few overlaps.

Delta/Northwest Presents No International Competitive Issues.

Finally, in the international markets, there are no significant competitive concerns. In fact, the U.S. Department of Transportation, in tentatively approving the joint application from Air France, Alitalia, Czech, Delta KLM, and Northwest for authority to operate an immunized alliance in transatlantic markets, found no basis to deny the request on competition grounds. In issuing its Show Cause Order on April 9, 2008, the Department stated "that the proposed alliance will not substantially reduce or eliminate competition, provided that transatlantic markets remain governed by a regional open skies agreement that promotes new entry regardless of national borders." The Department further noted, "We see no basis upon which the Joint Applicants could, as a result of this transaction, impose and sustain supra competitive prices or reduce service levels below competitive levels." (U.S. Department of Transportation, Show Cause Order, Docket OST-2007-28644, Apr. 9, 2008, at 13.)

Indeed, on an operating carrier basis, New York-Amsterdam is the only international non-stop overlap, and recently granted antitrust immunity permits Northwest and Delta to coordinate their service on this route even in the absence of a merger. Post-merger, the global aviation marketplace will remain intensely competitive; no global carrier – including Delta/Northwest – will have more than a 7 percent share of available seat miles.

FIGURE 3: NO SIGNIFICANT CONCERNS IN INTERNATIONAL MARKETS



The combination of Delta and Northwest increases competition in all international regions. The combined carrier will have a broader network closer in scope and depth to that which foreign flag carriers already possess, as well as a significant presence in all key international business markets, making it a stronger competitor against the foreign flag airlines.

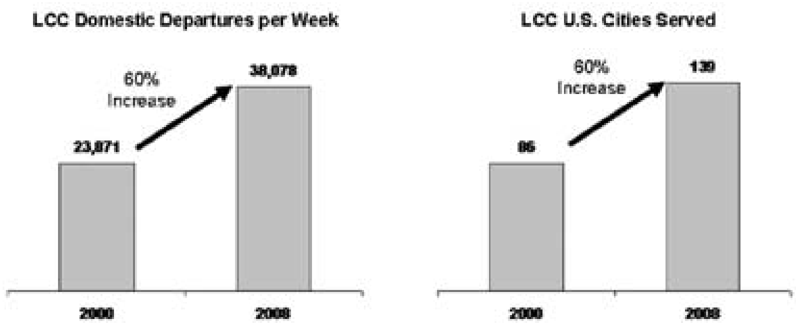
Competition in the Airline Industry Has Been Transformed Since 2000.

Since 2000, low-cost carriers (LCCs) have grown at a rate of more than 10 percent annually. Southwest Airlines, an LCC, now carries the largest number of domestic passengers. At the same time, Internet pricing engines and online travel agencies have created unprecedented price transparency, enabling passengers easily to find the lowest fares for a given itinerary. Compounding this phenomenon, LCC advertising has conditioned passengers to expect ultra-low fares.

Low-Cost Carriers Have Changed the Industry.

In July 2005, the General Accounting Office reported that "[t]he low cost carriers are really the price setters and have transformed the competitive environment in the airline industry." LCCs are strong competitors and have experienced explosive growth. Since 2000, LCC weekly departures and the number of cities served by LCCs have increased by 60 percent. (See Figure 4.)

FIGURE 4: THE RAPID GROWTH OF LCCS



LCCs have grown at an average annual rate of 11 percent since 2000 and in 2007 carried one-third of domestic passengers. The rapid growth of low-cost carriers domestically has created new competition that offsets historical regulatory concerns. Furthermore, LCCs are increasingly targeting business passengers: "Faced with slowing growth and higher costs, discount carriers like Southwest and JetBlue Airways Corp. are making a new push for business travelers, adding flights in heavily traveled business routes and even quietly offering companies special deals." ("Discount Airlines Woo Business Set," *Wall Street Journal*, February 19, 2008.). Led by Southwest, LCCs will continue exerting pricing pressure on legacy carriers.

Over the past several years, the major LCCs have been more financially stable than their legacy peers. Indeed, Southwest is the only domestic airline whose corporate debt is rated as "investment grade" by Standard and Poors, a fact that speaks both to the financial challenges facing the domestic airline industry generally and to the viability of the large LCCs. During the last decade, substantial discount carrier growth has resulted in a more competitive and fragmented industry. Today, LCCs serve all major cities, including all legacy carrier hubs, and are expanding into smaller cities.

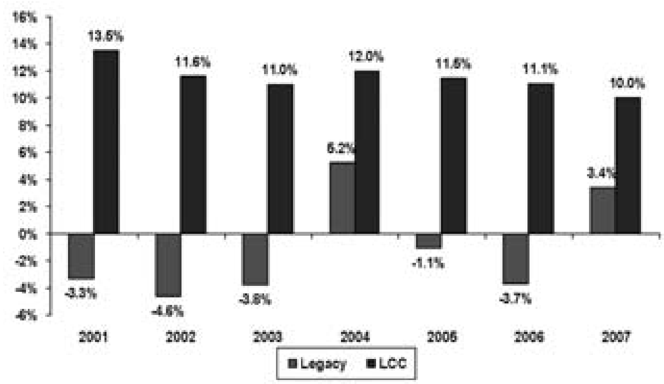
Southwest Airlines has continued to experience dramatic growth over the past several years. Since 2000, Southwest has grown at an average annual rate of 9 percent. Today, Southwest carries more domestic passengers than any other airline. Southwest also has been the most successful domestic airline at hedging against rising fuel prices and will continue to benefit from its 70 percent fuel hedge for 2008, and its 55 percent fuel hedge for 2009.

Southwest and other LCCs also command significant market share as a result of recent competitive successes:

- **Southwest:** continues to have the strongest balance sheet in the industry, with a business model built on growth and expansion; added new non-stop service on 23 routes in 2007; initiated service at San Francisco International and now offers 25 daily non-stop flights to four cities and connecting flights to 49 other destinations.
- **JetBlue:** added new non-stop service on 24 routes in 2007; experienced a 15 percent increase in passengers; and received a $300 million cash infusion from Lufthansa.
- **AirTran:** set record traffic levels in 2007, and enjoyed increased load factors and enplanements; added new non-stop service on 35 routes; ordered 15 new Boeing 737s; has added four new domestic destinations since May 2007.

As Figure 5 shows, LCCs have accomplished this dramatic growth during the same period in which legacy carriers have shrunk.

FIGURE 5: YEAR-OVER-YEAR CHANGE IN DOMESTIC SCHEDULED ASMS



LCCs will continue to provide pricing discipline across the board. Entry in this business is wide open. There are plenty of airport gates available, and airplane manufacturers have always been ready to finance airplane deliveries.

In recent weeks, some smaller LCCs have gone out of business and Frontier Airlines recently filed for Chapter 11 protection. Nonetheless, competition from the large LCCs remains strong. In an April 11, 2008 report, Credit Suisse rated AirTran, JetBlue, and Southwest as "outperform."

Technology Has Created a Transparency Revolution.

Over the past several years, online sites such as Orbitz, Expedia, and Travelocity have been created to enable customers to compare airline offerings directly. (See Figure 6, depicting flight options from Cincinnati to Detroit as listed on Orbitz.com). These tools have provided enormous benefits to consumers and have increased the price-competitiveness of the airline industry. In fact, there are few businesses in which there is as much pricing transparency.

FIGURE 6: ORBITZ.COM SEARCH SCREEN

A consumer can log on to the Internet and, at the push of a button, review choices available across a wide variety of carriers. That same customer easily can sort those choices to find the lowest available fare and view extraordinarily competitive prices for both non-stop and connecting flights. For example, the Orbitz.com screen in Figure 6 displays competing one-stop connections on US Airways, Continental, United Airlines, and American for the Cincinnati-Detroit route.

Over the last several years, online travel sites have developed advanced search functions such as flexible-date airfare searching and route-specific e-mail fare alerts. Furthermore, sites such as Expedia, Orbitz, Travelocity, and numerous others provide their advanced pricing information and functionality to customers free of charge. Even business travelers now seek discount fares and travel sites such as Expedia Corporate Travel and Travelocity Business have evolved to target business customers.

In sum, customers have become far more sophisticated at comparing the offerings of competing carriers, and airline consumers have more tools at their disposal than do consumers in the vast majority of industries in the United States. As the *Economist* stated in June 2007, "[t]he web has made it possible for passengers to be their own travel agents by comparing fares and schedules and booking flights – and at prices much lower than a decade ago." ("Fear of Flying," *Economist*, June 14, 2007.) As online technology continues to evolve, airfare transparency will continue to be enhanced.

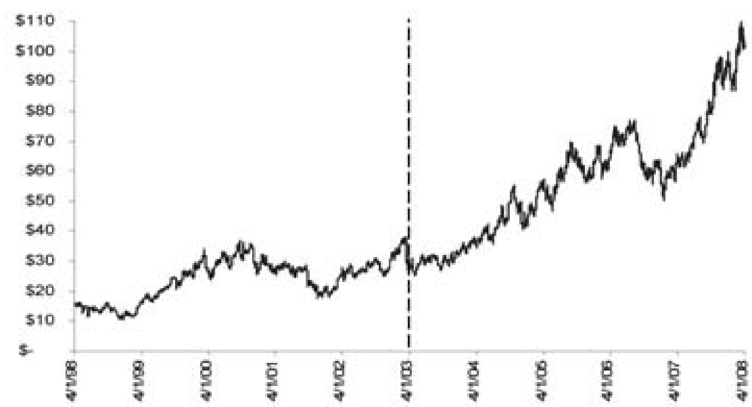
II. MARKET CONDITIONS REQUIRE CHANGE IN THE AIRLINE INDUSTRY

Significant economic pressures from record fuel prices and intense competition, particularly from discount carriers and foreign airlines based in Europe, the Middle East, and Asia, have fundamentally changed the airline industry. This new environment has resulted in diminished profits, restructurings, more than 150,000 lost jobs, and financial losses of over $29 billion among U.S. network carriers since 2001.

Oil Prices Have Increased Dramatically And Continue to Rise.

Record fuel prices have fundamentally changed our economics, forcing airlines to cut routes and reduce capacity and jobs. Over the last five years, the price of oil has increased at an annualized rate of 28 percent, now exceeding $115/barrel. (See Figure 7.) And the price of crude oil has risen by nearly 75 percent over the past 12 months alone. In addition, the crack spread for jet fuel has risen to $29.06 in April 2008 — the highest level ever, even compared to the post-Katrina crack spread spike.

FIGURE 7: DAILY OIL PRICES ($ PER BARREL)



Through the restructuring efforts of the past few years, Delta and Northwest have achieved the lowest mainline non-fuel cost of the full-service network carriers. Restructuring required substantial sacrifices by our employees in terms of lost positions, reduced pay, and reduced benefits. Our employees have made those sacrifices to give Northwest a chance to survive and grow.

Yet, given the rapid fuel increases over the past few years, we remain financially challenged. During the first quarter of 2008 alone, we spent $445 million more on fuel to operate virtually the same planes flying the same routes. We anticipate having to spend over $1.4 billion more for fuel this fiscal year than we did during the previous fiscal year due to price effects alone. And while it may seem that airlines are continuously raising fares to share these increased costs with consumers, the reality is that, thus far, consumers have covered significantly less than our incremental fuel cost increases. Today, fuel is the single highest expense of Delta and Northwest, significantly eroding the benefits of restructuring. Northwest recently reported a net first quarter 2008 loss of $191 million (excluding impairment charges and losses related to marking-to-market fuel contracts that settle in future periods) compared to a $73 million profit for the quarter last year. This difference represents a swing of $264 million from a year ago.

Because Delta and Northwest have already gone through bankruptcy and dramatically lowered costs, both carriers face fewer opportunities for further cost-cutting on a stand-alone basis. For example, we have assured our employees that we will not ask them for any additional pay cuts. The significant synergies of this transaction enable Delta and Northwest to offset more effectively the dramatic increase in fuel costs in a way we could not achieve individually. In short, the combination of Delta and Northwest creates a company with a more resilient business model that can withstand volatile fuel prices more effectively than either could on a stand-alone basis.

Open Skies and Consolidation in the Global Market Have Substantially Strengthened the Competitive Position of Foreign Flag Carriers.

Competition is growing from foreign airlines based in Europe, the Middle East, and Asia as Open Skies agreements and mergers are making foreign airlines stronger competitors. The Open Skies agreement between the United States and the European Union, effective last month, has expanded aviation markets around the world. Now any European or U.S. airline can fly between any city in the European Union and any city in the United States, giving European carriers greater access to U.S. markets. Open Skies increases competition between European carriers and highly fragmented U.S. legacy carriers. Foreign flag carriers have been able to invest in new aircraft and improved service offerings and amenities because they have not been confronted with the same economic challenges facing U.S. carriers and because they pay their fuel bills with stronger currencies.

Delta/Northwest creates a global carrier with a first-rate international network, positioning the new carrier to compete effectively against foreign airlines. This international expansion could not be undertaken organically. Northwest could not establish a European and Latin American presence to rival Delta's without substantial fleet expenditures and the renegotiation of restrictive bilateral agreements in Latin America. A Delta/Northwest merger permits Northwest customers to access Delta's extensive European and Latin American networks in a cost-efficient way.

Similarly, Delta could not unilaterally recreate Northwest's significant Asian presence because of restrictive bilateral agreements, slot constraints, and the need for substantial fleet expansions. Northwest and United, alone among U.S. carriers, possess grandfathered rights under the 1952 U.S.-Japan bilateral that afford extensive access to Japanese markets and the ability to connect passengers through Japan to other markets in Asia. A Delta/Northwest merger will allow Delta's customers to benefit from greater access to Northwest's three Japanese markets and eleven other Asia/Pacific markets.

Combining the complementary international networks of Delta and Northwest creates the comprehensive global network that customers value. By consolidating, Delta and Northwest will be able to compete more vigorously and effectively with foreign competition.

III. DELTA/NORTHWEST: A WIN FOR AMERICAN CUSTOMERS

Combining Delta and Northwest will offer customers greater choice, more competitive fares, and a superior travel experience. The combined airline will provide convenient connections between more destinations in the United States and around the world than any other airline. As a stronger, more financially stable company, the combined airline will be more able to reinvest in upgrading its fleet and enhancing the services that make flying more convenient and enjoyable for customers.

The Combined Carrier Will Offer More Choices Worldwide Than Ever Before.

The combined carrier will offer a true global network. The new carrier will offer service to over 390 worldwide destinations in 67 countries, including more than 140 small communities across America. Customers also will have access to 840 destinations in 162 countries through the SkyTeam Alliance.

Combining the networks of Delta and Northwest also paves the way for new route offerings. For example, Northwest Airlines is the preeminent U.S. airline serving routes between the United States and Asia, particularly Japan. However, our Asian network would be better utilized if it were connected to a domestic network of larger scale. For example, several years ago, Northwest discontinued service from Tokyo to New York because we did not have enough of a presence in New York to sustain that route. Delta, in contrast, has a strong presence in New York. The combined passenger volume of the two carriers will support re-entering the non-stop JFK-Tokyo route.

Delta/Northwest Will Create the World's Largest Frequent Flyer Program.

The merger will create the world's largest frequent flyer program. Because customers will be able to fly to more destinations and enjoy enhanced schedule options, they will have more opportunities to earn and redeem frequent flyer miles. Members of the existing frequent flyer programs of both Delta and Northwest will keep their current mileage and customer status post-merger.

Delta and Northwest Are Uniquely Positioned for a Smooth Integration Process.

Delta's and Northwest's complementary networks and common membership in the SkyTeam alliance will minimize the integration risk that has complicated some airline mergers. The carriers' frequent flyer programs, customer lounges, airline partner networks, and IT platforms already have been partially integrated through the SkyTeam alliance in which both Delta and Northwest participate. Thus, the carriers' previous investments in integration will allow for a more efficient and seamless integration process.

Heightened cooperation scheduled to occur in the transatlantic will further enhance the integration process. Last week, the Department of Transportation preliminarily granted antitrust immunity for a four-way joint venture among Northwest, Delta, Air France, and KLM. The combination of Delta and Northwest will facilitate an accelerated implementation of this joint venture, creating significant benefits for consumers.

IV. DELTA/NORTHWEST WILL CONTINUE TO DELIVER EXCEPTIONAL SERVICE TO AMERICAN COMMUNITIES

Because Delta and Northwest bring together complementary route networks with only minimal service overlaps, the combined company will preserve all of its hubs and serve more domestic and international destinations than any other airline. The new carrier will continue Delta's and Northwest's proud traditions of providing extensive service to small and rural destinations across the country. By combining, we will build on this decades-long history by providing small communities with service to hubs from which they will be able to directly connect to an even wider array of destinations on a single airline.

In the first half of 2008 alone, record fuel prices have forced the industry to reduce by more than 1.6 million the number of seats available to passengers. By the end of the year, Delta will have cut capacity by 10 percent, and Northwest by 5 percent. The merger, by producing a stronger competitor, will make service cutbacks less likely than if Delta and Northwest were to remain separate.

The Combined Carrier Will Make Service to Smaller Communities More Secure.

We take our commitment to serve customers in small communities very seriously. Together, Delta and Northwest will serve over 140 small communities, nearly double the amount of our next largest competitor.

By aligning our network strengths, we can enhance service from small communities to new international destinations. Indeed, 48 Northwest small communities will gain better access to 83 Delta international destinations. Post-merger, over 390 global destinations will be available on a single airline to each small community we serve, up from 250 on Northwest alone and 327 on Delta alone. Businesses in the upper Midwest will gain access to South America and expanded access to Europe, while businesses in the Southeast will gain better connectivity to Asian markets. Potential new economic development, trade, and tourism benefits from enhanced global access to and from cities and towns across the United States will arise due to the merged company's unprecedented international network.

Furthermore, the cost savings achieved by the merger will enable the new carrier to continue serving routes that the stand-alone carriers would have had to cut. Thus, the merger creates a more stable and secure platform for service in an airline environment plagued by volatility. By combining, Delta and Northwest will make existing service to small communities more secure.

All Hubs Will Be Maintained

The Delta/Northwest network formed by our seven geographically balanced U.S. hubs is the combined carrier's greatest asset. We have no intention of dismantling any hubs, and have committed to maintaining Atlanta, Cincinnati, Detroit, Memphis, Minneapolis/St. Paul, New York-JFK, and Salt Lake City. These hubs do not exist because they were selected at random by an airline planner throwing darts at a map. They exist because there was a strong local market that justified the development of hub service, and an air carrier with the resources to develop it.

Delta and Northwest made different – but sound – business decisions in developing hubs in the cities where they exist today. Furthermore, each hub has unique service points, which add value to the hub and to the network. (See Figure 8).

FIGURE 8: UNIQUE REGIONAL SERVICE POINTS

The merger provides the opportunity for Delta and Northwest to make better use of their hub infrastructure investments by generating additional traffic flows throughout the broader combined network. Because this is an end-to-end merger and because sound economics underlie our hub operations today, there is no need for hub closures.

Detroit (DTW)

Detroit is Northwest's largest hub and will continue to serve as Delta's premier hub in the Great Lakes region with connections across the globe. The state-of-the-art McNamara terminal, combined with vast airside capacity, provides an efficient connecting complex that has won high acclaim with consumers. Detroit's northern tier geography (which is shared by Minneapolis) places it along the optimal great circle path for service from many U.S. cities to points in both Asia and Europe.

Even though Detroit is a large hub with extensive service throughout the heartland region, Detroit has relatively few flights to the Southeastern United States, where Delta provides comprehensive network coverage, and Detroit has no service to South America, where Delta is a major player. Customers in Detroit, and especially the unique cities served in Detroit's large Midwest catchment area, will benefit from access to the Delta network. In terms of domestic ASM's, Northwest devotes 49 percent of its capacity to the North Central region, and just 17 percent to the Southeast. Conversely, Delta offers only 10 percent of its capacity in the North Central region, and 39 percent in the Southeast. Combined, the respective hubs of Delta and Northwest form a better balanced nation-wide network.

Minneapolis/St. Paul (MSP)

The added traffic from Delta's larger U.S. domestic network will help to strengthen and promote the development of Northwest's Minneapolis/St. Paul hub, including its international services. Northwest recently added non-stop service from MSP to London Heathrow and Paris. Delta is a major player in Europe, and the deepening partnership with our common SkyTeam partners Air France and KLM will contribute to the long-term success and development of non-stop international services from MSP. We are committed to retaining significant airline jobs, operations, and facilities in the Twin Cities, and the combined carrier will continue to be an important part of the Minneapolis/St. Paul community.

Memphis (MEM)

Memphis will continue to play an important role for the combined carrier. Memphis is a smaller but efficient and well-performing hub. The demand for air travel to and from Memphis – which has sustained a major airline hub for more than three decades – is not going to disappear simply because there is a neighboring Delta hub 330 miles to the East at Atlanta (ATL). Northwest's Memphis hub has existed alongside Delta's Atlanta hub since its inception, and the merger is not cause for its elimination. By coordinating and optimizing schedules across the complementary multi-hub network, the new carrier can improve operating results and offer greater frequency and better routing choices for its customers. Memphis provides an important opportunity for future growth when economic circumstances permit. Even with its fifth runway, Atlanta is operating at capacity. Memphis is a flexible and less congested alternative hub.

CONCLUSION

Northwest Airlines has carefully considered the effect of this transaction on our shareholders, our employees, our customers, and the communities we serve. We have concluded that the merger is a win for each of these stakeholders in our company. This merger is about paying employees fair wages, reinvesting in new products and services for customers, earning a return for shareholders who have committed their capital, and being a good corporate citizen. An unprofitable airline cannot do any of these things.

The combination of Delta and Northwest will offer customers greater choice, competitive fares, and a superior travel experience. It will maintain all of Delta's and Northwest's hubs and serve more domestic and international destinations than any other airline, including service to more than 140 small communities in the United States.

At this time, I would be pleased to answer any questions you may have.

Mr. CONYERS. Thank you so much for starting us off.

We now turn to the chief executive officer of Delta Air Lines, Mr. Richard Anderson.

TESTIMONY OF RICHARD ANDERSON, CHIEF EXECUTIVE OFFICER, DELTA AIR LINES

Mr. ANDERSON. Thank you, Mr. Chairman, Ranking Member Chabot.

It is a privilege to be here today. There are several thousand Delta employees from all the rank and file of our company, pilots, flight attendants, airport personnel, and it is a privilege to be here on their behalf.

It is also a privilege to be introduced by Congressman Lewis.

You know, this really creates the first real U.S. global airline. The world is changing rapidly. We know that commerce is now conducted all around the world by all of the companies and organizations that you represent.

And we need to be in a position to compete against strong foreign-flag carriers. We need a global network and a stronger financial footing, because it is in the best interest of everyone here and the traveling public in America to have a strong airline industry in the United States.

Open-skies agreements around the world have resulted in foreign-flag carriers being allowed to consolidate in the European Union and other places around the world. Today, foreign-flag carriers carry more passengers to and from the United States between Europe and the U.S., and Asia and the U.S. than U.S.-flag carriers combined.

U.S. airlines have only 5 percent of the worldwide orders for wide-body international airplanes. We aren't coming here to ask you for financial support. We just want the ability to do what is in the best interest of our companies, our employees, our shareholders, and the communities we serve.

This past week, oil hit $120 a barrel. Refining costs have doubled to $30 a barrel. Basically, we have had oil double in price in about a 12-month period.

These oil prices have driven five carriers into bankruptcy since the 1st of the year, four of which have liquidated. This merger distinguishes Delta and Northwest and it gives us the ability to compete and win versus foreign-flag carriers. And that means our employees, our communities, our shareholders will have a durable, lasting airline.

When you think about the history of these two great airlines, they are both the result of consolidation in this industry. Doug Steenland relayed to you the history of consolidation at Northwest. Delta is the amalgamation of Western Airlines, Chicago and Southern Air Lines, Northeastern Airlines, and the Pan-Am international route authorities.

This combination really puts together two very complementary airlines, airlines that overlap very little. And when you think about where Delta is strong, Delta is strong in the southeastern United States, Central and South America, Europe, Africa, the Middle East and India. Northwest is strong in the upper Midwest, the Midwest, Asia, Japan, and the large cities south and west of Tokyo.

The European Union open skies and the continuation of the open-skies policies require us to combine our networks in order to compete in an increasingly competitive global environment.

The merger provides stability for employees. We have had them in our minds since the beginning of this transaction. We value very much our employees. The transaction provides ownership in the new company to the employees of both airlines. We have set aside a significant part of the stock in this transaction to be given to the employees upon closing.

We are committed to no front-line layoffs, and that is possible because this is not an overlapping merger. It is an end-to-end merger.

We are committed to fair and equitable seniority integration. We are committed to protecting people's pensions. And most importantly, we want to give our employees the opportunity to continue a pay progression toward industry standard.

Small communities and large communities benefit because there are no hub closures. We will serve together more small cities in the United States with 140 small cities in the U.S. receiving service. We will create new service to 3,000 new markets domestically and 6,000 new markets internationally.

Oil is a game-changer. This merger makes us stronger, stronger at a time when oil prices continue to increase, and the benefits, in excess of $1 billion, that are created by this transaction, and the strong balance sheets, the best costs, the best strategy, the best employees give us the opportunity to distinguish these two carriers from the last 7 years, 7 years that have produced $30 billion in collective industry losses and the loss of over 150,000 good-paying airline jobs.

Customers will receive significant expansion, better frequent flyer programs, and, most importantly, this airline will have the capital and the cost structure and the ability to make investments for customers.

It is good in the end for employees, our customers, and our communities. And we appreciate the opportunity here today to answer your questions.

[The prepared statement of Mr. Anderson follows:]

Prepared Statement of Richard H. Anderson

INTRODUCTION

Mr. Chairman and members of the Task Force, I want to thank you for providing me with the opportunity to address the Task Force about a topic that is critical to the future of every employee of Delta Air Lines, Inc. and Northwest Airlines. Last week we announced the merger of Delta and Northwest; a transaction that will create America's premiere global airline. This transaction comes at a unique and important time in the history of the airline industry and our two companies. The world is changing rapidly; business is conducted across all parts of the globe and people all around the world have unprecedented freedom and opportunity to travel abroad. The question facing the domestic airline industry is whether we will have companies with the global network and financial stability to compete in this new world against foreign carriers. Make no mistake about it; we face formidable competitors from overseas. Today foreign flag carriers carry more passengers to and from the U.S. and Europe and Asia than U.S. flag carriers. They are frequently funded by their government and benefit from regulatory policies that promote consolidation into a handful of strong competitors. The Open Skies agreements that have gone into effect recently offer domestic carriers excellent opportunities and daunting challenges as transatlantic competition will increase dramatically. The current order book for wide body Boeing and Airbus aircraft shows that U.S. carriers make up only about

5% of the buyers. We do not come here today looking for financial support, but we are looking for an opportunity to build a more financially stable U.S. airline with the global presence to compete with foreign carriers.

Our ability to remain strong financially and to compete internationally is severely impacted by the unprecedented rise in the price of oil. Continued prices of $110–$115 per barrel of oil will result in bankruptcy for some carriers and rob even the most financially sound carriers of profitability. In the last few weeks alone we have seen five carriers go into bankruptcy directly as a result of fuel prices, with four of them shutting down completely. Airlines are reporting first quarter results and the industry will likely report a loss for the quarter compared to profits for the first quarter of 2007, with the swing almost exclusively the result of increased fuel costs. We have seen the impact of bankruptcies on airline employees and customers. Since 2001, U.S. network carriers have shed more than 150,000 jobs and lost more than $29 billion. The management of Delta and Northwest believe that this merger will create a financially stronger airline, with a broad and diversified global route network that will help it weather the impact of fuel prices and the volatility of the domestic and world economies.

THE DELTA-NORTHWEST COMBINATION WILL BE A STRONG, U.S. BASED GLOBAL COMPETITOR

The combination of Delta and Northwest will create a stronger company with route systems that complement each other and will provide an opportunity to offer travelers a global network that neither airline independently could offer. Northwest for decades has been America's premiere carrier to Asia; in fact it is the only U.S. carrier with a hub in Japan that provides a convenient point to connect to the most important destinations in Asia. As a result of restrictions in bi-lateral agreements between the U.S. and Japan, there is little chance that Delta would ever be able to offer comparable service. Conversely, Delta has invested substantially in building the leading service to Europe, the Middle East and Africa from the U.S., as well as a strong presence in Latin America. It is virtually impossible for Northwest to devote the capital necessary to acquire the planes to build such a franchise. As I indicated, the recent Open Skies agreements will permit any U.S. or European Union carrier to fly between the U.S. and the 27 EU member states. Already, British Airways, Virgin Atlantic and Ryanair have indicated that they will add or start new service between the U.S. and Europe, and Lufthansa is a growing presence in the U.S. The combined Delta/Northwest will generate approximately $ 1 billion a year in synergies and will have about $ 7 billion of liquidity together with the global route network that will allow us to compete in this new environment.

THE MERGER HAS BEEN STRUCTURED TO PROVIDE STABILITY AND BENEFITS FOR EMPLOYEES

Delta has a uniquely cooperative relationship with its employees, and in planning this merger the impact on employees was uppermost in our minds. I have worked at many companies, in many different jobs, in both the public and private sectors and I have never seen an employer that respects and cares about its employees more than Delta Air Lines. Delta historically has had a culture that always tries to do what is best for its people. That is particularly important in view of the immense challenges that Delta and the rest of the airline industry have faced in recent years. Given these challenges, I believe it is even more important that we work collaboratively with all of our people so that we can fight and overcome them together. As we are beginning to see, companies and employees that fail to work together are at greater risk of failure. We believe that it is important that any transaction we undertake will benefit the people of both companies, together with our customers and other stakeholders. We believe that if we take care of our people, they will take care of our customers, and we will all benefit.

Here are just some examples of how this merger will benefit our people:

a. We will set aside sufficient equity so that all employees can have an unprecedented equity stake in the merged company.

b. We will move all employees, over time, up to industry standard pay and benefits.

c. We will honor our commitment to all U.S.-based, frontline employees to provide a process for the integration of seniority in a fair and equitable manner.

d. We will maintain the existing pension plans of both companies, both for current employees and for those already retired.

e. We will maintain our top tier profit-sharing plan and operational rewards program.

f. We have assured our frontline people that there will not be any involuntary furloughs as a consequence of the merger.
g. And particularly important in view of the impact on our industry of record fuel prices and economic uncertainty, we will strengthen our airline financially and provide opportunities for our people to benefit from our planned growth and future success.

With respect to whether there will be union representation in the various crafts or classes of employees after the merger of Delta and Northwest, we have pledged to respect our employees' preferences on that issue. The Railway Labor Act, as administered by the National Mediation Board, provides a time-tested process for determining employee choices regarding representation following an airline merger. We of course will respect that process and those choices. In the meantime, we have provided a written commitment to honor the existing Northwest collective bargaining agreements consistent with applicable law, until any post-merger representation issues are resolved.

Regarding seniority protection for the frontline employees of Delta and Northwest, Delta took the initiative last year when our Board of Directors adopted a policy to provide a process for fair and equitable seniority integration for employees of both companies in any merger. We pledged to use the seniority integration provisions from the former Civil Aeronautics Board's ruling in the Allegheny-Mohawk merger. Delta and many other carriers have used the Allegheny-Mohawk provisions in prior mergers, and they are also provided for in many collective bargaining agreements in the industry. Last December Congress passed legislation that required the use of the Allegheny-Mohawk seniority integration provisions in airline mergers. Delta successfully fought to assure that the law as passed protected all employees, whether union or non-union. We carried these principles through our negotiations with Northwest and have provisions in our merger agreement that provide for seniority protection.

SMALL COMMUNITIES WILL BENEFIT FROM THE MERGER

I would like to address another issue that I know is very important to this Committee and our customers: service to small communities.

Both Delta and Northwest are very proud of their long history of serving small communities. Northwest has often been the only way for people in small towns in the upper mid-west to connect with the rest of the country and the world. Similarly, Delta was founded in a small southern city and for years its focus was serving small southern communities. We know and understand the importance of air service to the economic health of these communities. The phenomenal growth of Atlanta and the southeast in general is directly related to the superior service offered from Hartsfield Jackson Airport in Atlanta, largely by Delta. We intend to continue with these traditions and to remain the airline providing the most service to small communities from strategically located hubs in Atlanta, Minneapolis, Detroit, New York, Memphis, Cincinnati and Salt Lake City. This is not just customer service, it is good business–we have committed publicly that we will not close any hub as a result of this merger and to keep these hubs profitable we need the traffic from small communities around the country. A robust hub system is critical to the service desired by small communities. It is the most effective model to serve these communities as it allows us to use smaller aircraft to bring passengers from many small communities to the hub and offer broad connecting opportunities for these passengers. The combined Delta/Northwest will serve over 140 small communities, nearly twice the number served by our next closest competitor. The merged airline will offer new service to nearly 3,000 domestic origin and destination markets and over 6,000 new international markets, greatly expanding the ability of customers from small communities to reach every part of the country and the world on one airline.

As the economies of the world become linked more closely, we recognize the importance of air travel to the ability of small communities to compete and thrive in a world economy. This merger will open up a new range of options for our customers in small communities to put them in closer contact with the rest of the world. For example, the combined Delta/Northwest will provide customers in 48 small communities served by Northwest better access to 83 additional international destinations served by Delta today, while passengers in 51 small communities served by Delta will gain greater access to 20 Northwest international destinations. The combined airline will offer passengers over 390 global destinations on a single airline up from 250 on Northwest alone and 327 on Delta alone. Customers in small towns in the south will be able to fly to Japan and much of Asia with one easy connection on the same airline. That is not the case today. Similarly, customers in the upper midwest will have many more options to more destinations in Europe and Latin American than they do today. Since Delta and Northwest have focused their attention on different regions, there are few overlap routes and customers will gain the benefits of a larger combined network without any material reduction in services. However, providing service to any city, whether small or large, must make economic sense and the high cost of fuel for either Delta or Northwest is far more likely to result in a reduction or elimination of service than this merger.

THE UNPRECEDENTED RISE IN THE PRICE OF FUEL HAS CREATED SERIOUS RISKS FOR THE AIRLINE INDUSTRY

No discussion about the current state of the airline industry would be complete without mentioning the devastating impact of the unprecedented rise in the price of oil. Every day we read that the price of a barrel of oil has hit new records. Over the last five years we have experienced a 28% annualized increase in oil prices and in the last 12 months alone, the price of a barrel has nearly doubled. Most analysts do not foresee the price of a barrel of oil going below $100 any time in the near future. What is less widely publicized is the equally dramatic rise in the cost of jet fuel extracted from oil. Since 2001, the cost of a gallon of jet fuel has increased over 500% and nearly doubled since December of 2006.

The airline industry is somewhat unique. When the price of oil rises and you go to fill your car up with gasoline, you pay more at the pump; there is little choice. In the airline industry, we are lucky if we can recover through fare increases even 50% of fuel price increases. The costs have to be made up somewhere else. Despite becoming more and more fuel efficient and obtaining more and more productivity from our employees and operations—Delta and Northwest have two of the lowest cost structures of the mainline carriers—the impact is dramatic. In 2003 fuel costs consumed 17 cents of every dollar of passenger revenue we received; in 2008 that number will be 43 cents. Every $1 increase in the price of a barrel of oil costs Delta about $60 million. The increase from $110 to $115 per barrel in the last couple of weeks alone will cost Delta over $300 million. As a result, there are fewer dollars left to improve passenger amenities, acquire new aircraft and provide better compensation and benefits to employees.

The employees in this industry have sacrificed time and time again. The dramatic rise in fuel costs has resulted in much of the cost savings our employees have generated through productivity and benefit losses being used to pay for fuel rather than to improve the product. In effect, it has eroded most of the sacrifices they have made to make their company viable and sustainable in the future. Merging Delta and Northwest will create a much more financially stable company with approximately $7 billion in liquidity and $1 billion in annual synergies. The combined airline will be able to withstand an 80% greater increase in fuel price than either airline standing alone, and still maintain profitability. This financial strength and flexibility, much greater than either airline standing alone, will provide additional resources to help weather this unprecedented fuel cost environment and a softening domestic market.

THIS MERGER WILL BE BENEFICIAL TO CUSTOMERS

I have already touched on some of the key benefits our customers can expect such as significantly expanding the number of domestic and foreign locations that will be available from the merged airline. There will be other benefits such as a common frequent flyer program that will provide more opportunity to earn miles, more schedule options, and more efficient routes for connecting passengers as we optimize the combined hub structure. Of equal importance, the financial stability and flexibility the combined carrier will have will allow for re-investment in our product such as planes, in-flight services and reservation systems. For example, we have publicly declared our intention to exercise options to purchase up to 20 new wide body jets between 2010 and 2013 to upgrade our fleet for international flying.

We are mindful of the difficulties in combining the complex operations of two airlines and that other airline mergers have encountered problems that have inconvenienced customers. Delta and Northwest are committed to making this merger seamless and trouble free to our passengers. Both Delta and Northwest are members of the SkyTeam alliance and are used to working cooperatively. Our frequent flyer programs, customer lounges and IT systems have been partially integrated already. In addition, we will be able to build on the decades long partnership between Northwest and KLM (now a part of Air France) and the long standing relationship between Delta and Air France. All of these factors will help smooth the integration process for our customers.

THE MERGER DOES NOT HARM COMPETITION

Doug Steenland's written submission will deal extensively with the pro-competitive impact of this proposed merger and I will not repeat all of those points. I will simply say that these two airlines have complementary networks; Delta's domestic focus is in the east and mountain west while Northwest focuses on the upper midwest. There are only twelve domestic nonstop overlapping markets. Even these nonstop overlaps do not cause competitive problems, as Doug's statement indicates. Similarly, on connecting route overlaps, potential competitive effects are mitigated by the presence of low cost carriers, the relatively small market shares of Delta and Northwest, alternative airports and the likelihood that legacy carriers will expand into these markets. In addition, the transaction will generate significant efficiencies through such factors as more efficient matching of aircraft to routes that will enable the combined carrier to be financially stable and to offer a better product to customers, such as a broad global network and enhanced airport presence.

CONCLUSION

In closing, I would like to acknowledge the support we have received from Delta people throughout the company. It has been a little more than a week since we announced the merger. We have been traveling our system from Atlanta to Cincinnati to New York to Salt Lake City and I am happy to say that Delta people are very excited about what this means to them. I believe that Doug will report the same about Northwest's employees.

Last week we had a meeting in Atlanta attended by almost 2000 employees. Some of our people have traveled here today to show their support. Our people appreciate the fact that we are taking proactive steps to provide a more secure, financially stronger company in these times of increased foreign competition, record-setting fuel prices and a weakening economy. They don't want us standing still. We look forward to welcoming Northwest employees to join with their Delta counterparts to create and enjoy the benefits of being part of America's premier global airline.

Mr. ANDERSON. Mr. Chairman, if I may have introduced into the record written testimony in support of the merger from the Detroit Chamber of Commerce, the Memphis Chamber of Commerce, the Minneapolis-St. Paul Chamber of Commerce, and the Airline Pilots Association of Delta Air Lines.

Mr. CONYERS. We are happy to receive it into the record.

[The information referred to follows:]

DetroitRegionalChamber
Powering the economy
for Southeast Michigan

Testimony to
U.S. House of Representatives
Judiciary Committee
Regarding
Competitiveness of the U.S. Airline Industry
By
The Detroit Regional Chamber
April 24, 2008

Chairman Conyers, Congressman Smith, members of the Committee, thank you for the opportunity to appear before you today.

With 23,000 members, the Detroit Regional Chamber is the largest local chamber of commerce in the country. Our mission is carried out by attracting new business to our community, through public policy advocacy, strategic partnerships and by providing quality products and services for our members.

Northwest Airlines has been – and remains – a very positive force for economic development in the Detroit area. The presence of a Northwest hub since 1986 and their leadership in constructing the world-class Ed McNamara terminal at the Detroit Metropolitan Airport is a testament to their commitment to our region. Northwest Airlines is a respected and admired member of the Detroit regional business community.

The Chamber believes the Delta and Northwest merger will enhance the Detroit Region's ability to compete for new business development, for tourism and as both a destination and waypoint for travelers. The prospects for this merger are very complementary to the logistics hub and aerotropolis initiatives being aggressively pursued by our business community. These plans envision leveraging the region's air, land and sea resources to establish a major transportation center for moving people and goods around the globe. Being a strong hub for a true global carrier will better help the region realize this goal.

Detroit Metropolitan Airport is one of our region's strongest economic development assets. We believe the Northwest-Delta merger will position us to serve as the centerpiece of Delta's Midwest network and – through that expanded network – improve our access to destinations throughout the globe. The combined airline will reach more cities than any other airline and will be better positioned to compete for travelers on a global basis. Those travelers, in turn, will enjoy a greater exposure to the business and leisure benefits our region can offer.

Delta and Northwest currently generate more than $11.5 billion in combined annual economic benefit and employ approximately 9,150 people in Michigan. Since this is a merger of addition (not subtraction) it is our belief that the economic impact on our region will grow.

Current non-stop service to Japan, Gatwick airport in London and planned direct service to Heathrow airport in London and Shanghai, China provide needed service for our region's automotive industry.

Northwest's new nonstop service to Shanghai will benefit key Midwest manufacturing interests with growing trade and growing ties to China. Michigan and Northern Ohio are home to 25 Fortune 500 companies and there are 23 Chinese firms doing business in Metro Detroit. The U.S. auto industry is in the process of reinventing itself to become more competitive and more efficient in the global marketplace, and Detroit auto manufactures have been investing in China. This burgeoning trade relationship creates substantial China passenger and cargo demand in Detroit and throughout the Midwest Heartland.

The Wayne County Airport Authority estimates the benefit of new Shanghai service to the Michigan economy to exceed $160 million, and nonstop Beijing service to produce an additional $105 million in benefits, for a combined total of $265 million.

We are pleased that the combined airline is committed to maintaining Detroit as a hub airport and we believe that its larger network will make additional international routes possible. We look forward to an expansion of direct service to destinations in great demand by our business community as a result of the merger. We expect the combination to eventually open up opportunities for direct connections from Detroit to Latin America and South America – areas of great interest to businesses throughout our region.

The merger combines Delta's strengths in the South, Mountain West, Northeast, Europe and Latin America with Northwest's leading positions in the Midwest, Canada and Asia. At the same time, we agree with the observation that competition will be preserved and enhanced. Detroit Metro Airport is currently served by 17 domestic and international airlines, including five discount carriers; that situation will not change appreciably as a result of this merger. In addition, Northwest and Delta currently operate complementary networks with relatively little overlap.

Building on both airlines' long history of serving small communities, the new Delta will improve worldwide connections to small towns and cities across the U.S., enhancing their access to the global marketplace. Following the merger, Delta will serve more than 140 small communities in the United States - more than any other airline. In Michigan, the airline will serve Detroit, Lansing, Kalamazoo, Flint, Grand Rapids, Muskegon, Saginaw, Traverse City, Alpena, Pellston, Sault Ste. Marie, Marquette, Escanaba, Iron Mountain, and Hancock. Many of our smaller cities in Michigan are dependent on the continued strength and growth of Northwest Airlines; we believe the merger is good for these communities and for all of Michigan.

The merger will strengthen the combined airline and our community by giving it a greater ability to withstand the crushing effect of high oil prices. As oil continues to set new all-time highs practically on a daily basis, American companies must find creative management strategies to remain competitive internationally. The merger will make the cost of fuel a smaller percentage of the over-all cost structure of the firm and will allow them to participate in greater long-term price hedging strategies.

Again, thank you for this opportunity to comment on the proposed merger of Delta and Northwest Airlines. We fully support the merger and would hope that the members of the Committee will join us in that position.

If you have any questions, please do not hesitate to contact Sarah Hubbard, Vice President, Government Relations at shubbard@detroitchamber.com or 517.372.2278.

TESTIMONY OF THE MEMPHIS REGIONAL CHAMBER AND THE MEMPHIS/SHELBY COUNTY AIRPORT AUTHORITY BEFORE THE HOUSE JUDICIARY COMMITTEE -- DELTA / NORTHWEST AIRLINES MERGER

Introduction

The Memphis Regional Chamber and the Memphis/Shelby County Airport Authority firmly believe that approval of the proposed merger of Northwest and Delta is the best way to secure and promote Memphis's status as a major airline passenger hub. The combination of the two carriers will create America's premier global airline. The new airline will have the financial strength and a better network to serve the Memphis community, provide greater job security and growth, make the aviation industry more stable, and benefit the U.S. economy overall.

It is no coincidence that two major airlines have established hubs in Memphis. Northwest and its Airlink carriers operate more than 230 daily passenger flights, and FedEx has developed Memphis into the world's busiest air cargo hub. Memphis is ideally located in the south central United States -- near the center of the U.S. population base. Moreover, Memphis has a strong regional economy and skilled workforce, which contributes to the success of our two airline hub operations.

Northwest is our hometown passenger carrier, and has served the Memphis community well for over two decades. It is important to remember, however, that Memphis became a Northwest hub by virtue of Northwest's merger with Republic Airlines in 1986. And, before that, Republic was created when Southern and North Central merged in 1979. Simply put, mergers, acquisitions (and airline failures) have been a prominent feature of the airline industry since deregulation. Yet, Memphis has endured as a hub. Based on the "business case" of MEM as a proven and successful hub -- as well as the specific assurances we have received from Delta and Northwest that there will be no hub closures -- we fully expect Memphis to continue to play an important role to the combined carrier after the merger.

With mounting pressures from low cost carriers, as well as sky-high oil prices, many believe that consolidation among the major legacy carriers is inevitable. From Memphis's perspective, the end-to-end combination of Northwest and Delta creates the greatest opportunity for stability and growth, with the least amount of overlap. The merger will allow for more efficient use of the companies' combined strategic assets and thereby strengthen the economies of the communities served by the two airlines. The scale and strength of the new global airline will make jobs more secure and provide a better quality of life for employees.

The proposed merger will help to secure jobs and airline activity at the Memphis Hub

Together, Northwest and Delta employ about 4,000 people in Tennessee, the vast majority of whom are frontline employees working in Memphis. According to the two airlines, these employees of both airlines are protected by a promise of no involuntary furloughs and a commitment that any employee who wants to stay with the combined airline will have a job.

The biggest threats to airline jobs are not mergers but bankruptcies and high oil prices. Since 2001, the airline industry has lost over 150,000 jobs through bankruptcy and recession; and, in the first half of this year, fuel prices have permanently grounded five U.S. airlines. The proposed merger helps mitigate those threats.

The merged airline will connect Memphis and the Mid-South Region to the world.

The combined company will offer service to more destinations around the world than any other U.S. carrier. By combining Northwest's leading positions in Canada and Asia with Delta's strength across the Caribbean, Latin America, Europe, the Middle East and Africa, customers and communities will benefit from enhanced access to destinations worldwide. Even with its new runway, Atlanta is operating at capacity. Memphis provides the combined carrier with a flexible and less congested alternative to transport connecting passengers throughout the Southeastern United States. Moreover, the expanded network of the combined carrier will provide Memphis and the surrounding areas with potential opportunities for economic development, new investment and increased tourism.

Northwest provides Memphis with its only nonstop passenger service to Europe (Memphis-Amsterdam). We are very pleased that the Department of Transportation recently approved antitrust immunity to Delta, Northwest, and their respective European partners, Air France and KLM. By creating a merger with the SkyTeam Alliance, the potential for service disruptions is minimized.

Competition among carriers in Memphis will continue to thrive.

The combination of Delta and Northwest will not change the competitive environment for customers in Memphis. Delta has 14 daily departures from Memphis, while Northwest has 233, demonstrating that the companies have complementary route networks and very little overlap. Two discount carriers, AirTran and Frontier serve Memphis, and the only overlap route between Northwest and Delta (Memphis-Atlanta) has competitive low cost service on AirTran.

Memphis is a diverse and growing community that is highly dependent on air service.

Memphis is one of the most significant cities in the central United States for several fundamental reasons. It is large, with a current metro population of more than 1.2 million which is forecast to exceed 1.3 million by the end of this decade. It has a vibrant and growing economy on many levels. Average personal income for residents of the Memphis Metropolitan Statistical Area ("MSA") is expected to continue its strong annual growth of 4.0%, reaching $42,017 by 2010. Memphis experienced $16.5 billion in retail sales for 2005, and those sales are expected to surpass $20.5 billion by 2010 based on the continuation of its impressive decade-long growth rate of 4.4% per year.

Given its central location at the intersection of Interstates U.S. 40 and U.S. 55 (two of the principal highways in the central United States), Memphis

International Airport, service by five of the six U.S. class-one railroads and the Mississippi River, Memphis has become one of the world's leading intermodal transportation hubs – often being described as "America's Distribution Center." Specifically, Memphis provides water-to/from-rail, water-to/from-truck, rail-to/from-truck, and air-to/from-truck linkages. More than 300 motor freight companies operate in the Memphis MSA, from which 152 markets are served overnight, more than from any other city in the U.S., while 45 states can be reached with two-day truck service. More than twenty container depots are located in Memphis, and there are two Foreign Trade Zones with multiple sites. More than $10 billion in goods clear customs in Memphis each year through twelve full-service customs brokers.

Passenger access enables so much of Memphis's economic vitality from Fortune 500 companies to NBA basketball to curing childhood diseases. Memphis is home to the world headquarters of FedEx, AutoZone, International Paper, and ServiceMaster. Memphis's St. Jude Children's Research Hospital is internationally recognized for its pioneering work in finding cures and saving children with cancer and other catastrophic diseases. Memphis is the nation's second-largest center for the manufacturing of orthopaedic devices. The Downtown Memphis area is enjoying a rebirth, with growth in businesses, restaurants, and commercial and residential properties to complement its diverse arts and cultural communities. Its historical and ongoing contributions to the music industry – Home of the Blues, Birthplace of Rock & Roll, and Graceland – are world-renowned. Memphis is home to NBA basketball's Memphis Grizzlies.

In addition, our community has embarked on a major economic development initiative to ensure Memphis has a strong and diverse economy, fosters innovation and entrepreneurship, and advances the region's global leadership in the bioscience, music/film and logistics industries. This will ensure the strength of our growing economy and citizenry.

The Memphis International Airport has played a vitally important role in making Memphis the economically vibrant and attractive community it is. In the 2006 Fiscal Year, Memphis International Airport handled 10,853,934 passengers and an unsurpassed 4,009,413 tons of cargo making it the largest air cargo hub in the world. Given this commercial and trade activity, it is not surprising that the Memphis International Airport's contribution to the local economy is substantial. Cargo operations alone generated a total impact of more than $19.5 billion in 2004 and supported a total of 155,872 jobs with total earnings of nearly $5.6 billion.[1] The direct and indirect economic impact of passenger services was almost $1.2 billion, supporting almost 10,000 jobs with total earnings in excess of $340 million. In total, in 2004, the Memphis International Airport generated over $10 billion in direct expenditures and created an economic impact output of more than $20.7 billion and 165,500 jobs.[2] Community leaders are determined to continue the strength of the airport by amplifying Memphis's position as America's Aerotropolis.

---

1 "The Economic Impact of Memphis International Airport," prepared by Sparks Bureau of Business, University of Tennessee, May 2005, at 7.

2 Id., at 12.

Conclusion

The Memphis Regional Chamber and the Memphis/Shelby County Airport Authority welcomed the news of the Delta/Northwest merger announcement. This is, as the carriers have said, "a merger of addition, not subtraction." Memphis has a strong economy, a skilled labor force, and the airport infrastructure to attract and sustain air service. We look forward to continuing to play a vital role as a hub city for the new Delta.

John W. Moore
President and CEO
Memphis Regional Chamber

Larry D. Cox
President
Memphis/Shelby County
Airport Authority

TESTIMONY
ON BEHALF OF THE MINNESOTA PARTIES[1]
BEFORE THE HOUSE JUDICIARY COMMITTEE
DELTA / NORTHWEST AIRLINES MERGER

Introduction

Chairman Conyers, Congressman Smith, members of the committee, we submit this testimony on behalf of the Minnesota Chamber of Commerce, the Minneapolis Regional Chamber of Commerce, the Saint Paul Area Chamber of Commerce and the Metropolitan Coalition of Chambers representing thousands of businesses throughout the state of Minnesota. Thank you for the opportunity to file testimony on a matter of great importance to all of the residents of the Twin Cities and Minnesota.

The Twin Cities business community was a driving force behind the growth and development of Northwest Airlines. The carrier took flight in 1927 thanks to the determined efforts of civic leaders who recognized the importance of good air service for the progress of the Twin Cities and the development of its economy. From its first flights as a mail carrier and over the next 82 years, Northwest has contributed to the Twin Cities' and Minnesota's economy far beyond even the bold visions of its founders. Today, Northwest operates 475 daily flights from Minneapolis/St. Paul International Airport to more than 150 destinations, including nonstop international service to Tokyo, Amsterdam, London, and beginning this month, Paris.

It's impossible for proud Minnesotans like us to not have mixed emotions about last week's merger announcement. Northwest is as much a part of our state as our lakes, our winters and our hockey. Even so, Minnesota businesses recognize that this merger is an economic necessity for both airlines in an era of unprecedented pressures from record oil prices, economic distress and competition.

[1] This testimony is offered on behalf of the Minnesota Chamber of Commerce, Minneapolis Regional Chamber of Commerce, Saint Paul Area Chamber of Commerce and the Metropolitan Coalition of Chambers, representing thousands of businesses throughout the State of Minnesota

We also recognize and expect that, while the Northwest name may cease, the air service that drives billions of dollars of economic activity will go forward under the Delta banner. Minneapolis/St. Paul will continue as a major, primary and growing airline hub, providing economic benefits to the Twin Cities and the entire upper Midwest region. Both Delta and Northwest have pledged to grow – and strengthen – our hub, to maintain substantial management and line operations in Minnesota and to continue to be one of our largest employers. The new Delta has the opportunity to use its financial strength and the superior network to serve Minnesota better; to provide greater job security for its employees; and, to catalyze economic activity statewide.

The MSP hub has been and will continue to be critical to the ongoing development of our economy. The benefits of the hub – frequent, non-stop service to a wide range of domestic and international destinations – makes it easy for our citizens to travel for business and leisure and – even more importantly – for the world to come to Minnesota to do business with us and to experience our natural and cultural beauty.

The numbers, Mr. Chairman and members of the Committee, are compelling.

In 2004, the most recent data available, our airport generated 153,000 jobs, $6.0 billion in personal income, $10.7 billion in business revenue, $1.3 billion in sales, and $626 million in local/state taxes.[2] In 2000, 2001, 2002, and again in 2004, the International Air Transport Association named MSP "the Best Large Airport in North America", as measured by overall consumer satisfaction. In 2004, J.D. Power and Associates ranked MSP as the 3rd best large airport in the world, after Frankfurt and Denver.

According to the U.S. Census Statistical Abstracts (2007), Minnesota's compound annual growth rate (in terms of Gross State Product) ranked 9th among the 20 largest states, ahead of states with much larger gross state products like New York, Illinois, and Pennsylvania. Minnesota is also home to large, world-class companies, including the headquarters of 19 Fortune 500 public companies (2007) and 12 Forbes 500 private corporations (2007) representing a broad spectrum of industries. 3M, U.S. Bancorp,

---

2 Minneapolis-St. Paul Metropolitan Airports Commission, Economic Impact Statement, March 7, 2005.

Target, General Mills, United Health Group, Cargill, and Medtronic each call Minnesota home, and many of these large companies have business interests or operations in foreign countries – in part because of the ease of travel across the Northwest network. Not surprisingly, the strong metropolitan, statewide, and regional fundamentals – the product of a well-diversified economy and an economic base of world-class corporations – generate substantial demand for air service.

There are, of course, many factors that make our state's economy what it is, but a necessary ingredient for our success is the hub and particularly its health and continued growth. Its current status and future growth are secured by the commitments of the merged airline's board of directors and management.

Implementation of this promise will rest with thousands of front-line employees who work on the ground and in the air. These employees are protected by a promise of no involuntary furloughs and a commitment that any employee who wants to stay with the combined airline will have a job. Bankruptcies and high oil prices present a much greater threat to airline employees than mergers. In fact, the airline industry has lost over 150,000 jobs since 2001 (USDOT Form 41 data) through bankruptcy and recession. Five U.S. airlines have failed so far this year due to high fuel prices and a struggling economy. The combined airline will be better able to meet those challenges.

The merged airline will provide Minneapolis/St. Paul and the upper Midwest with a superior global network

The new Delta will be America's premier global airline with service to more destinations around the world than any other carrier. Combining Northwest's heritage in Canada and Asia with Delta's network throughout the Caribbean, Latin America, Europe, the Middle East and Africa creates a larger, more attractive network than either airline can offer alone. This "network effect" as it's called makes it easier for the new airline to enter new and underserved markets and attracts new customers who want the convenience and familiarity of a single global airline. The expanded Delta network will strengthen and preserve the primacy of our Twin Cities hub by making it economical to serve more destinations and provide more schedule options.

Hubs are particularly valuable because of the international service they support. Nonstop international air service is very important to our state and region, and the combination of Northwest's and Delta's global networks will enhance its ability to sustain and – we expect – expand those services. It's worth noting – and it certainly hasn't escaped the notice of both Northwest's and Delta's leadership – that MSP is the northernmost hub airport in the eastern half of the United States, making it geographically desirable for non-stop service to Asia.

Delta/Northwest will not change the competitive landscape in Minneapolis/St. Paul

Northwest has 475 daily departures, whereas Delta has about 17 daily departures from Minneapolis/St. Paul. The disparity in service at MSP illustrates the overall complementary nature of these route networks, which have very little overlap. Minneapolis/St. Paul is served by three discount carriers and by the four other major legacy carriers. Accordingly, we do not believe that the combination of Delta and Northwest will have any appreciable effect on customers.

The Minneapolis-St. Paul Metropolitan Area and the State of Minnesota Are a Large, Prosperous, and Growing Community That Depends on Air Travel Service

Minneapolis-St. Paul is a large, dynamic, and prosperous metropolitan area with a long history as a major transportation hub. Our rivers and railroads were the transportation networks of their times and the forerunners of today's global air travel network. Minnesota is home to hundreds of international companies, to a long list of distinguished colleges and universities – including one of the most productive research universities in the world in the University of Minnesota –and is an important center for tourism with attractions ranging from Mall of America to the region's extraordinary wilderness and natural grandeur. Our community has enjoyed substantial growth and economic prosperity in recent times largely because our means of "making a living" has evolved constantly. A key ingredient to that evolution has been the hub at MSP. For our economic evolution and success to continue, we must be able to reach the world and the world must be able to reach us – reliably and at a competitive price. We believe this merger increases our chances of being able to do just that well into the future.

Conclusion

We know that much of our good fortune over the years has been the product of being a transportation hub. We believe our future is best guaranteed by continuing to play that role for our businesses and citizens who call Minnesota home, for those who want to do business with us; for those who want to visit; and, for those who simply want an efficient and convenient waypoint on their journeys. We will miss and remember the Northwest name as it gives way to Delta; we will credit it for creating and sustaining the hub at MSP; and we will benefit from its legacy every time we board a Delta flight for a nonstop domestic or international destination. For these reasons, we believe a merger between Delta and Northwest can create the synergies to help fuel the development and growth of our economy.

Thank you.

David C. Olson, President
Minnesota Chamber of Commerce

Todd Klingel, President
Minneapolis Regional Chamber of Commerce

Kristofer Johnson, President
Saint Paul Area Chamber of Commerce

Daron Van Helden, Chair
Metropolitan Coalition of Chambers

WRITTEN TESTIMONY OF
CAPTAIN LEE MOAK
CHAIRMAN, DELTA AIR LINES MASTER EXECUTIVE COUNCIL
AIR LINE PILOTS ASSOCIATION, INT'L

BEFORE THE
HOUSE COMMITTEE ON THE JUDICIARY
ANTITRUST TASK FORCE

REGARDING
"HEARING ON COMPETITION IN THE AIRLINE INDUSTRY"

April 24, 2008

DELTA

STRONG · FOCUSED · SAFE
ALPA 75 Years
OF PILOTS IN COMMAND

Mr. Chairman, Ranking Member Chabot, Members of the Committee, thank you for providing me the opportunity to submit testimony for today's "Hearing on Competition in the Airline Industry."

My name is Captain Lee Moak, and I am the chairman of the Delta Master Executive Council of the Air Line Pilots Association (ALPA), the union that represents over 7,300 pilots of Delta Air Lines. I am an international 767 captain and a twenty-year employee of Delta Air Lines. Prior to my career at Delta, I served this nation as a United States Marine Corps fighter pilot, and as I joined Delta, I transitioned to the Naval Air Reserve Force to finish my military career as a US Navy fighter pilot.

I mention my military credentials because as I continue, I want to emphasize that I am proud of my service which included the defense of our American way of life including a free market economy. Our nation's aviation industry is unique, and careful government scrutiny and oversight must ensure that any potential industry consolidation is in the best interests of the traveling public. It is for this reason that I welcome the opportunity to testify in support of the proposed merger between Delta Air Lines and Northwest Airlines.

Fifteen months ago, I submitted written testimony to the U.S. Senate Committee on Commerce, Science and Transportation. The committee was holding a hearing entitled "State of the Airline Industry: The Potential Impact of Airline Mergers and Industry Consolidation." As you may recall, at that time, Delta Air Lines was the target of a hostile takeover attempt by US Airways, an attempt which ultimately failed due in large part to the extreme opposition demonstrated by Delta's employees. At that time, I submitted my testimony on behalf of the pilots of Delta Air Lines who stood solidly opposed to the hostile takeover attempt of our company.

Today, I am submitting testimony on a distinctly different matter, the proposed merger between Delta Air Lines and Northwest Airlines, and I am testifying in *support* of the proposed merger.

While you may ask whether I have changed my position on industry consolidation since I testified last year, nothing could be further from the truth. In fact, the position of the Delta pilots' union has been clear and consistent over time. Last year, in opposition to US Airways' hostile takeover attempt, I wrote:

> Many leading industry experts suggest, and we recognize, that eventually, industry consolidation is not only likely, but probable and perhaps even inevitable. With that in mind, I want to make the following point:
>
> We support a free market solution that includes *rational* industry consolidation; consolidation that does not lead to reduced service, increased fares and other problems for the industry's constituents.

> In the future, *sensible* airline consolidation opportunities may occur. If faced with such an opportunity, the pilots of Delta Air Lines are interested in participating in the "right" consolidation effort, a consensual merger with a rational mix of routes, employees and resources, and with the absence of major antitrust and other detrimental issues. The "right" merger opportunity could draw our support and result in a successful merger that benefits everyone involved—the traveling public, the corporations, the employees, and the communities we serve.

The hostile attempt by US Airways to takeover Delta Air Lines was not that merger. In contrast, the proposed merger between Delta Air Lines and Northwest Airlines *is* that "right" merger.

===========================

On September 11, 2001, terrorists used commercial airliners as weapons of mass destruction to attack the United States of America. Those horrific events changed our lives forever and also marked the beginning of drastic change for America's aviation industry. The following years were marked by record industry financial losses, skyrocketing oil prices (which are a bargain in comparison to today's prices), increased security costs, government backed loans through the Air Transportation Stabilization Board (ATSB), and numerous airline bankruptcies and liquidations.

Delta and Northwest were not immune from the pressures of the post-9/11 environment, and on the same day in September 2005, both corporations filed for protection under Chapter 11 of the U.S. Bankruptcy Code. At the time, the industry was still hemorrhaging, and many familiar with the economics of the industry believed that neither Delta nor Northwest would survive.

But fueled in large part by substantial concessions from the pilots and our fellow employees, both companies were able to successfully reorganize and exit bankruptcy just less than one year ago. The employees of both carriers were able to take pride in the part they played in the emergence of new, healthier, airlines—airlines poised for long-term success. In the months that followed, things seemed to go as planned, but due to factors beyond the control of any airline management team or labor group, the industry soon faced increasing economic challenges on several fronts.

When Delta and Northwest exited bankruptcy in the spring of 2007, crude oil traded in the mid-sixty dollar per barrel range. Just this week, the price of crude set another new record as it broke through $119 per barrel, an increase of approximately **85 percent** in less than one year. Additionally, the nation's economy is suffering, and many economists assert that we are entering a recession; others argue we may already be in recession. The credit markets have become increasingly difficult if not impossible to access. Just this month, Aloha, ATA and Skybus ceased operations and Champion Air will shut its doors on May 31. Frontier Airlines recently filed for Chapter 11 protection. Legitimate concerns exist about the long-term financial viability of several other carriers.

In short, for the second time since the terrorist attacks of September 11, 2001, the industry's long-term future—in fact, its survival—is in peril. If our nation's airline industry is to survive, the economics of that industry overwhelmingly suggest that the time for long-anticipated industry consolidation has arrived.

In the months leading up to the proposed merger, the Delta pilots worked closely with our company's senior management team as we considered what was best for our company, its employees, our passengers and the communities we serve. As the union representing the Delta pilots, we made clear that we were not interested in a transaction for transaction's sake. We insisted that if a merger were to draw our support, several conditions would have to be met, and the most important of these was that the combination would produce an even *stronger* and *growing* airline that would vigorously and successfully compete in the domestic and international marketplaces for years to come.

The proposed merger between Delta Air Lines and Northwest Airlines not only meets but exceeds the conditions necessary to draw our support.

The proposed merger between Delta and Northwest is far different from the one that would have resulted had US Airways been successful in its attempt to take over Delta. Delta and US Airways are strong competitors in many markets with a large overlapping route structure and several hub city pairs located in close geographic proximity. Had that takeover attempt succeeded, it would have cost thousands of jobs, created monopolization in key business markets, resulted in hub closures and eliminated customer choice, all in the name of a short-term financial gain for a few.

In contrast, the proposed merger between Delta and Northwest represents an "end to end" merger with far different dynamics. Delta and Northwest have very little route overlap both domestically and internationally, and in fact have complementary route structures that will expand opportunities to the traveling public. Further, as the surviving management team, Delta's senior executives have committed to preserving frontline employee jobs and that hubs will remain open. Over the weeks and months leading up to the merger announcement, Delta management shared its financial projections and merger analyses with the Air Line Pilots Association, and we were able to validate the results with our own independent analyses which showed very similar results. The value in the proposed merger will manifest itself not at the expense of employees, passengers and communities served, but by the synergies of the combined strength of both carriers. As a result, the merger will serve the interests of the corporation, the approximately 78,000 employees of the merged company, the communities we serve and most importantly, the lifeblood of our company, our passengers.

Finally, you are all aware that one of the most difficult tasks of any merger is that of workforce integration. As the probability of consolidation increased, the Delta pilots' union recognized that the traditional approach to labor integration is flawed, if not completely broken. That is why we made the decision last fall to provide our pilot membership with an alternative to the traditional process. Our goal was to reach an agreement with the Northwest pilots on the most contentious of labor issues in advance of a merger announcement. The task was extremely difficult and Herculean efforts were made by representatives from both pilots groups. While significant progress was made in many areas, we were unable to reach agreement on an integrated seniority list in advance of the merger announcement. However, with the probability of a merger announcement on the horizon and the timeline shrinking, the Delta pilots' union leadership *was* able to reach an agreement with Delta management designed to facilitate the merger while providing financial returns for the value we would bring to the transaction. That agreement will soon go out to our pilot membership for ratification.

An important part of that agreement was a unanimous commitment on the part of Delta's pilot union leaders that "the Delta [union leadership] welcomes the Northwest pilots as partners in the building of the new merged airline and looks forward to working with the Northwest [union leadership] to bring about the rapid completion of a new joint agreement to take effect on the closing of the corporate transaction providing immediate parity in rates of pay and further providing for a rapid completion of a fair and equitable integrated seniority list to take effect on the effective date of the new joint agreement."

The Delta pilots have a long and proud history of treating each other fairly and acting with the best interests of our fellow pilots in mind, and make no mistake, once the corporate transaction closes, the Delta and Northwest pilots will *all* be Delta pilots. Our ethics of integrity, fairness and professionalism will not be compromised as we transition to a group over 12,000 strong.

CONCLUSION

In the years following the September 11 attacks, the American aviation industry experienced its worst period in history up to that point. After numerous corporate restructurings, both in and out of bankruptcy, there were strong indications of an industry on the rebound. Due to factors beyond the control of any management team or labor group, that rebound was short-lived. The health and viability of America's iconic aviation industry, an industry that acts as an important engine that helps drive our nation's economy, is in serious jeopardy, and while it may seem inconceivable, it is quite possible—even probable—that circumstances will get much worse before they get better.

In my opening remarks, I acknowledged that careful government scrutiny and oversight must ensure that any potential industry consolidation is in the best interests of the traveling public. I submit that the proposed merger between Delta Air Lines and Northwest Airlines is not only in the best interests of the traveling public, but also our nation's aviation industry and economy.

On behalf of the over 7,300 professional pilots of Delta Air Lines, thank you for the opportunity to testify before the task force.

Mr. CONYERS. Let's begin our discussion, gentlemen. Thank you for your statements.

There are several things that are going around right now. You know, we heard in the American Airlines-TWA merger, "No hubs will be closed." And within 2 years, they were closing hubs.

The other thing I am thinking about is, will you—if you don't get this merger, does that mean you are both teetering on bankruptcy again? I mean, how bad will the future be if you are not successful here?

Will you just be unstable or go out of business completely? How gloomy or possibly hopeful is the picture?

And then, what about the laying off of employees? You talk about no furlough of frontline workers, but the elimination of redundant administrative and corporate positions. That sounds—well, you know, it sounds like it sounds.

What do you think about all of these kinds of questions that are looming around up here among the Members?

Mr. ANDERSON. Mr. Chairman, if I could take the A.A.-TWA merger, and then I will leave those hard questions to Mr. Steenland.

If you look back at the American Airlines-TWA merger, TWA had historically, during deregulation, been only an international carrier. And it had a very, very small domestic network and had been through bankruptcy three times when American purchased its assets.

And as a result, the St. Louis hub was not a very viable hub at the time. And I would distinguish that circumstance, the near-liquidation—in fact, in the end, it was a liquidating Chapter 11, because American just bought the assets.

These two carriers have been through reorganization in the last year. And as part of that reorganization, both companies really scrubbed their hubs, if you will, and the strategies of both airlines.

And all of these hubs are economically viable hubs. They all play important roles in the networks of both airlines. And in the end, it is the viability, the underlying economic viability of these hubs that makes them durable.

And we feel confident that all of the hubs—Minneapolis, Detroit, Memphis, Cincinnati, Salt Lake City, and Atlanta—will all continue to be strong, viable hubs in the combined airline.

In fact, the combination, when you look at that map and you see the blue cities, those are cities that just Delta flies to. Northwest doesn't fly to those cities. Northwest flies uniquely to just the red cities.

So what it actually does is it allows us to cross-hatch these networks. And hubs get stronger when they have more traffic flow. And when you are able to take more unique cities and combine those unique cities to more of the hubs, you really build a stronger patchwork of service for customers. And that is what makes that network durable.

Mr. STEENLAND. Responding to your other two questions, Mr. Chairman, in the past, airline mergers have largely happened between airlines that have been in significant and serious financial distress.

As Richard just testified, we have been through our restructuring. And amongst the U.S. airlines, Northwest and Delta have the best balance sheets, we have the highest cash position, we are as well positioned as any other airline out there.

Now, having said that, when we emerged from our restructuring, fuel was at $60 a barrel. Yesterday, it closed at $118 a barrel.

So we and the rest of the U.S. airline industry are really in uncharted waters. If the transaction is not permitted to go forward, the biggest detriment will be that the benefits that we see, that come from being able to put these two carriers together, which are going to be in excess of $1 billion a year, we will not have at our disposal to help offset those significant oil price increases.

Now, let's address the issue of layoffs and let's use the Detroit airport as an example.

At Detroit, Northwest is obviously the large carrier there. Delta is also in Detroit. Delta operates to Detroit from Atlanta, Cincinnati and Salt Lake.

All of our ticket counter employees, all of our employees on the ramp, all of our QSAs, the great staff we have there, they are all going to be needed and they are all going to continue to have their employment opportunities, because the level of flying at Detroit will not go down. If anything, it will go up. Same thing about the Delta flights that come into Detroit.

So Northwest employees at Detroit, Delta employees at Detroit can be confident that their jobs are in good hands, as well as Minneapolis, as well as Memphis, for the reasons that I just described.

Now, clearly, when you talk about combining some headquarter functions, there is some overlap. Two people perform the same jobs. At the end of the day, you might only need one.

And we will try to be as judicious as possible in sorting through that. If needs be, we will look to see if we can find alternatives. If that is not available, we will look to early-out programs and the like to try to make that transition as easy as possible.

Mr. CONYERS. Thank you both very much.

We welcome, of course, our invaluable Members, Betty Sutton of Ohio and Debbie Wasserman Schultz of Florida. The ladies came late this morning, but that has never happened before.

I now recognize our Ranking Member, Steve Chabot.

Mr. CHABOT. Thank you, Mr. Chairman.

Mr. Anderson, last Sunday the Cincinnati Enquirer printed highlights from a survey conducted by the National Business Travel Association. And the survey results revealed that 54 percent of their members—and that is, again, business travelers—believe that the customer service of what would become the world's largest service would be poorer, while 41 percent said flight frequencies to some markets would worsen.

How would you respond to the concerns expressed by these customers? And they actually, my understanding is, generate about half of Delta's revenues.

Mr. ANDERSON. If you look at these two carriers and the performance of these two carriers, this past year Delta was the number-one on-time airline, according to DOT statistics, among the network carriers. And we ranked number two in the J.D. Power survey among network carriers.

If you look at Northwest in the most recent airline quality survey ratings, it rated first among the network carriers. Both of these carriers have a long history of very solid operations.

I would submit to you that the number-one driver of customer dissatisfaction in the airline business today is the air traffic control system. If you look at what causes delays and cancellations—we will always have a weather issue in this industry. In our lifetimes, we will not figure out how to fly into bad weather. And if we did, I don't think I want to do it.

So setting aside weather, the number-one issue that we face as a country is the necessary investment in a new and modern air traffic control system. But these two carriers have distinguished themselves in terms of performance.

And we take those kinds of things very seriously at Delta. And I know Northwest takes those kinds of things seriously. And we believe that this consolidation will give us the capital and the balance sheet to be able to make the investments necessary to be able to continue to improve customer service.

Mr. STEENLAND. If I could just add one point, Congressman, Northwest and Delta have a cooperation agreement in place today. We have invested millions of dollars in terms of coordinating our various information technology systems and the like.

And usually those are the things that cause difficulties in a merged world. We have already done that, and we are hopeful that that will make this transition much, much smoother.

Mr. CHABOT. Okay, thank you.

Mr. Steenland, let me follow up, if I can. One of the arguments in favor of the merger is the fact that the rising fuel prices are making the airlines unprofitable.

Would a combined Delta and Northwest be able to exercise added market power in the purchase of fuel?

Mr. STEENLAND. The simple answer is no. There might be a few places where Northwest purchases fuel a little better than Delta does and vice versa. But in the big scheme, that is really not where the savings comes from.

The savings come from the cost and revenue benefits by putting the two airlines together. We have looked at that very closely. We have done tremendous amount of analysis to make sure that we are confident in that.

Conservatively speaking, we think that is worth more than $1 billion annually. And we will be able to realize that, if not more.

But it doesn't come from basically giving us greater purchasing power in the fuel market. Together, we are still not big enough to deal with the behemoths out there. And, unfortunately, we are takers and just subject to the incredible increase in the price of fuel that has happened over the last 6 months.

Mr. CHABOT. Okay. Thank you.

Let me combine two questions, Mr. Anderson, because I think I am going to run out of time here shortly, and I want to make sure I get both of them in.

One, I had mentioned in my opening statement the concerns that I hear from my constituents back in Cincinnati quite often, and that being that they oftentimes drive to Dayton or Columbus or Louisville or Indianapolis just because they can get a better deal there on a particular flight. They are less expensive, and therefore they do that.

What impact should the merger play in assisting them in not having to drive all the way to Indianapolis, which is 100 miles away, for example?

And, secondly, oftentimes when there is a merger one of the concerns is some jobs get eliminated. And Comair, obviously, is an important regional airline, in cooperation with Delta.

And what are your thoughts relative to what might happen with respect to Comair? Because they are very important, we would obviously like to keep them.

Mr. ANDERSON. When you look at the effects of this combination on the contestability of the marketplace, there won't be any change. And it is just simply because in places where Delta is strong, Northwest has little or no presence, and vice versa.

So if you go to the Cincinnati airport, Northwest probably has 12 flights a day. We have 400 flights a day.

So in terms of—you know, normally in competition and contestability analysis you are looking at overlaps in markets, right, so that you can combine the pricing of the two together. In this case, there is just no overlap in Cincinnati, so it is not going to have a detrimental effect on competition.

With respect to average fares, if you look at average fares in Cincinnati, a lot of that is business mix. We are fortunate that in Cincinnati we have strong companies there, right?

We have got General Electric engines. We have Proctor & Gamble, which is Delta's largest customer in the world. And they tend to fly more on more premium fares, so it pushes up the business mix.

I would just note we actually went back as part of this testimony and analyzed pre-deregulation fares. And on average, if you control for inflation, airfares today to fly one mile are about 30 percent lower than they were in 1970. And that has been the dramatic effect of deregulation.

And, remember, back in deregulation, when you had to travel somewhere, if you were going across country or even halfway across the country, you would have three or four stops before you got to the endpoint. Now we have nonstop service or one-stop service to virtually anywhere in the world at yields and fares that are 30 percent lower than they were during deregulation.

Lastly, Comair is still a very important part of Delta. It is a wholly owned subsidiary. We not only rely significantly on Comair in Cincinnati, but Comair is a very important regional carrier supporting Delta's international operations in JFK.

So we have made a significant number of investments in Comair, including new airplanes. And that will remain unchanged after this transaction closes.

Mr. CHABOT. Thank you very much.

I yield back.

Mr. CONYERS. Steve Cohen?

Mr. COHEN. Thank you, Mr. Chairman.

I have read the statements of the Memphis Airport Authority and the Chamber of Commerce, both of whom wholeheartedly endorse this merger. I have also listened to the concerns of the pilot's union, the flight attendants, machinists, et cetera, who have concerns.

I know a little bit about the history of the industry, and going back to Southern airlines, which I guess was part of Republic at one point, merger.

Memphis is very desirous of having a hub. It is important for us as a business city. Federal Express, I think, is one of your largest users of Northwest.

Mr. STEENLAND. Absolutely. Absolutely.

Mr. COHEN. How much is Federal Express's presence in Memphis an important factor in deciding to keep service in Memphis at the level it is now?

Mr. STEENLAND. I think it is critical, Congressman. FedEx is a fantastic company and innovator. And they are one of our top five customers in the world, as we carry their sales people, their executives, their pilots, other of their employees throughout our global network.

I think the existence of our hub in Memphis actually has allowed FedEx to grow and to expand. They help us, in terms of we share costs at the airport, which makes the Memphis airport a very attractive, very good place to do business.

And FedEx is a critical customer and a great partner of Northwest. And they will be a great partner of the merged airline going forward.

We have had a number of discussions with FedEx that are currently in process as to ways where we can further cooperate. And we have identified a number of very interesting opportunities that I am confident we will pursue in the future.

Mr. COHEN. And so I presume, Mr. Anderson, that Fred Smith would be like E.F. Hutton?

Mr. ANDERSON. Well, when Fred speaks, you listen.

Mr. COHEN. Good.

Mr. ANDERSON. But in my prior life at Northwest, I spent many, many days in Memphis and did a lot of work with Jim McGee, Larry Cox, Arnold Pearl, Mayor Harrington, and have been a big supporter of the airport and was actually instrumental in launching the service from Memphis to Amsterdam some—I guess 10 years ago now.

And it has been really successful. We partnered with the airport to build a Federal inspection service facility. And Memphis is—I have spent a lot of time there and have a certain fondness for it.

Mr. COHEN. The Amsterdam flight would remain, I presume?

Mr. ANDERSON. Yes.

Mr. COHEN. And would there be other possibilities of international travel from Memphis?

Mr. ANDERSON. Well, that is one of the things that we have to look at. Candidly, much of the decisionmaking ends up being about fuel.

And when you do combine the networks, the logical places that you go look, particularly with the alliance arrangements that we have with Air France and KLM, just like Amsterdam works from Memphis, the corollary to that is Paris, because Paris will be the hub of the combined Northwest-Delta in Europe.

And the hub of the combination in Asia will be Tokyo. And so you logically look at those places, but I cannot make that commitment.

One, we have got to get the 787 delivered. Number two, we have got to have manageable fuel costs. And then, number three, once we have this transaction closed, then we can start acting as a single entity and really understand the economics of each of our route networks.

Mr. COHEN. Are there advantages to the Memphis airport that, let's just say, for instance, the Cincinnati airport doesn't have, in size of runway, climate, and other peculiar benefits?

Mr. ANDERSON. Well, both airports—in fact, if you look at all of these hub airports, we are pretty fortunate, because they are all very well-run and they all have plenty of capacity.

So we built the World Runway in Memphis and opened it about 6 years ago. Atlanta just added a fifth parallel runway. Detroit has four parallels and two crosswinds. Minneapolis just built a new runway.

Salt Lake is starting a new capital plan, is a very well-run and very well-managed airport. And Cincinnati is a very well-run airport.

All these airports have plenty of capacity, plenty of gates, plenty of runway length, and they are all very well-run with very good management.

Mr. COHEN. Idling time is important as far as fuel cost. Is Memphis the lowest as far as—the most efficient, in terms of idling time?

Mr. ANDERSON. Clearly, probably your taxi-out and taxi-in times at Memphis are going to be among the lowest in the country. And I think they are very low at Cincinnati and St. Lake, too. They tend to be higher in places like New York, Atlanta, where you have more service.

Mr. COHEN. Memphis is the center of the Delta. Thank you. [Laughter.]

Mr. ANDERSON. Appreciate that. Well, Memphis at one time was the number-two city on the Delta network back when Mr. Woolman was CEO. And at that time, we had the Peabody Ducks as an endorsement.

Mr. COHEN. The Delta starts in the Peabody Hotel lobby.

Mr. ANDERSON. That is exactly right.

Mr. COHEN. Remember that.

Thank you, sir.

Mr. CONYERS. Thank you very much.

We have the able gentleman from Florida, Ric Keller.

Mr. KELLER. Thank you very much, Mr. Chairman.

And I want to thank our CEOs from Delta and Northwest for being here today.

It is a tough time to be in the airline business. Fuel prices are up. Profits are down. And routes are being cut. But through it all, your approval ratings are still higher than Congress, so naturally we are here to question you about your business. That is just how things work.

I am going to ask you some local provincial questions about Orlando, about the merger, and then broader questions about the country in general.

I represent Orlando, the world's number-one vacation destination. Mr. Anderson, on March 19th of this year, Delta announced that it was slashing the number of seats it flies to and from Orlando almost in half and eliminating nonstop service to seven cities as part of this nationwide retrenchment, due in large part to fuel prices, I understand.

Sir, could you tell me what impact, if any, this proposed merger would have on your Orlando operations, in terms of routes, ticket prices, and jobs?

Mr. ANDERSON. First, with respect to jobs, we have made a commitment as part of that to our employees at Delta that, while we are pulling 10 percent of our domestic capacity in the back half of the year—and this has nothing to do with the transaction we are talking about—because of fuel prices, we would not have any involuntary furloughs as a result of that.

So we have an early-out and an early retirement program in place to have all that done voluntarily. So on the employment front, it won't have an impact.

The issue that you see in Orlando, with respect to fares, it is an incredibly competitive market. And I believe Orlando, because it is probably the number-one vacation destination in the U.S., maybe in the world—we have all taken our kids there, right?

Mr. KELLER. Right. And it is number one, 49.3 million tourists.

Mr. ANDERSON. It is number one?

Mr. KELLER. Yes.

Mr. ANDERSON. And so it will always be a very competitive marketplace. With respect to the decision we took, our decision was purely about losses and the cost of fuel.

The transaction we are contemplating here will make both of us stronger. Whether it will—I can't sit here and tell you that we will increase service to Orlando. That is going to be more a product of where fuel and the economy is.

Mr. KELLER. All right, so let me hear what I am hearing. In terms of job losses or gains, you don't see a big impact. In terms of ticket prices, you don't see a big impact, because there is already so much competition that exists. In terms of routes coming back, you are unsure?

Mr. ANDERSON. I am unsure about routes coming back.

Mr. KELLER. That is a fair summary on those?

Mr. ANDERSON. That is a very fair summary.

Mr. KELLER. Okay, let me just switch then to Mr. Steenland, with respect to Orlando, still. The same question: Do you see this merger having any impact on the Orlando operations, in terms of routes coming back, that sort of thing?

Mr. STEENLAND. Northwest serves Orlando from our three hubs. So we operate flights there from Detroit, Minneapolis, and Memphis. I would anticipate those cities will continue to have nonstop service to Orlando.

As Richard said, it is a very competitive place. And fares have always been reasonably priced as a result of the capacity.

As a result of fuel, there may be some frequency adjustments, but there will continue to be nonstop service from all three of those cities.

Mr. KELLER. But you don't know if you will pick up some of those nonstop flights that Delta has had to drop for business reasons?

Mr. STEENLAND. Well, Northwest has always been a very—not to get too technical—but a very hub-centric airline. So virtually all of our flights domestically either start or stop at our three hubs. And we have never served Orlando other than from one of our hubs.

Mr. KELLER. All right, I don't want to cut you off. I got one final question, because my time is out, and I would like to direct it to both of you.

I am interested in three specific issues, if you could tell me the impact on these issues with the merger and without the merger.

What impact is there on ticket prices with the merger versus without?

What impact is there on route options for consumers with the merger and without?

And what impact is there on jobs for airline employees with the merger and without? And I will leave that up to both of you.

Mr. ANDERSON. Ticket prices, the markets will still stay contestable, because there is no overlap. So ticket prices will still be set by market forces. And this merger won't have an effect in terms of the contestability of markets.

Mr. KELLER. Okay, nationwide, not Orlando?

Mr. ANDERSON. Nationwide.

Mr. KELLER. Right.

Mr. ANDERSON. Second, route options will be dramatically increased. And they will be dramatically increased because you are hooking these two end-to-end networks. And while it may not sound like a lot, but passengers now will have another way to get from Lincoln, Nebraska, to Key West, Florida.

And it is all those many new combinations that combining the red and the blue on that map will create, that we will not be able to do on our own. We will not be able to do it on our own.

And, lastly, with respect to jobs, we have made a commitment that no front-line employees will have involuntary layoffs. And I think Doug described that we will have redundancies in the corporate staff, and we are going to deal with that as respectfully and as judiciously as we can.

But, obviously, when you merge two companies, there are unfortunately redundancies that you are going to have to deal with over time. And we will do that in a respectful and gracious way.

Mr. STEENLAND. Concur on ticket prices. Southwest will remain the largest airline in the United States. And low-cost carriers will continue to largely set price.

With respect to route options, by combining these two networks, we will actually present an opportunity for new service. I think a perfect example is the Memphis-Amsterdam flight we just talked about, because Northwest and KLM have a joint venture. It is a virtual merger and, but for that, there would be no flight along those lines.

And I think we have answered the employment question.

Mr. KELLER. You concur, essentially, with the answer?

Mr. STEENLAND. Yes, I do.

Mr. KELLER. Okay. Thank you.

Mr. Chairman, I yield back.

Mr. CONYERS. Thank you very much.

The distinguished gentlelady from Ohio, Betty Sutton?

Ms. SUTTON. Thank you, Mr. Chairman.

With respect to the employee question, I would like to follow up a little bit. What I heard you just say was that, with respect to employees and staffing, that it would really just involve corporate staff redundancies?

Mr. ANDERSON. Correct.

Ms. SUTTON. Okay, so what does that mean? Does that mean management-level——

Mr. ANDERSON. Yes.

Ms. SUTTON [continuing]. Positions only? Okay. That is the only effect that this merger will have on employees?

Mr. ANDERSON. Correct.

Ms. SUTTON. Okay.

During the merger negotiations, why weren't union representatives given a place at the table?

Mr. ANDERSON. Well, normally in a merger negotiation, it is a negotiation between the two corporations.

Ms. SUTTON. And you all are familiar with the letter that you received from 26 senators, I believe, earlier this week asking questions about this, as well, asking about the engagement of employees unions in the merger process.

Have you responded to that letter formally? Or would you like to respond to that here today?

Mr. ANDERSON. Sure. The transaction is contemplated with respect to several issues. One, we have made the commitment with respect to no front-line layoff of employees.

Number two, we have set aside a substantial portion of the equity of the combined companies for the employees. And that is not an option. It is an outright grant of stock so that they can share in the benefits that are created.

Third, we have committed in the merger agreement, and there has been legislation that has been passed, and we have committed as a company together for seniority protection for employees.

And, lastly, with respect to the issue that the Chairman raised about the Air Line Pilots Association, where the Air Line Pilots Association, the two groups of pilots issued a press release earlier this week where they have joined together again.

They have agreed to process on seniority integration, and we have committed to sit down with them and work expeditiously to conclude the Northwest-Delta pilot agreement prior to closing.

Ms. SUTTON. With the exception of that last comment that you made when you were talking about the pilots association, when you say that "we have committed," "we have committed to doing this," and you talked about mergers being discussion company-to-company, who have you committed to doing that to? Who have you given that commitment to?

Mr. ANDERSON. To all the employees of both companies. And it is also a matter of Federal law.

Ms. SUTTON. Okay. And in that commitment to those employees, what form of—what is the actual form of that commitment?

Mr. ANDERSON. Well, it was included in—you know, the whole industry worked on this in the FAA reauthorization last December. And there is a provision in airline law called the Allegheny-Mohawk labor protective provisions.

And they came out of a merger in the industry that became part of USAir probably 40 or 50 years ago. And it has been sort of the recognized standard in the industry for seniority integration.

And last December, when the FAA reauthorization bill was passed, there were a number of other items that were included in that. And among the other items that were included in that was a provision that provided LLPs under Allegheny-Mohawk to employees in a merger.

Ms. SUTTON. Sure.

Mr. ANDERSON. And it applies to all employees in a merger. Second, we wrote it into the merger agreement. And, third, the board of directors at Delta adopted that as the commitment of the company long before this transaction was consummated.

Ms. SUTTON. Okay, let me turn to some of the issues raised by the Association of Flight Attendants. They have expressed concern that you are interfering with their attempts to organize Delta flight attendants through a “Give a Rip” campaign.

Why are you engaging in such an intense campaign to head off those efforts?

Mr. ANDERSON. You know, Delta has a long history of working with its employees. If you go back—prior to its bankruptcy, it was always noted as one of the best places to work. We have had some difficulties, obviously, through bankruptcy, but we do care a lot about our employees.

You know, we would never engage in carrier interference in a campaign like that. We support a democratic process. We have both union employees, the dispatchers and our pilots, and we have many non-union employees, many of whom are with me here today.

And we believe that we should have a democratic process and let people have free elections.

Ms. SUTTON. And does that mean that you are taking a position of neutrality?

Mr. ANDERSON. We are—as I said, we support a democratic, free election with plenty of information for everybody, because our employees have very firm views on both sides of the issue.

Ms. SUTTON. Are you engaging in advocacy from one side or the other or are you in a neutral position?

Mr. ANDERSON. We are being certain that we do not engage in any interference in the election and that we make certain that the election provides for free choice for all the employees in a democratic process.

Ms. SUTTON. Okay, but I don’t think you are really answering my question. Are you neutral?

Mr. ANDERSON. I am neutral to the extent that we will always follow the NMB rules and we will be certain that the laboratory conditions that the NMB prescribes are complied with at Delta for a free election.

Ms. SUTTON. Well, I will take your answer of not really answering my question as the answer. But thank you.

Mr. ANDERSON. Thank you very much.

Mr. CONYERS. You are welcome.

We have been joined by Congresswoman Sheila Jackson Lee of Texas. Mr. Hank Johnson of Georgia, although not a Member of the Task Force, is always welcome to sit with us.

You are welcome.

And Darrell Issa of California has joined our ranks.

We now turn to the able Member from Iowa, Mr. Chris Cannon. Utah.

Oh, I am sorry. Lamar Smith, Ranking Member of Texas, is recognized. Excuse me.

Mr. SMITH. Either one is fine. Thank you, Mr. Chairman.

I want to say at the outset I am usually a little suspicious of mergers, though in this case there does seem to be legitimate arguments in its favor, as long as this one doesn't lead to other mergers of airlines that are less competitive or maybe I should say more anti-competitive.

I have a couple of questions. And the first one goes to how this merger would benefit consumers.

You have already responded that ticket prices would be set by the market. There may be some impact on flights. Just in general and going beyond those specifics, how do you see consumers benefiting by this merger?

And Mr. Steenland?

Mr. STEENLAND. Thank you, Congressman. Several ways. First, by creating a more resilient and financially stable airline that is able to invest in product enhancements, new airplanes, employee training, all of the type of things that a profitable, well-funded company needs to do in this business.

Second, by creating a single network so consumers will be able to fly on one airline over a much larger variety and geographic scope of destinations, whether it is to Asia, whether it is to South America, linking up those destinations.

We have tried for a long time—and we have looked at whether Northwest could affordably put in a flight from Detroit to Sao Paulo, Brazil. On our own, we couldn't do it. But Delta has a strong presence down in that part of the world.

And I think, as time goes on and as these two networks get put together in the merged context, I would think that would be one opportunity that would present itself. So there will be some expanded opportunities.

Combining the frequent flyer program so it is now one, customers will earn a single set of miles. They will not have miles on one airline. All of these will clearly make air travel for consumers better.

Mr. SMITH. Okay.

Mr. Anderson, do you have anything to add?

Mr. ANDERSON. The one piece I would add to that is the alliance piece. And think about the question about Federal Express. You know, Federal Express today has a lot of business in South America, Africa, and other places around the world that they can't reach on the Northwest network.

So for corporations that do business globally, 3M in the Twin Cities, they will now have access to parts of the world that they previously didn't have access.

And the same for the companies that Delta serves, like Coca-Cola. Today, Coca-Cola can't really travel out of Atlanta very much into Japan or Asia on our network because we don't have a very extensive network. So it gives us the opportunity to give corporations that are traveling around the world doing business more options on the same network.

Mr. SMITH. Okay, thank you.

My next question goes to the impact of the merger on employees. And you both said a few minutes ago that you thought that the only people who would lose their jobs would be the executives.

And I have to tell you: That seems a little hard to believe. For instance, you just mentioned that you would be unifying the frequent flyer system. And it seems to me that employees that might be operating the reservation system or any of those types of support staff might well find themselves in positions where their jobs are duplicated by others.

Are you absolutely sure that no one is going to lose their job, except for corporate executives? It just seems a little——

Mr. ANDERSON. Well, it is mostly in the headquarters. It is essentially the management jobs, not the front-line jobs.

Mr. SMITH. But how do you define management? At what salary level would that begin?

Mr. ANDERSON. Well, it is various salary levels, but it is many of the traditional corporate overhead functions, like finance, accounting, the functions that are in the corporate headquarters.

Mr. STEENLAND. And the combined—if I could just take a shot—the combined airline in the merged world, again, because there is no overlap and the hubs will remain and the network will remain largely in tact, the expectation is that you will have the same number, if not more passengers. So you will need the same number of reservation agents.

Mr. SMITH. And what would you estimate is the total number of people who might lose their jobs?

Mr. STEENLAND. I mean, it is hard to say, because we haven't really done that bit of granular analysis yet.

Mr. SMITH. If you can already say that it is only going to be those in the corporate management, you surely have an idea of how many people you are talking about.

Mr. STEENLAND. Under 1,000.

Mr. ANDERSON. Yes, it is probably some number under 1,000. But we haven't done the bottoms up.

Mr. SMITH. Okay.

Mr. ANDERSON. You know, we haven't gone to that level of diligence.

Mr. SMITH. You have been very general as to what you would do for these folks who are losing their jobs. Can you be any more specific about severance packages or what you have done in the past?

Mr. ANDERSON. Well, we have just—right now, Delta has a voluntary program, because, as part of this fuel price run-up, we have reduced—we need to reduce our full-time employees by about 2,000 people. And we have put together a package where we have reduced the retirement age.

And we provide the rule of 60. Basically, you get lifetime passes and I believe it is a week of pay for every year of service. And we provide a health benefit and a disability benefit. And we do that for both people with 10 years or more seniority, I believe.

And it is a package of cash, passes, you know, lifetime passes on the airline.

Mr. SMITH. Okay.

Mr. ANDERSON. And a medical benefit.

Mr. SMITH. Okay. Thank you, Mr. Anderson.

Thank you, Mr. Steenland.

Thank you, Mr. Chairman.

Mr. CONYERS. Thank you, sir.

The distinguished gentlelady from Houston, Texas, Sheila Jackson Lee?

Ms. JACKSON LEE. Mr. Chairman, thank you.

This has been one of the most instructive and vital experiences, to participate in this Task Force, for the work that we are doing.

I thank the Chairman for acknowledging me. I had to go to the floor for the Coast Guard bill. And I didn't want to miss the opportunity to query what I think has to be one of the major merger concepts, and that is overall airlines.

Let me, first of all, I want to acknowledge two distinguished gentlemen, former Secretary Coleman and former Secretary Slater, for their service and their commitment to competition, but also to the broadening of the transportation by way of aviation system in America and around the world.

To the distinguished gentlemen that are here, I believe, again, as I said, that this is a reflection of what is to come. And that is why I think decisions that will be made or the oversight that is being given by this Committee is crucial.

My first question, to both gentlemen, is your commitment to help us push a passenger bill of rights as a contingent, as a parallel to your merger efforts.

You have indicated that there will not be a negative impact on consumers. In fact, you have indicated that—your hubs will remain open, that there may be greater reach. And I am very sympathetic to small regions or areas. I am in the fourth-largest city in the Nation, maybe the third-largest soon.

But I am surrounded by rural Texas and, as well, Louisiana. And I realize the importance of the region itself. I might add Arkansas and a number of others that border the State of Texas.

Would you gentlemen commit to the passenger bill of rights, which talks about some of the issues that, in particular, Northwest, as you well know, confronted in Detroit some months or a year or so ago?

May I start with Mr. Steenland and then Mr. Anderson?

Mr. STEENLAND. Yes, ma'am. Based on some of the proposals that have been advanced, we would have no objection to being subject to those kinds of requirements.

We need to serve our customers well. We need to take care of them. We are in a customer-service business. We have put provisions in our contract of carriage that are contractually enforceable, because we wanted to make sure, if we did make a mistake, that there would be recourse.

And as long as these provisions are properly defined and well understood, the concept of a passenger bill of rights is not something that in and of itself we would oppose.

Ms. JACKSON LEE. Mr. Anderson?

Thank you.

Mr. ANDERSON. First, Congresswoman, we have a responsibility to our passengers. And our employees take that very seriously.

The inspector general, about 8 months ago, issued a series of recommendations. The Department of Transportation inspector general issued a series of recommendations with respect to customer rights.

We endorsed those recommendations. And they are legally enforceable against Delta today because we put them in our contract of carriage.

Ms. JACKSON LEE. But you would have no problem then—because I have a shortened time of questioning—to see us push forward legislative initiatives through the United States Congress, which ultimately the President would sign?

Mr. ANDERSON. I would have to just—I am not familiar with the bill, but I can tell you that we have been very supportive of the inspector general and the DOT advancement there. And I am sure there are concepts there we would agree to.

Ms. JACKSON LEE. Gentlemen, what I would advocate very strongly is that there is a very good initiative making its way through Congress. And I would almost want to have that in parallel and contingent to the, if you will, uniting effort of this merger.

Let me quickly have you answer again the questions. Can you assure us definitively that your flight attendants, mechanics, and others who are part of the structure of the airlines will not be fired? The pilots' contract, is that going to be in place?

And, also, isn't the cost of jet fuel the underlying basis of the purpose of this merger? And how would this help if we were—how would a moratorium on jet fuel, for example, a moratorium on aviation taxes and fees help you not merge?

Mr. Anderson?

Mr. ANDERSON. Yes. First, we have been clear that this merger is about an end-to-end connection between the two networks and that front-line employees would not be furloughed, involuntarily furloughed as a result of the transaction. And we have made that clear.

The transaction creates a lot of benefits for everybody involved, separate and apart from fuel prices. We, of course, would love to have a moratorium on aviation taxes and would welcome that at any point in time.

But you are right about fuel. It is really unbelievable the rise that we have had in fuel. And it is having a very dramatic effect on the industry.

And we don't have an energy policy in this country. And without an energy policy in this country, we are going to be faced as an industry with continuing difficulty.

And what we are trying to do here is come up with a creative way for these two airlines to be able to navigate through a very difficult fuel environment and a very difficult economic environment. And I think you have hit the issue right on the head.

Ms. JACKSON LEE. Quickly?

Mr. STEENLAND. I would endorse all that Richard said.

And, again, with respect to fuel, the magnitude of the increase in fuel, plus the cost that we have to pay for having that crude oil refined into jet fuel, are also at record highs. So if you see fuel at $118 a barrel, the price per barrel to refine it is in the $30 to $40 range.

So we are really paying close to $150 a barrel for jet fuel, which is at all-time record levels.

Mr. ANDERSON. And we are paying for it with dollars, so our foreign-flag competitors that are paying for it with euros—you know, it is the equivalent of about $80 a barrel for them, because they are using euros, and we have a weak dollar.

So it is not just the run-up in the price of fuel. It is also the weakness of the dollar, in addition to the crack spreads, which is the cost of refining.

Ms. JACKSON LEE. Let me thank the witnesses.

Mr. Chairman, I think a passenger bill of rights should really be a twin to any potential merger. And with that, I yield back.

Mr. CONYERS. Thank you.

The Chair is pleased to recognize the distinguished gentleman from Utah, Chris Cannon.

Mr. CANNON. Thank you, Mr. Chairman.

And let me apologize for missing the next panel, but we have a markup of the Committee that I am the Ranking Member of. I thank you for holding this hearing.

And, Mr. Anderson, your predecessor opposed the merger with USAir recently. Why is this merger different?

Mr. ANDERSON. Well, you have got to put the USAir transaction in context. That wasn't a merger. That was a hostile invasion.

And in any circumstance where you are in the position that Delta was in and you have a hostile takeover, you will do everything you can to defend your company and to defend your employees and your communities.

So, one, this is not a hostile takeover. This is a merger by agreement.

Second, the reason why that transaction did not work was it was a merger of subtraction, not a merger of addition, because USAir and Delta almost perfectly overlapped. New York, Boston, up and down the East Coast, they had a hub in Charlotte, hub in Atlanta.

And so since it wasn't end-to-end, it caused a lot of layoffs and reductions in operations, because the value that you were to create there was going to come from basically paring the two airlines down significantly.

In this instance, there is very little overlap. In Salt Lake City, Northwest has one gate, and I think it may operate six flights a day. So we—there is just not very much overlap between the two.

And if you go back to the CEO's, Mr. Grinstein's, testimony at that time, he said—specifically he said, you know, we are not opposed to mergers. We are just opposed to bad mergers, and that was a bad merger.

Mr. CANNON. Thank you. You mentioned Salt Lake. What would be the effect of this merger on the Salt Lake hub? Are we going to see service to Asia and Europe?

Mr. ANDERSON. Well, our ultimate hope is that once we get them together and we can really dig under the covers of the flight profitability and the planning at both airlines, our goal would be to add international service, because each of these airlines has a long-term goal of increasing the percentage of its flights to nearly 50 percent of the total.

We are both at about 40 percent of our traffic is international. And the goal with this alliance, with this merger and our alliance with SkyTeam, is to be able to increase our international service. And Salt Lake would surely be on that list.

Mr. CANNON. Thank you. You know, I loved the 1986 merger with Western Airlines. That I think resulted in a large number of benefits.

How does this merger compare, do you think, with that one?

Mr. ANDERSON. Well, in 1986, I was just graduating—I wasn't in the industry, so I don't know for sure what all the benefits were at that time. But I can tell you, in this case, we collectively create in excess of $1 billion in benefits.

And that is very important for these two airlines, given the headwinds we face on fuel and the economy.

Mr. CANNON. Thank you. You know, we could end up in a world where we go from six major carriers to three. And I have some concerns about that, as I think probably everyone does.

In particular, what is going to happen to the market on the Internet because of this and possibly future mergers? Are you thinking about groups like Expedia and Travelocity, Sabre, and how they get information, how they—what role they play in the future, how you make seats available, and how the market works with them and through them with information to keep prices down?

Mr. ANDERSON. Well, the airline industry has the most perfect pricing and transparency to consumers. There are a multiplicity of very powerful Internet sites that are tied to all seats available around the world, Expedia, Travelocity, Orbitz, CheapTickets, Hotwire. There are dozens of these sites.

And the airlines do not control the computerized reservation systems. Those are operated by independent companies. And the Internet, more than any other—more than any other business, the Internet provides consumers perfect transparency 24 hours a day, 7 days a week, in an unbiased way for flight decisions.

And I think probably people didn't really realize that the Internet was going to have such a profound effect. And it is a major factor in keeping markets contestable in the United States and around the world today.

Mr. CANNON. That changes—let me just refine the question a little bit—that changes a little bit with the mergers. What are you guys—what are you doing, as CEOs or, Mr. Anderson, as the CEO of—company, to help assure that we will have those kinds of benefits?

Mr. ANDERSON. It doesn't change those business models. We pay for each booking, and it has turned into a very important and powerful distribution tool around the world.

Mr. CANNON. Thank you, Mr. Chairman. I see my time has expired, but I think Mr. Steenland had——

Mr. STEENLAND. I was just going to add one comment, and that is I don't think there is any other product or service that consumers buy where they can get on the Internet, they have some of the most powerful search engines that have ever been developed, and you can push a button that says, "Lowest Applicable Fare," and displayed in front of you is the entire inventory of every possible way to get from Point A to Point B, and this extraordinarily powerful search engine will hunt out what the lowest fare is, and give the consumer that information, which makes the consumer an extraordinarily powerful purchaser in this regard.

Mr. CANNON. I thank you.

I am a big fan of what you have done, what the industry has done in this regard. I really hope that that will continue as we consolidate.

Thank you, Mr. Chairman. And I yield back.

Mr. CONYERS. Thank you.

I am pleased now to recognize the distinguished gentleman from California, Darrell Issa.

Mr. ISSA. Thank you, Chairman.

Gentlemen, this Committee has asked a lot of questions, and they are all good questions, and they are all local. And as a San Diegan paying twice as much to fly from Dulles to San Diego as I would pay to fly from Dulles to Los Angeles, there is always going to be some local issues of deregulation has not been as logical in its selection of prices.

So I am concerned about competition going forward. And that is what I am going to talk about today.

As a non-hub city—what some call a cul-de-sac city, even though we are a destination—I noticed you had Yuma, but you didn't have San Diego on any of your maps. So it is not that I am offended. It is just that I am bigger than most of the cities that are on the displays.

I buy into most of what you say in your merger information. I don't buy into the concept that having more different, eclectic airplanes that are going to be more troublesome to integrate is somehow an advantage. And I appreciate the fact you have got to spin every negative as a positive, so we will just leave that one for a moment.

Tell me how you are going to compete domestically inside the U.S. in a way in which I am going to see United, American, your combined airline, Southwest, and I am going to assume for a moment—not that these other airlines aren't going to survive—but that, when I say those terms, I am talking about a consolidation that is likely to happen by other carriers wanting to be equally strong in the United States with your combined airline and Southwest.

And my understanding is you will both have about 19 percent domestic market share. I need two to three more—hopefully three more—or, in other words, five 20-percenters to feel comfortable.

Tell me how you are going to compete, and I am going to see you in every market that I see them in, and I am going to see three to five carriers in every market, including a two million population city like San Diego.

Mr. STEENLAND. Why don't I start? And I think this is an excellent question.

Northwest serves San Diego via our hubs. And so when we think about it, and we think about taking a customer from San Diego to Boston or San Diego to Washington, DC, or San Diego to Charlotte, North Carolina, we think about all the myriad of opportunities that customer has.

They can fly Northwest over Detroit, Minneapolis. They can fly American over Dallas or Chicago. They can fly United over Denver and Chicago. They could fly Continental over Houston. They could fly USAir over Phoenix. There are ample opportunities. And they could fly Southwest.

So there is meaningful competition. We don't have a crystal ball. We don't know what is going to happen next. But the consolidation of these two carriers, given their end-to-end nature, is not going to impact the rigorousness of that competition at all.

Plus, I think this industry has demonstrated that there are virtually no barriers to entry, that there are plenty of airport facilities, plenty of gates. There is capital that is willing to invest in this business, whether from private investors or from aircraft manufacturers who want to sell their product.

And we have seen new entrant airlines come in time and time again. Low-cost carriers today have one-third of the domestic market.

Mr. ISSA. Right. And I appreciate that you can't predict how United and American and others will divvy up the market or not divvy up the market. My question, though—well, let me switch to another question.

Do you think that we would be having an antitrust hearing if, instead of looking at your 2007 results, we looked at your 2006 position?

And correct me if I am wrong—I am just using Yahoo, a company that turned its nose up at a $42 billion all-cash offer because it wasn't enough—they say in 2006 that Delta had a negative net worth of $13 billion, Northwest was minus $7.9 billion for—if I have got this right—negative $21 billion.

Your earnings, again, were a negative $9 billion in 2006. And the years before were not as bad, but they weren't good. If we were looking at 2006 results, pre-the wonders and miracles of bankruptcy, would we be having this conversation?

Aren't we to a great extent looking at 2007 when you cleaned up your balance sheet and became profitable?

Mr. ANDERSON. When you look at the decision that you take when you are comparing this transaction to a standalone plan, that standalone plan is built off of the plan of reorganization that came at emergence.

So you are really not looking at 2006. You are really looking at the airlines as they both came out of the restructuring process.

Mr. ISSA. No, no, what I am saying is, is that, if we look at you—and I realize everything was re-done, so I am looking at today. But if we were back and you were both in bankruptcy in a prior period or just—look, it is the middle of 2006, realistically we would be saying—we would be asking you—and this is the point that I would like to make—we would be asking you, I assume, "Are you, in fact—do you have a plan to cut enough costs to survive?"

And I assume we would be asking both of you how you were going to make two failed airlines successful airlines by comparison to your 2007 performance. And that is sort of my question, because I want to make sure that the record is complete that we are looking the best—by looking at where you stand today, 2006, 2007, out of bankruptcy, we are looking at a best-case scenario that you both have had in the last 5 years, isn't that true?

Mr. STEENLAND. If you look at those 2006 numbers, Congressman, that you cited what is included in that are an awful lot of non-cash reorganization expenses that——

Mr. ISSA. Look, I appreciate all of that. I just want an answer to the question, because the Chairman has limited time for me, which is probably pretty well expired.

If I go back to 2005 or 2004, okay, I find the same, just not as bad. I am the only Member of Congress that sits on a public board. I am well aware of what we have to do in order to meet SEC for what we publish.

What I am saying is, aren't we looking in 2007 at the brightest, most positive scenario in the previous 5 years? You know, do what they do in the three letters. Blame your predecessors if you need to. But, for God's sake——

Mr. ANDERSON. The answer is yes.

Mr. STEENLAND. The answer is yes.

Mr. ISSA. Thank you. That is all I really wanted. It was sort of a softball.

Mr. Chairman, thank you very much for your indulgence on that question.

Mr. CONYERS. You are welcome, always.

This completes our inquiry of the first panelists. As you can see, we have a number of very inquiring Members on the Committee of varied backgrounds. We assure you, they will scrutinize your submitted statements and papers with great care.

And we thank you for your cooperation in appearing before us.

Mr. ANDERSON. Thank you for your graciousness.

Mr. STEENLAND. It was a privilege to be here, Mr. Chairman.

Mr. ANDERSON. Thank you.

Mr. CONYERS. You are welcome.

Now I would like to call up the second panel.

And we welcome Ms. Veda Shook and Mr. Clifford Winston.

We welcome Mr. Doug Moormann and Mr. Buffenbarger.

We will start with Mr. Buffenbarger, the international president of the International Association of Machinists. The son of an IAM member, Mr. Buffenbarger has been with IAM for over 30 years.

He assumed his first IAM leadership post in 1970 when he was elected steward of his apprenticeship group at the General Electric jet engine prompt group at Evendale, Ohio. And since then, he has held various leadership posts, including that of general vice president. He was elected to the office of international vice president in 1997.

We have your testimony written, and we would invite you to make your presentation at this point. Welcome to the hearing.

STATEMENT OF R. THOMAS BUFFENBARGER, INTERNATIONAL PRESIDENT, INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS

Mr. BUFFENBARGER. Thank you, Chairman Conyers and Members of this Committee, for the opportunity to speak to you on behalf of airline workers through North America.

My name is Tom Buffenbarger, international president of the International Association of Machinists and Aerospace Workers, known as the IAM, the largest airline union in North America.

I have submitted my full statement for the record, so I will only summarize my testimony here.

It is my firm belief, and the belief of many others, that airline executives are using a crisis of their own making to justify the establishment of what can only be called a monopoly.

The need to address overcapacity has been a favorite battle cry for airline management for decades, and it won't be resolved by mergers.

If there were only two airlines left in the country, I am convinced their CEOs would be complaining about overcapacity and looking to merge.

Airlines also cite high fuel prices as a reason to merge, but the cost of a gallon of fuel for two individual airlines will be the same as for one large airline.

Consolidation is not the solution for this troubled industry; more competent management is.

Immediately after 9/11, airlines demanded government aid. Carriers then sought and won pension relief legislation, but still abandoned their pension plans.

Airlines also used the bankruptcy law to force employees and shareholders to make sacrifices to save the carriers. If airline executives spent as much time running their airline as they do looking for bailouts, this industry and our country's transportation system would be much better off.

This industry is in disarray, and the executives in charge are only making things worse. There is too much at stake to let executives and their legacy of failure try and solve the industry's problems. It is time for airline passengers, employees, and the government to finally say no to airline executives.

Some form of limited re-regulation is necessary if this country has any chance for a safe, reliable, profitable and competitive air transportation industry. Re-regulation is the only long-term solution. Today, however, we must deal with immediate issues.

One factor the airlines will not admit publicly is that they expect this merger to eliminate the union representation rights of Northwest Airlines workers. They want to use this merger as a weapon to eliminate the jobs and the rights of thousands of workers. The machinists union will not allow this to happen.

I realize this hearing was prompted by the Northwest Airlines-Delta Air Lines merger announcement. However, we can't discuss that proposal without recognizing that this announcement will lead to additional merger attempts.

Continental Airlines, United Airlines, American Airlines and US Airways have all discussed various pairings in response to the Delta-Northwest action. Continental Airlines, unlike Northwest or Delta, would rather stay independent, but is being forced to explore merger possibilities because the Northwest-Delta combination would put it at a competitive disadvantage.

If allowed to proceed, Northwest and Delta will form the world's largest airline, creating the world's biggest corporate headache. This will lead to other mergers, likely cutting the number of major national carriers in half, from six to three.

The wholesale reshaping of the industry will destroy competition and harm consumers on routes throughout the United States. It would be difficult to find anyone outside of a small group of airline executives who expects to benefit from additional airline consolidation.

It is both insulting and a testament to these airlines' arrogance if they think anyone believes they can combine these two companies without eliminating service and purging employees.

Passengers originating or traveling to Memphis, Detroit, Cincinnati, Minneapolis and the smaller communities served by airports in these cities are just some of the casualties that will lose service frequencies.

Both Delta and Northwest have frozen or terminated their pension plans. If a merger takes place and the combined carrier ultimately fails, the pensions will be forced onto the Pension Benefit Guaranty Corporation, the PBGC.

This will burden the PBGC with more than $7 billion in combined liabilities. We all know the PBGC has already expressed concerns about such a scenario.

Just over a year ago, Delta Air Lines was making the rounds in Washington trying to block a merger proposal with US Airways. Delta said then that "the competitive impact of the US Airways proposal deal is that, if the merger were to go forward, it would trigger broad industry consolidation."

Delta was right then and wrong now. Too much is at stake to take these airlines at their word.

One final point, Mr. Chairman. Since employees, passengers and shareholders will lose in this merger, who benefits? Doug Steenland stands to gain as much as $19 million due to the ending of his employment at Northwest. Richard Anderson has said he would wave the $15 million in merger-related compensation he could receive due to change in control, but he could still realize tremendous benefits through a new employment contract as the CEO of a much larger company.

A Delta-Northwest merger will eliminate jobs, reduce choices for passengers, further deteriorate customer service, trigger additional senseless mergers, make millionaires even richer, and most importantly do nothing to address the problems of a failing industry.

This merger and the ones that follow should not be allowed to proceed.

Mr. Chairman, I thank you for the opportunity to appear before you and this great Committee. And I will welcome any questions.

Thank you.

[The prepared statement of Mr. Buffenbarger follows:]

PREPARED STATEMENT OF R. THOMAS BUFFENBARGER

Thank you, Chairman Conyers, and members of this Committee for the opportunity to speak to you on behalf of airline workers throughout North America. My name is Tom Buffenbarger, International President of the International Association of Machinists and Aerospace Workers (IAM), the largest airline union in North America. We represent more than 110,000 airline workers in almost every job classification, including flight attendants, ramp service workers, mechanics, customer service, reservation agents and office employees.

It is my firm belief, and the belief of many others, that airline executives are using a crisis of their own making to justify the establishment of what can only be called a monopoly.

Airline CEOs regularly complain about overcapacity, but they are the ones responsible for creating the problem, not passengers, not fuel prices and certainly not employees.

The need to address overcapacity has been a favorite battle cry for airline management for decades and won't be resolved by mergers. Braniff, Eastern, Pan Am, TWA Peoples Express and others have all disappeared from the scene. Reducing capacity will not overcome management's failure to run a profitable business.

If there were only two airlines left in the country, I am convinced their CEOs would be complaining about overcapacity and looking to merge.

Airlines also cite high fuel prices as a reason to merge, but the cost of a gallon of fuel for two individual airlines will be the same as for one large airline.

Consolidation is not the solution for this troubled industry—more competent management is.

Immediately after 9/11 airlines demanded more than $6.3 billion in government aid. Carriers then sought and won pension relief legislation, but still abandoned their pension obligations.

Airlines also used the bankruptcy law to force employees and shareholders to make sacrifices to save the carriers. IAM members alone at Northwest Airlines, US Airways, United Airlines, Comair, Hawaiian Airlines and Aloha Airlines gave up nearly $9 billion in bankruptcy.

Still, this troubled industry lost $30 billion from 2001 to 2006. More than 150 carriers have gone bankrupt since deregulation.[1]

If airline executives spent as much time running their airline as they do looking for bailouts, this industry and our country's transportation system would be much better off.

This industry is in disarray and the executives in charge are only making things worse.

Airlines can't police their own maintenance programs, small communities are under-served, passengers are treated like cattle and employees are continually being steamrolled.

There is too much at stake to let executives and their legacy of failure try and solve the industry's problems. It is time for airline passengers, employees and the government to finally say "NO" to airline executives.

Some form of limited re-regulation is necessary if this country has any chance for a safe, reliable, profitable and competitive air transportation industry. And I'm not the only one calling for re-regulation.

Although I do not agree with everything former American Airlines CEO Robert Crandell says about the airline industry, I share his opinion that, "market-base approaches alone have not and will not produce the aviation system our country needs" and that "some form of government intervention is required."[2]

Re-regulation is the only long-term solution. Today, however, we must deal with immediate issues.

One factor the airlines will not admit publicly is that they expect this merger to eliminate the union representation rights of Northwest Airlines workers. They want to use this merger as weapon to eliminate the jobs and rights of thousands of workers.

The Machinists Union will not allow this to happen.

Northwest and Delta employees sacrificed wages, pensions and, in too many cases, their jobs to help their airlines survive bankruptcy.

Mergers are another avenue for airlines to cut even more jobs.

[1] The New York Times, *Did Ending Regulation Help Fliers?* By Micheline Maynard, April 17, 2008

[2] The New York Time OP-ED, April 21, 2008

I realize this hearing was prompted by the Northwest Airlines-Delta Air Lines merger announcement. However, we can't discuss that proposal without recognizing that this announcement will lead to additional merger attempts.

Continental Airlines, United Airlines, American Airlines and US Airways have all discussed various pairings in response to the Delta-Northwest action.

Continental Airlines, unlike Northwest or Delta, would rather stay independent but is being forced to explore merger possibilities because the Northwest-Delta combination would put it at a competitive disadvantage.

Both Northwest and Delta have seen their stock prices sink since exiting bankruptcy, and more so since the merger was announced. Passengers, employees and investors, three groups with different concerns, all think this merger is a bad idea.

If the two airline CEOs testifying today can't independently provide their customers and shareholders with value for their dollar, what will happen under a merged company that is saddled with debt and even harder to manage?

If allowed to proceed, Northwest and Delta will form the world's largest airline, creating the world's biggest corporate headache. This will lead to other mergers, likely cutting the number of major national carriers in half, from six to three.

The wholesale reshaping of the industry will destroy competition and harm consumers on routes throughout the United States.

Shareholders suffer greatly in industry consolidation. At the time American Airlines purchased TWA, American's stock was trading at $36.05. Last week it was $9.34. US Airways stock before the America West merger was worth $19.30, but now trades at around $8.00 per share.

It would be difficult to find anyone outside of a small group of airline executives who expects to benefit from additional airline consolidation.

Passengers, employees and shareholders have suffered enough by senseless management decisions. In the last month, four airlines have declared bankruptcy.

We have seen how airlines fail to comply with FAA-mandated safety compliance directives. Do we really need more instability in this chaotic industry?

Both Northwest and Delta operate a hub and spoke system. Combining the two will create redundancies, which, if the airlines keep their promise not to close hubs, will create regional dominance.

The new Delta will control the South East and Upper Midwest with two hubs in each region.

Atlanta and Memphis, less than 400 miles apart, will both be Delta hubs.

Delta will also have two major hubs in Detroit and Cincinnati, less than 300 miles apart. If these two airlines merge, the frequency of flights between cities they both serve will be diminished.

It is both insulting and a testament to these airlines' arrogance that they think anyone believes they can combine these two companies without eliminating service and purging employees.

Passengers originating or traveling to Memphis, Detroit, Cincinnati, Minneapolis and the smaller communities served by airports in these cities will lose service frequencies and pay higher fares.

Experience has shown us that commitments made by airlines in mergers are absolutely worthless.

When American Airlines purchased TWA out of bankruptcy in 2001, promises were made to TWA employees. American's then CEO Donald Carty testified before the Senate Commerce Committee saying, "We look forward to adding TWA's 20,000 employees to the American Airlines family," and that American was willing to make "commitments to the 20,000 TWA employees and their families that no one else would make." [3]

In spite of these assurances, the overwhelming majority of former TWA employees are no longer employed by American Airlines.

Thousands of mechanics, ramp workers, customer service agents, flight attendants and pilots who were promised careers with American are no longer working in the industry.

We also cannot count on Delta's promise not to further reduce capacity beyond already announced service cuts. American Airlines promised the City of St. Louis that it would maintain TWA's hub operation at Lambert Field after the TWA merger.

That once bustling hub had over 474,000 flights in 2000, TWA's last full year of operation. In 2007 that number was reduced to a little more than 254,000. Passengers flown have been reduced nearly in half, from 30.5 million to 15.4 million in the same period.[4]

[3] Testimony of Don Carty, http://judiciary.senate.gov/oldsite/te020701dc.htm

[4] http://www.lambert-stlouis.com/

With the loss of passengers came the loss of tax revenue to the city of St. Louis and income for the businesses that support the airport and service the airlines.

Delta has a history or breaking promises. Over the last 10 years the airline offered employees early retirement packages based principally on very attractive free or minimal cost health care programs.

According to the Delta Air Lines Retirement Committee, retirees' health care deductibles and co-pays were increased dramatically after accepting the packages and retiring.

Both Delta and Northwest have frozen or terminated their pension plans. If a merger takes place, and the combined carrier ultimately fails, the pensions will be forced onto the Pension Benefit Guaranty Corporation (PBGC).

This will burden the PBGC with more than $7 billion in combined liabilities. The PBGC has already expressed concerns about such a scenario.

Just over a year, ago Delta Air Lines was making the rounds in Washington trying to block a merger proposal with US Airways.

Delta said then that "the competitive impact of the US Airways proposal deal is that if the merger were to go forward, it would trigger broad industry consolidation."[5] Delta was right then, and wrong now.

Both Northwest and Delta entered bankruptcy on the same day in 2005 to make their companies leaner and more competitive.

Since they are here today saying that they must merge to become profitable, their bankruptcy restructurings must have failed.

So why should we believe them when they say this merger will be a positive step for employees, consumers and shareholders? Too much is at stake to take these airlines at their word.

One final Point, Mr. Chairman.

Since employees, passengers and shareholders will lose in this merger, who benefits?

Doug Steenland stands to gain as much as $19 million due to the ending of his employment at Northwest.

Richard Anderson has said he would wave the $15 million in merger related compensation he could receive due to change in control, but he could still realize tremendous benefits through a new employment contract as the CEO of a much larger company.

If employees lose their right to collectively bargain, if IAM members lose the new pensions they negotiated in bankruptcy, if employees are going to be sacrificed to grow executives' personal bank accounts, then this merger will fail.

A Delta-Northwest merger will eliminate jobs, reduce choices for passengers, further deteriorate customer service, trigger additional senseless mergers, make millionaires even richer, and most importantly, do nothing to address the problems of a failing industry.

This merger and the ones that will follow should not be allowed to proceed.

Thank you for the opportunity to appear before the committee. I welcome any questions.

Mr. CONYERS. Thank you, Mr. Buffenbarger. You have got us off to a slightly different start from the direction of the first panel.

I am pleased now to welcome Doug Moormann, vice president of Economic Development for Cincinnati USA Regional Chamber. He is a former vice president of government affairs. And prior to joining the chamber, Mr. Moormann served as the executive assistant for business and industry in the office of Governor Bob Taft.

We are delighted to have you before us, sir, and would welcome your testimony at this time.

TESTIMONY OF DOUGLAS MOORMANN, VICE PRESIDENT, ECONOMIC DEVELOPMENT, CINCINNATI USA REGIONAL CHAMBER

Mr. MOORMANN. Thank you very much.

Chairman Conyers, Ranking Member Chabot, and distinguished Members of the Antitrust Task Force, good afternoon.

[5] Delta Air Lines press release, http://news.delta.com/print__doc.cfm?article__id=10533

Ranking Member Chabot, thank you very much for the opportunity and the invitation to present testimony today.

Again, my name is Doug Moormann. I am the vice president for government affairs at the Cincinnati USA Regional Chamber. And I am pleased to report to you that the regional chamber is the fifth-largest Chamber of Commerce in the United States, approaching 6,000 members, representing more than 300,000 employees.

It is an honor to have the opportunity to speak to the Task Force today. The issues upon which you are deliberating, the proposed merger of Delta Air Lines and Northwest Airlines, is critically important.

Globally competitive, U.S.-based airlines are important to the Nation and its economic well-being, as trade expands and international markets become more accessible. More specifically, ensuring that Delta thrives is critically important to the Cincinnati region, its people, and its prosperity.

The Cincinnati region benefits significantly from the hub service afforded to us by Delta in two very important ways. First of all, the hub is an economic driver. The hub is responsible for an estimated 34,000 direct jobs and $2.8 billion per year in annual economic impact.

The hub also provides the regional business community with nonstop access to nearly 120 domestic markets and to the top business destinations in Europe.

I am pleased to report that the hub is very important to us and that Delta has provided assurances to us that the hub will continue to operate in a merged environment.

The assurances that Delta has provided to us also include, importantly, that Comair, the regional jet service that is headquartered in northern Kentucky, will also continue to be utilized by Delta as a major part of its operations.

Perhaps nowhere is the impact of the hub more evident than on our regional economic development and business attraction efforts. As our region competes in the global marketplace for jobs and capital investment, we must identify and tend to our differentiators.

In making the case for job creation and capital investment in Cincinnati USA, one of our top advantages is accessibility and superior air service. Direct flights and same-day back-and-forth service make a difference. Businesses realize this. Many businesses calculate that, without same-day service, per-trip costs double.

The region's success in attracting foreign investment to the United States tracks very closely with the onset of international service at CVG. Between 1999 and 2003, the number of foreign-owned companies in the Cincinnati USA region more than doubled from 150 to over 300.

Today, that number stands at more than 400 international businesses. These are international businesses that are investing in the United States, employing our workers, and, importantly to Congress and other government entities, paying our taxes.

A 1998 study from George Mason University perhaps sums it up best. Cities that are not on the world's international air service map today are not going to be on the world's economic map tomorrow.

Based on the chamber's preliminary assessment, the merger of Delta and Northwest represents a combination of complementary air service providers. It appears to us that there is very little overlap in the routes offered by the two carriers.

In fact, Delta has reported to us that there are only four routes where the combined businesses would be the exclusive provider of domestic nonstop service. Beyond that, our understanding is that the overall industry will remain competitive if the Delta-Northwest merger moves forward.

In a post-merger environment, our understanding is that no single carrier will have more than 20 percent share of the domestic market. In fact, Southwest currently carries more domestic passengers than Delta and Northwest combined.

Before closing, I would be remiss if I did not mention fares. CVG has historically among the national leaders in the high cost of airfares, one top national ranking that our region would be more than happy to shed.

The chamber, and indeed the entire community, hopes that a new merged entity will result in some fare relief for our region's loyal customers.

Mr. Chairman, the Cincinnati USA region benefits greatly from a competitive economically sustainable and healthy Delta. If the companies' path to competitiveness and financial stability requires a merger, then our community realizes that a merger is in the best interests of our community.

Chairman Conyers, Congressman Chabot, again, thank you very much for the opportunity to visit with the Committee today. I appreciate the attention you have given to our testimony and would be happy to answer any questions if you have some.

[The prepared statement of Mr. Moormann follows:]

Prepared Statement of Douglas Moormann

Chairman Conyers, ranking member Chabot, and distinguished members of the Committee on the Judiciary Antitrust Task Force—good morning.

Ranking Member Chabot, thank you for the invitation to present testimony today. My name is Doug Moormann and I am the Vice President for Economic Development for the Cincinnati USA Regional Chamber. As the Chamber's vice president for economic development, I lead the Cincinnati USA Partnership—the region's catalytic economic development organization focused on attracting new companies, retaining and expanding our existing companies and accelerating business growth across our entire region.

The Cincinnati USA Regional Chamber is one of the largest such business organizations in the country, approaching 6000 business members and over 300,000 employees ranging from global companies like Procter & Gamble, Toyota and GE Aviation to strong privately held mid-sized companies and sole proprietors. Eighty percent of our members have fewer than 50 employees. Our region includes 15 counties in Southwestern Ohio, Northern Kentucky and Southeastern Indiana.

It is an honor to have the opportunity to speak to the Task Force this morning. The issues on which you are deliberating—the proposed merger of Delta Air Lines and Northwest Airlines is critically important. Globally competitive, U.S. based airlines are important to the nation and its economic well-being as trade expands and international markets become more accessible. More specifically, ensuring that Delta thrives is critically important to the Cincinnati region—its people and its economic prosperity.

Importantly, I want to stress that our Chamber's interests are aligned with the larger community interests. We are not alone in acknowledging the immense value of the Delta hub. The region is united in its recognition that air service, in particular, the hub service offered by Delta, is an unparalleled economic driver in our community and an asset that absolutely must be retained to ensure the ongoing economic competitiveness of the Cincinnati USA region.

The region benefits from the hub service in two important ways:

1) The hub creates jobs and economic activity—activity approaching $2.8 billion in total annual impact according to a study conducted by the University of Cincinnati; and
2) The hub provides the regional business community with non-stop access to nearly 120 domestic markets and the top business destinations in Europe. To place this number of non-stop destinations in perspective, it is more than three times the number served by the five surrounding airports—combined. The CVG airport also features more non-stops than are offered at the airports in Los Angeles, Boston, Charlotte, San Francisco or New York.

In 2005, the University of Cincinnati Economic Center for Education and Research found that the benefit of the hub is an estimated $2.85 billion annually and approximately $22.2 billion in economic activity in the past 10 years. The hub is also responsible for 34,000 airport-related jobs. But that is just the beginning. Altogether, UC reported that the hub is responsible for 131,515 jobs in the Cincinnati USA region. Considering that overall employment in the region is just over one million, the hub effects approximately 13 percent of total regional employment. These jobs are not concentrated only around the airport—nearly half belong to workers in Hamilton County, Ohio and a full third are jobs belonging to residents of Northern Kentucky's three northern tier counties. Just as the local economy functions as a region, the impact of the hub is indeed regional.

I must acknowledge that the size of the hub has been reduced since 2005. Clearly, the reduction in service has resulted in commensurate reductions in the number of jobs and level of economic impact generated by the hub. UC researchers have estimated that the overall economic impact has not decreased by more than fifteen percent and that the scale and importance of the hub remains huge to the regional economy.

Perhaps nowhere is the impact of the hub more evident than in our regional economic development and business attraction efforts. As this region competes in the global marketplace for jobs and capital investment, we must identify and tend to our differentiators—our key competitive advantages. In making the case for job creation and capital investment in the Cincinnati USA region one of our top advantages is accessibility, superior air service. Direct flights and same-day out and back service make a difference and businesses know it. Many businesses calculate that without same-day service per-trip costs double.

The region wins jobs, wins capital investment and grows wealth because of the hub service available to our business community.

A case in point—the North American Headquarters for Toyota Manufacturing is located minutes from the airport. This major headquarters operation employing over 1500 people chose to locate in the Cincinnati USA region in large part due to the air service available. On a typical day, Toyota flies as many as 100 people to and from the airport.

According to Dennis Cuneo, Former Senior VP for Corporate Affairs for Toyota, "Toyota selected Northern Kentucky as the site for its engineering and manufacturing offices because it is centrally located among our manufacturing plants and Midwest suppliers, and has an excellent transportation system, including a world-class airport."

One of the region's most notable development accomplishments in recent memory is the attraction of Tata Consultancy Services to Cincinnati USA. This Indian investment will create 1000 new information technology jobs in our region. As is evident in its company name—this business provides information technology consulting services around the nation and indeed around the world. One of the top reasons that Tata selected Cincinnati is because of the outstanding air service we offer—direct flights to its customers locations. In this case, the region won, in large part, because of the air service we offer.

The region's success in attracting foreign investment to the United States tracks very closely with the onset of international service from CVG. Between 1999 and 2003, the number of foreign owned companies in the Cincinnati USA region doubled from 150 to 300. Today that number stands at over 400 international businesses investing in the United States, employing our workers and paying our taxes. Hence, the hub service at the airport is providing this region with significant levels of economic growth and wealth creation.

The region's Fortune 500 companies—those companies leading the way in terms of global competitiveness and success—are reliant on the hub service at CVG to meet the competition on the world stage.

Charlotte Otto, Global External Relations Officer for P&G says, "Hundreds of our people are moving—day after day—to cities all around the U.S. and the world. Our ability to fly nonstop to so many destinations is truly a strategic advantage."

P&G is a global business and could be located anywhere in the world. One of the top reasons the company remains here and expands here, aside from it calling Cincinnati home since its inception, is reflected in Charlotte's quote—the ability to fly direct to destinations around the world.

The international access afforded to the region also results in a more robust export market. Among similarly situated cities (Charlotte, Columbus, Indianapolis and Kansas City) Cincinnati USA has the highest levels of exports per capita and the greatest share of economic activity devoted to exports.

A 1998 study from George Mason University sums it up best. "Cities that are not on the world's international air service map today are not going to be on the world's economic map tomorrow." Cincinnati USA simply must remain on the international service map.

Based on the Chamber's preliminary assessment, the merger of Delta and Northwest represents a combination of complementary air service providers. Domestically, Delta's strength lies in the East, Southeast and Mountain West portions of the United States. Northwest primarily serves the Midwest. Internationally, Delta offers strong connections to Europe and Latin America while Northwest is a major provider of service to Asia. It appears to us that there is little overlap in the routes offered by the two carriers. In fact, Delta has reported to us that there are only four routes where the combined would be the exclusive provider of non-stop service.

Beyond that, our understanding is that the overall industry will remain competitive if the Delta-Northwest merger is approved. In a post merger, our understanding is that no single carrier will have more than a twenty percent share of the domestic market. In fact, Southwest currently carries more domestic passengers than Delta and Northwest combined.

Clearly, from a competitive stand point, in a merged environment there will be no less competition at CVG than currently exists. In fact, the reduced service noted earlier, may present an opportunity to attract new carrier service to the CVG airport and actually enhance the level of competition.

The Cincinnati USA region is viewing the merger through five lenses:

1) Retain the maximum number of jobs at the hub
2) Maintain the maximum level of service at the hub—115 non-stop domestic destinations
3) Retain non-stop international service at CVG—service to Paris, London, and Frankfurt, Roma and Amsterdam are key to our international job attraction efforts
4) Retain, and consider expanding through consolidation, the reservations center in Cincinnati
5) Assurance that Delta will continue to utilize Comair as a major provider of regional air service.

We have posed these questions to top Delta executives and have received assurances that the merged business plans to retain the hub, continue and possibly expand international service, retain the reservations center and continue to utilize the regional air services offered by Comair. We take them at their word and will monitor the progress of the merger with guarded optimism.

Cincinnati USA is poised for growth. A new riverfront and skyline is emerging, we have a revitalized central business district and an improved business tax environment. Unified, regional action plans are under development and our business and community leaders are engaged. One of the key underpinnings of our success is an airport that offers superior air service. We respectfully request that you keep in mind the prospects for prosperity for the 2.1 million residents of Cincinnati USA as the merger is evaluated.

Before closing, I would be remiss if I did not mention air fares. CVG is historically among the national leaders in the high cost of air fares—one top national ranking we would prefer to shed. The Chamber, and indeed the entire community, hopes that a new merged entity will result in some fare relief for this region's loyal customers of the airline.

Mr. Chairman, the Cincinnati USA region benefits greatly from a competitive, economically sustainable and healthy Delta—if the company's path to competitiveness and financial stability requires a merger then this community realizes that a merger is in its own best interest.

In closing, thank you for convening this hearing and considering the implications of a Delta/Northwest merger. I am confident our interests are aligned—focused on building and maintaining strong economies in metropolitan areas.

Chairman Conyers, again, thank you for the opportunity to visit with you. Members of the Task Force, I appreciate your attention and will answer any questions you may have about my testimony.

Mr. CONYERS. Thank you very much, Mr. Moormann.

We now turn to Dr. Clifford Winston, a senior fellow at the Brookings Institute, who specializes in transportation industry organization and regulation and, over his 25-year tenure at Brookings, has authored numerous books and articles.

He has a degree from the University of California at Berkeley, a master's from the London School of Economics, and has a PhD in economics from Berkeley.

Welcome.

TESTIMONY OF CLIFFORD WINSTON, BROOKINGS INSTITUTE

Mr. WINSTON. Thank you. I appreciate having the opportunity to testify.

What I would like to do is try to just distill my testimony into three comments about competition in the industry and take a broader look at appropriate public policy.

The first part of my testimony includes descriptive information about the airline industry. There is a lot of data about this industry, and we get a pretty good idea about how it is performing and how travelers' welfare and industry profitability are affected.

And in a nutshell, the data show that the industry is actually quite competitive, which has been good for travelers, but certainly the industry carriers are facing significant challenges.

The first way that we actually measure the intensity of competition is the number of equal-sized carriers at the route level. And this is an important point that I think has been missed in previous testimony.

The focus has been on the number of carriers at the industry level. That is not where carriers compete. They compete at the route level.

You could have 10 carriers in the industry, but if only two are on the route, then that obviously makes a big difference. If you have four carriers in the industry and four on the route, then that is obviously a more competitive situation. So focusing on the route level is absolutely essential.

What we see is there has been an increase in route-level competition since deregulation and then it has been stable—on in. However, obviously, there has been a lot of entry and exit been going on, so the identity of the carriers have changed, and that has been probably the most crucial development in the evolution of this industry, as this identity now consists of the growth of low-cost carriers, and they provide intense competition, not only on the route, but as potential competitors and what we call adjacent competitors.

Just to give you an example of what an adjacent competitor is, Southwest provides service from BWI to Oakland. That route and competition provides extreme pressure on United when they want to fly from Dulles to San Francisco.

Their fare is affected. So you don't even have to be on the route as a low-cost carrier to have an impact on fares.

The combination of the steady appearance of route-level competition and the identity of carriers has led to a significant decline and a steady decline in real fares. Actually, real fares have declined 60 percent or so since deregulation, not 30 percent, as was said earlier.

So travelers have clearly gained from the competitive situation, but the problems now are facing the carriers where profitability has been quite volatile and there is a lot of pressure now on the profitability because of increases in fuel prices.

Now they have pressure to cut costs, but there is now another phenomenon which we really have never seen before and, again, not mentioned earlier. It is the increase in load factors, that is, the share of seats that are filled by paying passengers.

That figure now is at an all-time high of 80 percent. So we have a real problem. The planes are filled up. It is not excess capacity. How could there be excess capacity? It is an 80 percent load factor. You can't put anybody anywhere, unless you want to put them in the bathroom.

So the difficulty is, how can you be making money when you are filling your planes? And as I said, you are still having problems.

Mergers, then—and this is my second point—are understood in this context as a way for carriers to improve their financial situation.

Now, broadly, in terms of the evidence, the motivation for these is generally access for international routes, where you don't get access because of regulation—so, by merging, you can get access—and to relieve financial distress. Usually one of the carriers is under financial distress and the other one is needed to help them out.

Now, the merger between Delta and Northwest, at least in terms of historical context of mergers, makes a lot of sense, because here you see access to international routes and now you see carriers both having financial distress.

So I see greater access to international operations, which would expand their network, and that would obviously improve their performance; restructuring their network, to attract more business travelers to funnel them through from domestic to international destinations; and reducing their costs, retiring older aircraft, and I think labor adjustments will be part of it.

Now, there are three comments that have been made in previous testimony and questioning about this merger concerns.

Mr. ELLISON. [Presiding.] Dr. Winston, we need you to wrap up your testimony.

Mr. WINSTON. Okay. And what I would say are the concerns about labor, hubs, and passenger bills of rights are not really appropriate in this context. The market can deal with these issues, and they have been doing so effectively with other carrier relationships and other industries. And they are absolutely critical.

Final point I would say, in terms of competitive policies, given concerns about mergers and an interest in ways of trying to help competition in the industry, I would urge this Committee and Congress in general to push forward for more international deregulation and have it spread to domestic routes, allowing both foreign carriers to serve our routes and our carriers to serve their routes.

Thank you. Sorry for going over.
[The prepared statement of Mr. Winston follows:]

PREPARED STATEMENT OF STEVEN A. MORRISON AND CLIFFORD WINSTON

The State of Airline Competition and Prospective Mergers

Statement of

Steven A. Morrison
Professor and Chair, Department of Economics
Northeastern University
Boston, MA 02115
617-373-2873
s.morrison@neu.edu
http://www.economics.neu.edu/morrison/research

and

Clifford Winston
Senior Fellow, Economic Studies Program
The Brookings Institution
1775 Massachusetts Avenue, NW
Washington, DC 20036
202-797-6173
cwinston@brookings.edu
http://www.brookings.edu/scholars/cwinston.htm

"Competition in the Airline Industry"
Hearing before the
Judiciary Committee Antitrust Task Force
United States House of Representatives

April 24, 2008

Introduction

This fall the United States will celebrate the 30th anniversary of the Airline Deregulation Act of 1978—and the nation does have reason to celebrate because airline deregulation has benefited both travelers and carriers. Among the most important benefits: fares have fallen significantly, flight frequency has increased, and carriers have become more efficient. Moreover, these benefits have been realized while air travel safety continues to improve.

However, it would be misleading to conclude that the industry's adjustment to deregulation—and the extent of deregulation—is complete. Airline industry earnings have fluctuated greatly since deregulation and the industry has yet to earn a normal rate of return on invested capital on a consistent basis. Accordingly, carriers continue to seek ways to reduce costs and increase profitability, especially in light of recent opportunities to expand their international operations as part of the March 2008 Open Skies agreement with the European Union. Further deregulation of international markets could occur through Open Skies agreements with countries outside of the EU.

Mergers are one strategy that some airlines have pursued to improve the efficiency of their networks and to expand their domestic and international route coverage. Recently, Northwest Airlines and Delta Air Lines have filed an application to merge their operations and it is expected that other merger proposals will follow. This testimony provides some perspective on the motivation for and likely effects of airline mergers in the context of the current state of airline competition. We also note some policies that would spur additional competition in the industry.

The State of Airline Competition

The standard way to measure airline competition is the number of effective competitors (i.e., equivalent equal-sized carriers) on a route. Figure 1 shows that competition on all routes increased for several years after deregulation in 1978, and that it has fluctuated somewhat because of mergers in the late 1980s, the macroeconomic expansion in the late 1990s, and the 2001 terrorist attacks. Although the figure shows that the number of competitors varies by route distance, in general, airline competition today is nearly as great as it ever was. In fact, competition may be at an all-time high because of the growth of low-cost carriers. That is, the intensity of competition on a route is determined by the number of airline carriers and the *identity* of the carriers. Figure 2 shows that the percentage of passenger miles where low-cost carriers compete for traffic with legacy (i.e., pre-deregulation) carriers continues to increase.

The number and identity of airlines in city pair markets has been sufficient to cause real airline fares to continue their long term decline (figure 3). Of course, some travelers pay higher fares per mile than other travelers pay; but competitive pressures continue to keep real fares from rising. This fact is of particular importance for the current financial health of the industry because fuel prices have recently increased dramatically (figure 4). As recently as 1998 jet fuel accounted for less than 10 percent of airline costs. So far this year, it accounts for more than one-third of airline costs; thus, the industry is under additional pressure to reduce costs.

Competition unleashed by deregulation has caused airlines to become more efficient. In the decade before deregulation, load factors—or the percentage of seats filled with paying passengers—were around 55 percent (figure 5). Load factors have increased since deregulation, indicating that airlines are making more efficient use of their available seat capacity. In the wake of September 11, carriers have not increased their seat capacity as fast as passenger demand has risen, resulting in load factors that have climbed to record levels of nearly 80 percent.

Given such high load factors, it would be expected that the U.S. airline industry would be making handsome profits, but that is not the case. In 2006 and 2007, the industry rebounded to a modest extent from its substantial losses following the September 11, 2001 terrorist attacks, only to report a loss in the first quarter of 2008.

Prospective Mergers

Given the current state of the macroeconomy and the recent increase in fuel prices, airlines are under increasing pressure to reduce costs and increase revenues. How do mergers fit into the picture?

In a 2000 paper, we analyzed the determinants of all the actual and attempted airline mergers since 1978. We found that carriers are generally not motivated to merge for anticompetitive reasons, but rather by the acquiring carriers' desire to expand their international routes—which are more profitable than most domestic routes due to government agreements that limit entry—and by the acquired carriers' need to be rescued from financial distress.

What about evidence on the effects of previous mergers on travelers? In the aforementioned paper, we found that the USAir-Piedmont merger and the Northwest-Republic and TWA-Ozark mergers, which were opposed by the Justice Department but approved by the U.S. Department of Transportation (at the time DOT had jurisdiction in the matter), had benign effects on fares.

In light of this evidence, the merger between Delta and Northwest appears to be motivated by the merged airline's desire to offer expanded international operations, to restructure its network to attract more business travelers in its traffic mix thus increasing revenues, and to achieve cost reductions by, for example, retiring older aircraft. It is highly unlikely that a merged Delta and Northwest would reduce competition on those routes that both carriers served (or could serve) because low-cost carriers tend to move very quickly to mitigate fare increases initiated by legacy carriers.

Generally, the effect on travelers of changes in airline market structure caused by mergers depends on the specific carriers that exit a market and the specific carriers that take their place.

Further Policy Considerations

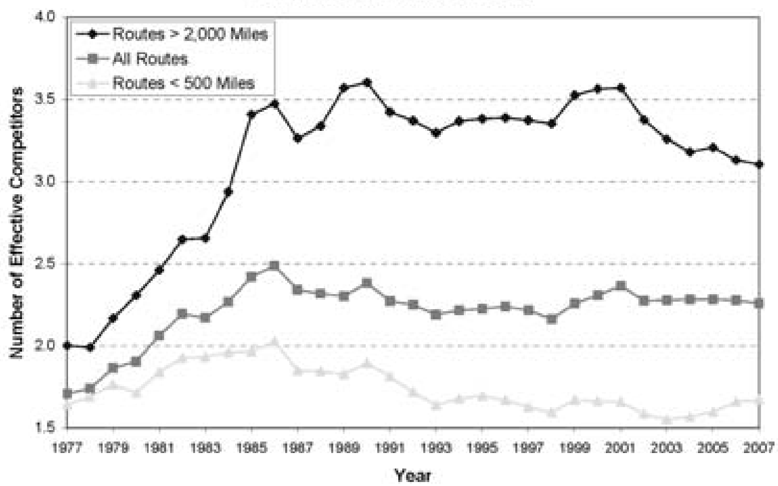
Thus far we have confined our statement to mergers, which are intended to help airlines without harming travelers. Taking a broader perspective, policies exist that could have a beneficial impact on the welfare of air travelers by increasing competition on international and domestic routes, but industry earnings could be reduced.

With one swift stroke, deregulation of international markets would spur competition on international routes and possibly eliminate a major motivation for some prospective mergers. The recent Open Skies agreement with the EU is a positive step that should be replicated by the United States with all regions of the world. Government-mandated limits on foreign ownership of U.S. carriers should be eliminated, which would make it easier for struggling U.S. carriers to attract foreign capital to help solve their financial problems and possibly eliminate another major reason that carriers seek a merger.

Allowing foreign carriers to serve U.S. domestic routes (cabotage) would provide another source of competition that would benefit air travelers. Think of how foreign transplants have transformed the automobile and steel industries to the benefit of consumers. Still another source of competition could be developed by allowing foreign investors to establish a new U.S. carrier without any limits on foreign ownership of the carrier.

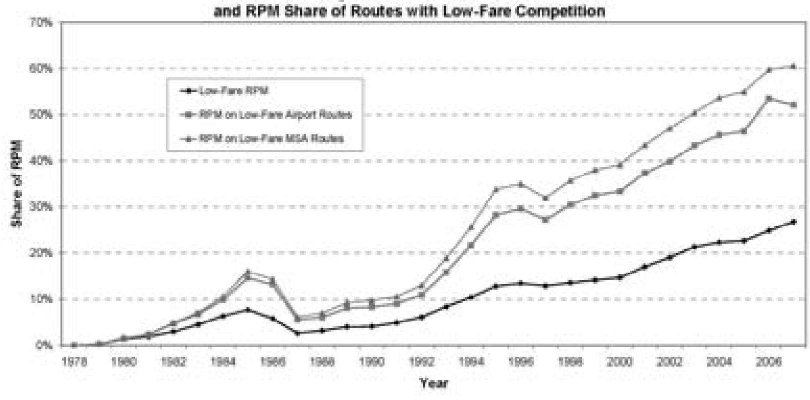
Finally, policy makers could potentially stimulate airline competition by experimenting with privatization of some U.S. airports, thereby allowing them to compete aggressively for air carrier service. Competitive entry at some airports is constrained by insufficient gates and terminal space. Given the contractual relationship governing publicly owned airports and the incumbent airlines that help pay their bonds, some airports have limited incentives to attract additional carriers.

Figure 1
Competition at the Route Level



Source: Authors' calculations using data in U.S. Department of Transportation, Data Banks 1A and 1B

Figure 2
Revenue Passenger Mile Share of Low-Cost Carriers
and RPM Share of Routes with Low-Fare Competition

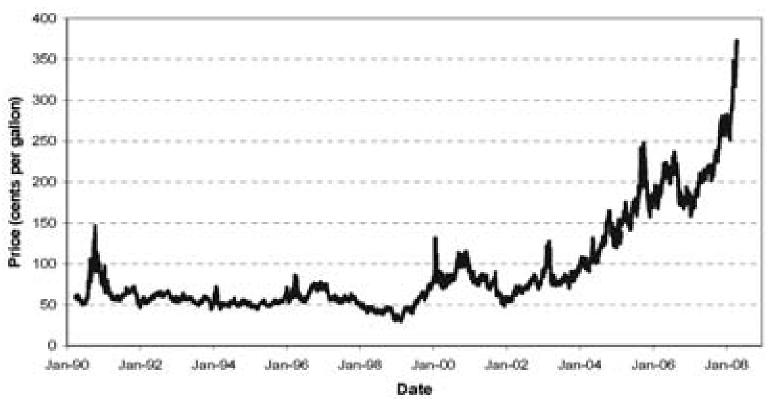


Source: Authors' calculations using data in U.S. Department of Transportation, Data Banks 1A and 1B

Figure 3
Domestic Airline Yield Adjusted for Inflation (2007 dollars)

Source: Authors' calculations using data from the Air Transport Association

Figure 4
Daily Spot Price of Kerosene-Type Jet Fuel
(FOB New York Harbor)



Source: U.S. Energy Information Administration

Figure 5
Percentage of Seats Filled with Revenue Passengers

Source: Air Transport Association

Mr. ELLISON. Finally, I would like to introduce Ms. Veda Shook, the international vice president for the Association of Flight Attendants.

An Alaska Airlines flight attendant since 1991, Ms. Shook has been involved in many aspects of union activism, from promoting education and cultural awareness, to negotiating industry-leading agreements with her carrier.

She served as Alaska master executive counsel president, local founding president for Local Executive Counsel 39 and on numerous union committees.

Thank you, Ms. Shook.

TESTIMONY OF VEDA SHOOK, INTERNATIONAL VICE PRESIDENT, ASSOCIATION OF FLIGHT ATTENDANTS, CWA

Ms. SHOOK. Thank you. Thank you very much to you and to the Committee for inviting us today and providing voice to the concerns of the tens of thousands of airline employees across the country.

This proposed merger has drawn significant attention from the media, the public, and here on Capitol Hill. The intense focus being paid to what will create the largest airline in the world is appropriate and necessary.

It is unfortunate that, since deregulation of my industry, some protections are in place today for consumers and communities in the event of a merger, yet there are virtually no protections for airline workers.

There has been little attention paid to the extreme upheaval that mergers create for the thousands of airline employees who find themselves unemployed, whose lives are disrupted, or whose work may be outsourced.

This merger could seriously jeopardize the collective bargaining rights of all the Northwest employees who have fought for and won the legal right to have union representation in contract protections in a merger.

Virtually all of the employees at Northwest Airlines have chosen to join a union. Delta, on the other hand, has only major one work group that is unionized, and that is its pilots.

Delta flight attendants have been working diligently to secure a better future through joining AFA and eventually negotiating a legally binding contract. Their hard work paid off recently when they presented authorization cards signed by over 50 percent of their workforce to join AFA.

In fact, yesterday, the National Mediation Board opened the polls and voting will end on May 28th. We remain confident that those brave, strong and proud group of Delta flight attendants will come together and vote, despite the extreme efforts of the company's voter suppression campaign.

Welcome back.

In the context of this merger, the company's voter suppression tactics take on added urgency. This merger cannot be permitted to become a vehicle for union busting. These executives have realized the opportunity that this merger presents, not just a chance to prevent thousands of non-union employees from gaining a union, but also a chance to eliminate the unions that have already provided protection for their members at Northwest.

So while Delta flight attendants vote on representation, the Northwest flight attendants face a very real threat to their collective bargaining rights. Their proud tradition of union representation is threatened by management's use of this merger process to attempt to eliminate the Northwest flight attendants' contract.

In fact, we view the current representation election among the Delta flight attendants as the first line of defense to protect the over 60 years of collective bargaining for the Northwest flight attendants.

This is due to the unique way that representation elections are governed by the National Mediation Board, whereby, in order for a representation election to be considered valid, 50 percent plus one of all eligible voters must turn out to vote.

In other words, the Delta flight attendants began voting with 100 percent no votes and must systematically turn more than 50 percent of those into votes for representation. In effect, a person who by design or by passivity chooses not to cast a vote in an NMB election, this is counted as a no vote, encouraging management to focus their efforts on voter suppression in every election.

I ask the Members of this Committee to imagine our congressional elections being governed under the same onerous rules.

A primary concern is to that these executives will use this merger to eliminate the rights of employees to have a seat at the table when the airline is fully merged with Northwest.

And Delta executives are not shy about their efforts to prevent the employees from forming unions, as was intimated earlier. In fact, in a meeting with the AFA Northwest leadership, Northwest management stated flatly there would not be a seat at the table for the flight attendants in merger discussions, going on to state that the current Delta was a nonunion company, new Delta had every intention of remaining nonunion, and denying the bargaining rights that are essential in the face of this merger.

Using this merger as an opportunity to destroy unions provides these airlines and all who would follow with an opportunity to drive down wages, work rules and benefits for all airline employees. It can create a domino effect that will force even unionized carriers to match those drastic cuts in order to compete.

They will set industry standards back to levels we haven't seen in decades. And as Delta is a nonunion carrier, as well as the largest carrier, they will be poised to set in motion an unprecedented remaking of the entire airline industry that will destroy airline jobs as a stable and secure middle-class career once and for all.

I urge the Members of the Committee to send a strong and clear signal to Northwest, and especially to Delta executives, that they must not use this merger as a means to destroy the collective bargaining rights of the employees.

I further urge this Committee to use its good offices to monitor Delta—as this representation election progresses over the next 5 weeks so that they stop engaging in ruthless election activities aimed at voter suppression.

And, finally, I hope that you will use your influence to persuade Delta management to become neutral in this representation election, as the law intended and is currently not happening.

If these executives are successful in their goal to keep the new Delta nonunion, we would see this merger as the beginning of the end of the airline industry as a source of decent and respectable jobs.

I am proud to be joined today by flight attendant representatives from Delta and Northwest who together today again presented Mr. Anderson with a letter requesting Delta—with a letter requesting neutrality in the Delta flight attendant election and, unfortunately, again, he dismissed the request.

While much will be made over the coming months about the impact of this merger on consumers and communities, I urge you to remember the hundreds of thousands of airline employees across this country. Keep us in mind as you review this merger and the impact that it will have on our lives and our families.

We are the ones who have the most to lose. We have the least protection. And, most importantly, don't let them destroy the one thing we have protecting us, our unions.

Thank you.

[The prepared statement of Ms. Shook follows:]

PREPARED STATEMENT OF VEDA SHOOK

Thank you, Chairman Conyers for holding this vital and timely hearing on the proposed merger of Northwest and Delta Airlines. My name is Veda Shook and I am the International Vice President of the Association of Flight Attendants—CWA, AFL-CIO. AFA-CWA represents over 55,000 flight attendants at 20 U.S airlines and is the largest union in the world representing flight attendants. We especially want to thank the Committee for inviting us to testify today and giving voice to the concerns of the working women and men of these two great airlines. Flight attendants and other employees have kept these airlines flying during the good times . . . and through some very difficult times. We appreciate having a seat at this table to testify on behalf of the tens of thousands of airline employees across this county who have collectively sacrificed billions of dollars in pay and benefit cuts over the last several years, and to share our views and our concerns about what this merger could mean to them.

This merger between Northwest and Delta has drawn significant attention from the media, communities served by both carriers and here on Capitol Hill. The attention being paid to what will create the largest airline in the world is appropriate . . . and necessary. Already this announced merger has led to credible speculation about what airlines will be next to merge. Airline CEOs continue to call for greater consolidation in light of the exploding cost of fuel, although the merger drumbeat started much earlier as airline executives sought greater profits following the recent epidemic of bankruptcies.

Consumers are frightened that this airline merger in particular, and further consolidation of the industry in general, will lead to much higher fares and reduced service. Hundreds of communities are rightfully concerned that this merger and others could lead to the loss of valuable air service as the evolving mega-carriers shed routes in hopes of consolidating their profits.

The increase in consolidation activity requires appropriate oversight to protect the interests of employees and passengers. Federal regulators will look carefully at the impact this merger and others will have on the consumers and communities. We hope that this Committee and other Congressional Committees will exercise—beginning with this hearing—vigorous oversight responsibilities as well.

While some protections are in place for consumers and communities, there are virtually no protections for airline workers in this merger. There has been little attention paid to the extreme upheaval that mergers create for the thousands of airline employees who find themselves unemployed or whose lives are disrupted.

This has not always been the plight of airline workers. There were many important protections in place for airline workers prior to the Airline Deregulation Act of 1978; the Allegheny-Mohawk Labor Protective Provisions (commonly know as the LPPs) were made a condition of government approval of virtually every airline merger. The LPPs contained extensive and specific protections—like displacement and relocation allowances, wage protections, transfer and seniority protections, layoff protection, and others—as part of a standardized set of provisions designed to shield workers from an unfair share of the burden resulting from corporate mergers.

But no real protections from our federal government exist today to cushion airline workers involved in mergers. After Deregulation employers successfully lobbied for an end to the LPPs because, as they argued at the time, these matters are 'better left to the collective bargaining process.' Union contracts provide a level of protection for those employees covered by the agreement, but there is little to no protection for non-union airline employees.

Those same employers who wanted to leave these protections to the bargaining process now spend millions of dollars on union busting, trying to prevent their employees from attaining the right to bargain, or to strip that right from those who have had it for decades. And today, many of those same employers who hold press conferences to trumpet the fact that their mergers will not cause any layoffs often refuse to agree in writing to such guarantees when they come to the bargaining table.

Of all the well-developed rules referred to prior to Deregulation as the Allegheny-Mohawk Labor Protective Provisions, only one exits today—the provision establishing basic seniority protections in the event of a merger. And, that provision was only recently resurrected and included in last December's Omnibus Appropriations bill after the advocacy of AFA-CWA and the strong support of Representative Russ Carnahan, Senator Claire McCaskill and this Congress.

Earlier attempts by Congress to provide protections for airline employees during mergers provides us with an instructive history in the current context. We continue to feel the effects of the Airline Deregulation Act; the proposed Delta—Northwest merger is just the latest manifestation of the impact of Deregulation. But an attempt by Congress to cushion the clearly anticipated effects of the start of Deregulation proved to be a complete failure.

Congress included the Airline Employee Protection Program (EPP) in the Deregulation Act to assist adversely affected employees. At least 40,000 employees lost their jobs in the wake of Deregulation. The EPP was supposed to provide for both monthly compensation and first-hire rights at other airlines. However, displaced employees never received the benefits Congress promised and funding was never authorized for the benefits, turning the whole program into a cruel joke for airline employees in desperate need of a life line. So while Congress has recognized the need to assist airline employees facing the traumatic effects of industry consolidation in the past, a fully-funded federal effort is desperately needed now in what is shaping up to be another significant era of airline consolidation.

As we look for solutions to cushion the enormous negative impact this latest merger will have on workers at Northwest and Delta, perhaps it's time to revisit the concept of employee protection from the Deregulation Act. No, we are not proposing to re-regulate the industry today; that's a worthy discussion for a different hearing that we welcome and we would encourage Congress to hold. But we do think that—at a minimum—something needs to be done to shield workers from the harshest effects of this merger and any future mergers.

Executives at the airlines have, to date, promised that there will be no layoffs, but they refuse to put that commitment in writing. We all know that the minute the ink is dry on the merger agreement, executives will be looking for cost saving 'synergies' that will make the new airline ever more profitable. Many of the synergies that the executives will likely turn to first are precisely the steps that will harm the interests of the workers, such as furloughs, base closures, fleet reductions and, perhaps worst of all, outsourcing.

Workers cannot, and should not, be left to fend for themselves in this situation; we did not bring these problems on ourselves. The federal government set this chain of events in motion with the passage of the Deregulation Act and its subsequent neglect in forming a rational aviation policy for our country. The airlines themselves have compounded the problems for workers with an almost endless string of cutbacks, bankruptcies, mergers and layoffs. Government and the airlines, then, bear the responsibility. And, either the federal government or the airlines must pay to offset what is otherwise the unfair burden placed on the workers resulting from Deregulation and its current aftermath.

The Deregulation Act provided monthly compensation and first-hire rights to protect displaced airline workers. Those same protections are needed and appropriate today on the eve of the Delta—Northwest merger and potential mergers to come. Congress could adopt and fund those protections, or it could require the employer, as a condition of approval of this merger, to fund those protections. We must stop shifting these costs on employees who are least able to shoulder that burden.

This merger also seriously jeopardizes the collective bargaining rights of all the Northwest employees who have fought for and won the legal right to have union representation. Virtually all employees at Northwest have chosen to join a union. Delta, on the other hand, has only one major workgroup that is unionized—its pilots. I am proud to say today that the approximately 13,500 Delta flight attendants are now the closest to securing their future by forming a union through AFA-CWA as they are currently engaged in a representation election.

Delta flight attendants have been working diligently to secure a better future through joining AFA-CWA and eventually securing a legally binding contract. Their hard work paid off when they filed cards from over 50% of all the Delta flight attendants requesting an election to join AFA-CWA. In fact, yesterday, the National Mediation Board (NMB) mailed voting instructions to Delta flight attendants and the voting will end on May 28th. We remain confident that this brave, strong and proud group of Delta flight attendants will come together—despite the efforts of the company's anti-union consultants—and choose union representation and a strong voice to protect themselves and the future of their profession.

In the context of this merger, the company's anti-union tactics take on added urgency; the merger should not be permitted to become a vehicle for union busting. Airline executives have realized the opportunity that this merger presents: not just a chance to prevent thousands of non-union employees from gaining a union, but also a chance to eliminate the unions that already provide protection for their members at Northwest.

While Delta flight attendants vote on whether to join the union, the Northwest flight attendants face a very real threat to their collective bargaining rights. Northwest flight attendants joined AFA-CWA 20 months ago, but have been union members for 60 years. Their proud tradition of union representation is threatened by management's use of this merger process to attempt to eliminate the Northwest flight attendants collective bargaining agreement which, in turn, poses a real threat to the job security for thousands of flight attendants.

In fact, we view the current representation election among the Delta flight attendants as not just an opportunity for them to gain a voice on the job and a seat at the table, but as the "first line of defense" to protect the over 60 years of collective bargaining rights for the Northwest flight attendants. This is due to the unique way that representation elections are governed by the National Mediation Board. Although the Railway Labor Act (RLA) makes no mention of such an extraordinary requirement, the NMB rules state that in order for a representation election to be considered valid, 50%+1 of all eligible voters must turn out to vote in the election. If 95% of flight attendants who cast a vote want to join AFA-CWA but only 49.9% of all the eligible flight attendants cast a vote, then the election is invalid.

In effect, a person who chooses not to cast a vote in an NMB election is counted as a "no" vote, encouraging management to focus their efforts on voter suppression in every election. I ask the members of the Committee to consider if they, or most of their colleagues, would be sitting here today if our Congressional elections were governed under the same onerous rules, where turnout is more important than the votes cast.

Based on the number of Delta flight attendants who have signed AFA authorization cards, and the number of Northwest flight attendants who are already union members, AFA has the support of a solid majority of the combined workforce. Since at least 1926, national labor policy as defined by this Congress has been to encourage unionization of workers. Congress could further that goal, and prevent airline mergers from becoming an occasion for union busting, simply by defining victory under the RLA organizing rules as a majority of the votes cast.

It is our hope, and the hope of thousands of Delta flight attendants, that they will overcome these difficult election procedures and decide next month to join AFA-CWA. They will then have the right to bargain for improved work rules through a legally binding contract and the historic collective bargaining rights of the Northwest flight attendants will have been protected in the newly merged Delta Airlines. Delta and Northwest flight attendants, working under the umbrella of AFA-CWA's constitution and bylaws, can move forward on integrating their two groups and negotiating for an improved contract for what will be the largest flight attendant workgroup in the United States. This does not require new legislation; all we ask is that the Committee urge these employers to remain neutral so, as originally envisioned by Congress when it adopted the Railway Labor Act, the employees can decide the issue of union representation for themselves, without coercion, interference or influence by the employer.

Bargaining rights are paramount if the flight attendants are to have an opportunity to negotiate over the impact this merger will have on their work lives. Our primary concern is that Delta executives will use the merger to eliminate the rights of employees to have a seat at the table when the airline is fully merged with Northwest. One need look no further than Delta's past actions in organizing campaigns. In the last flight attendant election, Delta engaged in numerous activities to suppress the number of flight attendants casting ballots and to spread mis-information. When AFA-CWA appealed to the NMB to hold a "re-run" election due to the overwhelming interference of Delta management in the election process, the NMB swept aside overwhelming evidence of interference and Board precedents. The current chairman of the NMB stated in his dissent that "[t]he majority's decision now creates a gray area of legally allowable conduct: that which is "troubling," but does not constitute interference. I am at a loss to understand this reasoning that rationalizes an attempt by management to silence the voices of their employees."

Delta executives have not been shy about their efforts to prevent the employees from forming unions. In fact, in a meeting with AFA-CWA Northwest leadership, Northwest management stated flatly that there would not be a seat at the table for the flight attendants in the merger discussions. He went on to state that the current Delta was a non-union company and that the "New Delta" had every intention of remaining a non-union company; Delta planned to defeat the union and prevent the flight attendants from having, or keeping, the bargaining rights that are essential in the face of this merger. Delta has already demonstrated that they will again continue to spread disinformation and make every effort to prevent Delta flight attendants from casting ballots in the upcoming election. Is this what we've come to in this country? They've even gone so far as to state that they supported and were instrumental in having the seniority integration protections passed by Congress in the Omnibus Appropriations late last year, even though they spent months opposing inclusion of the language. I would ask this Committee: what is wrong with our system when the majority of these flight attendants want union representation and yet face such great barriers to achieve that goal?

Using this merger as an opportunity to destroy unions provides these airlines, and all who would follow, with an opportunity to drive down wages, work rules and benefits for all airline employees. It can create a domino effect that will force even unionized carriers to match those drastic cuts in order to compete. They will set industry standards back to levels we have not seen in decades. If Delta is a non-union carrier, as well as the largest carrier, they will be poised to set in motion an unprecedented remaking of the entire airline industry that will destroy airline jobs as a stable and secure middle class career once and for all.

Flight attendants face one other devastating threat in this merger, one that no other work group is likely to encounter. This merger may resurrect efforts by Northwest executives to outsource our best jobs to flight attendants based outside the U.S. Such outsourcing of flight attendant jobs on international routes to foreign nationals will resurface and become a standard industry practice. When Northwest first proposed doing just this during bankruptcy, a bipartisan group of House and Senate members rose up to decry such a move as jeopardizing aviation safety and especially security. With a union fighting to protect the Northwest flight attendants jobs, and support from members of Congress, Northwest management backed off such a proposal and thousands of good paying jobs remained for Northwest flight attendants. Only if the union retains its bargaining rights following the merger will the flight attendants have the legal standing to continue the fight against such outrageous ideas as outsourcing flight attendant jobs; such an idea is just the tip of the iceberg. Many of the current Delta executives were involved in earlier outsourcing attempts when they were at Northwest Airlines.

I urge the members of this Committee to send a strong and clear signal to Northwest, and especially to Delta executives, that they must not use this merger as a means to destroy the collective bargaining rights of the employees. I would urge this Committee to use its good offices to monitor Delta management as this representation election progresses over the next five weeks so that they do not engage in election activities similar to those of five years ago—actions that violated the spirit of the Railway Labor Act, even if the NMB ruled they did not violate the letter of the law. And finally, I hope that you will use your influence to persuade Delta management to remain neutral in this representation election. If they are successful in their goal to keep the "new Delta" non-union, we could see this merger as the beginning of the end for the airline industry as a source of decent and respectable jobs.

While much will be made over the coming months about the impact of this merger on consumers and communities, I urge you to remember the hundreds of thousands of airline employees across this country. Keep us in mind as you review this merger and the impact that it will have on our lives and our families. We are the ones who have the most to lose; and we have the least protection. Most importantly, don't let them destroy the one thing we have protecting us—our unions.

Mr. CONYERS. [Presiding.] Thank you, Ms. Shook.

And thank all of the gentlemen who, along with her, testified.

It sounds like you are in a pretty bad position, you and all the attendants, to me. I am not aware—I haven't been aware of this before, but it sounds like they are thumbing their noses at you. And if they are doing that now, I shudder to think what they are going to be doing after this merger goes through.

Am I being too hard on them?

Ms. SHOOK. Frankly, I don't think you are being hard enough. It was not just thumbing the nose at the flight attendants today. In fact, I believe it occurred with your good governance today.

They are absolutely not—I believe the quote I saw earlier was that Mr. Anderson said they would never engage in carrier interference. I can't tell you how—I can't describe how massive their campaign is to try and make sure that the Delta flight attendants don't vote. It is really extraordinary and something I have never seen before.

Mr. CONYERS. Why, Mr. Buffenbarger, is there such apparent hostility toward working people who provide the very basis for the existence of the services of the airline?

Mr. BUFFENBARGER. Mr. Chairman, that is a very large question. I would like to point out that, in the years since deregulation, we began the process when Congress and the industry leaders promised the American people that, if we take a largely regulated industry and deregulated it, we would have more airlines, not fewer; we would have more choices, not less; we would have better service to more locations, not cuts; lower fares, better point-to-point service, more communities served.

None of that exists today. We are here talking about consolidation.

And then I recall during the tough years for the airlines, as they found out deregulation brought a lot of pain on them, they came to the flight attendants, they came to the pilots, they came to the machinists and said, "We need your help. You need to take cuts. You need to reduce your demands, lower your expectations for employment in the industry."

And by and far, every one of these unions stood up, took the pain to help their carrier survive. In some occasions, we even took stock and bought stock in the companies. And they still found their way, managed their way into bankruptcy.

And the result of that was to cast away our pension plans, put them into the PBGC, and expect the American taxpayer to pay a reduced pension to the employees. They destroyed the value of the stock that we had, United Airlines being a prime example.

And the same people that take us into bankruptcy and into mergers then are the same people that are here today saying, "Consolidation is the way out." Well, they failed at two trips to the plate, and now we are looking at really strike three.

And consolidation and monopolization of the industry is not the answer. And putting more pain on the employees is not the answer. And disserving the American flying consumer is not the answer.

I think re-regulation, as I mentioned in my remarks, it is the role of government to step in when the private sector fails to serve the interest of the public. The role of government is to put balance back into the process. And that is what we need today.

Mr. CONYERS. Well, now we have had two CEOs testify here, and we have had two union representatives testify thus far.

I feel like calling them back, frankly. Let's start all over and see if we can sort some of this out.

Now, you are dealing on this Committee mostly with a bunch of lawyers. And we understand business. I mean, we understand that self-interests and monetary gain can drive people to say and do a lot of things.

I mean, that is not unique. This is what we do, we sort fiction from fact and try to make the best application of the rules that govern this great country, economically and otherwise.

Now, do you stand to benefit? I mean, what is in it—they didn't tell me they were in for double-digit millions of dollars worth of increase in their own personal wealth. Is that accurate to say? Or will I have to eat these words tomorrow?

Mr. BUFFENBARGER. It is accurate, Mr. Chairman.

Mr. CONYERS. Well, do you stand to gain? Do you two—are you getting some big deals out of this, some monetary—— [Laughter.]

What is in it for you?

Mr. BUFFENBARGER. Nothing but negatives, the pain on membership, the loss of employees' jobs. And, no, we do not make a dime, a penny, or a euro out of this.

Mr. CONYERS. So let me now turn to a more neutral party here. Here is your Committee, your Judiciary Committee——

Ms. SHOOK. May I answer the question you had asked before, please, if I may?

That sometimes what we see with these carriers and the CEOs and the executives is they are short-timers. And they will come in; they will come out. They will hop from carrier to carrier.

And I personally don't stand anything to gain here. But the flight attendants, this is their chosen career. It is not just a job. It is their chosen career. And they are in it for the long haul.

And if, at the end of the day, there are some guarantees for the flight attendants and there is some preservation, there is some neutrality with this union election, of course, the flight attendants want to work for a prosperous carrier. They want to maintain their career.

And I speak on behalf of working middle-class families that we are trying to preserve middle-class, good jobs that we work very hard at. And what we are trying to do is maintain that level and that standard for middle-class jobs.

Mr. CONYERS. So, Dr. Winston, this is why we have you as a witness on this panel. You work at Brookings, thoughtful, intellectual, and fair-minded. You heard both panels here today.

What say you about how the Ranking Member of this Task Force and myself and Steve Cohen and all the ladies and gentlemen of the Congress that are on this Committee who will be pouring over the results of the hearing, what would you have us do here that would operate to the benefit of the consumers?

You know, the one person we don't have as a witness is the guy that flies, the person that pays the bill, the person who gets stuck in the airport overnight, and lots of other things. We are representing the best interests of this country, in terms of this proposed merger.

What do you think? How do you think we sort all this out?

Mr. WINSTON. Well, this fall, we are going to celebrate the 30th anniversary of the Airline Deregulation Act. And, fortunately, there is great reason to celebrate.

And I base this not on advocacy, but just the overwhelming evidence that it has been developed not just by me and my collaborator, Steve Morrison, but other scholars throughout the country, that airline deregulation, based on the empirical evidence, has generated substantial benefits to consumers.

You can see that most clearly in the graphs that I have included in my testimony, a substantial decline in real fares, increase in the number of competitors at the route level, which I stress is the important place where you need to assess competition, the evolution of low-cost carriers, the increase in expanded flight frequency, and, most importantly, all of this occurring with a continual improvement in airline safety.

Now, the concerns about labor are legitimate. There is no question about that. But I think, to understand that, you need to take a longer view about how the relationships between labor and certain airlines evolved. And they have evolved since regulation.

During regulation, airline fares were regulated and there was restrictions on entry. And the fares that were in existence generated above-normal profits. And we got into a relationship between carriers and labor—what they call rent-sharing. That is the jargon. That is, how do we divide up this excess pie?

Okay, now, this developed over many decades. And that is the way labor and carriers thought of each other, as basically combatants in a big share of the pie. And when deregulation came along, there was a big change. That share of the pie was gone, as the industry became far more competitive, and there was "going to be less profits or excess profits," if you will, to divvy up.

But the attitudes of the two didn't change, because that is how they were used to dealing with each other, to this day. And you will hear people in this industry talk about things that went on in the 1960's that they haven't forgotten, even though the industry was regulated then and it was deregulated now.

But we see one fundamental difference, and those are the new-entrant carriers. Southwest, low-cost carriers, they have very good labor relations. They didn't grow up under this rent-sharing mentality.

And I think that is really the key to the problem, that the new entrants, JetBlue, AirTran, Southwest, they did not have this rent-sharing mentality and had a more entrepreneurial relationship, which I think has helped them in developing their labor relations and have a more constructive working relationship.

I can understand that the what we call legacy carriers—Delta and Northwest are among them, but certainly United, American, others are included—have this rent-sharing mentality that leads to this bitterness. But it is ultimately self-destructive.

In the end, the low-cost carriers are just going to increase their share, unless you can find ways to productively work out your relationships, lead to efficiencies but also have a contented workforce, the legacy carriers will just lose more market share. That is what is going to happen.

So I would suggest that, although these are real concerns between the two participants, they need to sort it out themselves. They cannot use the government for their purposes. This is, I don't think, your place.

I think your place is to make sure the labor laws are honored and if there is any violation of those laws. There is a place to intervene.

But short of that, we do have carriers in this industry who have, "worked things out" or are working things out. And the other carriers just have to do that. And then the merger, to the extent that it proceeds, is going to have to, again, lead to good relationships, because no carrier—and I would stress this—no carrier is successful with an unhappy workforce.

You are not going to be making money that way. You will just cut your throat if you have a reputation for not treating your labor well. And I think the market is what is going to discipline all of this.

Mr. CONYERS. Do you know what I am going to do now? You raised some interesting points. And because my Ranking Member has to go on the floor to debate, I am going to stop here.

All of you, hold your points. I know everybody wants to join in this discussion.

And I would like to recognize Steve Chabot now at this time.

Mr. CHABOT. Thank you, Mr. Chairman. I will try to be brief with my questions.

If I could, Mr. Buffenbarger and Ms. Shook, just follow up with the points that you had made. And you all were in here, I assume, when the two CEOs were here and testified and heard their testimony.

And from your testimony, I assume that you don't buy the fact that, because of high fuel prices and competition and the economic realities of the airline industry, that it is in the best interest of certainly the employees that you represent, but others to actually have this merger go through. Is that, in essence, what you are saying?

I was talking to the two union workers.

Ms. SHOOK. Well, thank you. I am not an economist. And what I would say is that we have not taken a position on this merger.

That is largely because we haven't actually been involved in the discussions, even though we have asked. We have not been equal partners. So we don't actually have all the data to be able to make an informed decision.

Mr. CHABOT. Okay, thank you.

Mr. Buffenbarger?

Mr. BUFFENBARGER. Please rest assured, Congressman Chabot, that we are opposed to this merger. We have dealt for many years with the two gentlemen you had previously when they worked for the same company and worked in offices next door to each other at Northwest Airlines.

We have a long experience with them. And we have a long experience based on the fact that we took serious cuts at Northwest Airlines. We took stock in return.

Our members, in the new model, worked their tails off to make Northwest successful. And we were rewarded by years of courtroom challenge trying to collect the money on the stock that we owned.

And that is the type of relationship—it is not on the employees' side. It is the fact that the management exercises extreme contempt for its workforce. And we doubt seriously now that they have seen the light and view a good relationship with their employees as a very critical part of the success of their proposed merger.

We know what it is going to bring, and it is going to bring more pain. And it is going to disserve the flying public.

Mr. CHABOT. Let me stop you there, if I can, because I have got limited time.

Mr. BUFFENBARGER. Sure.

Mr. CHABOT. But just to—as one of the representatives from the greater Cincinnati area, I know that when we heard about this—and as we have been following this since the beginning—one of our main concerns is, obviously, that in our community we maintain our hub there for the convenience of those that are flying.

We want the jobs to be kept in the area. Whether they are union or nonunion jobs, we want the jobs to stay there. We want the local economy to continue to thrive to the extent that it can in a weak economy that we are in right now.

But we appreciate your input, as well.

And if I could turn to you, Mr. Moormann, on behalf to Greater Cincinnati USA Chamber of Commerce, could you again reiterate your position relative to the impact that you believe the merger and the airport staying there, the hub staying open, why that is important to the economy locally, and what your opinion is about that?

Mr. MOORMANN. Mr. Chairman, Congressman Chabot, the hub is vitally important to the regional economy in the Cincinnati USA region. And that is a 15-county region of 2.1 million people that is northern Kentucky, southwestern Ohio, and southeastern Indiana.

Let me give you a case in point. Just last year, Tata Consultancy Services, which is an Indian-based conglomerate, located its North American headquarters for its information technology business in Cincinnati. The reason it did so was because of the outstanding air access that we have.

This is 1,000 new jobs in the Cincinnati USA region. The multiplier effect will probably lead to at least 1,500 additional jobs, because of the nature of the jobs that are being filled.

These are new jobs. This is new wealth being generated in our community. And it is directly linked to the hub service that we have, because the consultants working for Tata have direct access to the locations where their customers are situated.

Most recently, just this week, we received a call from a company in the southwestern part of the United States that is interested in expanding its operations. The reason it is interested in the Cincinnati USA region is because there are six nonstop daily flights to their headquarter city.

I think those are just two very fine points to put on this, but they are two examples of how vitally important the hub is in attracting jobs to our region.

When you look at the growth that is occurred in our region, we frequently do better than our competitive set of cities. Those are Indianapolis, Louisville, Columbus. And the reason we do better is because of the airport and the air service that we have.

It is vitally important to our competitiveness. It attracts foreign investment, as I indicated in our testimony. That creates new jobs in our community. It creates new wealth in our community. And it creates new taxpayers in our region.

Mr. CHABOT. Okay, thank you.

I had earlier mentioned the concerns that I have raised to me by my constituents relative to the fact that the rates are higher than we would certainly like to see them at our airport, especially, because they have been, the last few years, the highest in the Nation, and that a lot of the folks in our area literally drive to Dayton, Columbus, Indianapolis, Louisville to take advantage of the lower rates there.

Are those things that you hear, as well? And if so, would you like to comment on that?

Mr. MOORMANN. One of the top issues of concern that have surfaced to our Chamber of Commerce from the business community are the high fares that we have. I think the Cincinnati community understands that we do pay a premium for the service that is offered to us.

There is a premium associated with nonstop service to 120 destinations around the Nation and eight international destinations. Our community has been loyal customers. We have paid that premium.

I think our level of tolerance for paying that premium is reaching a tipping point, if you will. I think, if there is a silver lining in the bankruptcy of Delta, in the potential merger, is that Delta has, in their words, rationalized the level of service at our airport.

That has reduced the number of flights. It has taken out seat capacity. And what we hope that the results of that is, is an opportunity for other carriers to look at our community potentially to offer service.

So I think there is a high level of frustration, but I do think we do have a glimmer of hope right now that there could be additional carriers interested in providing service to our region because of the reduced Delta service. And that may have some positive impact on the exorbitant fares that we pay now.

Mr. CHABOT. I certainly hope so, because I know that—you know, I have heard the same explanation from Delta relative to the convenience and being able to fly internationally, et cetera, and we pay a premium.

But there is a number of communities that have that same absolute and their prices are lower. And I just don't buy it. I mean, I think they are higher than they need to be, ought to be, and anything we can do to bring those down, I think we should work together to do that.

Mr. Chairman, do I have any additional time or am I out?

Mr. CONYERS. You have as much time as you desire, sir.

Mr. CHABOT. I will ask one more question, and thank you, Mr. Chairman.

Mr. Winston, since I didn't get to you, how would you characterize the health of the U.S. airline industry generally? And do you envision more bankruptcies, if current trends continue?

Mr. WINSTON. Let's not forget that 2006, 2007 were modestly profitable years after the huge losses following September 11th. So, I mean, no industry could really take an unanticipated 20 percent reduction in demand and be in good financial shape. And they had to absorb this for several years, came back very modestly in 2006, 2007, and now losing money again.

So, I mean, they hadn't recovered yet, and now they are hit——

Mr. CHABOT. Is that principally because of the high fuel prices, with——

Mr. WINSTON. Oh, no, no, no.

Mr. CHABOT. It is not that?

Mr. WINSTON. No, no. I mean, they were in—several years following, as you know, September 11th, they lost $30 billion or so dollars. It was only——

Mr. CHABOT. You said they were then doing marginally better, but now they are not again. I thought——

Mr. WINSTON. Right, they lost—from between—after September 11th up through 2005, there were huge losses in the industry.

Mr. CHABOT. Right. Then you said it got somewhat better.

Mr. WINSTON. Things got a little better in 2006, 2007, but certainly not even close to what they lost.

Mr. CHABOT. And now they are struggling——

Mr. WINSTON. And now we are starting down again.

Mr. CHABOT. And I am just saying, is that related to the fuel prices?

Mr. WINSTON. Oh, now, yes.

Mr. CHABOT. That is what I——

Mr. WINSTON. I would say—with the fuel prices and, in general, any other macroeconomic slowdown, sure, to the extent the economy is slowing because of the subprime mortgage that is obviously going to hurt a few. And the combination, a number of them, I think, are vulnerable.

Mr. CHABOT. Thank you very much.

I thank the entire panel and yield back.

Mr. CONYERS. Thank you very much, Ranking Member Chabot.

We turn now to Steve Cohen, our distinguished Member from Tennessee.

Mr. COHEN. Thank you, Mr. Chairman.

Mr. Moormann—is it correct, "Moormann"?

Mr. MOORMANN. Yes.

Mr. COHEN. Is your chamber coming out and taking a position on this merger?

Mr. MOORMANN. We have not issued a formal position statement on the merger. But as we indicated in our testimony, we do believe that if Delta merging with Northwest is what makes Delta a sustainable, financially viable corporation, because of our region's reliance on Delta, we think that that is a positive way to go.

Mr. COHEN. So you were concerned that, if they don't merge, there is a possibility that Delta could no longer be a viable airline?

Mr. MOORMANN. Well, I would not go so far as to say that. I would say that we are looking for Delta to make its decisions as to what can make it a successful, financially viable company.

Mr. COHEN. If there is not a merger, would Cincinnati have a hub?

Mr. MOORMANN. We believe that we would. We believe that Cincinnati is in a very important part of the Delta network, either in a merged environment or not.

We have a smaller hub than we did at one point in time, but we do believe, based on everything that Delta has told us, that we would continue to be a hub operation.

Mr. COHEN. Do you have any reason to believe that Cincinnati and Memphis are in any way pitted against each other as possible cities that might—one or the other might lose a hub?

Mr. MOORMANN. We have no evidence of that, aside from our own suspicions, because of the proximity of the cities.

Mr. COHEN. So you do have suspicions that Memphis or Cincinnati could be without a hub if the merger goes through?

Mr. MOORMANN. I would say that we have suspicions. But, again, we have been assured by Delta—in conversations with top officials that that is not their intention and not part of their plan in the merger.

Mr. COHEN. To eliminate either city?

Mr. MOORMANN. Correct.

Mr. COHEN. Right.

Mr. Winston, you have listened to the testimony. Do you believe with a merger that all the hubs would remain open and at the same level that they experience now?

Mr. WINSTON. I would be surprised. I think—I mean, I don't know why—again, as I said before, I don't think that this is the area where you should be assessing the merger. But given you have asked the question, I think that the merger makes sense to have a fundamental restructuring of the network.

And I would expect to see changes, whether it be hubs, certainly routes. And we have observed that in the past. Carriers have merged and, subsequent to it, they have abandoned all the routes they have got after the merger. That has happened; we know that.

Mr. COHEN. But on the front end, they said they weren't going to do that?

Mr. WINSTON. I am sorry?

Mr. COHEN. Did they say on the front end they weren't going to abandon those routes?

Mr. WINSTON. I am not aware that they ever did. I don't know why they would. I don't quite understand that part of it.

I mean, you are doing this to fundamentally change the network of what you are doing to take advantage of international operations. I mean, that is going to be the key synergy to Delta-Northwest, in my view. You will be able to take advantage of Northwest's operations in Asia, Delta's in Europe, and you are going to think of trying to route traffic so that you can get a fair amount of that traffic abroad.

To me, Cincinnati and Memphis, that is pretty close to have two hubs. I don't know why—it is not obvious to me why you would have both of them. But, look, there was economic reasons to have them in the first place. They may still be viable.

But there is one thing also you have to think about, how other carriers are going to react to this merger. And they might say, "Look, we are going to start going into some of these areas ourselves simply because we want some of that traffic going to Asia."

Mr. COHEN. Being that Memphis does have FedEx and makes that the largest cargo hub in the world, and being that Memphis has the lowest—it is one of the most efficient airports and the best climate and great idling, you know, limited amount of idling time on the tarmacs, is there any reason in the world why they wouldn't jettison Cincinnati instead of Memphis? [Laughter.]

Mr. CHABOT. Now, wait a minute here. [Laughter.]

Mr. COHEN. We did beat you in basketball this year. You don't have to answer that question.

Mr. WINSTON. Well, I mean, first of all, one thing that you should point out about Memphis, Memphis has something that almost no other airport in the country has.

Mr. COHEN. Ribs.

Mr. WINSTON. No. [Laughter.]

Mr. WINSTON. It is now a test airport for satellite service, for satellite air traffic control, that Federal Express is using. So our basis for our air traffic control system, one of the test areas in the country is in Memphis.

Now, whether that—you know, it is a low-density airport to begin with, so whether that is improving their arrival and departure is hard to say, but that is an important advantage. They are the test case for that with FedEx. But, I mean, that is one thing that you have got to keep in mind about their service.

In terms of whether the Cincinnati hub or the Memphis hub is the most viable airport, it depends on what happens on the international part of the operations. If they see that now that we have more attractive operations in Asia, they may say, "Look, we want to expand Memphis, because that is going to hook up better with Asia."

If for whatever reason they think, "Well, now our designs are on getting more activity going on in Europe, Cincinnati would work well for us from that perspective," they may want to beef up their flights there.

So there are many things that are going to be changing. I think just sort of looking in a static sense, "Here is the map, and this is what is going to happen," I think it is going to be very misleading. And we have learned that from other mergers.

The networks are going to change, but it depends on all these factors. And particularly complicating it is the international aspect of it, which is a major part of this merger and historically has not been a major part of the other mergers.

Mr. COHEN. Let me ask Ms. Shook. Have the Northwest attendants taken a position, do you know?

Ms. SHOOK. Well, we represent the flight attendants at Northwest Airlines and, no, they have not formally taken a position. What is important in this discussion is that, again, we need to be equal partners and be involved in this discussion.

Right now, we are focused on the Delta flight attendants, who are currently—their election started yesterday. And then, beyond that, we will do whatever it takes to make sure that the Northwest flight attendants protect their collective bargaining rights.

Mr. COHEN. The difficult in the whole is the public—both of these CEOs made clear that they felt like no service would be disrupted, no hub would be disturbed, everything, et cetera, et cetera. And you look at—the Commercial Appeal had a poll online this morning, Memphis newspaper.

And by far, the clearest answer—now, this is the public, which is not necessarily experts, as Mr. Winston is or others, felt that the answer would be that they would promise to keep the hub, and then they would merge, and then the hub would disappear. By far, that was the response. And that is a concern you have.

And you look—I believe there was an article somebody told me about from one of the senators in Missouri, maybe Senator McCaskill—was it McCaskill—about TWA and the story there, where they basically, like Howard Hughes, disappeared——

Ms. SHOOK. When you are saying that you are hearing from your constituents, obviously I do know flight attendants that are based in Memphis for Northwest Airlines. And that is absolutely chatter on the street, is what is going to happen between Cincinnati and Memphis? It is a very real concern.

Mr. COHEN. All right. Well, I appreciate the testimony.

Thank you, Mr. Chairman.

Mr. CONYERS. Thank you very much.

We have competing sets of facts. We have competing predictions of what the future is going to be. And we have different views of what will happen if the merger occurs.

And it is not clear to me that the deregulation of 30 years ago has been all that it was cracked up to be initially. As a matter of fact, I have, in discussions with a number of Members, including Members of the other body, our senators, who regret some of their initial enthusiasm about the whole deregulation concept.

And so, Dr. Winston, I want you to know that there is another side to this thing. Consumers magazine recently wrote about it in connection to air travel. I am going to ask unanimous consent and put it into the record.

But what we are looking at is an attitude, and maybe it can be explained, but there seems to be an attitude of hostility between the employers and the employees, that the—why wouldn't—here is a multibillion-dollar change. Why wouldn't you let a few union representatives sit in on the meetings so that they could show some support for it?

I mean, it is hard to be kept outside the door and then, when we get ready to go in, "Well, let's everybody get aboard." And the question might be in Washington during this coming period of time is we don't know what it is we are getting on board for. We don't know where we are going.

We don't know if this is just another trail of broken political and economic promises. And somebody will look back into the hearings of 2008 in Washington and say, "Wow, they didn't live up to any of that stuff or maybe very little."

And then when you show the gain—I mean, human nature is human nature. This isn't peculiar to airline industry or airline execs. But when you have got a deal on the table where you might be enriched by double-digit millions of dollars, it might affect your thinking a little bit, maybe a lot.

So that is where we come in. Our question isn't what is good for the airline industry, per se, or the airline executives in particular. But what is good for the American people, the consumers, the average people that fly?

And what are the services going to be like? And will they be served by people who have a collective bargaining agreement, where their wages and working conditions and salaries and pension benefits and health benefits are reasonably negotiated?

I am nervous about, " here is one organization with a union, here is another one without a union," and they don't act like they really are going to ever change much. I mean, with or without the merger, they don't seem to be for unions.

So what is the problem here? And this is what a hearing is good for. We want to get down, if we can, and talk to each other about this, because we are going to, in the end, have to come back to the full—the Task Force comes to the full Committee. The full Committee goes to the floor.

And people are going to be saying, "Well, what did you learn on April 24th?" Well, we learned that this was a wonderful opportunity for things to get better if we took a couple of the biggest companies and put them together. And then we had another panel in which we got an almost completely different picture.

And we haven't talked about whether a merger would really reduce competition on this panel. We have been saying that it will increase competition.

Mergers rarely increase competition, I mean, as a general principle, mergers reduce competition.

And when competition is reduced, it seems to me the consumer loses benefits. The consumer doesn't gain by a company getting bigger.

So these are some of the things on my mind. And I would like to just go down the line and have you give us any final comments.

Mr. Moormann, how would—I know your organization is supporting, but has it been a little stunning to you that we could get two panels that describe and see things so differently as we have had here this morning in the Judiciary Committee?

Mr. MOORMANN. Well, I think, certainly, it is surprising but not necessarily unexpected that you would hear very different opinions about how management would approach a merger and how some of the employees would see that.

I think what I could say is that our experience in recent memory, at least, has been that Delta rationalized the size of its hub in Cincinnati. When it did so, it said that it would retain the maximum number of employees that it could.

And to our understanding, they did. We continue to have somewhere around 7,000 Delta employees working in our region.

They said that they would continue to utilize the Comair services. They are continuing to utilize Comair, which employs probably another 6,000 or so people in our community.

So we, I think, have no choice but to take them at their word. And when they assure that their plans call for continuing our hub, for continuing to continue to employ the number of people that they do, to continuing to offer the extent of service that they do, I think we have little choice but to take them at their word and accept that, that that is what their business plan entails.

Mr. CONYERS. Dr. Winston?

Mr. WINSTON. Well, as I said, I think that the tensions and hostility between labor and management didn't just begin yesterday. I think they began many decades ago.

So it is not surprising that there are different views and suspicions. And I think that is really the heart of it that is obviously of concern, that there is mistrust on the part of labor and management acting in a way that doesn't seem to be engaging directly and acknowledging that mistrust.

But as I said, I think that has been going on for many decades with some of these carriers. It saddens me that you don't see deregulation as positive. And I think one of the positive things that it did was open the industry up and suggest there are alternative ways that labor and management can sort things out.

And we have seen this with success with other airlines. So it would be interesting, in part of this, to sort of see how that has been able to work.

As I said, I think another part of it is the dynamics of it. It is very hard to predict how the mergers will evolve. And I think that management really shouldn't lock itself in a box and sort of say—I don't know what they did say, that, you know, we are not going to change routes, we are not going to cut labor.

I think that they are in a position where they have to. They are fighting for survival. This has been a very tough period for them. And I don't see that any company's successful by annoying labor and irritating labor. Ultimately, they will fail.

Fortunately, though—and this is the success of deregulation—we have others to take their place. Their failure is just going to lead to an increased share of the low-cost carriers and other carriers or legacy carriers can work things out.

So I see the tension, but I see the value of markets is in many ways correcting a lot of these problems in giving you a backup if things fail here. But I am hoping that they don't.

Mr. CONYERS. Well, I share your hopes.

Let me ask you, though, suppose we had a little bit of re-regulation. Suppose we brought back a little. What would be so bad about that?

Mr. WINSTON. Do you have anything—what specifics?

Mr. CONYERS. In particular?

Mr. WINSTON. What specific re-regulation did you have mind?

Mr. CONYERS. Right.

Mr. WINSTON. You certainly wouldn't want to re-regulate fairs.

Mr. CONYERS. Let me ask Mr. Buffenbarger. What kind of re-regulation could we have in mind in this kind of a discussion?

Mr. BUFFENBARGER. Thank you, Mr. Chairman. I think there is a role for government to step in, as they did prior to 1978, when also the cost of fuel was regulated and managed by the government and leveled the playing field for the airlines, which meant then they had to use their brilliant business minds to figure out other, better ways to compete.

I think the way we structure who actually manages the industry—let's talk about that for just a minute. Right now, we had two gentlemen address us in the first panel, none of whom originally came out of the industry.

One was a prosecutor who came into the airline industry. The other one—I am not quite sure what his background was, but his predecessor was in the food industry. And the guy before that was in the hotel business. And at United, we have an oil man running the company.

What we need in the airline business are people who understand and have worked in the airline business. And how do we deliver a good value, good quality, good service to the flying public?

And, at the same time, understand the role of the airlines in America isn't about individual corporate competition. It is about providing a public service to the best interests of this country.

You know, everything we have deregulated, beginning with the airlines, has been the code word for destroy, the trucking industry, the electric power industry. The last communications bill on television, I saw my cable rates were going to go down. Immediately upon signing of that bill, they skyrocketed up.

We have deregulated the financial institutions to a great degree. We are in a lot of problems again today.

I think Congress needs to take a serious look at what deregulation really means, what is the role of government in our lives, and something like public transportation, not just airlines, but rails and the roads and the—you know, all the stuff we do, we need to understand that, when the private sector can't deliver reasonable expectations to the consuming public, that it is their role, the role of government, to step in, and level that field, and put some common sense back into practice.

So I would say fuel is the first place to start, how we manage the air traffic control system. Memphis is the test bed because it has a large cargo hub. And how do we integrate commercial flying people versus packages? And how can you use the new satellite system to make that integrate even better?

Those are things that offer a little hope. But the issue of re-regulation is something I would love to visit about this industry, airlines. And I would offer even a more complete answer to all the other things we ought to be taking a look at.

Mr. CONYERS. Ms. Shook, we haven't forgotten you, but I just want to let Dr. Winston react to this, because it was you that, quite appropriately, brought up the fact that we have had a subprime mortgage meltdown, which is now affecting millions of people, literally all the financial markets in the world, and it is a question now of, how did this thing get so completely out of hand?

And guess what one of the answers that is being suggested? There was no regulation or oversight of many of the parties that were using predatory lending tactics, who were putting in skewed credit ratings, that they were offering people opportunities for an adjustable mortgage rate, which only, unfortunately, adjusted upward.

And so this, to me, suggests a case for regulation.

And I would like to yield to the gentleman.

Mr. CHABOT. Would the gentleman yield?

Mr. CONYERS. Yes.

Mr. CHABOT. I thank the gentleman for yielding. The gentleman brings up the subprime mortgage crisis, and I can't let it go uncommented upon that one of the solutions in this Committee was a joint bipartisan effort between the Chairman and myself. And I might note that 100 percent of the Republicans who voted for it are present here in the Committee today. [Laughter.]

So I yield back.

Mr. CONYERS. What about—you know——

Mr. WINSTON. Did you want me to comment?

Mr. CONYERS. Yes, deregulation doesn't solve problems. It can frequently create problems.

Mr. WINSTON. My view is it is the opposite, that is, even with the best of intentions, one needs to think through, again, all the subsequent steps that will occur after you put in the regulation.

Let's take the comment about you want to regulate fuel prices. Think it through. What is going to happen? Suppose we start capping the price of oil. We have been down this road before. We saw what happened. We are going to get supply——

Mr. CONYERS. What did happen?

Mr. WINSTON. Supply shocks, that is, supply reductions. With the price less, less supply. Eventually, pressure to "take them off" and, all of a sudden, through the roof, because supply had been cut back.

Eventually, though, the market did sort itself out. And you know, following the price shocks of the late 1970's, early 1980's, prices went down.

Markets do have disturbances. It would be wrong to say and misleading to say markets always perform perfectly. They don't. There are shocks. And we learn from that.

The issue is: Who learns quicker and who learns more effectively, markets or government?

Let's go to subprime, right? Do we really know what caused that? I mean, at this point, I think there is obviously a lot more understanding that we need to get. Were they really truthful information problems or were a fair number of people, more than people want to admit, saying, "Look, we knew what we were getting into. We took a risk. The risk didn't work out, and we are caught from that"?

Honestly, what could government regulation have done to anticipate this problem and done something effectively to prevent it and/or intervene through it?

Mr. CONYERS. I have an answer for you: plenty.

Mr. WINSTON. Then it gets back to then the response. Why didn't it do it? And if that is the case, then how could we continue to count on government in playing that kind of visionary, responsive role?

At the same time, I would suggest that this is something certainly the financial markets will learn from. And I think just one has to go through very carefully, before sort of crafting regulations and blaming markets for things, to actually isolate what is responsible for what and whether, in fact, regulations will truly have the effects that we think they are going to have.

I would quickly that, also, by the way, on the comment I can't resist, on the passenger's bill of rights, I think ultimately that is going to do more harm than good.

Mr. CONYERS. Well, so much for your liberal economics—today. [Laughter.]

Mr. WINSTON. It has nothing to do with politics.

Mr. CONYERS. Yes. As they say, "Yeah, right."

Mr. WINSTON. Check my voting record.

Mr. CONYERS. Well, that is a good idea. I think I would invite you to check mine, as well.

But, really, I think we need to talk more, not in the hearing, about the subprime meltdown, but it is still—this isn't something that is in the past or that happened. It is getting worse, as you probably know.

We turn now to Ms. Shook.

Ms. SHOOK. Thank you.

Once again, I would just like to thank you for the opportunity today. As obviously I have previously mentioned that we haven't been given a seat at the table from the Northwest perspective side and also from the Delta side.

So it is a very good opportunity today to provide voice to the flight attendants. So I would like to thank you for that.

I would like to invite you, Congressman, next time you are flying through Cincinnati, I would love to put you together with some Cincinnati flight attendants and see the barrage of information that is being flooded their way in this representation election.

And I would respectfully say to Mr. Moormann, when we have to take Delta at their word, I would like to give you a sampling of what these flight attendants have to face every single time they check in for work.

There are huge posters on the wall. There are pop-up screens when they check in on the computer. There are supervisors everywhere. There are glossy leaflets. There is a spooling video. It is just—it is incredibly overwhelming, all with the Delta logo all over it.

So I am very serious in that request that, to give you some reference on what they are up against.

And I want to just also address Mr. Winston that I believe it is somewhat of an oversimplification to pit labor and executives against one another. And that is not at all what I am talking about today.

We are talking about Delta flight attendants coming together to collectively have a brighter future working with their management. We are talking about the Northwest Airlines being peers with their management and having a seat at the table.

So this is, from my reference, I come from an airline that would be considered a legacy carrier. We have decent and respectable—built on mutual respect, our relationship with management. And I just wanted to make sure that I addressed that.

And, again, thank you very much for the opportunity today.

Mr. CONYERS. Thank you so much.

Did anyone want a last comment before we adjourn this hearing?

Mr. Buffenbarger?

Mr. BUFFENBARGER. Mr. Chairman, I would just like to point out that we experienced a time like this before I was born, but my parents certainly lived it, called the Great Depression. And what brought us out of it was a regulation of the world we live in, not deregulation.

So I think we need to bear in mind that some of the lessons from the past are just as appropriate today as they were in the time of Franklin Roosevelt. Thank you, sir, for the opportunity.

Mr. CONYERS. Well, I thank the second panel. It was certainly more lively than the first.

The Committee is adjourned.

[Whereupon, at 1:34 p.m., the Task Force was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

Prepared Statement of the Honorable Sheila Jackson Lee, a Representative in Congress from the State of Texas, and Member, Task Force on Competition Policy and Antitrust Laws

Thank you, Mr. Chairman and ranking member for your leadership in holding today's important hearing on the state of competition in the airline industry. Today's hearing will focus on the proposed merger between Delta Air Lines and Northwest Airlines announced on April 14, 2008. The hearing will consider whether this merger raises any antitrust concerns.

Last week, Delta and Northwest airlines announced a $3.6 billion merger agreement that would create the largest airline in the United States. Many believe that if this merger is consummated, it may trigger a wave of further consolidation within the industry involving the other major carriers, United, Continental, US Airways, and American Airlines.

Mergers among these large national carriers could lead to the survival of struggling airlines that have suffered financial losses, more carriers, more jobs, more destinations and routes, and increased regional stability around airline hubs. Opponents of consolidation argue that the current state of the industry and the current trend toward consolidation could lead to anticompetitive concerns. Critics of consolidation argue that jobs could be lossed as business is streamlined. Additionally, critics argue that the proposed airline consolidation might yield reduced seat capacity and increases in ticket prices.

Today's hearing promises to be very interesting and deserves much consideration. It presents a topical issue that has recently been reported by the Associated Press in news articles within the last few days, I look forward to hearing more about the proposed merger. I also look forward to working with the airlines and other members of Congress to address any anticompetitive behavior that may be implicated by any consolidation.

I welcome our distinguished panelists and I look forward to their insightful testimony.

In the past few weeks, four smaller airlines in America, Aloha, Skybus, ATA, and Frontier, have filed for bankruptcy and will all have since gone out of business. Another all business-class trans-atlantic airline, Maxjet, went out business in December. It's rival, Silverjet, is seeking a buyer. Oasis Hong Kong, a pioneer of low-cost long haul services, collapsed on April 9, 2008. Another airline, Champion, will cease operations in May 2008. Alitalia may experience a similar fate unless a takeover by Air France-KLM can be revived.

The economy is tight and by the looks of things is slowly creeping into a recession. The economic downturn is pressuring U.S. air carriers. Fuel costs are going through the roof. Oil is at $114 barrel and airlines are confronting their biggest economic crisis in recent years than the darks days that followed the tragic events of 9/11. Aviation taxes and fees are exorbitant. U.S. refinery capacity is at its lowers point since Hurricane Katrina, squeezing jet fuel supplies and driving up prices.

On the world market, crude oil is priced in U.S. dollars, and the weakening dollar makes jet fuel relatively less expensive for foreign (especially European) competitors than for U.S. airlines. Foreign airlines pay 37% LESS for oil because of the weak dollar.

The surging cost of fuel is the single largest cost center for U.S. aviation. In 2003, fuel was approximately 17% of industry expense; in 2008, it is projected to account for more than 34% of industry expenses. Airlines are looking at staggering losses this year. Airlines are facing a $18 billion increase in fuel costs in this year alone.

Despite the increase in the cost centers for aviation, there are many critiques of the U.S. air transit system that would not support consolidation. For example, thirty ago, Congress passed the Airline Deregulation Act of 1978 and since that time, the airline system has deteriorated.

Mr. Robert Crandall, the former head of AMR, the holding company for American Airlines, is reported to have said in the New York Times that "our airlines, once world leaders, are now laggards in every category, including fleet age, service quality and international reputation. Fewer and fewer flights are on time. Airport congestion has become a staple of late-night comedy shows. An ever higher percentage of bags are lost or sent to the wrong airports. Last-minute seats are harder and harder to find. Passenger complaints have skyrocketed. Airline service, by any standard, has become unacceptable" In short, Mr. Crandall states that "consolidation will not resolve the woes of individual carriers, nor will it fix the nation's aviation problems" In his view, the U.S. air transit system is underregulated, overtaxed, infrastructure is terrible, carriers charge too little and fly too much.

The reality is that both Delta and Northwest have declared bankruptcy and have posted staggering billion dollar first-quarterly losses this year. The Department of Justice's historic antitrust analyst has generally focused upon the relevant product and geographic markets and city-pairs in airline mergers. In determining whether a transaction significantly raises concentration levels in city-pair markets, the DOJ separately evaluates non-stop service and connecting service. The reasoning behind the dual analyses is that for price-sensitive consumers, connecting flights may present a reasonable alternative; whereas, for business travelers, they may not. Once overlapping city-pairs have been identified, the DOJ evaluates the number of other carriers serving the markets, the nature of that service, and their market shares. The DOJ then focuses upon those city-pairs in which post-merger concentration levels may make it feasible for the merged parties to exercise market power. The DOJ may also consider the timeliness, likelihood, and sufficiency of magnitude of entry by other competitors. According to analysts, there is little duplication in the routes between Delta and Northwest.

I am not convinced that the merger is an optimal solution to the economic and financial woes beset by the industry and beset by these Delta and Northwest. It is possible that the merger of these two airlines could lead to further consolidation. Because Delta and Northwest airline's fleet is old, there is concern about keeping workers employed, keeping capacity, and airline tickets at an affordable price, perhaps the answer lies in addressing the fuel crisis. Part of the reason for the merger is to save and costs and to increase profits. Part of the reason for the increased cost to these companies is the soaring price of fuel. Thus, I ask whether a solution might be to temporarily suspend the jet fuel tax when oil is above $100 per barrel. Insist that the Administration halt additions to the Strategic Petroleum Reserve and direct the Administration to sell 10 million barrels of petroleum from that reserve. Insist that the Administration release the nearly 2 million barrels currently sitting in the Northeast Home Heating Oil Reserve. Say no to increasing passenger airline taxes and make corporate jets pay their share for their use of the air traffic control system.

Should this merger be consummated without any regulation from Congress, I would offer that we should work together with Delta and Northwest airlines to ensure that they comply with H.R. 1303, "Airline Passenger Bill of Rights Act of 2007." H.R. 1303 requires a covered airline to: (1) establish procedures for handling passenger complaints; (2) provide customers at the airport and aboard an aircraft with information regarding delay, cancellation, or diversion; (3) establish procedures to allow passengers to exit the aircraft in the case of a departure or arrival delay which would require passengers to remain on a grounded aircraft for more than three hours, with specified exceptions; (4) provide passengers on a departure or arrival delayed grounded aircraft with essential ventilation, food, water, sanitary, and medical services; (5) publish a monthly list of its chronically delayed flights and provide such information upon ticket purchase; (6) publish and update lowest fare and schedule information; and (7) make every reasonable effort to return lost baggage within 24 hours.

H.R. 1303 directs the Secretary of Transportation to: (1) review airline and airport emergency contingency plans for bad weather; (2) work with air carriers to ensure that a pilot operating a (long) departure-delayed flight is permitted to return the aircraft to the terminal to allow passengers to exit the aircraft without losing the flight's departure sequence position; and (3) conduct a study of the ability of air carriers to provide for passengers' essential needs in cases of diverted flights.

The Northwest-Delta merged entity should guarantee that frontline employees, airline pilots, and airline stewards and stewardess will not be terminated and that no airline hubs will be closed. Labor unions and their collective bargaining should be recognized and preserved. Lastly, the merger should not affect employee retirement plans and salaries.

I would be curious to hear from our panelists whether there is any possible alternative to merger. Again, I welcome our panelists and look forward to their enlightening answers.

I yield back the balance of my time.

PREPARED STATEMENT OF THE AIRCRAFT MECHANICS FRATERNAL ASSOCIATION

I am Steve MacFarlane, National Director of the Aircraft Mechanics Fraternal Association (AMFA), a craft union representing nearly 5,000 aviation mechanics and related at Alaska, ATA, Southwest, Northwest (NWA), Mesaba, and Horizon. AMFA represents over 900 mechanics at NWA, and over 200 at Mesaba - one of NWA's regional subsidiaries. I am writing to share my organization's concerns regarding mergers and consolidation within the airline industry, specifically the proposed deal between Delta and Northwest. Having worked in the airline industry for twenty-five years and lived through two mergers, Hughes Airwest/Republic and Republic/Northwest, I can attest first hand to the harm that can befall workers caught up in airline mergers.

AMFA understands that consolidation within the industry is likely, and we are not necessarily opposed to consolidation *per se*, however, AMFA believes there are facts surrounding the Delta-NWA pairing that need to be addressed. These issues include, but are not limited to:

- Current and potential future union representation at the combined carrier
- Billions of dollars in outstanding pension obligations
- The potential wave of mergers stemming from the approval of the Delta-NWA deal
- Promises made by management teams to garner political favor for deals that turn out to cause great harm, such as pledges to keep all hubs, employees, and small community air service.

Having endured devastating job losses and drastic reductions in pay and benefits coerced from airline workers throughout the industry over the past five years, we can't help but flinch at the prospect of another corporate tactic that has the potential of delivering yet another blow to the livelihoods of airline workers. Prior to the attacks of 9/11, AMFA represented nearly **10,000** mechanics and related at NWA. Immediately after the attacks, tens of thousands of frontline airline employees at numerous carriers were laid off, including about half of AMFA's NWA population. Today, the number stands at 910. AMFA members in Minnesota numbered over 6,000 during the late 90's alone. These workers earned above average wages, owned homes, and contributed significantly to the economy of Minnesota and the nation as a whole. There are now 615 AMFA NWA mechanics at MSP and 300 in Detroit (DTW). Most of them own homes in other states.

Former mechanics have, in many cases, moved on to lower-paying jobs and turned to refinancing homes or other forms of debt to sustain their families. This scenario shows that for all the numbers thrown around about how vital an airline is to an economy - both micro and macro - the benefits must be more than residents with proximity to a certain airport being able to fly to Mexico City via Salt Lake City. With no economic base to support leisure travel, and the forecasted "15-20% rise in ticket prices[iv]" needed to offset soaring fuel prices, the current crisis in the industry will, by this logic, expand to the point where no one will be able to fly.

The government has provided great assistance to the airline industry after 911 and during difficult times, in the form of the ATSB, whereby $5B in taxpayer dollars was given to the industry without any guidance as to how the airlines were to spend the money. Another $10B was made available for loans to assist the ailing industry. While this is laudable, no help was forthcoming to the tens of thousands of workers who lost their jobs.

Additionally, federal bankruptcy laws, never intended to be used as a strategic tool for competitive purposes, were turned against workers as federal judges aided executive management teams in extracting severe, painful, and permanent concessions from American airline workers. Pensions were defaulted, work rules changed, workforces reduced by thousands, wages slashed, and on and on. We acknowledge the value and benefit of having a viable airline industry that provides great mobility and swift commerce for our nation; however, the other part of the equation is a stable and productive middle class that contributes to the economic vibrance and tax base of the American economy.

Now, as we enter the era of Open Skies and mega-carriers, the need for scrutiny grows. NWA and Delta claim that employees will be given a 4% stake in the merged company. Employees at United Airlines can attest to the perks of ESOP programs, where $125,000 in stock yielded a $1,800 payout. This merger does nothing to allay concerns of future bankruptcy filings, and future financial distress. In fact, the cost of merging has been reported to be somewhere near $1 billion. Given the combined $10 billion in losses by NWA and Delta in the first quarter of 2008, it seems the carriers need all the money they can get. Even without "one-time" costs of $6 billion for Delta and $4 Billion for NWA, the two combined to lose just short of $500 million in the quarter - largely due to $115/bbl oil.

Oil and refined fuel commodity prices will not decrease with the formation of the largest airline in the world. With this merger, the company will have a fleet of over 800 aircraft, with the only overlap in aircraft type being the Boeing 757-200 (Delta - 131; NWA - 16)[ii]. This means the combined carrier will have 19 different and unique aircraft, and a fleet that will be one of the oldest in the industry. The companies have said that the carrier will be able to right size aircraft to specific routes, and park older airplanes, but both airlines have stated their individual intentions to do this in the next year anyway,

---

[i] Delta CEO Richard Anderson quoted by Associated Press. USA Today April 22, 2008

[ii] Aviation Week & Space Technology Aerospace Sourcebook 2008. Pgs 364 & 372

as well announcing cuts in mainline capacity. The costs of the merger procedure fly in the face of the actions the companies are taking independently.

Earlier in the month, Delta, NWA, Air France-KLM, CSA Czech Airlines and Alitalia were granted antitrust immunity for their international code-share alliance operations as part of the SkyTeam Alliance. This, combined with Stage I of the US-EU Open Skies Agreement (OSA), appears to be leading to the creation of global mega-carriers, and with it, the gradual erosion of the traditional airline employee. If not for US ownership and "actual control" restrictions, perhaps trans-Atlantic consolidation would have been realized already. In fact, Stage I of the OSA stipulates that if the US does not liberalize its ownership requirements for a Stage II agreement, Stage I will be negated and withdrawn.

While many employees would likely welcome being part of the world's largest air carrier, that endorsement cannot come without some tangible benefits. Airlines have lost $29 billion since 2001, defaulted or deferred over $20 billion in pension obligations, and laid off over 150,000 employees. These facts show that something fundamental *must* change. But, how does this merger, and the likely wave of mergers to follow afterward, change anything? It seems more likely a continuation down the same pothole-laden path.

Again, AMFA is not against Delta and Northwest merging, but we are hard pressed to see how this betters the industry and provides stability to its employees. At a minimum, Delta's mechanics must be given a fair chance to vote on representation. AMFA has received a significant number of NMB cards, and stands to vie for representation in the event that this merger is approved. If the workers of the merged carrier choose no representation through a vote, then so be it. But, we feel that in the current environment, the mechanics at a combined Delta will see that as at-will employees, they will have little recourse in the event of another severe industry downturn.

We hope that all the promises made by Mr. Steenland and Mr. Anderson come to fruition and this merger works well for everyone involved. But sadly, rank and file airline employees have been down this road before, and historically it has ended with thousands of layoffs for airline workers and a few golden parachutes at the top for executives.

ARTICLE ENTITLED "FEAR OF FLYING? LIFE SINCE DEREGULATION - 2008"
FROM UNBOSSED.COM

Sunday, April 20, 2008

Fear of Flying? Life Since Deregulation - 2008

The last few weeks have been an absolute nightmare for anyone connected with flying - and that has to be most of us. Whether it's a level of airplane safety that may well have fallen below that of impoverished countries, being stranded, or just what are now the regular hassles and humiliations of airline travel, I think that we now have adequate data to say that the airline deregulation experiment has demonstrated that the free market is a very, very bad way to provide air transportation. And the benefits we were supposed to get, cheaper tickets, come down to about $35 a ticket.

This is not the first time unbossed has addressed this issue. In fact, I wrote a piece three years ago that pointed out then serious problems that have only become worse.

This issue of deregulation and privatization should be borne in mind as we consider the push for highway and infrastructure privatization.

So let's see how I did then compared to the chattering punditry and privatization apologists.

It's been 27 years since airlines were deregulated in 1978. Over a quarter of a century. Not long after, we saw the trucking industry deregulated and the phone system. So, airline deregulation - good or bad? success or failure? answer to the traveling public's prayers or horrific nightmare?

I hate he-said-she-said journalism as much as the next gal, but, heck, I'm not a journalist. I am not an expert in deregulation or airlines, beyond my empirical observations made from my uncomfortable semi-reclining seat, efforts to find a good flight, and other indignities of air travel. What I am is a member of the public who has watched for years as airline travel has become increasingly uncomfortable and troubling. I have watched as the lives of airline workers have been torn apart as airline after airline enters, skirts, leaves bankruptcy or fails altogether. I have seen the pain of the constant concessions workers make that don't seem to do much to help the airlines become or stay solvent. I know there are cheerleaders for deregulation.

So, folks, the plan here is to offer up some facts and, yes, some opinions on various sides and see where we stand.

Some facts

The youngins may not recall this, but there was a time when *all* tickets were fully refundable and transferrable . . . and no Saturday night stays were required. Flights were point-to-point. The hub and spoke system did not exist, so even people who did not live near a hub might be able to fly nonstop to a destination. This was life before deregulation.

Of course, it was not paradise. It was run by humans. Airline routes and fares were strictly regulated by the now-defunct Civil Aeronautic Board (CAB) to provide a reasonable profit to the airlines and reasonable access by the public. Anyone who wanted to start a new airline had to get permission from the CAB. There was a lot of overcapacity - airplanes tended to fly only 50% full (nice for the passenger not so great for profits.)

After deregulation, new airlines sprang up but have failed to become major carriers, fares changed (some decreased, some increased, some did not change), access to airlines changed, quality of service has changed, monopolization at hub airports increased, and the entire structure of flying changed to what we have today. Cites here and here.

Remember *Braniff, People's Express, Eastern Airlines, Midway, Air Florida, Pan American, TWA, Western Pacific, Reno Air* - some were once hailed as the fruit of deregulation. Now they - and many others - are the vicitims of airline deregulation.

Remember the bankruptcies of *Continental, America West, United, Northwest, and TWA*. Each failure or bankruptcy means severe pain for the employees and for the communities these airlines used to serve. Financial trouble for the airlines mean lost pensions, pay, and security for employees.

How many airlines failed or went bankrupt in the 27 years before deregulation? How many failed during the oil shocks of the 1970's? None. Nada. Zip. Zilch.

According to the GAO's report, Commercial Aviation: Structural Costs Continue to Challenge Legacy Airlines' Financial Performance, GAO-05-834T (July 13, 2005):

> *160 airlines filed for bankruptcy since deregulation in 1978, including 20 since 2000. Most airlines that entered bankruptcy have not survived. . . .* While bankruptcy may not be detrimental to rival airlines, it is detrimental for pension plan participants and the PBGC. The remaining legacy airlines with defined benefit pension plans face over $60 billion in fixed obligations over the next 4 years, including $10.4 billion in pension obligations - more than some of these airlines may be able to afford given continued losses.

. . .

> Legacy airlines (Alaska, American, Continental, Delta, Northwest, United, and US Airways) predate airline deregulation of 1978 and have adopted a hub and spoke network model that can be more expensive to operate than a simple point-to-point service model. Low cost airlines (AirTran, America West, ATA, Frontier, JetBlue, Southwest, and Spirit) have generally entered the market since 1978, are smaller, and generally employ a less costly point-to-point service model. The 7 low cost airlines have consistently maintained lower unit costs than the 7 legacy airlines.
>
> . . .
>
> Two other smaller carriers - ATA Airlines and Aloha - are also in bankruptcy protection. Hawaiian Airlines just emerged from bankruptcy protection earlier this month [July 2005].

One cost contributing to those differences is employee pensions. Just as the Big 3 automakers have longstanding pension obligations and the imports do not - so too with the legacy and nonlegacy airlines.

The Naysayers

Consumer Reports provides answers to myths about deregulation:

> Much of deregulation's claim of success hangs on falling airline-ticket prices. Indeed, inflation-adjusted airfares dropped 37 percent in the 22 years since deregulation commenced in 1978. But over the 22-year period before deregulation, inflation-adjusted airfares fell just as much and just as fast.

> Meanwhile, lower prices after deregulation aren't what they seem. Ninety-six percent of tickets sold today are discounted, yes, but most are also saddled with restrictions. Most regulated fares were unrestricted. "A discount ticket is a different-quality product than an unrestricted ticket," says Daniel Ginsburg, an economist who tracks airfare-price inflation at the Bureau of Labor Statistics.
>
> In other words, consumers are paying 37 percent less for inferior quality. In an apples-to-apples comparison, deregulated full-coach fares in 2000 were 65 percent higher than their regulated equivalents in 1978, on average, even after adjusting for inflation.
>
> . . . Thirty-three percent of flights in and out of airports of all sizes were on turboprops in May 1998, compared with only 21 percent in May 1978, according to a General Accounting Office (GAO) study.

See also Deregulation was supposed to cut prices, expand choice, enhance service - improve your life. So how come you're not smiling?

In The High Price of Airline Deregulation, David Morris raises similar questions:

> Indeed, the use of price alone as a measure of success is looking increasingly suspect. In the last four years, for example, airfares have dropped more than 15 percent. In the same time frame, 20 airlines have gone bankrupt. United and US Air have walked away from their pension obligations. Northwest just imposed a 25 percent unilateral wage reduction on its machinists. The industry as a whole has lost $25 billion. This is not healthy competition.

Morris estimates that the most touted benefit of deregulation, lower cost tickets, amounts to about $35 a ticket and asks whether that covers the enormous losses and disruption caused by deregulation:

> Yes, we paid a price for airline stability and continuity and job security (and pretzels, pillows, meals and movies). But the price was modest. Overall, if we take into account the full costs to employees, customers and communities, the regulatory era almost surely had a more positive cost-benefit ratio than the one in which we now live.

The Washington Monthly adds additional questions and argues that the airline industry is now highly uncompetitive:

> The airlines do compete - if your idea of competing is locking your rivals out of the stadium. Since deregulation, the major carriers have learned to survive by making up new rules. They've figured out how to exploit the natural barriers to entry at airports - limited gate space and limited airspace - in order to lock out new competitors or to charge enormous fees to let them in. And they've come up with clever marketing scams to lure customers away from other airlines, often by manipulating the information the customers receive. These tricks of the trade may have started out as attempts at honest competition, but they're smothering the smaller, would-be competitors - and not because the little carriers offer lousy service, but because they simply don't have the leverage or the resources to play the same tricks. The result is clear: The airline industry is becoming less and less competitive all the time.

Others wonder: Has deregulation led to unsafe airplanes? Some say yes.

The Cheerleaders

Alfred E. Kahn, the father of deregulation, *Airline Deregulation* in the *Library of Ecomomics and Liberty's Concise Encyclopedia of Economics* is sanguine and blames problems with deregulation primarily on what he sees as government failures.

A Cato report, Elizabeth E. Bailey, Airline Deregulation Confronting the Paradoxes, includes a chart of the history of airlines from 1978 to about 1992 and says:

> **Bankruptcy and Exit.** The market for corporate control of the airlines has been active since deregulation. The past fifteen years produced waves of bankruptcies, exits, mergers, and restructurings. And the market for corporate control has not yet equilibrated. Three of the remaining nine major players are in bankruptcy. And most of the U.S. airlines are now engaged in a fierce battle for control that transcends national boundaries. The international marketplace is now facing the realities of the new operating environment.

Despite this, the author is mostly upbeat about deregulation.

You can find more Cato reports promoting deregulation, including those by Reason author Robert Poole, here.

The Neutrals
A government site, Deregulation and Its Consequences, discusses the history of airline deregulation in a fairly even way. I was surprised, given that this is a government website that It even includes some negatives, for example:

> Unfortunately for the airline industry, fuel costs, economic recession, and wanton overexpansion in the wake of deregulation began to have serious negative consequences. The airlines recorded a net operating loss of $421 million as early as 1981, when the number of passengers fell to 286 million. The problems were worsened by the nationwide strike of the Professional Air Traffic Controllers Organization (PATCO) in 1981. One airline, Braniff, collapsed completely in 1982 (although the airline operated from 1984 under new ownership before entering bankruptcy once again in 1989). Other airlines continued to expand in the face of economic problems, putting them at great risk.
>
> Analysts continue to debate the long-term effects of deregulation. The climate in the post-deregulation era was extremely unstable as illustrated by the fates of both Continental and Eastern Airlines, two major domestic carriers. Both airlines suffered through severe financial crises, which were made worse by mismanagement and bad relationships with the labor unions. Both ended up bankrupt by 1989. The most important international carrier for the United States, Pan American, suffered the same fate. Without the cover of regulation on international flights, Pan Am suddenly had to compete with new entrants such as Laker and People's Express. By the end of 1991, after a dramatic downfall through the 1980s, Pan Am was history. The number of major carriers in the United States fell from six in 1978 - United, American, Delta, Eastern, TWA, and Pan Am - to three by 1991—United, American, and Delta. Ultimately, most of the big airlines suffered some sort of loss in the 1980s - either facing complete bankruptcy or with less financial growth than hoped.

Sooooooo

What about other industries? Most of us can't say much about trucking, because it doesn't touch us directly. But how about a deregulated industry we all deal with - Just how is your telephone service these days? Are you happier than when it was regulated?