S. HRG. 110–1228

THE STATE OF THE AIRLINE INDUSTRY AND THE POTENTIAL IMPACT OF A DELTA/NORTHWEST MERGER

HEARING

BEFORE THE

SUBCOMMITTEE ON AVIATION OPERATIONS, SAFETY, AND SECURITY

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

MAY 7, 2008

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ONE HUNDRED TENTH CONGRESS

SECOND SESSION

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THE STATE OF THE AIRLINE INDUSTRY AND THE POTENTIAL IMPACT OF A DELTA/NORTHWEST MERGER

WEDNESDAY, MAY 7, 2008

U.S. SENATE,
SUBCOMMITTEE ON AVIATION OPERATIONS, SAFETY, AND SECURITY,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:30 p.m. in room SR–253, Russell Senate Office Building, Hon. John D. Rockefeller IV, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER IV, U.S. SENATOR FROM WEST VIRGINIA

Senator ROCKEFELLER. This hearing will come to order. We have a very large crowd and two of us at the table, but, that is overwhelmed by the presence of Senator Isakson at the witness table. Mr. Isakson is not going to make a statement. He is going to make an introduction. He is my good friend, and I welcome whatever he wishes to say.

STATEMENT OF HON. JOHNNY ISAKSON, U.S. SENATOR FROM GEORGIA

Senator ISAKSON. I thank you very much, Mr. Chairman.

About 16 months ago, you gave me the privilege of coming to this Committee room and introducing the then-CEO of Delta Air Lines, Jerry Grinstein, which I was very proud to do. Delta was in—had been in difficult straits and was going through difficult times, and I was honored and privileged to be here to introduce him to this Committee because with all the difficulties they had, they were fighting to preserve the pension plan of their loyal rank-and-file employees.

As a man who owned a business, one who appreciated the value of my assets, which were my people, I was very proud to represent him that day and introduce him. I also had the occasion during then to meet Mr. Steenland as well with Northwest, who also had equally the same commitment to their employees and their workers.

Today, it is my privilege to introduce the new CEO of Delta Air Lines who replaced Jerry Grinstein. His name is Richard Anderson. He has 20 years experience in the aviation business with both

Northwest and Continental. And before coming to Delta in 2007, he left United Healthcare as one of the leaders in that great company.

And I know he shares the same commitment that Jerry Grinstein did for the people of Delta, and I am here to speak on behalf of them, welcome him to this Committee, thank the Committee for offering him the chance to testify, and tell you just how proud I am of Delta Air Lines and all of her people.

Senator ROCKEFELLER. We are 12–14 at home, are we not, Senator?

Senator ISAKSON. We are having a little trouble. John Smoltz hurt his arm, and Glavine is getting old.

Senator ROCKEFELLER. The Senator is out of order.

Senator ISAKSON. But Chipper Jones is hitting .435. So we are doing all right.

[Laughter.]

Senator ISAKSON. Thank you, Mr. Chairman.

Senator ROCKEFELLER. Thank you, sir.

I am going to waive my statement because we have a very full panel, and this is a very crowded day. We are going to be working here very late.

And next to me, Senator Hutchison, who is my Vice Chair, has to leave at 3 p.m., and she wants to just stay a couple of minutes.

Then we are going to have the full panel come and begin the testimony, and then we will start the questions.

[The prepared statement of Senator Rockefeller follows:]

PREPARED STATEMENT OF HON. JOHN D. ROCKEFELLER IV, U.S. SENATOR FROM WEST VIRGINIA

Over the last 5 years, the commercial airline industry has undergone a brutal restructuring that cost hundreds of thousands of airline employees their jobs and their pensions, eliminated and or reduced service to countless small and rural communities, and changed the very nature of the industry.

Just last year, we thought the commercial airline industry had rebounded sufficiently and had undertaken enough structural reforms to weather the next economic downturn. We were wrong.

The impact of the rising cost of oil barrel threatens the very viability of every airline in this country. Six carriers have already been pushed into bankruptcy and more teeter on the edge of financial collapse.

I know that many of my colleagues will want to focus exclusively on the pending merger between Delta Air Lines and Northwest Airlines. But, I do not want us to miss the primary point of this hearing—the financial health of the U.S. aviation industry.

I spoke at great length last week on this issue. A healthy airline industry is critical to our entire economic future. And, frankly, too few of us seem not to care. We are losing our global leadership in aviation—from aerospace research, to air traffic control system development, to market share. U.S. airlines are fast becoming second tier carriers in the global marketplace.

Over the last 2 years, I have heard a lot of airline CEOs tell me that they believe the airlines must consolidate to achieve long-term financial viability.

I am not unilaterally opposed to consolidation, as I understand that some consolidation may be necessary to make sure the United States has a financially stable commercial aviation industry.

Although consolidation may be necessary to make sure we have a healthy airline industry, I am not convinced that consolidation is sufficient to solve the long-term challenges of the airlines.

Our hearing today will allow us to examine the current financial state of the industry, the steps that the industry and policymakers must take to achieve financial stability in the industry, and the potential impact another round of industry consolidation would have on the industry and the communities and consumers they serve.

STATEMENT OF HON. KAY BAILEY HUTCHISON, U.S. SENATOR FROM TEXAS

Senator HUTCHISON. Well, thank you very much, Mr. Chairman.

Senator ROCKEFELLER. And I beg my colleagues' forbearance on that authoritarian act on my part, but I really am anxious to get on with this hearing, we have a large group to hear.

Senator HUTCHISON. I appreciate that, and I will not read my entire statement. I would like to put it in the record.

[The prepared statement of Senator Hutchison follows:]

PREPARED STATEMENT OF HON. KAY BAILEY HUTCHISON, U.S. SENATOR FROM TEXAS

Thank you, Chairman Rockefeller, for holding the hearing today. I would also like to welcome our panel of witnesses, including the CEOs of Delta and Northwest.

As I mentioned to the CEOs when I met with them last week, I don't like the current trend of mergers and consolidation in the industry. While I don't intend to block or impede the process—that is not the role of Congress—I do have concerns about the downstream effects of major consolidation.

I believe the promotion of competition and an emphasis on consumer and passenger concerns should be heavily considered. A bigger airline doesn't always mean a better airline, and the creation of monopolistic hubs will do little to improve consumer choice.

However, as economic conditions become more uncertain in the short-term, it is important we review the economy's impact on the aviation sector. Also, airlines such as Delta and Northwest are competing in the world market in many places against bigger airlines with lower fuel costs because of the low dollar exchange and sometimes government subsidies.

Since the year 2000, the U.S. airline industry has gone through its most fundamental restructuring since Congress deregulated the industry in the late 1970s. We all know so well the horrific impacts of the 9/11 terrorist attacks, but several other variables have led to where the industry finds itself today, notably, record high fuel prices.

In addition, the advent of the Internet has made customers much savvier and overall industry trends like aggressive low-cost carriers, international agreement expansion, and bankruptcy restructuring have had significant impacts on the face of the industry.

I am hopeful we can have a discussion today about not only domestic competition and challenges, but also global competitiveness and what lies ahead for the industry. It is important we understand the future marketplace in order to make informed policy decisions.

Thank you, Chairman Rockefeller, I look forward to the testimony.

Senator HUTCHISON. But the bottom line is I appreciate that you are calling the hearing. I know the public wants to hear all of the points about this potential merger. I have been privileged, really, to meet with both CEOs, and I appreciate their coming to talk to me.

In the main, I don't like the idea of mergers because I think the more competition we have, the better it will be for our consumers. However, having said that, I don't think it is the role of Congress to step in and actually try to impart our policies on these airlines, at least not as it refers to mergers.

And second, I realize that there are foreign carriers with whom these carriers and others compete, that the foreign carriers have much lower prices of gasoline because of the dollar differential, and that some of them are subsidized by their governments. And therefore, I do understand what I am told about the need for a bigger consortia to be able to compete with other foreign big airlines.

So I am anxious to hear and read your testimony, but just as a policy for me, I'd like to have more American airlines competing with each other and giving the consumer the best service and price. So with that, let me say thank you for calling the hearing, and I will submit the rest of my statement for the record.

Senator ROCKEFELLER. I thank the Honorable Senator from Texas, who I think wanted to say more. And so, I appreciate her forbearance.

If Mr. Patrick Murphy, Principal, Gerchick-Murphy Associates, would you come forward along with Mr. Richard Anderson, CEO of Delta Air Lines; Mr. Doug Steenland, CEO of Northwest Airlines; Ray Neidl of Calyon Securities; Ms. Patricia Friend, President of the Association of Flight Attendants; Mr. Robert Roach, International Association of Machinists; and Mr. Mark Cooper, Consumer Federation of America. If you could all come forward.

Again, I apologize for the amplitude of people and the lack of space.

STATEMENT OF HON. FRANK R. LAUTENBERG, U.S. SENATOR FROM NEW JERSEY

Senator LAUTENBERG. Mr. Chairman, before any of our witnesses testify, I want to ask that a full statement of mine be included in the record as if it was given. And I commend you, Mr. Chairman, for holding this hearing. A very important decision is about to be made, we want to make sure that we wind up with a net improvement for the traveling public and express our concern for the employees that will be affected by the proposed merger.

Senator ROCKEFELLER. I thank the Senator, and I put his statement in the record.

[The prepared statement of Senator Lautenberg follows:]

PREPARED STATEMENT OF HON. FRANK R. LAUTENBERG, U.S. SENATOR FROM NEW JERSEY

Mr. Chairman,

Each day, two million travelers depend on safe and reliable travel options, including passenger rail, cars and trucks, and airplanes. Our economy depends on the airline industry—and so do thousands of hard-working pilots, flight attendants, air traffic controllers, and other employees. The airline industry was on its way to earning a healthy profit this year, but skyrocketing oil prices have turned their profits into losses.

And with intense competition and record fuel costs, some airlines are looking to merge to keep their business strong. As a former businessman, I understand that merging is often appealing for a company and its employees, especially in tough economic times. But through the merger process, airlines must not neglect their customers. After all, it's the customers that are keeping these airline companies in the sky.

Passengers deserve quality customer service. Yet from ticketing and baggage problems to flight cancellations, it seems that customer service has been left at the gate. To address these issues, we have provided money this year to increase enforcement of airline consumer rights. Airline companies cannot mistreat travelers without consequences. We must also pass a passenger bill of rights. Travelers deserve it.

Passengers are not the only ones with rights. Employees have rights, too. Airline employees have made many sacrifices since 9/11 to keep this industry in the air, and airlines must treat their workers with respect. That's why some of my colleagues and I sent a letter to these CEO's asking that they respect employee rights throughout the merger process.

Lastly, there is more the Federal Government can be doing to help both travelers and this industry. 2007 was one of the worst years on record for flight delays: more than one in four flights was late. And flights into Newark Liberty International Airport were among the most delayed in the Nation.

Mr. Chairman, I regret to say that the Bush Administration's short-sighted policies in overseeing airline scheduling practices, as well as planning for the future of the air traffic control system, have helped create the situation we are in. Air traffic controllers are being overworked and understaffed, and not enough has been done to reduce dangerous and unnecessary safety risks on our runways and in aircraft inspections.

The Administration is not focused on the needs of the flying public, and just yesterday we were blocked on the Senate floor from moving forward on a critical FAA modernization bill.

Despite these challenges, I look forward to working with my colleagues on this Subcommittee to continue our efforts to oversee the problems at the FAA and improve our aviation system as we move forward.

Thank you, Mr. Chairman.

Senator ROCKEFELLER. And so, Mr. Patrick Murphy, you have the least comfortable seat.

STATEMENT OF PATRICK V. MURPHY, JR., PARTNER, GERCHICK-MURPHY ASSOCIATES, LLC

Mr. MURPHY. Thank you, Mr. Chairman and Ranking Member Hutchison and Senator Lautenberg. Thank you for allowing me to testify today.

I would like to take my few moments to discuss the results of studies which I and my colleagues, Randy Bennett and Jack Schmidt, have done on airline competition. We believe the analysis we have done is the most comprehensive review of competition that has been done since September 11, 2001.

Our fundamental finding is that the U.S. domestic airline industry is more competitive than at any time in history. The key to this increased competition is the emergence of two distinct business models—network carriers and low-cost carriers. Each of these two business models plays a vital role in serving the public, and neither model alone could serve the Nation's needs.

Today's unprecedented level of competitiveness is the consequence of a sharp change in the industry economics that can be traced to the year 2000. In late 2000, almost a full year before 9/11, the industry's fortunes changed radically. The airlines suffered the largest drop in profits ever recorded at that time. At the same time, the network carriers' costs were escalating rapidly, while at the very same moment their unit revenues were plummeting.

This dramatic swing coincided with the dot-com collapse, new fare transparency for consumers because of the Internet, and accelerating growth of low-cost carriers. This unprecedented change in the industry's fortunes started a 6-year string of losses that—for the network carriers stretched from 2001 to 2006 and totaled over $30 billion in red ink. At the same time, the newer and faster-growing low-cost carriers were profitable every single year.

The low-cost carriers have grown in size and in market share and in numbers. Between 2000 and 2006, they grew 73 percent. At the same time, the network carriers and their regional partners cut capacity 13 percent. This is a remarkable development. The legacy airlines have shrunk not only in relative terms, but in absolute terms. And they shrunk again in 2007, and they will shrink again in 2008.

By 2006, the low-cost carriers accounted for 30 percent of all passengers in this country. Perhaps most importantly, the LCCs now compete in markets that account for three quarters of all U.S. passengers. This is an absolutely key development. This means that U.S. travelers benefit by head-to-head competition with low-cost carriers on three quarters of their journeys whether they fly on the low-cost carriers or not.

Meanwhile, the network carriers have faced a sharp decline in revenue derived from high-end fares. Until 2000, the network carriers were able to segment their traffic into higher-end fare buckets. That resulted in much of their revenue coming from higher-paying passengers. That market segmentation strategy has now collapsed. The network airlines have permanently lost a $12 billion annual revenue stream, and it is not coming back.

As for fares, inflation-adjusted fares in 2006 were 20 percent lower than in either 1995 or 2000. Also, the practice of charging higher fares for local passengers dominated hub city airports has largely been eliminated. The dominant carriers at most large connecting hubs no longer can charge fare premiums.

On the cost side, we were very surprised to learn that even after all the massive cuts made by labor and management, network carriers still have significantly higher costs than low-cost carriers. The cost cap between network and low-cost carriers remains where it was in 1999 at between 40 and 50 percent.

In response to this unrelenting low-cost competition, network carriers have focused on their core strength, their large connecting networks. They bundle traffic from all sizes of markets onto connecting flights at their hubs. Low-cost carriers, on the other hand, continue to expand. But they stress large and medium-sized domestic markets over smaller communities.

The legacy carriers have pressed their network advantage largely in the international market, where there is little low-cost competition. They have shifted away from intense head-to-head domestic battles for market share.

The network carriers also face little low-cost competition on flights to small U.S. cities. This explains the network carriers' continued focus on serving smaller markets with their regional partners. Network airlines serve more than 300 of the Nation's 334 non-hub airports. Low-cost carriers are almost nonexistent at small communities. Consequently, smaller cities rely almost exclusively on network carriers, and it is fair to state that network carriers and small communities are now co-dependent on each other.

Conclusion, the network carriers returned to a modest profit in 2007. However, they are once again bleeding red ink. Their long-term prospects remain uncertain as they continue to lose domestic market share and as foreign competitors grow in size and strength. The network carriers are stuck in a competitive vise between domestic pressure and emerging international pressure.

For now, the network carriers are finding the international sector friendly, but that could change. Meanwhile, the low-cost carriers are scaling back their aggressive growth, but they are still gaining market share.

As for the American public, fares and service levels are at a very competitive level, although fuel costs are now reversing the long-term decline in fare levels.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Murphy follows:]

PREPARED STATEMENT OF PATRICK V. MURPHY, JR., PARTNER, GERCHICK-MURPHY ASSOCIATES, LLC

Chairman Rockefeller, Ranking Member Hutchinson and Members of the Subcommittee, thank you for the privilege of appearing before you today. My name is Patrick Murphy and I am an aviation consultant with over 36 years of aviation economic experience both inside and outside of government.

I would like to present the results of a study on domestic airline competition that was completed last year by myself and two colleagues, Randy Bennett and Jack Schmidt. We are now updating that analysis. We believe our study entitled, "A Competitive Analysis of An Industry in Transition" is the most comprehensive review of the state of airline competition that has been performed since the tragic events of September 11, 2001.

We have presented the results of our findings in a series of separate meetings with numerous organizations. Among the groups we have briefed are: DOT (twice), DOJ Antitrust Division, DOS, FAA, GAO, ATA, NACA, AAAE, ACI, House Aviation staff and Senate Aviation staff.

All three of us who prepared the study are former long-term government aviation officials. We therefore prepared our study using data and analytical techniques that we used while in the Federal Government. We believe our results are objective, and the various government agencies we have briefed seemed to agree.

Our fundamental finding is that the U.S. domestic airline industry is today more competitive than at any time since 1995, the start of our study period, and almost certainly more competitive than at any time in history. The key to this increased competition is the emergence and evolution since airline deregulation 30 years ago of two distinct business models—network carriers (also known as the six legacy airlines) and low-cost carriers (LCC's such as AirTran, Frontier, JetBlue, Southwest and Spirit). Each of these two business models plays a vital role in serving the public. Both business models are key to providing a comprehensive and affordable air transport system, and neither business model alone could serve the Nation's needs.

Today's unprecedented level of competitiveness is the consequence of a sharp change in industry economics that can be traced to 2000. Between 1993 and early 2000 the airlines earned record profits. However in late 2000, almost a full year before 9/11, industry fortunes changed radically the airlines suffered the largest drop in profits ever recorded. This loss was largely attributable to the network airlines, whose costs were escalating rapidly while at the same moment their unit revenues were plummeting. This dramatic swing coincided with the dot.com collapse, new fare transparency for consumers because of the internet, accelerating growth of the LCC's, a new-found customer resistance to high fares, and new more costly labor agreements.

This unprecedented change in the industry's fortunes started a 6-year string of record losses for the network carriers that stretched from the beginning of 2001 to 2006, and totaled over $30 billion in red ink. At the same time, the newer and faster growing LCC's were profitable every single year. This was in stark contrast to the six-year period ended in 2000, when most LCCs struggled for survival while the network airlines recorded record profits.

The LCC's have grown in size, in market share, and in numbers. They have entered into both longer distance and lower density markets. Since 2000 the LCC's grew 73 percent. At the same time the network carriers and their regional partners cut domestic capacity 13 percent. This is a remarkable development. The legacy airlines shrunk, not only in relative terms, but in absolute terms. They have continued to reduce domestic capacity and are expected to further reduce capacity in 2008. By 2006 LCC's accounted for 30 percent of all passengers. Perhaps most importantly, LCC's compete in markets that account for ¾ of all U.S. passengers. This is an absolutely key development. This means U.S. travelers benefit by head-to-head LCC price competition on ¾ of their journeys, whether they fly on an LCC or not.

When looked at by city-pairs, which is the matrix most frequently used as the "relevant market" in antitrust reviews, the number of competitors in city-pair markets has grown since 1995, and this healthy trend accelerated in 2000.

Meanwhile the network carriers that 10 years ago dictated the terms of domestic competition have faced a sharp decline in revenues due mainly to greatly diminished demand for higher fares. Until 2000 the network carriers were able to "segment" traffic into higher end "fare buckets" that resulted in much of their revenue coming from higher paying passengers. That market segmentation strategy has collapsed. Competition from low cost carriers that stress low fares and consumer resistance to paying high fares means that the network airlines have permanently lost a $12 billion annual revenue stream. Market segmentation has even been substantially reduced in markets where LCC's do not compete. The loss of market segmentation alone could account for the legacy carriers' enormous losses through 2006.

Inflation adjusted fares in 2006 were 20 percent lower than in either 1995 or 2000. Even without adjusting for inflation, fares dropped from 1995 and from 2000. For example, non-adjusted fares in 2006 were just about 10 percent lower than 2000. Also, the practice of charging higher fares for local passengers at hub city airports has largely been eliminated. The dominant carriers at most large connecting hub cities no longer can charge "fare premiums". There are still a very small number of hubs with significantly higher fares for local passengers, but that practice has almost been eliminated by ever expanding competition.

On the cost side, we were surprised to learn that even after the massive cost cuts made by labor and management, including a series of painful bankruptcies, network carriers still have significantly higher costs than LCC's. The cost gap between network and low cost carriers remains about where it was in 1999 at between 40 percent and 50 percent. We have found no evidence of the "cost convergence" theory that many had anticipated whereby network and LCC carriers would evolve toward each other's cost levels.

In response to this unrelenting lower cost competition, network carriers have devised new strategies. They have focused on their core strength—their large connecting networks. They bundle traffic from all sizes of markets, both domestic and international, onto connecting flights at their hubs. LCC's, on the other hand, continue to expand but they stress large and medium sized domestic markets over smaller markets.

The legacy carriers have pressed their network advantage largely in the international market. They have shifted away from intense head-to-head domestic battles for market share with LCC's. They have found the international sector to be more profitable. New foreign services not only build profitable international traffic but they also build domestic traffic that connects through hubs onto international flights. Since 2000, the domestic portion of international flights has grown 20 percent for the network carriers, or $2.4 billion per year in added domestic revenues.

Just as the network carriers face little LCC competition on international routes, they also face little or no LCC competition on flights to small, non-hub cities. This explains the network carriers' continued focus on serving smaller markets with their regional partners. Network airlines serve more than 300 of the Nation's 334 non-hub airports. LCC's are almost non-existent at these communities as they serve only 38. Consequently, smaller cities rely almost exclusively on the network carriers. Network carriers now derive over 11 percent of their revenues from their small markets, and this share is growing. It is fair to state that the network airlines and small communities have become codependent on each other.

Conclusion

The network carriers returned to very modest profitability in 2007. However, they are again losing money and their long-term prospects remain uncertain as they continue to lose domestic market share; and as foreign competitors grow in size and strength. To some extent the network carriers are stuck in a competitive vise between intense domestic pressure and emerging international pressure. For now the network carriers are finding the international sector friendly, but that could change.

Meanwhile the LCC's that have enjoyed significant growth and profit opportunities at home are scaling back their aggressive growth, but are still gaining market share. The LCC's are now the dominant force in the domestic industry, and they are the drivers of both growth and price. For them the key to success is to prudently manage their growth and not expand beyond their managerial capability.

As for the American public, fares and service levels are at very competitive levels, although fuel costs are now reversing the long-term decline in fare levels.

Mr. Chairman, this concludes my statement. I would be honored to answer any questions that you or Members of the Subcommittee may have.

Senator ROCKEFELLER. Thank you very much, sir.

Senator Klobuchar will now introduce Mr. Richard Anderson, Chief Executive Officer of Delta Air Lines.

Senator KLOBUCHAR. Actually, Mr. Chairman, I am going to introduce the head of Northwest Airlines.

Senator ROCKEFELLER. Yes. That is true.

[Laughter.]

Senator ROCKEFELLER. I was offering you a multiplicity of opportunities.

Senator KLOBUCHAR. That is OK. One is enough.

Senator ROCKEFELLER. So then we will just do Mr. Richard Anderson without introduction.

Senator KLOBUCHAR. Do you want me to wait until Mr. Steenland?

Senator ROCKEFELLER. No, you go ahead.

STATEMENT OF HON. AMY KLOBUCHAR, U.S. SENATOR FROM MINNESOTA

Senator KLOBUCHAR. I just wanted to welcome Mr. Steenland, the head of Northwest Airlines, but also all of the employees that are here from Northwest Airlines.

Northwest Airlines, as you know, was founded in Minnesota, in 1926 to carry mail for the U.S. Post Office and began the first mail service between Minneapolis and Chicago. During World War II, it joined the war effort by flying military personnel and equipment to Alaska. And after the war, it was designated by the Federal Government as the United States main carrier over the North Pacific.

And I would also add that I am not just saying this for nostalgia, but to describe the important role Northwest Airlines has played in our state and continues to play in the economy of Minnesota. We are ranked number 9 nationally for headquarters of Fortune 500 corporations and home to major research university facilities.

Northwest provides nearly 12,000 high-skilled jobs in my home state, including trade in mechanics, pilots, flight attendants, and the many workers who support its airports and headquarters. And I welcome Mr. Steenland today.

Senator ROCKEFELLER. All right. Mr. Steenland, you better go ahead.

STATEMENT OF DOUGLAS M. STEENLAND, CEO, NORTHWEST AIR LINES, INC.

Mr. STEENLAND. All right. I will.

Senator ROCKEFELLER. My order of introduction is not the same as the order which is at the table, which caused me to embarrass myself more than Senator Klobuchar.

Mr. STEENLAND. Thank you, Chairman Rockefeller. Thank you, Senators.

I am Doug Steenland, Chief Executive Officer of Northwest. I appreciate the opportunity to appear here this afternoon and explain the benefits of the recently announced merger between Northwest and Delta and, most importantly, the fact that this merger will not lessen competition.

I would like to acknowledge and thank Senator Klobuchar. Obviously, we are very proud to be the hub airline of Minneapolis/St. Paul, and we look forward to continuing to be the region's most important air carrier, major employer, and a good corporate citizen after the merger is completed.

The U.S. airline industry is at a crossroads, creating two choices for Northwest. One is to continue on the road now traveled as a standalone airline, being whipsawed by rising oil prices and I would note that oil closed yesterday at $122 a barrel, which will cost Northwest over $1.5 billion more this year than last year in fuel facing competition from discount carriers that have now captured one-third of the U.S. domestic market, and heightened international competition from large, well-funded foreign airlines that have been allowed to consolidate and are increasing service to the United States under Open Skies agreements.

The other choice is to merge with Delta to create a stronger single 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 and 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.

In this merger, importantly, no hubs will be closed. I would like to just emphasize that for a second. In the United States, Northwest hubs in Minneapolis/St. Paul, Detroit, and Memphis will remain in full operation. In recognition of the service we provide and the value we create and the commitments we have made, we have received strong civic support in Michigan, Memphis, and in Minneapolis/St. Paul.

The merger will create over a billion dollars 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 today.

Let us start with international markets. The question with competition internationally has been asked and answered already by the U.S. Government. Recently, the United States Department of Transportation tentatively granted antitrust immunity to Northwest, Delta, Air France, and KLM and, in doing so, found that there would be no reduction in competition over the transatlantic from the combination of Delta and Northwest. Northwest doesn't serve Latin America, a Delta stronghold, and Delta has only minimal service to Asia, which, as Senator Klobuchar pointed out, Northwest has served well since 1947.

Domestically, Northwest routes are focused on the upper Midwest while Delta is strong in the South, in the East, and the Mountain West. A very important fact to remember from today's hearing on competition is that of the 800 domestic nonstop routes that Northwest and Delta today collectively fly, there are only 12 overlapped nonstop city pair markets. And on the vast majority of those 12, there exists robust competition.

The domestic airline industry, as Mr. Murphy pointed out, has undergone a competitive sea change over the past several years. Low-cost carriers have grown at an average annual rate of 11 percent since 2000. Southwest is the largest domestic airline in the United States and carries more domestic passengers than any other airline. And that will continue to be the case after this merger.

With this merger, we have achieved our goal of crafting a transaction that achieves a significant value for all of our stakeholders, and we have done so without impacting competition.

Thanks very much.

[The prepared statement of Mr. Steenland follows:]

PREPARED STATEMENT OF DOUGLAS M. STEENLAND, CEO, NORTHWEST AIR LINES, INC.

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. Delta and Northwest are committed to maintaining service to all points on the combined network In fact, in an environment of rising oil prices, the new carrier will be able to capitalize on combined traffic flows to preserve some routes that otherwise might have been cut as economically unsustainable.

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 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.

Small communities are among those that stand to gain the most from the merger. This merger is particularly beneficial for states such as West Virginia and Minnesota that have a large number of small communities that need better access to the global marketplace. In many such cities, only one carrier currently provides service. But each carrier individually lacks the ability to provide customers the full range of international destinations. Consequently, a passenger in Hibbing, MN wanting to visit Panama—or a Huntington, WV passenger with business in Nagoya—would have to travel on two different carriers to reach the desired destination. After the merger, passengers flying these itineraries will benefit from seamless service on a single carrier. Together, we can provide better service to all customers across a broad, worldwide network, and these benefits will be delivered with no hub or station closings.

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.

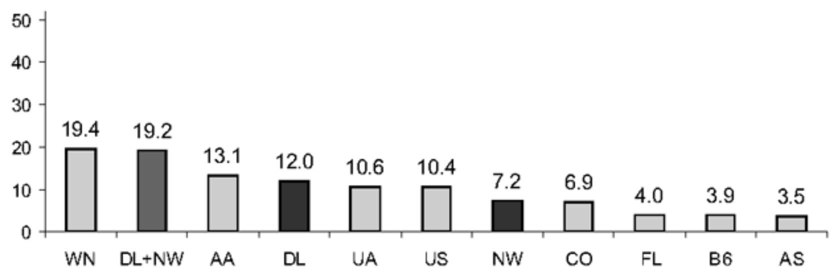
I. This Merger Is Procompetitive and Consistent with Regulatory Requirements

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).

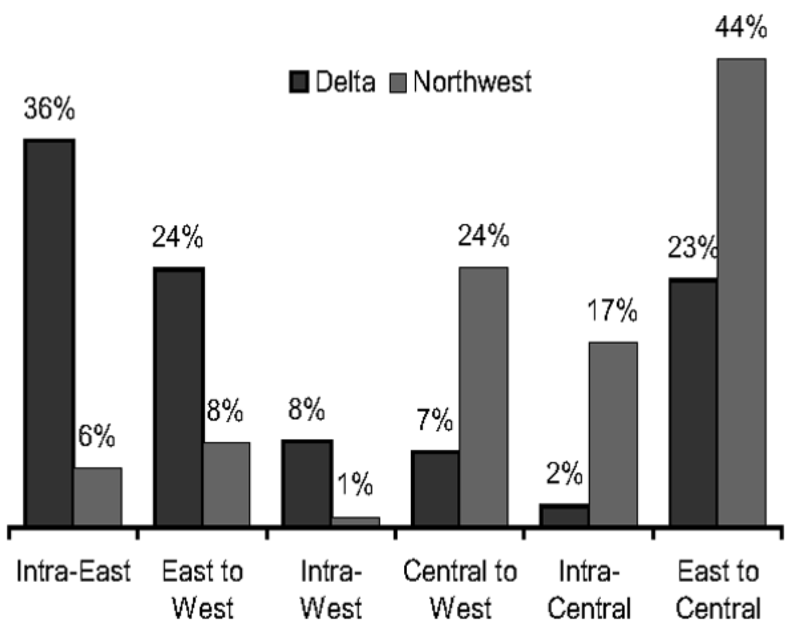
Figure 1: Domestic Passenger Share (3rd Quarter 2007)



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 *italics*)
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 4 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 U.S. 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, U.S. Airways,* and *JetBlue*
Minneapolis/St. Paul-New York [2]	*Continental* and *SunCountry*
Minneapolis/St. Paul-Salt Lake City	American, Frontier, United, and U.S. 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.

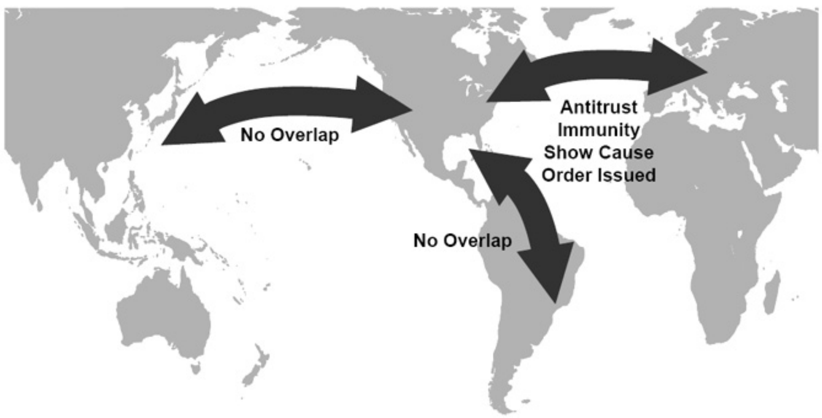
As Table 1 demonstrates, Northwest and Delta currently face significant competition from other non-stop and connecting competitors on most of these routes. In addition, other factors lessen potential antitrust concerns. Both discount carriers and legacy carriers can easily enter routes and provide competing 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.

This Merger Should be Evaluated on its Own Merit

Each merger needs to be evaluated on its own merits. Delta/Northwest is a pro-competitive combination and that fact remains true regardless of what else may happen down the road with respect to industry consolidation. Our merger illustrates the fact that consolidation can result in more cost-efficient carriers with lower unit costs and greater financial stability. To the extent that any further consolidation involves an end-to-end combination like ours and is not predicated on hub closures or "rationalization," it could enhance competition in the industry. In contrast, a merger of carriers with overlapping networks would raise competitive concerns that do not arise in the Delta/Northwest transaction. The competitive impacts of each individual major carrier combination are vastly different—and it does not follow that if the Department of Justice approved one combination that it should, or would, necessarily approve others. The Department of Justice will evaluate the competitive effects of each merger on its own merits and has the authority either to block any merger that would harm consumers or to fashion remedies to address specific competitive concerns.

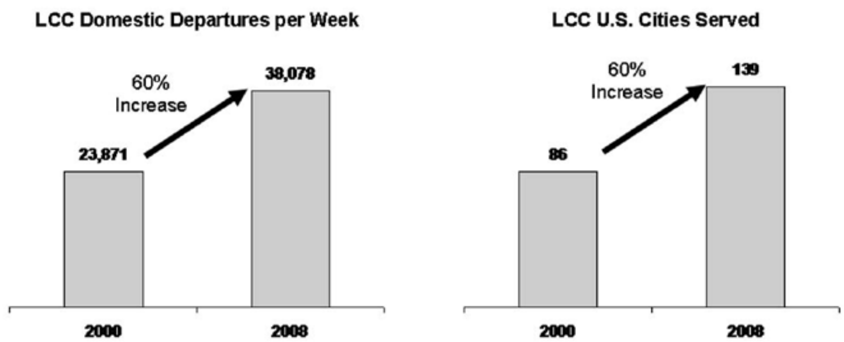
Competition in the Airline Industry Has Been Transformed Since 2000

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.

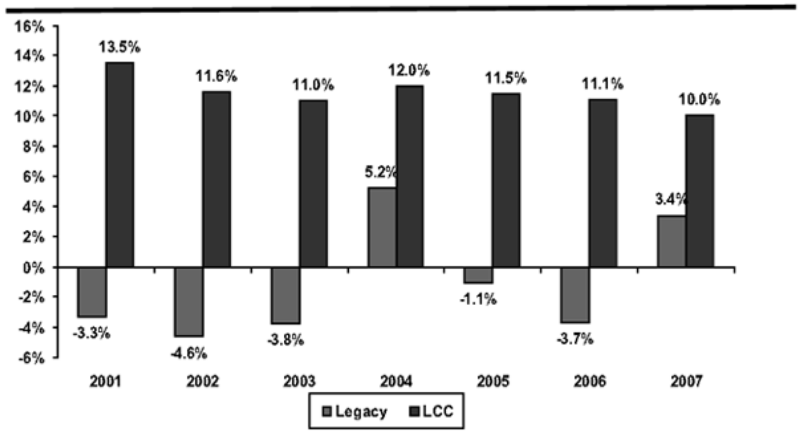
Southwest Airlines has continued to experience dramatic growth over the past several years. Since 2000, Southwest has grown at an average annual rate of 9 percent. Today, Southwest carries more domestic passengers than any other airline. Southwest also has been the most successful domestic airline at 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



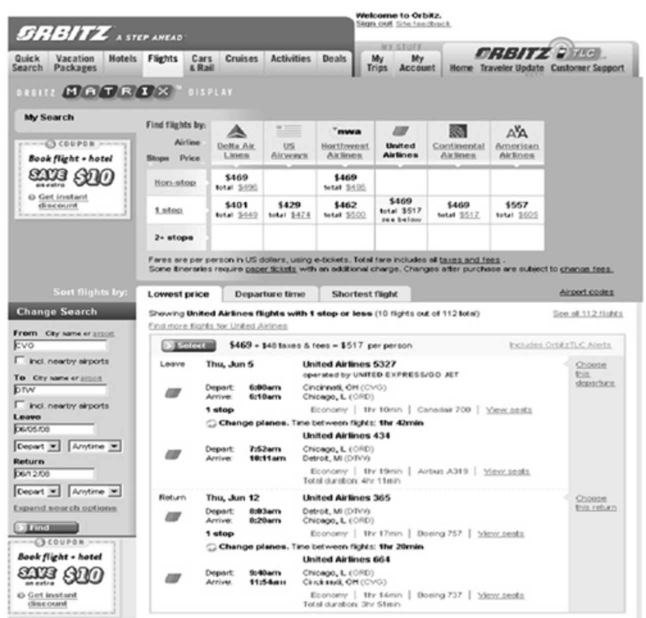
LCCs will continue to provide pricing discipline across the board. Entry in this business is wide open. There are plenty of airport gates available, and airplane manufacturers have always been ready to finance airplane deliveries.

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 U.S. 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," *The Economist,* June 14, 2007.) As online technology continues to evolve, airfare transparency will continue to be enhanced.

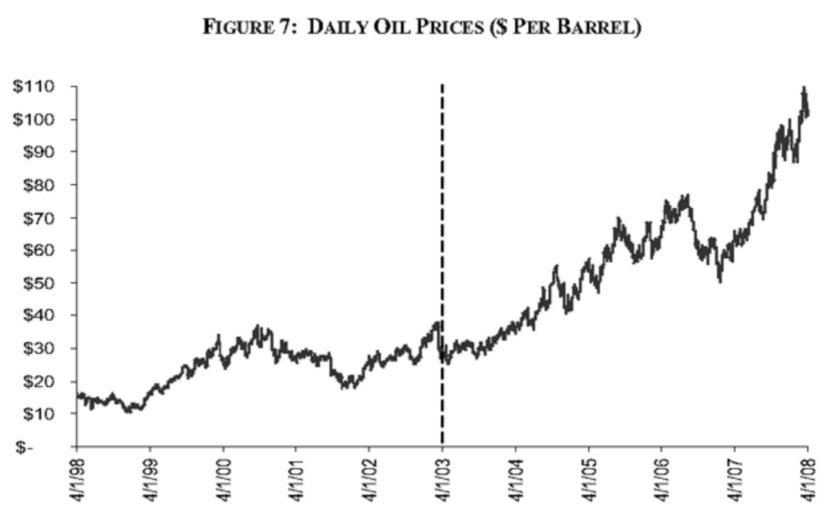
II. Market Conditions Require Change in the Airline Industry

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 5 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 month, 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.

We have already commenced a transition planning process to ensure a smooth integration. A task force has been established including senior leadership from all of the key operational departments of both companies. The task force has as its mandate to identify the best systems and best processes—so that immediately after closing we will be in a position to proceed with integrating the companies.

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.

Senator ROCKEFELLER. Thank you, Mr. Steenland, very much.

Mr. Anderson, you have already been introduced, and we welcome your comments.

STATEMENT OF RICHARD H. ANDERSON, CEO, DELTA AIR LINES, INC.

Mr. ANDERSON. Thank you, Mr. Chairman and Senators of the Committee.

I appreciate the opportunity to be here on behalf of the 50,000 people of Delta Air Lines and the 60 or so Delta employees that are here with us today, including Captain Lee Moak, Chairman of the Airline Pilots Association and a Delta 767 captain and, I might add, a Marine aviator, who is here in support and has given a statement to be included in the record.

Also, we have included for the record submissions from over 100 different entities in 27 different states representing entities in each of the communities that each of the Senators here today represent.

Senator ROCKEFELLER. All will be included.

[The information previously referred to is retained in the Committee files.]

Mr. ANDERSON. Thank you.

This is really the opportunity for the U.S. airline industry to compete on a global basis. When you think about what is going on in the world today and where commerce is today with the various free trade agreements and all of the Open Skies agreements that have been signed, we really—it is not just about competition in the United States. It is about having strong U.S. airlines to compete around the world.

When we look at the traffic in the United States today, the majority of the traffic carried to and from Asia, Europe, the Middle East, and Africa is carried on foreign-flag carriers. Only 5 percent of the wide body international orders worldwide are held by U.S. airlines. And most of those are held by these two airlines.

So when you look at our competitive position versus foreign-flag airlines and the fact that so much of our commerce as a country depends upon our ability to compete internationally, it is very important that we have a strong, viable, competitive airline business, and this combination is about placing the U.S. airline industry at the front of international competition.

When we look out at the other challenges that we face, in addition to global competition, you cannot ignore the effect that oil has on this business. Oil today is actually at $123 a barrel with crack spreads at $30. So the industry is paying on an unhedged basis over $150 a barrel for fuel, which represents 40 cents of every dollar we collect.

In order for us, for these two carriers to be able to do right by our employees, right by our shareholders, right by the communities we serve, we should be given the opportunity to act on our own. We aren't here asking you for aid or any other sort of support. We are here telling you that we want to combine these two great airlines so that we can be much stronger and much more durable so that we won't relive what has happened over the past 7 years, which is reduction of over 150,000 employees and losses totaling $30 billion.

The oil prices alone, when I testified last before the Senate 2 weeks ago, there had been five carriers that had entered Chapter 11. There are now six carriers that have entered Chapter 11. And what this really does for these two carriers, these are the two strongest carriers from a balance sheet perspective, a cost perspective among the network carriers.

We have both been through reorganization. We have both scrubbed our fleets. We scrubbed our cost structure. We fixed our balance sheets. We have solid strategies, and the opportunity we have together by putting these two airlines together with little, if no overlap is to build a worldwide network that can compete on any basis with foreign-flag carriers.

The merger, most importantly, provides more stability for our employees. When we look at what our standalone plans are versus what the combination creates, the combination creates over a billion dollars in value. The only true stability in this business for our employees is for us to have a winning strategy as an enterprise.

So we had that in mind when we put this combination together. So we are not—this is end-to-end, so there are no hub closures. We have committed to no layoffs of frontline employees. We have set aside a significant amount of ownership, straight stock ownership for the employees on closing. We have seniority protection in the merger agreement. But more importantly, the Congress passed legislation supporting it, and our board of directors at Delta has adopted it as an enforceable policy.

Small and large communities benefit. Hub and spoke carriers are built to serve small communities. We have invested hundreds of millions of dollars in the airplanes and the facilities and the schedules to provide that service. Discount carriers do not serve small communities.

A stronger network carrier will do a better job serving small communities. We will create new service to over 3,000 markets and over 6,000 new international markets. We appreciate the opportunity to be here today and look forward to answering your questions.

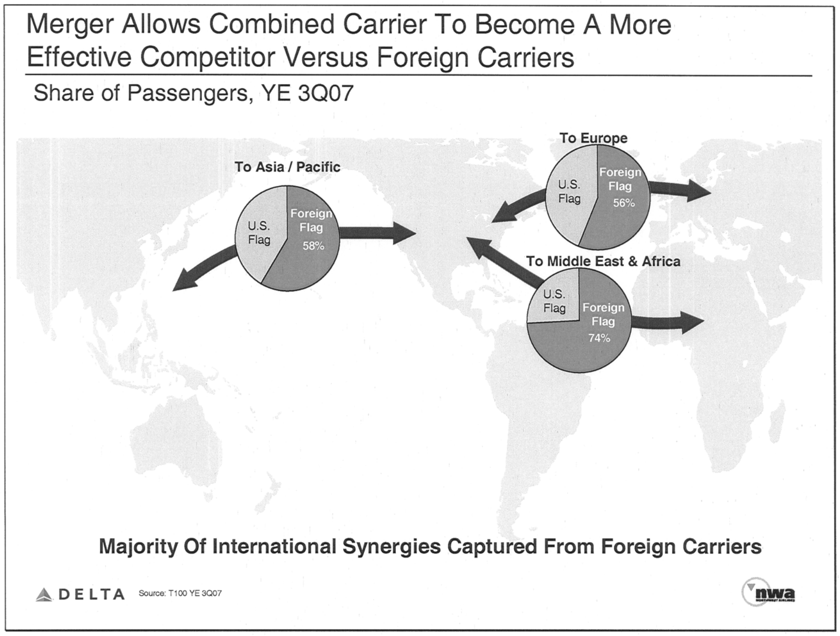
Thank you.

[The prepared statement of Mr. Anderson follows:]

PREPARED STATEMENT OF RICHARD H. ANDERSON, CEO, DELTA AIR LINES, INC.

Introduction

Mr. Chairman and members of the Subcommittee, I want to thank you for providing me with the opportunity to address the Subcommittee about a topic that is critical to the future of every employee of Delta Air Lines, and Northwest Airlines. On April 14, 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 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., Europe and Asia than U.S. flag carriers. They are frequently funded by their governments and benefit from regulatory policies that promote consolidation into a handful of strong competitors. The Open Skies agreements that recently have gone into effect 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 percent 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 $115–$120 per barrel of oil will result in bankruptcy for some carriers and deny even the most financially sound carriers of profitability. In the last few weeks alone we have seen five U.S. carriers go into bankruptcy directly as a result of fuel prices, with four of them shutting down completely. Passenger airlines reported first quarter results and the industry reported a $1.74 billion 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 industry 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 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 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 Delta 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.

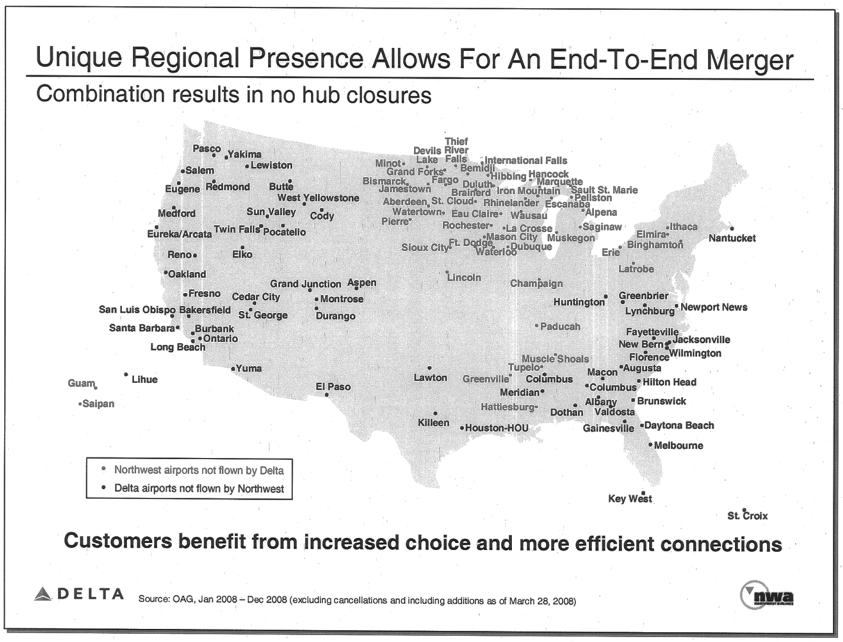
Small Communities Will Benefit from the Merger

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. To keep these hubs profitable, we need the traffic from small communities around the country. A robust hub system is critical to the services desired by small communities. It is the most effective model to serve these communities since 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 and it will bring 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.

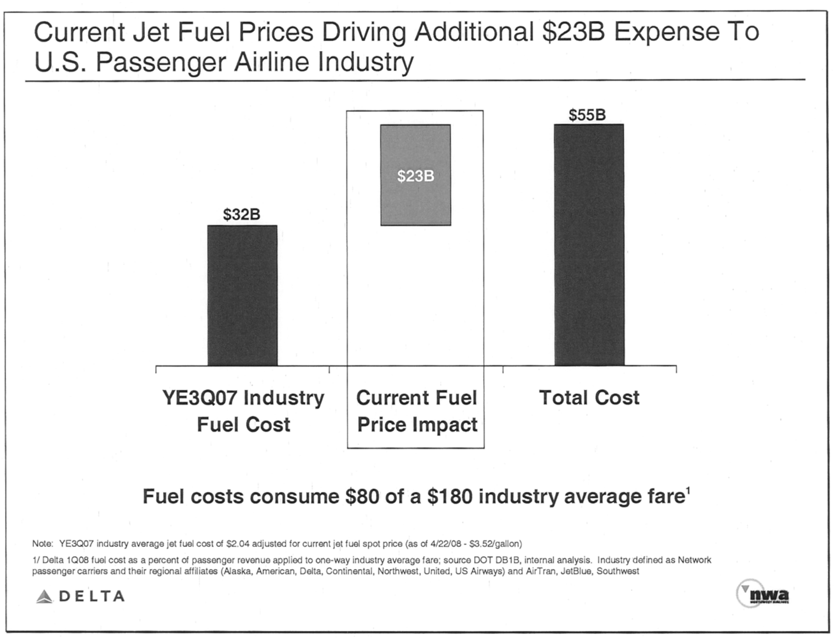


The combined airline will offer passengers over 390 global destinations on a single airline up from 250 on Northwest alone and 327 on Delta alone. Customers in small towns in the south will be able to fly to Japan and much of Asia with one easy connection on the same airline. That is not the case today. Similarly, customers in the upper mid-west will have many more options to fly on one airline network 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 Delta and 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 5 years we have experienced a 28 percent 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 percent and nearly doubled since December 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 percent 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¢ of every dollar of passenger revenue we received; in 2008 that number will be 43¢. 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 on an annual basis. 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 percent 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 a significant expansion in 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 opportunities 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 of the combined carrier will allow us to re-invest in our products such as planes, in-flight services and reservation systems. For example, we have publicly stated 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 for our passengers. Both Delta and Northwest are members of the SkyTeam alliance and have gained experience in working cooperatively on passenger service issues. Our frequent flyer programs, customer lounges and IT systems are already partially integrated. 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, the availability of 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 3 weeks 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.

Two weeks ago 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 do not 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.

Senator ROCKEFELLER. Thank you very much, Mr. Anderson.

And now, Mr. Neidl, would you please give us your testimony?

STATEMENT OF RAY NEIDL, ANALYST, CALYON SECURITIES INC.

Mr. NEIDL. I want to thank the Committee for inviting me to speak today.

Senator ROCKEFELLER. Could you pull that microphone a bit closer, please? Thank you.

Mr. NEIDL. OK. Is that better?

I want to thank the Committee for inviting me here today. As a long-time student of the industry, I have great interest in the airlines, their cultures, and their history. But as a Wall Street stock and bond analyst, right now I am more concerned with the financial ability of the airlines.

The industry is changing rapidly both in the U.S. and worldwide, and the industry is moving more and more toward globalization. We can see trans-border mergers happening already overseas, particularly in Europe. These carriers are becoming bigger and financially stronger and will give greater competition to the fragmented U.S. network carriers out there.

Domestically, the network carriers continue to face more competition from startup carriers. To go back a decade, startup carriers was Southwest. Today, we have got a number of startup carriers, a few less than we had a few weeks ago, but we still have a number of startup carriers that are out there pricing the market and domestically probably have over a third of the market share now, offering very tough competition for network carriers.

Now, looking at the industry since 9/11, airline management from across the board in the network sector, in my opinion, have done just about everything they can to cut nonfuel costs. I don't think they can do much more.

The employees have given everything they can. They can't go to the employees any longer. They have revised their structures, and basically, they are trying to provide complete service on a shoestring type of budget. So there is not a lot more they can do, and they are facing these tremendously high fuel costs, which just a year ago nobody believed it would be this high.

Exit barriers for those carriers are strong, though we are seeing a few of the smaller, less capitalized airlines exit right now. But the bankruptcy laws allow airlines to stay around almost forever. It took years for a very weak Pan Am and Eastern Airlines to finally shut the doors, and in the meantime, they were doing damage to the industry as they priced for cash flow.

However, entry barriers remain pretty open. It seems like there is never a shortage of capital for people wanting to start airlines or people finding niches that they want to get in and grab a certain part of the market share from the big carriers. It is slowing down a little bit now with high fuel prices and a slowing economy. But that will change. Recessions come and go. And I am sure a whole host of new startup carriers will be coming into the market over the next couple of years.

Now, excess capacity, we have that in the system right now with high fuel prices. They have led to weak operating margins on the part of the airlines and has weakened them. And with too many seats being offered, the airlines are not pricing to meet their costs, particularly an uncontrollable cost like runaway fuel costs.

The industry—this industry is going to have to restructure one way or the other. It is either going to restructure through the guidance of politicians and regulators through mergers, orderly mergers, or the bankruptcy courts will take care of it. I believe that a number of carriers, the next time they go into bankruptcy, if they do, this will be for real.

Airlines like Delta and Northwest have done everything they could in bankruptcy to restructure themselves. If they are forced to go in again, it will be for liquidation this time, and that will take care of excess seats in the market, but in a way that would be tough on their employees and tough on the marketplace.

Industry consolidation, if properly overseen by the regulators, I think, would be a benefit to the employees, to the investors that supply capital to the industry, and to the traveling public. It would give them greater market mass. It will allow them to have greater ability to generate revenues, and most importantly, it will give them the ability to cut costs. Maybe a little bit more than some people would like to see, but it would provide the opportunity for elimination of duplicate services.

Now, there is one major risk, in my opinion, with multiple mergers going on at the same time. If you look at the history, mergers have always proved to be messy, time consuming, and in many cases disruptive of services. If we have a number of mergers going on at the same time among major U.S. carriers, it could create, if it is not done properly, panic among the traveling public and you, the politicians, would hear about it very rapidly. So that is my main concern about big airline mergers, multiple ones happening at the same time.

But bottom line and summary, the airlines are not meeting their cost of capital or their operating costs. Fuel, which is large and uncontrollable, is knocking out all of the hard-won cost cutting that has been done by the airlines, and I think an answer to that is to have sensible end-on-end type of mergers.

Thank you.

[The prepared statement of Mr. Neidl follows:]

PREPARED STATEMENT OF RAY NEIDL, ANALYST, CALYON SECURITIES INC.

USA Airlines

- The commercial aviation industry is becoming more global, whereby larger and financially stronger players will eventually dominate. This is already happening in the European Union (EU) which is treating the area as one market enabling its airlines to consolidate and become more efficient. The rapidly growing Asian economies welcome outside investment to help support and drive growth for their airlines.
- U.S. network airlines will find it tougher to compete in a more global and efficiently run industry unless they are allowed to gain market mass, obtain further cost efficiencies and increase their ability to enhance revenue generation so that they will attract capital investment. Although foreign carriers are not able to compete in the U.S. domestic market, network carriers are facing increasingly aggressive competition from low-cost carriers in this sector, thereby effectively squeezing network carriers from both sides.
- Mergers will not solve all of the industry problems. In fact, airline mergers in the past have proved to be relatively expensive and inefficient in the initial years. There is a major risk that there could be widespread disruptions in service if more than one merger is being implemented at the same time.
- However, properly planned and implemented, especially with the cooperation of the employees, mergers could produce stronger and more competitive entities long-term. Stronger airlines would not only be beneficial but are a necessity to properly serve travelers and give job assurance to employees, to say nothing of attracting strategic investors.

The industry has done a commendable job in rationalizing capacity and reducing non-fuel costs since 9/11. Employees have contributed by easing work rules and accepting reduced compensation while airline managements have thoroughly reviewed their systems to increase efficiencies. More can be done but there are limitations.

As oil prices exceed $110 a barrel, something has to be done to further rationalize the overall structure of the industry. Without a major rationalization of capacity, slim profit margins will disappear, which will make it difficult for U.S. network carriers to modernize their fleets to stay competitive with foreign airlines that have been rapidly upgrading their fleets with new technology-driven, cost-efficient aircraft. This will hurt U.S. network carriers in the long run and ultimately have a negative effect on aircraft manufacturers and their many suppliers across the U.S. and worldwide.

As the industry moves toward globalization through trans-border mergers, foreign carriers will become tougher competitors for U.S. based network airlines. They are gaining market mass and are structuring themselves to gain in financial strength. Size in many cases also can mean stronger pricing ability since a broader scope of services can be offered in the international arena.

Domestic markets are currently closed to these growing foreign giants but the U.S. network carriers are facing pressure in these markets from start-up low-cost airlines that have newer more efficient fleets, a lower wage cost structure and greater flexibility in adjusting their operations. They can cherry pick the best routes.

Since 9/11, the U.S. network airlines have done a commendable job in restructuring themselves to be more competitive but in light of $110+ a barrel oil prices, future progress will now be limited. The workers have given all they can and though further restructuring can be done, all the easy fruit has been picked.

With exit barriers high as a result of U.S. bankruptcy law and entry relatively easy through deregulation, the U.S. airline industry has reached the point where we have too many airlines offering too many seat miles where the costs cannot be recovered through pricing as the multitude of airlines fight for market share to preserve their systems and obtain a certain market mass and service footprint. Because of strict antitrust laws, airlines cannot coordinate operations or pricing even through their partnership agreements.

Excess capacity and competition has led to weak operating margins and profitability even in the upper part of the economic cycle. With fuel costs skyrocketing, the industry is now due for a major fall again as we enter the down part of the cycle, whether it is this year or sometime further down the road. Weak profitability and balance sheets will lead to a crisis at some point.

The industry will have to restructure one way or the other, either through the relatively organized regulatory oversight of mergers or in the more risky and disorganized guise of bankruptcy, which may lead to certain airlines having to liquidate. It probably would be better for all parties concerned, the consumer, employees and investors to go with the former rather than the latter.

Industry consolidation that leads to larger carriers will not solve the industry problems by itself and mergers pose their own set of challenges and problems, particularly in the labor area. However, to remain competitive in an industry that is becoming more international and globalized, greater market mass and financial strength will be needed by the U.S. network airlines. Part of the market mass requirement is being met currently through worldwide alliances but that is not the same as the same airline being able to control the passenger for the whole trip.

Besides greater market mass, the two other benefits of consolidation would be cost cutting and revenue enhancement. To cut costs, marginal operations and smaller expensive hub operations would have to be evaluated as to their viability which will have an affect on communities they currently serve. However, if service is justified, other airlines or niche carriers would move in if the hub was abandoned. If not economical to serve certain small communities but service was deemed essential, it would be up to public entities such as local, state or national government to subsidize the service and not the airlines and their investors. These situations should be rare, however, since a host of lower cost airlines could probably profitably service these areas. The other benefit would be revenue enhancement. The first thing that comes to mind is higher ticket prices if there are fewer competitors. Higher ticket prices are needed and justified. With over $110 a barrel oil, the consumer is not paying their way and airlines cannot continue to subsidize them. However, revenue enhancement would also include the additional revenues that larger carriers could generate through a greater scope of services offered.

A major risk with multiple consolidations going on at the same time is that there could be widespread service problems initially as integration takes place. It has been demonstrated in past mergers that major service disruptions are possible, if not probable, in the initial stages of the complex integration process. If there were two major mergers taking place at the same time, the problem would be compounded over the Nation's commercial aviation system.

Bottom line, as much as we do not want to hear this, airlines are not meeting their cost of capital or in fact their operating costs despite the major efforts by the carriers to control costs and increase efficiencies. Fuel, largely noncontrollable in the short-term, is knocking out hard-won benefits and at some point fresh capital going into money-losing propositions will dry up.

Conclusion

There are major doubts if the industry can remain viable over the economic cycle with oil over $110 a barrel if there are not major structural changes. The industry in its current fragmented form cannot sustain profitability under these circumstances. Through consolidation, the industry will be in a better position to rationalize capacity, further cut costs and enhance revenues since they will better be able to price their product at economical levels to earn a return on capital. Without profits the industry will ultimately have to shrink. A more efficient industry will be beneficial not only to investors and attract capital but will give employees job security and ultimately be beneficial to customers since profitable airlines will better be able to serve the consumer.

Important Disclosures—Analyst Certification

I, Ray Neidl, hereby certify that the views expressed in this research report accurately reflect my own personal views about the securities and/or the issuers and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report. In addition, the analysts included herein attest that they were not in possession of any material, non-public information regarding the subject company at the time of publication of the report.

Senator ROCKEFELLER. Thank you, sir.

And now, Ms. Patricia Friend, who is the International President, Association of Flight Attendants. We welcome you.

STATEMENT OF PATRICIA A. FRIEND, INTERNATIONAL PRESIDENT, ASSOCIATION OF FLIGHT ATTENDANTS—CWA, AFL–CIO

Ms. FRIEND. Thank you very much, Chairman Rockefeller, and thank you for holding this very important hearing on our aviation industry.

We believe that Congress must take a hard and very serious look at where this industry is headed and that we must begin a serious dialogue on forming a rational aviation policy for this country.

As you witness this merger and reports of other mergers and the fact that in April, four airlines ceased operations in a two-week period, you must agree that our aviation industry is failing employees, consumers, and communities. This country has lacked a sound and rational aviation policy since deregulation.

Prior to deregulation, the airline industry was nurtured and developed by Federal policy, crafted to ensure that the industry was stable and able to promote economic development. In the post deregulation environment, the industry was thrown into a massive, market-driven restructuring—hundreds of bankruptcies and defunct airlines, thousands of displaced and unemployed airline workers, the worst consumer rankings and on-time performances in history, an outdated air traffic control system that cannot handle the demand.

We have seen hundreds of communities across every single region of this country lose crucial air service, and we have heard the excuses repeatedly from the airline executives. They have blamed everything from the national economy to low-cost startup airlines and then to their favorite excuse, labor costs. It is interesting to me that the one thing that remains constant in this industry is the outrageous sums collected in pay and benefits by airline management, regardless of the economic performance of their carrier.

Now some may interpret my comments today as a call for re-regulation, but I am not convinced that is the answer. What I am saying is we need a serious national dialogue so that we can agree on a sound and rational aviation policy that works for everyone—employees, consumers, and communities. Everything should be on the table in this discussion, including the possibility of re-regulation or at least re-regulating part of the market.

Our future, if something isn't done to develop a sound aviation policy, is not promising. The forces of globalization are now poised to bring sweeping changes to our industry. The Open Skies agreement between the United States and the European Union includes a provision for so-called second stage negotiations.

If those second-stage negotiations result in a repeal of current foreign ownership restrictions, the U.S. aviation industry could be outsourced. This is a future that will lead to reduced jobs for U.S. citizens and will open the door for widespread outsourcing of aviation jobs, an idea already broached by Northwest management.

The solution advanced by the industry today is for greater consolidation, but I am not sure that we should rush into supporting this call for greater consolidation without taking a very serious pause. We are standing at the edge of great change in this industry, and it is important that we begin the debate, discussion, and dialogue on what kind of national air system we want.

I am very glad that this merger between Northwest and Delta has drawn significant attention. We should use it as an opportunity to begin that national discussion. Very troubling to us in this specific merger, this Northwest/Delta merger, is the serious jeopardy in which it places the collective bargaining rights of all of the Northwest employees who have fought for and won the legal right to have union representation.

Virtually all of the employees at Northwest have chosen to join a union. Delta, on the other hand, has only one major workgroup that is unionized, its pilots. The nearly 14,000 Delta flight attendants are now the closest to securing their future by forming a union through AFA–CWA. They are currently engaged in a representational election.

These flight attendants are fighting against tremendous odds and against a company that is determined to do anything and everything possible to prevent their flight attendants from forming a union. Just since the NMB mailed its voting instructions to the Delta flight attendants on April 23, Delta management has flooded the flight attendant crew lounges with supervisors and wallpapered its facilities with anti-AFA posters, urging their flight attendants not to vote.

No merger should be permitted to become a vehicle for union busting. These airline executives have seized the opportunity they see in this merger, not only a chance to prevent thousands of non-union employees from gaining a union, but a chance to eliminate the unions that already provide protection for their members at Northwest.

These Delta executives have not been shy about their efforts to prevent the employees from forming unions. In fact, in a recent 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 these merger discussions.

He went on to say that the current Delta was a non-union company and that the new Delta had every intention of remaining a non-union company. Delta plans to defeat the union and to prevent the flight attendants from having or keeping the bargaining rights that are essential in the face of any merger.

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. And please, don't let them destroy the one thing that we have protecting us—our unions.

Thank you.

[The prepared statement of Ms. Friend follows:]

PREPARED STATEMENT OF PATRICIA A. FRIEND, INTERNATIONAL PRESIDENT, ASSOCIATION OF FLIGHT ATTENDANTS—CWA, AFL–CIO

Thank you, Chairman Rockefeller, for holding this vital and timely hearing on the state of the airline industry and the proposed merger of Northwest and Delta Airlines. My name is Patricia Friend and I am the International 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 views and concerns of the working women and men that have kept these our Nation's airlines flying during the good times . . . and through some very *difficult* times.

As a front line employee that has worked in the airline industry for over 40 years, I have had a unique perspective on the cyclical yet dramatic changes that have reshaped the industry and impacted jobs. As the President of a union representing employees from a broad cross section of the industry from legacy carriers like United, U.S. Airways and Northwest; to low cost carriers like AirTran and Spirit; and to regional carriers like American Eagle, Mesa and Mesaba, I am here to testify that I believe we are at a major turning point in this industry. I and our members have seen the seismic changes brought on by deregulation and have born the brunt of bankruptcies that saw major and historic airlines like Pan Am, Eastern and TWA disappear forever. We braved through the tragic events of 9/11, reported for duty during the SARS panic and navigated through bankruptcies where corporate greed and judicial neglect battered our profession and sought to destroy good paying jobs with benefits. Mr. Chairman, the assault on the great American middle class was and is front and center in the airline industry.

We now face record jet fuel prices and the forces of globalization that threaten to remake this industry into something that I, nor none of my early flying partners, could have foreseen when I first put on my uniform in 1966.

I will not engage this Committee with a trip down memory lane and a recitation of exactly how much this industry has changed. As policymakers that have witnessed most of this change first hand and in many cases have played a role in the direction of this industry, you are as familiar with those changes as I am. But I can tell you that we are at point where it is absolutely vital that Congress must take a hard and serious look at where this industry is headed and begin a serious dialogue on forming a rational aviation policy for this country. Each and every one of you must ask yourselves what kind of aviation system do you envision for our country? As you witness this merger and reports of other mergers and the fact that four airlines ceased operations in a two-week period in April, you must agree that our aviation industry is failing employees, consumers and communities. You have the ability and responsibility to determine the course for the airline industry. This industry, under this administration, has been handed over to management teams—some with little to no airline experience—who have destroyed middle class jobs and created the quagmire we are in today.

This country has lacked a sound and rational aviation policy since deregulation. Prior to deregulation, the airline industry was nurtured and developed by Federal policy crafted to ensure that the industry was stable and was able to promote economic development in communities it served. In the post-deregulation environment, the industry was thrown into a massive market driven restructuring. So what have the results been? Hundreds of bankruptcies and defunct airlines, thousands of displaced and unemployed airline workers and their families, the worst consumer rankings and on-time performance in history and a out-dated air traffic control system that cannot handle the demand. We have seen hundreds of communities across every single region of this country lose vital and crucial air service as airlines cut routes and scheduled service and move those assets to serve large communities along with every other airline. Despite the promises of deregulation, the industry still struggles to make a profit even when the price of a barrel of oil was half its current value. We've heard the excuses repeatedly from airline executives. They've blamed everything from the national economy, to low cost, startup airlines and to their favorite excuse—labor costs. It's interesting to me, that the one thing that has remained constant in the industry is the outrageous sums collected in pay and benefits by airline management regardless of the economic performance of their carrier. Corporate greed is the one thing that has remained constant during my career. If anything in that category has changed, it's that the amounts they reward themselves every year grows more and more excessive while employees earn less.

What we have today is an industry and aviation system that literally seems to be at the brink of collapse. Besides the urgently needed upgrades to the technology of our air traffic control system and the investment in the workforce to run that technology, we are seeing a business model that seems to leave out of its equation the impact for employees, communities and consumers. The only thing that seems to be driving this industry today is how big the bottom line return is for a select few. It doesn't matter that our aviation system is a vital part of our national infrastructure and one that has made this country the powerful economic, cultural and military power that it is today. It is now a commodity that simply must be maximized to generate a profit for a select few.

Since deregulation, our aviation policy has been dictated and driven entirely by the marketplace. Is this a wise policy for an aviation system that is as important and vital to our country? I could not find any better words to describe my own feelings about this policy than those used by Senator Dorgan at a hearing of this Committee last year. Senator Dorgan, when discussing the state of the aviation system, stated that he believed in the marketplace and that it often resulted in good things. But that the marketplace needed an umpire to make sure that it worked for everyone. I could not agree more. Deregulation has resulted in some positive developments. The marketplace has indeed increased competition and reduced fares for consumers in some markets. But the unfettered marketplace has also led to the loss of air service to struggling communities, the increasing difficulty for airline employees to make a decent living, calls for a passenger bill of rights and, most troubling, life saving safety initiatives that are the first casualty of the cost cutting knife.

Some may interpret my comments as a call for deregulation. I'm not convinced that is the answer. What I am saying is that we need a serious national dialogue to start now, so that we can determine a sound and rational aviation policy that works for everyone in this country—employees, consumers and communities. And we cannot afford to wait. Everything should be on the table in this discussion, including the possibility of re-regulation—or at least re-regulating part of the market.

Today, I and my members—indeed all aviation employees—look around at an industry where the days of an airline job leading to a secure, stable and exciting career is slipping away. The market forces have squeezed us to the point where some regional airlines are offering to start paying their employees $13,000 a year with virtually no benefits to speak of. Pensions are gone or frozen. Job prospects in the industry are bleak and everyone is in fear that their job is the next to be eliminated. Airline management keeps telling us that they cannot afford to go on with the current price of fuel and that something must be done.

We've had an interesting past of growth, change and turmoil. We are in a present that is uncertain and bleak. Our future, if something isn't done to develop a sound aviation policy, is even less promising. The forces of globalization are now poised to bring sweeping changes to the airline industry yet again. The Open Skies Agreement between the United States and European Union, which went into effect this spring, includes a provision for so-called second stage negotiations that seeks to eliminate long-standing U.S. aviation law that ensures U.S. carriers are owned and controlled by U.S. citizens. If those negotiations result in a repeal of these laws, the U.S. aviation industry could be outsourced. The opening of markets across the Atlantic will create greater competition for our already struggling domestic aviation industry, which has recently relied on international flights to generate profits. While many of the U.S. airlines did nothing to oppose the agreement last year, they are now citing the Open Skies Agreement and the increased competition it is unleashing as yet another factor in the need for consolidation and their worsening bottom line. As this competition increases over the coming years, no doubt greater pressure will be placed on the U.S. Government to lift the cap on foreign ownership and control restrictions on U.S. airlines. This pressure will undoubtedly come from foreign governments eager to help their own flag carriers gain control of the domestic U.S. market. This is a future that will only lead to reduced jobs for U.S. citizens on flights overseas and opens the door for the widespread outsourcing of aviation jobs—an idea already broached by Northwest management.

The solution advanced by the industry today, and which seems to daily become almost accepted fact by many, is for greater consolidation. They tell us that in order to survive a world of dramatically high fuel prices and increased foreign competition, mergers and consolidation are necessary. I'm not so sure that we should rush headlong into supporting this call for greater consolidation without taking a very serious pause. With us standing at the edge of great change in this industry, it is important that we begin the debate, discussion and dialogue on what kind of national aviation policy we want.

That is why I am so glad that 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.* We must use it as an opportunity to begin that national discussion on our aviation policy.

In light of this proposed merger, I believe that it is important to note that 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.

Mr. Chairman, there is a distinct and vast difference between a commitment and a contract. Union employees have commitments in writing, non-union employees rely on a commitment that can change instantly.

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 leadership of 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.

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.

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.

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.

Most troubling to us, 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 percent of all the Delta flight attendants requesting an election to join AFA–CWA. Late last month 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 dedicated group of Delta flight attendants will come together and choose union representation and a strong voice to protect themselves and the future of their profession, but the anti-union tactics of management have put that outcome in jeopardy while at the same time threatening the future collective bargaining rights of the Northwest flight attendants.

These flight attendants are fighting against tremendous odds and a company that is determined to do anything and everything possible to prevent flight attendants from joining a union. I am testifying for AFA–CWA today to express our outrage over Delta Air Lines' ubiquitous and coercive campaign to interfere with its flight attendants' right to freely select a bargaining representative under the Railway Labor Act. Since the NMB mailed its voting instructions to the Delta flight attendants on April 23, Delta management has flooded the flight attendant crew lounges with supervisors, and wallpapered its facilities with anti-AFA posters urging flight attendants to not vote. Or as Delta puts it: "Give a Rip—Don't Click, Don't Dial."

At the same time Delta's CEO was testifying before the House subcommittee in April, a letter over his signature, along with an anti-union video, was already in the mail to flight attendants' homes. The first of what AFA–CWA expects will be many Delta-produced anti-union DVDs, was mailed out probably no later than the day after the NMB election commenced. The DVD, titled "Important Information for

Delta Flight Attendants," was included in a slick package featuring a personal message from Mr. Anderson outlining the reasons why a vote for AFA would have the effect of "negatively changing a great relationship." Anderson goes on to reminisce about his days at unionized carrier Northwest by stating several blatant falsehoods:

> "When I unilaterally gave pay raises and domestic partner benefits to flight attendants at Northwest, I received loud objections from the union because those benefits were paid directly because it was the right thing to do. The union often would criticize and vilify management in order to promote their own value."

Perhaps Mr. Anderson's memory is clouded, or he knowingly made these untrue statements. In any event they are false. Danny Campbell the former President of the Northwest flight attendants when they were represented by the International Brotherhood of Teamsters, has submitted a sworn affidavit to the NMB stating that Mr. Anderson was not the CEO at Northwest when he "gave pay raises and domestic partner benefits to flight attendants" and further, Anderson never granted a pay raise to the Northwest flight attendants during his tenure as CEO. In fact, Anderson demanded pay cuts and benefit concessions beginning in 2002 and continuing with the successor Union to the Teamsters, the Professional Flight Attendants Association, through 2006.

The major push in Delta's anti-union offensive is taking place at the flight attendant airport crew lounges located at Delta facilities across the system. Because crew lounges are the one, if not the only, central location for flight attendants to interact while at work, AFA–CWA has set up information tables manned by AFA–CWA activists as means to communicate the union's message and to encourage flight attendants to vote. Delta has responded by flooding the crew lounges with Inflight supervisors, some of whom are wearing T-shirts with the message "How was your flight" on the back. Those supervisors are actively interfering with the ability of AFA–CWA supporters to speak to their co-workers.

On April 26, at Delta's Atlanta crew lounge, a supervisor started shouting that AFA–CWA was "scum" as union activists were speaking to a flight attendant at their table. Later that same day, the International Base Manager told AFA–CWA activists to take down a small sign that said "STEP UP" even though the issue signs had been resolved by other Delta management personnel. Delta has also set up information tables and huge banners in the crew lounge with large posters imploring flight attendants to "Give a Rip—Don't Click, Don't Dial." In other words—don't vote. Delta's information tables contain multiple signs and leaflets next to a continuous running video of CEO Richard Anderson imploring the flight attendants to reject unionization.

The increased presence of Inflight supervisors in the crew lounge coupled with the overwhelming amount of literature and posters urging flight attendants to reject AFA–CWA has created a hostile, coercive environment that has destroyed the "laboratory conditions" the NMB is supposed to protect during a representation election. There is no basis for Delta to excuse this interference as simply "informational," much less that it represents Delta's "neutrality" during the election. The company clearly is pulling out all the stops to destroy any chance that its flight attendants will be able to select a representative freely and without interference.

On May 2, Delta executives attempted a coup de grace, announcing a pay raise for all "non-contract" employees scheduled to take effect on July 1, after the flight attendants election is scheduled to be completed. The wording of Delta's announcement makes it clear to all flight attendants that the raise will not be provided if they vote for the union. For obvious reasons, this is a textbook example of interference. AFA–CWA wants to make it clear: we support the pay raise for flight attendants. Like their colleagues at other airlines, the Delta flight attendants have suffered drastic cuts in pay and benefits as a result of the airline's recent bankruptcy. But, this Committee should ask Mr. Anderson to state, on the record and under oath, if the raise will be given to flight attendants whether or not they vote for the union. If he refuses, and insists on maintaining the right to deny the raise to flight attendants if they vote for the union, then the coercive effect of the raise will be clear. If, on the other hand, he agrees to grant the raise regardless of the election outcome, AFA–CWA will waive its right to object to the raise as interference.

The incidents of Delta interference I have discussed are, in AFA–CWA's view, only a sample of the coercive acts Delta executives will unleash on its flight attendants in the weeks preceding the May 28, ballot count. Indeed, Delta's conduct in the past week reflects its utter contempt and indifference to the election rules the NMB is responsible for enforcing. AFA–CWA has urged the NMB to fulfill its statutory obligation to supervise this election in a manner that prevents Delta from blithely poisoning the laboratory conditions necessary for a lawful election. To that end, AFA–CWA has argued that "extraordinary circumstances" exist in this election process and demand an immediate Board investigation under Rule 17.0 of the NMB Representation Manual. We have requested that, while the investigation is ongoing, the Board should order Delta to:

- immediately cease its interference and coercion with respect to AFA–CWA's communication activities in the flight attendant crew lounges;
- cease its deliberate misstatements regarding voter eligibility;
- cease its intrusive and false communication to flight attendants, and
- send a notice to all flight attendants on the eligibility list to report all incidents of interference and coercion to the NMB.

Failure to stem Delta's unlawful activities will irrevocably taint the laboratory conditions needed for a legitimate election. This Board's track record on interference leaves AFA–CWA with grave doubts that any action will be taken by the NMB.

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 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, a majority of all eligible voters must turn out to vote in the election. If 95 percent of flight attendants who cast a vote want to join AFA–CWA but only 49.9 percent 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 work force. 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.

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? 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 5 weeks so that they do not engage in election activities similar to those of 5 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.

Senator ROCKEFELLER. Thank you very much, Ms. Friend.

And our next witness is Mr. Robert Roach, who is the General Vice President—Transportation, The International Association of Machinists and Aerospace Workers. Please.

STATEMENT OF ROBERT ROACH, JR., GENERAL VICE PRESIDENT, INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS

Mr. ROACH. Thank you, Mr. Chairman and the Members of the Committee, for the opportunity to speak to you today concerning the transportation industry in our country.

Let me say from the outset I believe I am the only one at this table who has been part of a merger, along with tens of thousands of people from TWA. We lost our jobs. We lost our pensions. We lost our health insurance. In addition, the once thriving hub of St. Louis, which was promised would always be a thriving hub, and other locations within that structure would be there. We were promised jobs, just as jobs would be a promise today. And all of these promises were never kept.

So I come here to speak to you in terms of the overall industry. And the overall industry, it must be noted, as we are talking about massive losses, airlines going into bankruptcy. All of the airlines are not going into bankruptcy. Southwest Airlines, Continental Airlines, and American Airlines have done pretty good over the last 7 years, and in the process of turmoil, during turmoil, they have been able to navigate through the system.

Now we have airlines that consistently have come before Committees like this, before the Congress, asking for relief, Pension Protection Act, in which there is now $7 billion of underfunded liabilities between Delta and Northwest Airlines. Mountains of debt between these two carriers, and they come once again, always asking for relief.

Since 9/11, airlines have received $6.3 billion worth of relief from the Federal Government, and employees have lost billions of dollars in wages and pensions and benefits. Cities that used to be served are no longer served. Small communities are no longer served.

And so, we must ask ourselves, is this a problem of the industry, or is it a problem of some who have not managed properly through this turbulent time? We believe that with proper management, and we believe that coming to the table with management, labor, and the Government to find solutions to the problems that we do confront within this industry. We have sought that type of meeting across the table from management. Not to discuss collective bargaining, but issues that are of concern to all of us so that we can jointly come before Congress or before the Department of Transportation with solutions to the problems.

Creating a smaller amount of airlines we do not believe solves the problems. Eastern Airlines is gone. Braniff Airlines is gone. TWA is gone. Ozark Airlines is gone. People's Express has come and gone, and still they cry for more consolidation.

Now we hear one rep at this table that all the planes are going to fly, all the hubs are going to remain in place. And then we hear an analyst say we must reduce seat capacity. You can't have it both ways. And if you put these airlines together, it is not going to drop the price of oil one nickel.

Yes, there is a need for fuel, fuel price relief. And somewhere, we need to work on that particular situation. But there are some problems that we have sought—that we have sought across the table with others to find solutions. Again, we have asked for meetings with management, the CEOs of the various major airlines through the ATA, and they fell on deaf ears.

We have now contacted, at the request of Mr. Lou Dobbs of CNN, a former CEO, Robert Crandall. And while we do not agree with everything Mr. Crandall has to say, we believe he has some interesting views on the industry today. And we hope to work as a partner with Mr. Crandall and consumer advocates and people who are concerned about pensions and the money that is owed to the Federal Government concerning pensions to find solutions to these problems without destroying an industry that some of us have come to work in for well over 30 and 40 years and we have come to love.

And so, as our remarks are in the—will be placed in the full record, we wanted to say that our conversation with Mr. Crandall, referring to an article, and I just want to briefly read from that *New York Times* article, April 21, 2008.

> Consolidation will not resolve the woes of individual carriers nor will it fix the Nation's aviation problems. Delta and Northwest Airlines agreed to a merger last week, and that deal is likely to be followed by other proposals. But the case for mergers is unpersuasive. Mergers would not lower fuel prices. It would not increase the economies of scale for these already sizable major airlines.
>
> It will create large costs related to consolidation, and it will anger airline employees who will perceive themselves be hurt by the merger. Although the system could conceivably be operated by a single efficient carrier, consumers clearly benefit from the existence of multiple carriers. The absence of competition never forces better consumer service.

Again, Mr. Chairman, we would ask that this panel or other members of Government would try to help us with a format to sit down and really try to fix some of the problems that confront this industry. But we want to remind people every airline is not coming before you asking for mergers. Some of them are. Some of them have lost focus on what is the true job of management, and that is to run the core business.

And every time I come here, year after year, it is always for a short-term fix, some relief, some billions of dollars to go back to the airlines, which never are passed on to the employees. We have poor customer service. It is time that we fix the problems instead of trying to have a short-term fix that only provides millions and millions of dollars to the people at the top of these airlines.

So, again, we call for a meeting, a summit, a transportation summit. We will work with anybody. Again, we are working with Mr. Crandall. Hopefully, we can come to some format so we can find resolutions to these problems.

I thank you, Mr. Chairman, for the opportunity to come before you.

[The prepared statement of Mr. Roach follows:]

PREPARED STATEMENT OF ROBERT ROACH, JR., GENERAL VICE PRESIDENT, INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS

Thank you, Chairman Rockefeller, and Members of this Committee, for the opportunity to submit this testimony on behalf of airline workers throughout North America. My name is Robert Roach, Jr., General Vice President of Transportation for the International Association of Machinists and Aerospace Workers (IAM), the largest airline union in North America. I am submitting this testimony on behalf of International President R. Thomas Buffenbarger. The IAM represents 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.

Regulation

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, Aloha Airlines and others have all disappeared from the scene. Reducing capacity will not overcome management's failure to run a profitable business.

The Machinists Union is not advocating that we maintain the status quo in the airline industry. When something is so clearly broken, it must not be merely bandaged, but completely repaired. 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, U.S. Airways, United Airlines, Comair, Hawaiian Airlines and Aloha Airlines gave up nearly $9 billion in bankruptcy to help their airlines.

Even with all this aid, this troubled industry still lost $30 billion from 2001 to 2006.[1] Airlines are constantly asking the government for relief, begging the courts to abrogate contracts and forcing the government to absorb its pension obligations. History has shown that airlines cannot operate without government assistance. Airlines repeatedly appeal to the government for bailouts because the free market has failed to nurture a competitive and profitable industry. The government must step in and put an end to the charade that this industry, left to its own ridiculous pattern of suicidal business practices, can ever prosper.

In 1993, the Clinton Administration recognized the problems facing the air transportation industry. President Clinton empanelled a National Commission to Ensure a Strong Competitive Airline Industry, and one of my predecessors, IAM General Vice President John Peterpaul, served on the Commission. The Commissioners were charged with investigating and devising recommendations that would resolve the crisis in the airline industry and return it to financial health and stability.

The Committee essentially recommended no substantial regulatory changes and believed that market forces would stabilize the industry. The IAM's representative on the Commission was the only dissenter, arguing that deregulation destabilized the industry and government intervention was necessary.

The Machinists Union's assertion that deregulation had failed to deliver on its promises were ignored in 1993 in favor of supporting airline industry executives who advocated staying the course. Congress now has a second chance to make effective changes to this industry. If that opportunity is squandered again, bankruptcies will increase, more proud airlines will disappear, employees will continue suffering and passengers will be even further alienated. We can close our eyes and ignore millions of consumers, employees and investors, or we can have an efficient air transportation industry. More than 150 carriers have gone bankrupt since deregulation.[2]

Instead of temporary fixes, long term solutions are required. Airlines today compete by cutting standards, eliminating services and reducing ticket prices to the bone, which make a profitable industry impossible. The GAO estimates that median

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

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

ticket prices have dropped nearly 40 percent since 1980, although the costs of aircraft, airport leases and fuel have increased dramatically.[3] No business can survive if they sell their product for less than what it costs to deliver their goods.

The long-term cost of under pricing tickets is too extreme. Pan Am, TWA, Eastern, and Aloha Airlines all survived for more than half a century, but could not endure the insanity of deregulation. This industry is crying out for sane regulation that includes limiting capacity, setting fares or both.

Effective Management

Even with limited re-regulation, more competent management is needed to save the industry, not consolidation.

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

Mergers prevent airlines from running effective operations. United Airlines emerged from bankruptcy with a plan to pay its executives undeserved multi-million dollar bonuses, but with no intention of operating the airline. Instead of finding ways to conserve cash and operate United Airlines in times of record-high fuel prices, the airline paid out an unnecessary $250 million dividend to shareholders in December 2007, against the objections from employees who warned against such reckless actions. This demonstrates that United's only plan is to plunder the airline and market it for acquisition, to the detriment of passengers and employees.

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 Crandall 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."[4]

Northwest-Delta

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 rights of thousands of workers. The Machinists Union will not allow this to happen.

An issue that neither Northwest nor Delta have addressed is how they will deal with current pensions. IAM members at Northwest Airlines still have a secure defined benefit pension plan, the IAM National Pension Plan. Our members are the only employees at either carrier still earning a traditional pension benefit, but that will be lost if our members lose IAM representation in a merger. Delta has not guaranteed that our members will not lose the security of a defined benefit pension plan in the merger.

Additionally, 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.

Delta and Northwest have made commitments to employees, but these commitments are unenforceable and subject to change. If the combined airline wants to make a true commitment, then they should stop interfering with Delta employees' right to organize, and make their commitments part of collective bargaining agreements that protect employees at the combined carrier.

Northwest and Delta say that no frontline workers will lose their jobs. Don't believe them. If Northwest headquarters is downsized, 930 IAM-represented clerical

[3] Government Accountability Office, "Airline Deregulation" GAO–06–630.

[4] *The New York Times* Op-Ed, April 21, 2008.

workers, are at risk. The frontline employees, not the high level management employees, which Northwest has said are the only jobs at risk in a merger.

Northwest has a history of broken promises. The State of Minnesota bailed out Northwest to the tune of $761 million in 1992. In return, Northwest Airlines promised to continue employing at least 1,000 workers in Duluth, Minnesota, and committed to building an engine maintenance facility in Duluth with a minimum of 500 new jobs. Instead, they never opened the engine shop and closed their operation in Duluth entirely in 2005. Additionally, Northwest committed to keeping employment levels in the state to a minimum of 18,000 employees. They are already down to about 12,000. Northwest Airlines has left a trail of broken promises throughout Minnesota that will multiply and expand throughout the country if this merger is approved.

Delta also is not averse to making promises it doesn't keep. 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.

If the airlines truly cared about their employees they would have engaged all their unions when they first contemplated a merger. Instead, they rebuffed our efforts to cooperate and have ensured labor turmoil for years to come, even if a merger is not completed.

Faced with inadequate or indifferent responses from airline management, the IAM has contacted Governors, Senators and Representatives as part of our efforts to protect the thousands of employees and dozens of communities that will be negatively impacted by these proposed mergers.

Seniority

Delta has said that it will integrate seniority fairly, and that they are required to do so under the law. But what does "fairly" mean? There are no less than five recognized methods for "fair and equitable" integration of airline seniority lists.

1. *The surviving group principle,* where the acquiring company's employees receive seniority preference over the acquired employees;

2. *The follow-the-work-principle,* were seniority is allocated by a ratio of what assets each individual airline contributed to the combined company;

3. *The absolute rank principle,* where employees retain their respective rank on the newly merged seniority list;

4. *The ratio-rank principle,* where a ratio of the employees of each group to be merged are assigned places on the combined seniority list according to a ratio of total employees; and

5. *The length of service principle,* where all employees are combined by their current seniority date, regardless of which airline they came from.[5]

Fairness is in the eye of the beholder, and what Richard Anderson deems fair is not important. We need to focus on what employees consider to be fair.

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.

I realize this hearing was prompted by the Northwest Airlines—Delta Air Lines merger announcement. However, we must recognize this announcement will lead to additional merger attempts.

Continental Airlines, United Airlines, American Airlines and U.S. Airways have all discussed various pairings and alliances in response to the Delta-Northwest action. This will lead to other mergers, likely cutting the number of major national carriers in half, from six to three.

Financial Health

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. According to the most recent Secu-

[5] *How Arbitration Works, Sixth Edition* Elkouri, Elkouri, Reuban; BNA Books, p.868–870.

rities and Exchange Commission (SEC) filings, the combined carrier would have $15.7 billion in long-term debt, plus $11.3 billion in current liabilities and $14.23 billion in non-current liabilities, including pension liabilities. This non-current liabilities figure includes $7.51 billion in pension and retiree benefit liabilities. The total liabilities of the combined company would be $40.55 billion. It is not in this country's best interest to approve the creation of an enormously debt-ridden company.

Consumer Impact

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 expect 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 Southeast 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 bankruptcy 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." [6]

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.[7]

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.

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

Delta said then that "the competitive impact of the U.S. Airways proposal deal is that if the merger were to go forward, it would trigger broad industry consolidation." [8] 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.

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[6] Testimony of Don Carty, *http://judiciary.senate.gov/oldsite/te020701dc.htm.*
[7] *http://www.lambert-stlouis.com/.*
[8] Delta Air Lines press release, *http://news.delta.com/print__doc.cfm?article__id=10533.*

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.

Who Benefits?

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.

While the status quo is unacceptable, we believe that consolidation will not produce a stable, profitable industry. Instead, consolidation and the ensuing reduction in service, coupled with insanely low barriers to entry, will simply produce a variant of competition that is less reliable, less safe and more unstable.

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.

Senator ROCKEFELLER. Thank you, Mr. Roach.

And our final witness will be Mr. Cooper, who is the Director of Research from the Consumer Federation of America. We look forward to your testimony.

STATEMENT OF DR. MARK COOPER, DIRECTOR OF RESEARCH, CONSUMER FEDERATION OF AMERICA ON BEHALF OF THE CONSUMER FEDERATION OF AMERICA AND CONSUMERS UNION

Mr. COOPER. Thank you, Mr. Chairman, Members of the Committee.

The pending merger and those that are likely to follow it are an admission of failure, a clear signal that the industry cannot support financially healthy airlines while remaining vigorously competitive across the Nation. This is an industry that truly pleases no one.

Consumers are frustrated by lousy service and pricing that is at best erratic because competition is at best erratic. Investors are buffeted by a boom and bust cycle and a low rate of return over the long term. Labor has been at war with the airlines for 30 years since deregulation. Unfortunately, there are no simple solutions to such a pervasive market failure.

Delta and Northwest tell us that the merger won't harm competition because they don't compete. But that is because they either never chose to compete or, worse still, have recently withdrawn from competing with each other. The bottom line is simple, however. Consumers do not have competition without which they get abused. And if they are telling you we are benefiting from their competition, you just listen to what your constituents say about the service they get.

Without vastly improved regulation, the mergers will do the public no good. All the promises they make today will be broken in short order, and the consumer will have fewer choices, higher prices, and crummier service. If the mergers are blocked, without vastly improved regulation, the consumers will have fewer choices, higher prices, and crummier service.

As airlines, and I quote, "eliminate duplicate service, shift away from competition, and scale back growth," that is the future, and it is not very pretty.

Emerging from another wave of bankruptcies, the worst on-time performance in history, low-cost carriers going bankrupt, a proposal for a merger wave among network industries, it is time for Congress to consider the proposition that this industry just does not work as an unregulated market, to recognize that it is an infrastructure industry that supplies essential inputs for growth and vibrancy in our economy and one that must provide high-quality service to all corners of the Nation.

Finally, an industry that relies on public resources for its existence, public airways and facilities that are supported by public dollars like airports and air traffic control. The public interest is not being served by the current model.

Now we are not suggesting that we go back to price and quantity controls of the early history of the industry, but it is time to establish consumer rights and reform the incentive structure that exists in the industry to give airlines an economic incentive to serve the public.

In many cases, individual abuses by individual airlines are not the problem. It is a collective problem, a shared problem, a structural problem. Overscheduling and imprisoned passengers, for example, are perfect examples. The airlines share the blame, but they cannot solve the problem because they are unwilling to adjust their schedules to reduce congestion at airports. They would just prefer to publish schedules that they cannot meet, fraudulently advertising their product to the public.

The problem of passengers imprisoned on airplanes for long hours will not be solved as long as standing in line is the way you allocate takeoff slots. They will sit there for hours for fear that they won't lose their chance when it is time to go. We need some ground traffic control. We need end-to-end traffic control. In an industry that can load and embark an airplane in an hour, why are people being held captive for 7 hours on the tarmac? It is an outrage.

Obviously, there are individual problems for airlines—overbooking, lost baggage—which need to be responded to with protection for consumers. Fines that make it really painful to deliver crummy service. There is no discipline in this industry for poor service. These are just a few of the examples of the pervasive problem that I urge you to confront.

Whether or not these mergers are approved, unless there is a substantial improvement in regulatory oversight, the industry will continue to abuse the public because the competitive market forces are just too weak in many, many parts of the industry.

So, instead of holding hearings on mergers, I urge you to commence a series of hearings on each of the problems that afflicts all aspects of the industry—operations, congestion, slot allocation, landing fees, customer service, delays and schedule, tarmac holding time, lost bagging, overbooking and bumping, tickets on bankrupt airlines. There are consumers out there who get stuck when they go bankrupt. And market structure, abandonment of routes, essential service, and the real nature of competition. Yes, there is some, but it is really not benefiting the vast majority of the traveling public.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Cooper follows:]

PREPARED STATEMENT OF DR. MARK COOPER, DIRECTOR OF RESEARCH, CONSUMER FEDERATION OF AMERICA ON BEHALF OF THE CONSUMER FEDERATION OF AMERICA AND CONSUMERS UNION

Mr. Chairman and Members of the Committee,

My name is Dr. Mark Cooper. I am Director of Research at the Consumer Federation of America. I greatly appreciate the opportunity to testify yet again on the serious consumer problems with the airline industry and commend the Committee for holding a hearing that investigates the general condition of the industry. I appear today on behalf of the Consumer Federation of America [1] and Consumers Union.[2]

This is truly an industry that makes no one happy, as the opening paragraph in a *New York Times* column put it recently

> What a time for airlines. Delays and cancellations. Oil more than $100 a barrel. Customers are furious and flight crews are bedraggled. And that's before the economic slowdown in the United States brings its won misery. Warren E. Buffett once famously said of his fellow investors in the airline industry, "If we knew then what we know now, we'd have shot the Wright Brothers down." ("A Profitable 18 Hours That's All Business," Tuesday March 11, 2008, C–6)

Consumers are frustrated by lousy service and pricing that is, at best erratic. Investors are buffeted by boom and bust cycles. Emerging from another wave of bankruptcies, the worst on time performance record in history, and confronted with a likely merger wave that would reduce the number of major carries from a handful to a precious few, it is time for Congress to consider the proposition that this industry just does not work as an unregulated market. In my remarks today I will lay out the basic causes of the problem and give some initial thoughts about the solution, but my primary goal is to convince Congress to begin asking the right questions regarding endemic problems in the industry that must be addressed. The occasional hearings, triggered by this or that merger, are not enough to solve these problems because they do not provide a proper context for the thorough policy rethinking that the industry needs and the public demands.

From a policy point of view, the key factor is that competition is at best sporadic in the industry, limited to a small subset of routes and metropolitan areas, primarily on the on the coasts. Left to its own devises, the industry will over schedule take-offs and landings at the most competitive airports to drag customers to the airport under a false claim about when they will leave or arrive. They get away with it because there are only a few of them and they tend to do it en mass. There is too little competition to punish the abusers.

The middle of the country is dominated by fortress hubs, that force consumers into additional take-offs and landings and provide the trigger points for cascading delays. Consumers not only have longer travel times, but those who are captive to these hubs pay a heavy price in terms of higher fares on the many routes with little competition.

[1] The Consumer Federation of America is an advocacy, research, education and service organization established in 1968. CFA has as its members some 300 nonprofit organizations from throughout the Nation with a combined membership exceeding 50 million people. As an advocacy group, CFA works to advance pro-consumer policy on a variety of issues before Congress, the White House, Federal and state regulatory agencies, state legislatures, and the courts.

[2] Consumers Union, the publisher of Consumer Reports®, is an independent, nonprofit testing and information organization serving only consumers. CU does advocacy work from four offices in New York, Washington, San Francisco, and Austin. CU's public policy staff addresses a broad range of telecommunications, media and other policy issues affecting consumers at the regional, national and international level. CU staff members frequently testify before Federal and state legislative and regulatory bodies and participate in rulemaking activities at the Commission and elsewhere.

The most famous of the cut-rate competitors has just been hit with the largest fine in the history of the industry for failing to properly inspect its aging fleet—aging because that is the best way to squeeze a little profit out of the skies. The most prominent of the recent new entrants into the industry has had repeated melt downs of service, keeping consumers prisoner on planes for hours on end. In fact, they all keep consumers captive on planes for long periods, rather than risk losing a take-off slot, or a body in a seat. They get away with it because they tend to do it en mass and there is too little competition to punish the abusers.

It is time to rethink public policy toward the airline industry. To say that the thirty- year experiment in deregulation has been a wild ride would be a gross understatement. When a market performs this badly, this consistently, from every point of view—consumer, investor and labor—it is time to consider major changes. More and more, it appears that the original public policy judgment about the industry by policymakers in the 1930s, that it is destructively competitive, subject to vicious boom and bust cycles, and prone to exploitation of the consumer, was correct.

Moreover, this is not just an industry that manufactures widgets. It is infrastructure that supplies an essential input to other industries that has an effect on the growth and vibrancy of regional and national economies.

The industry is also fundamentally dependent on public resources for its existence. It relies on the public airways, and facilities that are supported by public dollars, airports and air traffic control, which reinforces the justification for more direct intervention to protect the public from the abuse it suffers at the hands of the industry.

The pending mergers and those that are likely to follow are an admission of failure. The industry cannot support financially healthy airlines with vigorous competition. Delta and Northwest tell us that the merger won't harm competition because they don't compete, in some cases they have withdrawn from competition with each other over the past few years. If other mergers are proposed, and rejected, the airlines will reduce their overlap and propose mergers down the road. In the end, consumers have less and less competition. Without vigorous competition the abuse of consumers will continue and become worse.

Nobody wants to go back to price and quantity controls, but the industry has lost it right to be unregulated by consistently abusing the traveling public. A consumer bill of rights would be helpful, but if we do not change the incentive structure and back it up with energetic enforcement by public authorities, it will not lead to long-term solutions to the vast problems I have detailed. In many cases, individual abuses by individual airlines are not the problem; it is the overall structure that is.

Dealing with delays and cancellations—weather, mechanical or economic—is a delicate problem. We never want an unsafe plane to take off or a safe one to take off in unsafe conditions. However, there are a number of practices that abuse the public that have nothing to do with the difficult question of safety versus service.

Over-scheduling is a perfect example, where all airlines share the blame and the solution is a reduction of all schedules proportionate to the number of flights. They will not voluntarily solve the problem and they certainly should not be allowed to publish schedules that they cannot meet. The FAA should respond quickly and aggressively to over-scheduling. A landing slot is a perishable commodity whose value varies widely between airports and over the course of a day. The allocation of those slots to users should reflect their value. The public will benefit much more from a systematic approach to the problem, than the sporadic, after the fact fixes that have been applied in the past. The airlines would initially be free to set schedules as they like, but if they behaving badly and produce situations of chronic over-scheduling, then the regulator would shape the traffic curve adjusting the fee structure and/or administratively reducing the number of flights at congested airports/times. The reductions in flight should be spread across all airlines that have shown chronic delays.

Imprisoned passengers are a similar collective problem that demands a collective solution. The problem of passengers imprisoned on airplanes for long hours will not be solved as long as standing in line is the way we allocate take-off slots. An industry that manages thousands of planes moving hundreds of miles an hour in the air at one time ought to be able to manage dozens of planes standing still on the ground at an airport better. When it takes half an hour to load and embark a plane, it is absurd that people should be forced to sit on runways for hours because the airline does not want to lose its place in the queue. The regulator should institute queuing policies that do not reward, perhaps even punish, airlines for keeping people sitting on the tarmac for excessive periods of time.

Overbooking and lost baggage are individual airline issues that can be dealt with by improving consumer rights. If the penalties are stiffened, the individual airlines will have more incentive to do a better job.

In the long run, expanding capacity will enable the airlines to better serve the public, but if we expand capacity without reforming the incentive structure, the industry will, soon enough, recreate existing problems. Capacity or the lack thereof is not the cause of the current problem. The irresponsibility of the airline industry is the problem. It is the failure of the industry to offer service to the public that fits within the capacity of the current system—air traffic control and airport landing slots—that harms the public. If you build it, without setting new rules, they will come and come and come until it is overburdened.

Again I thank you for the opportunity to express the consumers' frustration with the airline industry and urge you to undertake a top-to-bottom review of its market failure. The Consumer Federation of America looks forward to assisting you in any way we can in that important endeavor.

Senator ROCKEFELLER. Thank you very much, Mr. Cooper.

I guess I would put aside a couple of the questions I was going to ask and say that this doesn't sound to me automatically like a group full of comity that wishes to exchange views to work on an airline—aviation policy.

As Chair, I wish to point out that this hearing was called for the purpose of looking at the overall situation of the aviation industry. Obviously, we have people representing different parts of that industry, and they have every right to express their views. But the point of this hearing is to figure out what needs to be done to make the aviation system work.

Senator Hutchison and I spent the better part of the last week or 10 days giving endless speeches about the failure of airlines to hold on to their operating margins and, therefore, go into Chapter 11, merge, or go into Chapter 7.

I can remember when I started off in Charleston, West Virginia, we had jets from American Airlines, United Airlines, and Eastern Airlines. We deregulated the industry, and within 4 days, that was the end of all the jets to Charleston. So I don't, frankly, discount myself entirely from the consideration of re-regulation of the airline industry. I am very sincere in that.

I also am very sincere in my understanding that the folks that run these airlines, who I know pretty well, in addition to those who work for the airlines, are doing everything they can to try and make it work. It has been said by a number of people that at least 40 percent of all of the cost for an airline is fuel, and that is a pretty hard number to bear.

Ms. Friend, I noticed that when you were giving your testimony, you referred to making things work for the customers, for the communities, and for the workers. You didn't mention the airlines. We had a discussion once before, and it strikes me as not uncommon to think that unless the airlines are working or unless all of the money that you indicate that is being paid to senior executives is the cause for these mergers or failures or droppings off and trouble in the marketplace, but that troubles me.

That troubles me because the question is, are you here because you really want to look at new aviation policy—which Mr. Neidl referred to, or are you here to express your complaints? And you are totally free to do that. You came on your own, and you are free to say whatever you want. But I really would like to figure out how we can make this aviation industry work and complaints do not help with that.

We have failed over the last week in being able to pass the Federal aviation bill. I won't go into the reasons for that, but they are fairly stark. And so, I would just wonder if you agree that discussing aviation policy means that, in fact, we somehow have to get ourselves to the table, maybe some of us in the Federal Government and aviation experts need to be involved, and take some of these things head on.

I am always fascinating by the charge, because it is so enticing, that you take what somebody is being paid, and then whatever is going wrong with the aviation system, that is the answer. If we just stop doing that, everything would sort of clear up.

So, I am not going to ask a question right now. I have many I want to ask. But I am perplexed a little bit by the nature of what I heard, and I am very sincere. I cherish this Subcommittee. I cherish the whole concept of aviation.

I cherish the concept of when it was working well, and I am in agony these days, coming from a small state like West Virginia, when it isn't working as well and when people are having to do things which bring out in some ways the worst in them and turn them into competitors, although they are all working, I think, sincerely toward making the aviation system work.

But that was not my first impression, I guess, from the first round of statements, and I will simply say that and then call on Senator Lautenberg.

Senator LAUTENBERG. Thanks, Mr. Chairman.

Ms. Friend, what needs to be done to ensure workers' rights to unionize after this merger is done?

Ms. FRIEND. Well, what we would like to see is a level playing field where the flight attendants, the Delta flight attendants that are currently voting are allowed to do so without influence by management, that they are allowed to freely make a decision, that they are not flooded with information, with flashy folders and DVDs that explain to them how evil AFA is and how they deceive them and tell them lies.

Quite frankly, Senator, our ideal would be that the National Mediation Board revise their archaic rules that set a threshold that 50 percent plus 1 of the eligible unit must participate in order for them to form a union. It is my belief that if we applied that same arbitrary standard to our Federal laws, that this building would be mostly empty and that we should have a simple—in choosing whether or not to form a union, we should have a simple yes/no ballot. And those who choose to participate would make that decision just as they make the decision in our Federal elections.

Senator LAUTENBERG. Mr. Anderson, just a question. You have heard the response that Ms. Friend gave us. Now, some part of Delta is unionized. I believe the pilots, if I am not mistaken.

Mr. ANDERSON. And the dispatchers.

Senator LAUTENBERG. And the dispatchers. There is a significant part of the workforce that is not?

Mr. ANDERSON. That is correct, Senator.

Senator LAUTENBERG. What do you see the outcome of a merger here in terms of the evidence or whatever that Ms. Friend has? I say "whatever." Is that a piece that is put out by Delta?

Mr. ANDERSON. The company—the way we approach it, Delta is a very unique place. If you look at its history—if you look at its history, it has long had a very good relationship with its employees, and that is important to Delta. It has very high service standards and very high ratings in terms of its service, J.D. Powers ratings.

And so, we respect the NMB process, and the NMB process essentially lays out through the course of a merger, it has happened many times in the industry. Oftentimes the process is between two different unions. And the employees go through a selection process after the National Mediation Board makes the determination of a single carrier. And we are respectful of that process.

At the same time, if you look at what Delta has done, Delta, as an airline, has never had a single strike. It has never had—the first time it had a layoff in 80 years was at 9/11. So it has a special relationship, and we respect both the employees at the company that have decided they are going to be a member of the union, ALPA or the dispatchers union, or have decided that they are going to be non-union.

And we think that the National Mediation Board process lays out very clear ways for what they call the laboratory conditions for selecting whether or not a group of employees wants to be represented by a union.

Senator LAUTENBERG. Have you seen the material that Ms. Friend——

Mr. ANDERSON. I am sure I have seen some of it, yes.

Senator LAUTENBERG. Is that a Delta product? Is it something that Delta——

Mr. ANDERSON. It is both. There are employee grassroots campaigns on both sides of this issue, and there are very many employees at the company that feel very strongly both ways.

And the NMB, we respect the NMB process to be certain that we have the laboratory conditions and that we respect that process. So the collective bargaining agreements that are in place for both the Delta employees and the Northwest employees will be honored after the merger closes.

And then we go through the regular process of determining whether there will be representation or not among the different classes and crafts of employees.

Senator LAUTENBERG. Well, if there was an attempt to unionize the non-union portion of your work force, would Delta resist that?

Mr. ANDERSON. We would—we would put information out to be certain that there is a fair and open election between the two groups. And we have respected that in the past, and we will respect it in the future. We have tried very hard to create a positive work environment at Delta.

If you look across the board, pretty much the Delta employees have always been among the higher paid, with better work rules and better work benefits. And we are committed to continuing to do that whether we are unionized or not unionized because, in the end, if you take care of your employees—and that has always been the philosophy, going back to the founder of Delta, Mr. Woolman.

If you take care of your employees, they will take care of your customers.

And the employees of Delta have been through a lot. Employees at Northwest have been through a lot, and what we are trying to do here is create something positive for the employees that creates a more durable franchise so that we don't have to come back to them for concessions. These employees have been through enough of that. And what our hope is is that by providing equity and seniority protection and making this an end-to-end transaction, that it can be positive for both of the employee groups.

Senator LAUTENBERG. Is it not likely that some redundancy would follow a merger? There are always reasons that, say, redundancy is one of the things typically the companies talk about when they merge. You know, I came from the business background.

Mr. ANDERSON. Right. A very successful business, I might add. There are. But what we have really tried to do and the reason why this works is we are end-to-end. We don't have very much overlap. So when you look at the places that Delta serves and the places that Northwest serves, for the frontline employees, we can put a transaction together that protects them.

The redundancies come in the overheard of the company and the corporate headquarters and in what you will remember as SG&A. It is those redundancies that we have to work through in a respectful way to create the synergies that allow us to be a stronger airline.

Senator LAUTENBERG. Thanks very much.

Mr. Chairman, thank you.

Senator ROCKEFELLER. Thank you, Senator Lautenberg.

Senator Klobuchar?

Senator KLOBUCHAR. Thank you very much, Mr. Chair.

I described earlier about how Northwest Airlines has been such a vital part of our state. I will also say that if Northwest has been good to Minnesota, our State has been good in return. In 1992, when Northwest was threatened by rising fuel costs and an economic recession, our State leaders approved a loan package worth more than $300 million in exchange for Northwest's promise to build new facilities in Minnesota.

And more recently, when Northwest faced financial difficulties, our Metropolitan Airports Commission granted it millions of dollars in rent reductions. I would also add that after these efforts, they came on top of a $15 billion financial rescue package that Congress created in 2001 to help the airline industry after 9/11.

So I think it is fair to say that the people of my state and this country have been good partners with the airline industry, as have their employees who have taken a number of concessions, many times great reductions in their salaries in the last few years. So one of the things that I want to focus on today just is some of the promises that have been made to the employees and to the people of my state about this merger.

Earlier, at a Judiciary Committee hearing that I sat in on, I focused more globally on my concerns that Ms. Friend raised that this merger not be looked at in isolation by the Justice Department, that they look at this as a whole and not look at it in a vacuum. But today, with the first round of questions here, I wanted to focus on some of the promises and statements that have been made about how this will be I think the quote was "a merger of addition and not subtraction" from Mr. Anderson and Mr. Steenland.

So my first question was about, again, a Minnesota-specific question. There are at least 450 Northwest employees who work in the Chisholm, Minnesota, reservation center and around 400 employees who work in the Bloomington, Minnesota, reservation center. And I was hoping you could make a commitment to maintain both the Chisholm and the Bloomington reservation centers. Can you do that?

Mr. ANDERSON. I actually built the Chisholm reservation center. So it has a certain fondness. So, yes, both of those res centers will stay open.

Senator KLOBUCHAR. And can you commit to the current level of staffing at the Chisholm and the Bloomington centers?

Mr. ANDERSON. I think the commitment we have made, it may go higher. But if it has to go lower at any time, it won't be because of involuntary. But I think we are pretty comfortable in saying that the current levels that we have there in those two facilities will remain the same.

Senator KLOBUCHAR. And how long can you make that commitment for with these two facilities?

Mr. ANDERSON. Well, I know that with the Chisholm facility, there is actually a specific covenant that runs out, but I would use the term indefinite. I mean, I think the great—going back, there is an area where we all do agree here, which is the industry has been under real distress, and the great unknown that really makes it very difficult to plan and to run an airline is when fuel prices go up.

Senator KLOBUCHAR. Although we did discuss at the last hearing how the fuel prices right now are high. They may go higher, but that the combined airline is not going to be able to negotiate better fuel prices.

Mr. ANDERSON. That is correct.

Senator KLOBUCHAR. OK. I just want to make that point.

Mr. ANDERSON. You also made some good points about the need for an energy policy, which we——

Senator KLOBUCHAR. We did. That was a good discussion. We can have it again maybe in a few hours, but the thing that I am trying to get at now—so it is an indefinite commitment?

Mr. ANDERSON. Yes, there is no plans. Let me just run through the different facilities that we have talked about at different points in time with you and with the Governor and I think that we have been pretty open about. One is the reservation facility in Chisholm and the reservation facility in Minneapolis. Second is the pilot base. Third is the flight attendant—or I guess, fourth is the flight attendant base.

Senator KLOBUCHAR. Right. And there are 2,200 flight attendants based in the Twin Cities.

Mr. ANDERSON. Right.

Senator KLOBUCHAR. And 1,000 aviation mechanics, and then the pilot training facility.

Mr. ANDERSON. At NATCO. And then the simulator technicians that support those. Those, plus the data center in Eagan, Minnesota, are all included in what we intend on keeping in Minnesota.

Senator KLOBUCHAR. So the 1,000 aviation mechanics, 2,200 flight attendants, the pilot training facility in Eagan, the employees working at Northwest cargo facilities?

Mr. ANDERSON. The cargo facility at the airport, the building at the cargo facility.

Senator KLOBUCHAR. And the information services, the data center or customer service operation—and customer service? So those are all the same answer?

Mr. ANDERSON. Correct. Correct.

Senator KLOBUCHAR. OK. And then, how about the 1,100 employees who work at Northwest Airlines headquarters in Eagan?

Mr. ANDERSON. We have not—we have just kicked off the integration effort of putting together the two—the two headquarters staff. Actually, we had our first session. So there will be reductions there. We have been clear about that because the headquarters is moving to Atlanta. But we haven't done a bottoms-up and really analyzed what makes sense to move and what makes sense not to move.

Senator KLOBUCHAR. I think you said at the Judiciary Committee hearing that the cuts could be made to both the Twin Cities headquarters and the Atlanta headquarters?

Mr. ANDERSON. Yes, because what you really have to do, as hard as it is and as much as you don't like to do it and as much as we are going to try to mitigate it with early out programs and the like, in order to get the economies of scale that it takes to develop the benefits, you really have to sort of move to one overhead structure, and we have really committed to do a best in breed process to doing that.

Senator KLOBUCHAR. I think, Mr. Steenland, do you want to?

Mr. STEENLAND. I think if I could just make one point with respect to this, and that is the only thing that we know is the world that we see today. And obviously, we can make judgments and we can make observations based on that world. But, for example, yesterday Goldman Sachs, one of the leading sort of oil trading firms in the world, came out with a prediction that said, in their judgment, oil was going to rise to $200 a barrel.

Now, if that happens, clearly, airfares are going to have to go up in a very significant way. If airfares go up in a very significant way, by definition of the laws of supply and demand, we are going to have fewer passengers. If we have fewer passengers, we probably need fewer reservation agents to take calls. We are going to need to have fewer flights because we have fewer people to carry.

So in terms of making commitments as to numbers of people, we have to recognize that there are variables out there that are completely outside of our control that could well change that dynamic, and it doesn't mean that we were misleading. It doesn't mean that we were sort of not truthfully stating what we saw today. It means that there has been a sea change, a change in the external world that changes how this business needs to be run if it is going to stay in business, and we will have to make adjustments accordingly.

Senator KLOBUCHAR. But at this point, you are committing to keep these groups—the 1,000 aviation mechanics, the 2 reservation centers, the 2,200 flight attendants—this is like the partridge in the pear tree—the pilot training facility in Eagan, Northwest cargo facilities, the information services data center, customer service operations, and then you are looking, but you are not committing to the corporate headquarters employees?

Mr. ANDERSON. And a partridge in a pear tree.

Senator KLOBUCHAR. Well, we hope we can get more than that as I look at our employees.

Would you mind, Chairman, if Mr. Roach just responded for 1 minute? Thank you.

Mr. ROACH. I have been in this industry 33 years, and I have never seen—I have heard a lot of these promises, and as Mr. Steenland was saying, I think we need to hear them loud and clear. In the transportation industry, there is nothing constant but change.

And so, commitments that are made today will mean nothing tomorrow. And clearly, I have been through a number of them. And I have seen we are going to keep this facility. We are going to do this, that, that, and that. Maybe they put it in writing to you, so you have a piece of paper that may mean something. But it really don't hold water down the road the same way like TWA and Ozark Airlines and those type of mergers.

But I would like to go back to something Senator Rockefeller said about we need a format to talk about this issue, but to talk about the overall industry. That is what we need to be doing because the overall industry does have some problems.

And what is happening here is that people are focusing on Northwest/Delta, which we think is a problem, but the industry needs to sit down—management, labor, and Government to sit down talk about what is needed to fix the problems because we have passenger problems. We have employee problems. We have airlines that cannot make money, and there are serious problems within the industry.

And we have since 2001, I have the letters here, we have attached them to our other testimony, in attempting to have that type of format in order to fix the problem so that we don't wind up with ourselves in these constant consolidation, band-aid, borrow money from the Government type situation.

I just want to say that is a good idea, and we need to work on that and getting that format together. And the machinists union will be certainly in the forefront of working with any Government official or company officials to get that done.

Senator KLOBUCHAR. Well, Mr. Anderson could maybe respond the next time I ask questions. I know I have gone way over my time here.

Senator ROCKEFELLER. I think you have done pretty well, Senator Klobuchar.

Senator KLOBUCHAR. Well, I will continue on. This is a very important thing for our State and for our employees and the hub as well.

Mr. ANDERSON. And we agree with you.

Senator KLOBUCHAR. Thank you, Mr. Chairman.

Senator ROCKEFELLER. I mean, that is kind of a record-breaking list of commitments.

Senator KLOBUCHAR. Well, it is. And as we know and have acknowledged, things can change. But it is good to get those commitments right now. But we have other questions to ask as we go forward, Mr. Chairman. Thank you.

Senator ROCKEFELLER. And you will have a chance to ask them. I simply was impressed by your tenacity.

Senator Dorgan?

STATEMENT OF HON. BYRON L. DORGAN, U.S. SENATOR FROM NORTH DAKOTA

Senator DORGAN. Mr. Chairman, thank you very much.

First of all, I am skeptical of mergers. That is not a surprise. I don't think we solve the problems of the airlines by getting bigger. And I think, generally speaking, it is axiomatic that more concentration means less competition.

I want to just make a couple of comments and ask a couple of questions. Mr. Murphy, you indicated that your study shows more competition that at any time in history. Maybe not in some parts of the country. I will show some charts that respond to that in a moment.

Mr. Neidl, you said that in Europe there is much greater consolidation, and therefore, we need to merge in this country or allow mergers in this country so that we can compete. As I was thinking about that, we have, I think, six network carriers in this country. If that is the urge and the issue, maybe we should not take a half a dose of medicine. Instead of going from six to five, maybe we should go from six to three?

Because I think there are a couple pairs of other mergers out there, and so I don't think we look at this in just a vacuum. And I am not prepared to accept your notion that because there is more concentration in Europe, we must have more concentration here at home. But that is what I heard you say.

The question for me is either post merger or even today, what is the service level? We need commercial air service in this country. It is critical to this country's economy, essential to our economy. We need good airline service. So what is the service level, and how is it priced? Those are the questions for me.

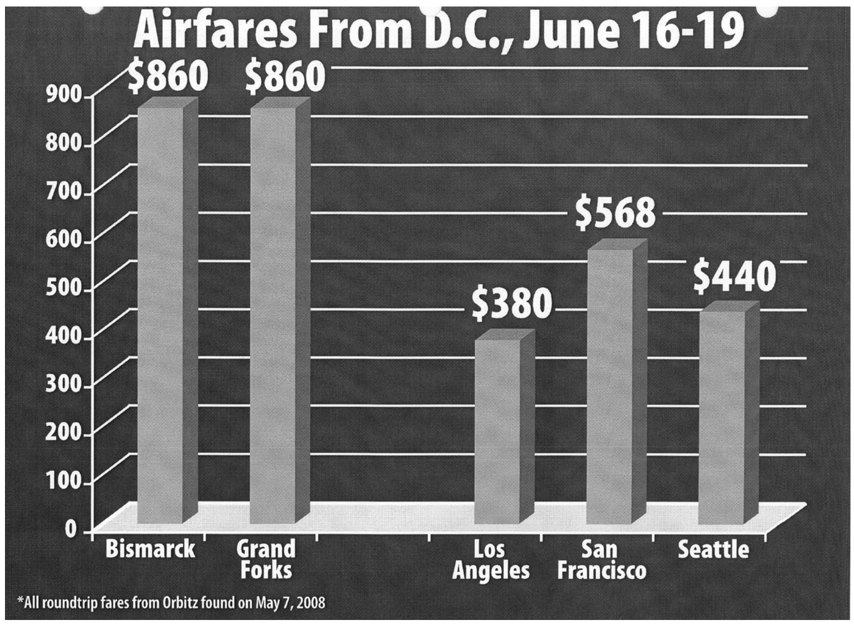
And so, I came to work this morning. I met with Mr. Steenland yesterday. I met with Mr. Anderson and Mr. Steenland previously, and I appreciate your being open to visit with all of us, and we are going to visit again. But I came to work early this morning, and I went on Orbitz—I think both of you probably own a part of Orbitz. I know Northwest does.

Mr. ANDERSON. Use to.

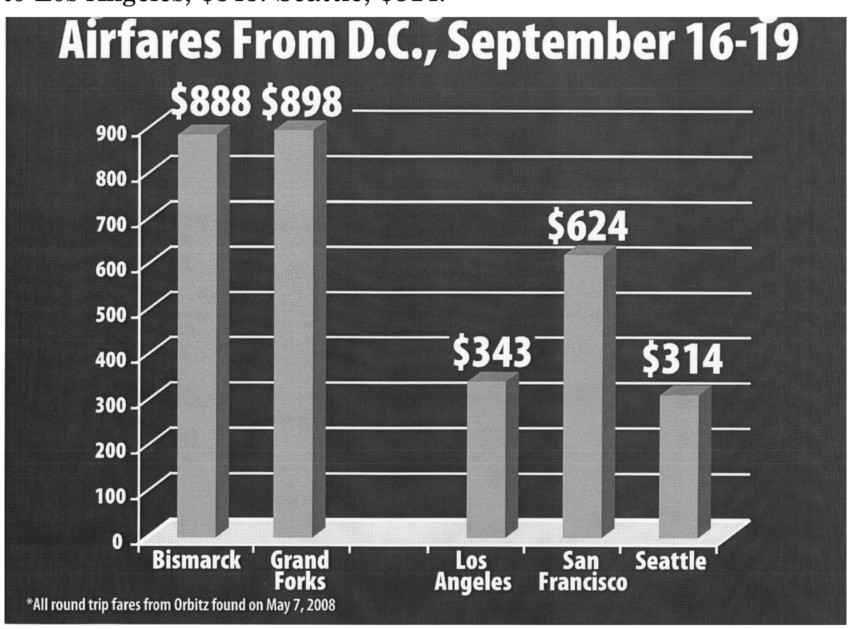
Senator DORGAN. Use to. All right. Well, I went on Orbitz, and I decided I was going to check and see what it is going to cost me to fly. So I plugged in three dates. I just want to show you the result.

I said let us go from D.C. to Bismarck on June 16. I just plugged in these dates just for the heck of it. That is a Monday, coming back Thursday. D.C. to Bismarck, $860. D.C. to Grand Forks, North Dakota, $860. Same days I would like to go to Los Angeles, $380—twice as far and half as much. I want to go to San Francisco,

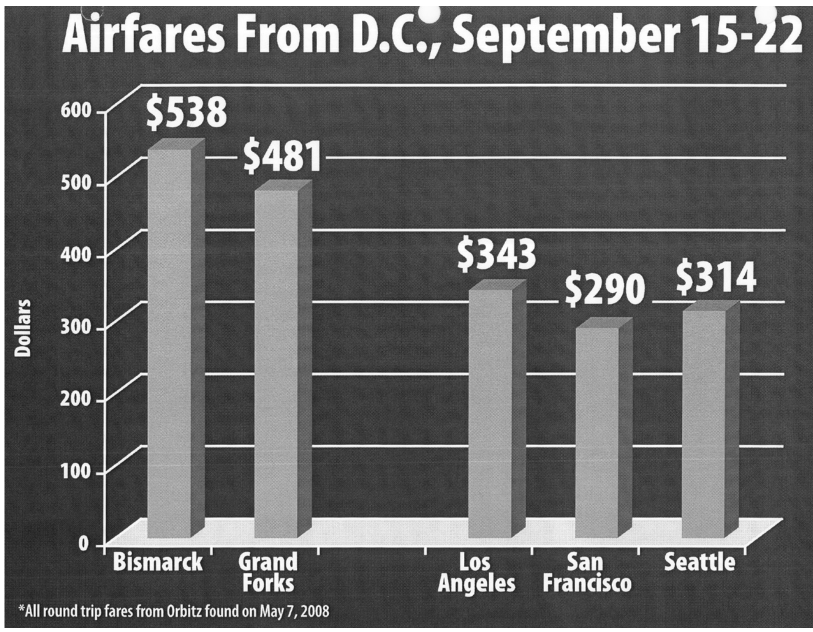
$568. I want to go to Seattle, $440. So fly twice as far, you get to pay half the cost.



Senator DORGAN. So then I thought, well, let us just go into September. I mean, this is way down the road. This is way in advance, and same thing, Monday come back on a Thursday, about the same thing. D.C. to Bismarck, $888. Grand Forks, about the same. D.C. to Los Angeles, $343. Seattle, $314.



Senator DORGAN. So I said, well, maybe it has to have a Saturday night stay because we've got to keep the hotels full. And so, I put in September 15 through 22 so I am out there 7 days. And here is what it looks like, a little better actually. But you still pay $538 roundtrip to Bismarck, $481 roundtrip to Grand Forks. And then go twice as far, you get to pay less money.



Senator DORGAN. And my point with showing you those graphs is very simply some of us in some regions of this country, Mr. Murphy, don't believe for a minute—don't believe for a minute—that this has really been nirvana for us. What a wonderful thing. What robust competition. That is not the case.

And when I say that, I understand the hub and spoke system is an essential system for getting people from a Bismarck or a Sioux Falls to a hub, to move one stop to anywhere else in the world. I understand that. But I also believe that the pricing has upset a lot of folks in some parts of this country that no one at this table speaks of. You just speak of the larger picture. If you live in Chicago, Los Angeles, New York, good for them. They have got a lot of choices, and they have got low prices. Good for them.

The fact is in many areas of the country, we don't. I don't have an airline name up here, but I used this example this morning to figure out what is it going to cost to fly to these areas? And you know, all of you know that you will find the same thing if you go to Orbitz.

My time must be close to up, but let me just mention additionally, I sat in this room hearing United wanting to take over U.S. Air. I sat in this room listening to U.S. Air wanting to take over Delta. We had Delta employees in the room then. I was visited by Delta later thanking me very much for opposing the merger. That wasn't too long ago.

And I heard all four of those carriers—I heard all four of those carriers say that this will be complementary, end-to-end, and they used a word you all didn't use. They used and overused the word "synergy." You didn't use that, and so I think you can make that case, perhaps either more or less, with most mergers, proposals between the top six.

But having said all that, so I can explain to you why I am a bit skeptical and where I come from, I want to ask you ask you about oil prices. Oil prices are killing you, and I don't think this is going to solve an oil price issue, no. You are still going to run fuel through your planes.

What have you done about oil prices? When you have set the labor costs, I watched. And you go at them and you have got to deal with labor costs, you cut labor costs and so on. But you have got to buy oil. So what kind of pressure are you putting on those that are taking your money to the bank and depositing that in the name of Exxon or Saudi Arabia?

And there are things, it seems to me, as an industry you could do. For example, we are putting 70,000 barrels of oil underground every day in the Strategic Petroleum Reserve that is sweet light crude. That is the most valuable subset of oil. Seventy thousand barrels a day right now, yet the SPR is 90 percent full.

How do the airlines look at that? Do you think it is as dumb as I think it is to put that oil underground?

Mr. STEENLAND. I think as companies and as an industry, we would support stopping filling the Strategic Petroleum Reserve right now. Certainly with the prices at this level and given the demand out there, we don't need to be filling that reserve at $122 a barrel.

Second, we ought to look at addressing margin requirements for people who play in the oil markets, who aren't there are as real consumers of the good, but instead are simply trading it as a paper instrument to make a profit. Margin requirements for oil trading are 5 percent. Margin requirement for stock trading are around 50. Things like that I think are policies that we need to look at and address and deal with that.

One of the problems that we face is that we buy oil in dollars. The dollar is a very weak currency. Our European competitors pay for oil in euros. So their piece of paper is worth $1.60, and ours is worth a dollar. And those kind of issues, I think, are fully appropriate for the Congress to address and to take on. And we would support that.

Senator DORGAN. Mr. Anderson, both of your companies have these travel planning systems, companies around the country. In fact, I think Northwest has a fairly large one in Minot, North Dakota.

Mr. ANDERSON. Yes, it does. Three hundred jobs.

Senator DORGAN. Three hundred jobs. I kind of like the precedent that Senator Klobuchar set.

[Laughter.]

Mr. ANDERSON. I built that one, too.

Senator DORGAN. You built that one, too. So you will give us the same guarantee that——

Mr. ANDERSON. Sure.

[Laughter.]

Senator DORGAN. I think you came to this hearing with one word available, "sure." But let me be serious about the issue of price and service.

Assuming that your companies merge, tell me about the commitment of a much larger airline with management perhaps living in Atlanta, Georgia, or much of management in Atlanta, Georgia, servicing the Northern Great Plains routes that I just described. But tell me about attention to smaller communities, smaller markets.

Mr. ANDERSON. Well, first, as to that specific one, as you know, Delta does not fly—this gets to the point about not being overlapping. Delta does not fly to North Dakota.

Senator DORGAN. Well, you did.

Mr. ANDERSON. We did. But it gives you an idea about why this is end-to-end. We didn't have enough presence in that marketplace to be able to sustain one flight a day from Fargo to Salt Lake City.

But let us talk about small communities, and I think you made a very good point. Hub and spoke systems are critical to service in small communities. Low-cost carriers and discount carriers do not make investments in small communities. They don't buy the airplanes to serve small communities, and that is really left to the hub and spoke carriers.

And the hub and spoke system is particularly well adapted because we can send one airplane to Fargo and pick up everyone that wants to go to every other destination on a network. So you have indivisibilities on that same airplane.

We have invested hundreds of millions of dollars in fleets, if not billions of dollars in fleets, this combination will serve 140 communities, and a stronger hub and spoke carrier will be better for small communities. And this will be the major airline that serves small communities.

I would just add that the DOT and the Government—it is probably appropriate that Mr. Murphy is here because he was in charge of it for quite a long time. We should revamp the EAS program in this country. We should get very serious about what it is going to take to run a real Essential Air Service Program, particularly with fuel prices at these levels.

And I am not talking about just taking the current EAS formulas. I am talking about to the point that some have made here about how you get an industry and Government and all the constituents together to figure out how a real EAS program should work.

Senator DORGAN. Mr. Chairman, my time has expired. I have to go to the floor on an amendment that I have pending. So I would like to submit some additional questions to the witnesses. And I think all of the witnesses have made some really interesting observations today. I appreciate them being here.

Thank you.

Senator ROCKEFELLER. Thank you, Senator Dorgan.

Senator Snowe?

STATEMENT OF HON. OLYMPIA J. SNOWE, U.S. SENATOR FROM MAINE

Senator SNOWE. Thank you, Mr. Chairman.

I am hearing mixed messages here today. I mean, there is no question that spiraling oil prices have put the airline industry in a precarious position. And what I am hearing is that it necessitates expanding the market into the international arena because you can't compete with low-cost carriers in this country.

Mr. Neidl, you are saying that there is excess capacity, that seats are going to have to come out of the sky. And I read your testimony and heard it here today, Mr. Steenland, Mr. Anderson, that smaller communities stand to gain the most. You are going to be, in fact, doubling the number of small communities served.

So, which is it in the final analysis? How do we know if the merits of this international expansion, it is probably going to come at the expense of domestic service and certainly to small communities. I think we have seen at the non-hub airports, in my state and across this country and the ones to which Senator Dorgan referred to in his chart, we are seeing either prices gone up or we have lost seats.

So if Mr. Neidl is saying seats are going to have to come out of capacity, and you are suggesting that even in the good times, as I understand it from your testimony, Mr. Neidl. Then here we are in this troubling period and chapter in the history of the aviation industry, and you are somehow saying it is not going to come at the expense of domestic service. What I am hearing is global, global, global.

And we don't disparage the fact that you should be involved in the international arena, but we heard that with free trade agreements, and we have lost jobs. What I am concerned about is the lost service that is going to occur here in this country as well.

So how do we know that what we stand to gain or lose in this post merger period, since Mr. Neidl is saying that we are going to have to reduce excess capacity? He said, in fact, in reading your testimony, it says besides greater market mass as a result of the expansion, the two other benefits of consolidation would be cost cutting and revenue enhancement. To cut costs, marginal operation, small expensive hub operations have to be evaluated as to their viability, which will have an effect on the communities they currently serve.

So Mr. Steenland, Mr. Anderson, how do you respond to that?

Mr. STEENLAND. Let me take a first shot at it, Senator. First, I think we have to do the difficult exercise of distinguishing what might be created or caused by the merger transaction and what might be caused by the price of fuel. Because the price of fuel pressures are going to exist whether this transaction occurs or not, and the same, the merged entity will be better able to withstand it because we will be able to drive some benefits that on a stand-alone basis we couldn't reach.

But whether we have a merger transaction or we don't, we are going to be impacted and the industry as a whole is going to be impacted vis-à-vis the price of fuel. Now as to small communities, Delta and Northwest serve more small communities than any other two airlines in the U.S. today. And we have invested, Northwest—

I will just speak about Northwest. We have invested tens of millions of dollars in fleet and infrastructure in order to be able to provide that service.

Senator Dorgan, we fly to numerous places in North Dakota. We have five different airplane types from 34 seats to 125 seats that basically provide service to North Dakota, and that allows us to provide a pattern and level of service that only a hub and spoke carrier can provide. So we have designed a network, and we have built a structural business that is capable of serving small communities.

It is not done as a charitable act. It is done as an act that can benefit a hub and that where we can provide service on a profitable, sustainable basis. We have done it in the past, and by consummating this transaction, we will be better able to continue in the future.

Senator SNOWE. Mr. Anderson?

Mr. ANDERSON. I will speak to the point you made about international, and this really proves up the point Doug made about small community service. We did a look at Bangor to JFK, and a quarter of all the passengers that we carry from Bangor to JFK are international passengers.

And in fact, if we look at our passenger loads at JFK, where we operate a large gateway to many destinations in Europe, Africa, and the Middle East, 25 percent of the passengers that we connect through JFK come from small communities. The opportunity that we have ahead of us together is to continue to expand in a global environment, where business is being conducted all around the world, where our large customer, our largest customer is Procter & Gamble. Northwest's largest customer is probably——

Mr. STEENLAND. General Motors.

Mr. ANDERSON. General Motors. And those companies and companies like them—Coca-Cola, IBM—those companies are conducting business all around the world. And we want to be positioned where we can provide to them a single network whether it is a large community or a small community. So the opportunity we have ahead of us is to be able to expand internationally to really compete for the business traveler.

Senator SNOWE. But you can't dismiss the value and the importance of domestic service and smaller communities. Because albeit there are people leaving from Bangor and going to JFK to go internationally, they still depend mightily on the service that your two carriers provide to that small community because low-cost carriers will not go to Bangor. You know, they are point-to-point. They go to one community in Maine, and they don't serve anything beyond that, and that is going to be the problem.

Mr. ANDERSON. Well, I mean, if you look at the history of these two airlines, these two airlines have had long and deep histories serving small communities around the United States, and we have made significant investments in long-term gate leases, in aircraft leases, and in hub facilities to be able to support small communities. We rely—our business model for decades has relied very heavily on collecting traffic from small communities.

And that is why the hub system works because when you send an airplane to Bangor into your hub, you can carry everyone in

Bangor without five different airplanes. You can put everyone on one, and that indivisibility gives you an economic model that works.

Senator SNOWE. Well, I hope that continues to be sustained——

Mr. ANDERSON. I do, too.

Senator SNOWE.—if the merger is completed because that is going to be ultimately the issue. We have heard that, and I certainly agree with Ms. Friend with respect to the fact that we have not had a rational aviation policy since deregulation. We have all experienced it since deregulation the last 30 years on a weekly basis, and I understand the struggles within the industry. But clearly, there remain to be challenges.

And I agree with the Chairman. We need to have an overarching plan because it is in our security interest in this country, frankly, from a number of standpoints and perspectives. And I think that that needs to happen rather than just predicated on conjecture and speculation about what the future will look like.

So I thank all of you. Thank you, Mr. Chairman.

Senator ROCKEFELLER. Senator Cantwell?

STATEMENT OF HON. MARIA CANTWELL, U.S. SENATOR FROM WASHINGTON

Senator CANTWELL. Thank you, Mr. Chairman.

And thank you for holding this hearing. I am sorry I had to step out for a few minutes, but I did hear most of the testimony and I want to say that I am very sympathetic to the points that Ms. Friend and Mr. Roach made. It is very frustrating that during this time period that people really have lost their jobs and really have lost their pensions.

And I am not sure that the Federal Pension Board has done its job, oftentimes drawing this into bankruptcy and allowing the individuals to basically be parceled out on pensions and things of that nature in bankruptcy proceedings.

But I am concerned in the sense that when I look at this issue that fuel costs have got to have played a very large role in the challenges that we are seeing in aviation today. It is amazing to me that anybody is still in business at the level of fuel price spikes that we have seen. And we are not exactly seeing any relief today. I hope that this Committee will have oversight hearings on the FTC's new responsibility in reining in market manipulation and making sure that we do police oil markets effectively.

But I was wondering, Mr. Anderson or Mr. Steenland, if any of you have comments about how you look at oil prices moving forward, and what do we do about it in protecting all of us? Because it really does impact everybody, it impacts people's jobs and livelihood.

Mr. ANDERSON. Well, I will go out a little bit on a limb here. I mean, we have had not an energy policy in this company—in this country. Well, we have one in the company. Particularly, it is pay the fuel bill. But in this country, we have not had an energy policy over the last 8 years, and that is a real problem not just for this industry, but for all industries.

And it seems to me that when you think about what is the most important thing that Congress can do or that our Government can do for this industry and all industries is to get our arms around what the energy policy needs to be.

There are things in the short run that we can do. Stop filling the Strategic Petroleum Reserve. Take steps to be certain that paper trading in oil commodities is stopped because a lot of the people that buy and sell oil never use the oil. It is—the futures market doesn't require much in the way of margin accounts.

But further than that, we have to have conservation. We have to have alternative sources. I can tell you that the airline industry in the past 20 years has had over 100 percent efficiency because of the good work at Boeing, General Electric, and Pratt in terms of the advances in technology. But our advances in technology and our investments in new technology is not keeping up.

You know, a dollar a barrel of oil is $80 million a year. So when it moves $5 in a day, on an annual basis, Delta just spent $400 million more. And we can't build engines more efficiently fast enough to keep up with the fact that we do not have a national energy policy.

Senator CANTWELL. Thank you. I understand, Mr. Steenland, I might have been out of the hearing when you said about margin rates as well.

Mr. STEENLAND. Right. I think that is clearly worth looking at. And I would completely concur with what you have said. I don't think we can underestimate the incredible impact that this radical spike in oil prices is driving.

If you just look at last year, Northwest made over $750 million, and we were able to pay to our employees $125 million in profit sharing and other incentives. In the first quarter of this year, we lost $191 million versus earning $73 million in the first quarter of the prior year. And our fuel bill for flying the exact same size airline was $450 million higher, and that is going to continue through the rest of this year. And unabated, these kinds of increased oil prices are going to have a significant impact on not just the airline industry, but on other industries and on society as a whole.

Senator CANTWELL. And as an industry that I would assume because you are very big and intense users, what is it, second highest cost of your expenses, I would——

Mr. STEENLAND. Highest. Forty percent of every dollar we collect goes to the crude—goes to our jet fuel prices.

Senator CANTWELL. So do you think this is a rational market that we are seeing?

Mr. STEENLAND. No. No.

Senator CANTWELL. Mr. Anderson?

Mr. ANDERSON. No. It is not a rational market. Rational markets don't move this way.

Mr. COOPER. Senator, could I offer one other suggestion? I think the margin requirements. We have to scare some money out of this market. It has just been outrageous. The other one is closing the Enron loophole. If you go back and look, Congress allowed oil to be less regulated than onions. And——

Senator CANTWELL. I like to say hamburger, but you know what? Onions work as well.

Mr. COOPER. Onions are neat because they are a perishable commodity, and we actually have a lot of regulation of onions because it is easy to manipulate a market when they go bad fast.

Since that decision was made in 2002, there has been an exponential increase in the number of contracts and value traded in that market. In 2006, the Senate Committee on Oversight and Investigations concluded that one third of the price of oil was due to speculation. At today's prices, that is $30 a barrel or more.

And so, the Congress has voted once to close the Enron loophole. The President vetoed it in the ag bill. I understand it is back in the bill. And with all the talk about how we want to lower the price of gasoline—I just came from a House hearing on gasoline—that is the single-most important thing you can do. Because if you require people to identify who they are and how much they are trading, they will run from this market, and that will be a good thing.

Senator CANTWELL. Well, I thank you for that answer.

And Mr. Chairman, I don't know how this is all going to work out here. But I definitely think that this issue and the passion that the witnesses just showed as it relates to this and the numbers that they revealed show that we have to pay much more attention to policing of these markets.

So I thank the Chair.

Senator ROCKEFELLER. Thank you.

I have some questions, but I am anxious to have Senator Klobuchar go ahead.

Senator KLOBUCHAR. I am sure you are. I just wanted to follow up on Senator Cantwell's questions and just say that we introduced today—Senator Cantwell was involved, I was involved—the Consumer First Energy Act. And I think one of the things that would be very helpful for us is if we got some business support for these types of efforts.

We have a lot of consumer support, but it basically rolls back some of the tax breaks for the oil companies, puts them into the development of renewable energy, asks big oil to pay their fair share through a windfall profit tax, halts the Government purchase of oil for the Strategic Petroleum Reserve that you mentioned, protects consumers from price gouging, and does work on the market speculation that we were talking about, closes the Enron loophole that is actually in the farm bill, and then standing up to OPEC. We would really like to push the administration to push OPEC since we have business dealings with some of their countries, that they not keep their production artificially low.

And I am not going to spend my time right now asking questions on your views of every one of those. But I do ask you to look at those because it is very difficult for us to be on our own when we need the help of business, but you have just described it is 40 percent of your costs.

The questions I want to ask, first of all, some of the employee issues, and specifically first the pilot issues. And I understand the carriers have only reached a contract with the Delta pilots and not the Northwest pilots. Don't you need a joint contract with both Northwest and Delta pilots before you close on the merger to get the synergies that you have talked about in this deal?

Mr. ANDERSON. Well, first, what we tried to do had never been tried before in this industry. Typically, what has happened in every other consolidation during regulation or deregulation is the deal gets announced, and then after it closes, the parties begin a process under the ALPA merger policy of beginning to combine the collective bargaining agreements.

So what we wanted to do was bring the two together in advance. We made good progress. We didn't get it done. We are still hopeful that we are going to be able to get it done. And in fact, I think we have had a very conciliatory statement issued by both Captain Moak and Captain Stevens, who runs the ALPA unit at Northwest.

In terms of the synergies we can capture with the collective bargaining agreement amendments that we entered into with the Delta pilots and the existing collective bargaining agreement with the Northwest pilots that was negotiated during the bankruptcy, we can capture a significant portion of the synergies on day one.

And that is the result of the fact that this is a little bit different merger. Northwest and Delta have had a domestic alliance arrangement for 5 years. And in the course of that and getting approval from the Department of Transportation for that back in 2003, our computer systems, our yield management, scheduling, pricing, we sell each other's products and manage each other's inventory and code share today. And we have a joint frequent flyer program, joint club problem.

So we have the ability under the two collective bargaining agreements to do system code share, day one, and will jointly manage the product or manage the product and manage the yield management systems so we can capture a significant amount of the synergies from day one.

Mr. STEENLAND. I think it would be fair to say that the goal clearly remains to look to attain a single collective bargaining agreement with the pilot groups prior to the closing, and there will be meetings set up and discussions to look to attain that result.

Senator KLOBUCHAR. I am just concerned based on what we have seen with other mergers when we didn't have that kind of agreement and didn't seem to result in good things.

The other question I had was at the Judiciary Committee hearing, Mr. Anderson, you said that the combined carrier has "made a commitment to the frontline employees that there would be no furloughs as a result of the transaction." Do you still stand by that commitment and for how long?

Mr. ANDERSON. Yes. Well, indefinite. But go back to what Doug had said, I mean, and even what Mr. Roach had said. If fuel is at— and it is this difficulty in sort of divining between this transaction and what happens if oil prices do go to the level that the CEO of Exxon and the head of Goldman Sachs say. That will be an independent effect.

But as a result of this merger, where we sit today, both of these airlines are very lean in terms of having gone through bankruptcy. And we are really confident that because they are end-to-end, we won't be faced with that prospect.

Senator KLOBUCHAR. And I understand that both Delta and Northwest have employees on involuntary furlough. Delta is having something like 800, and Northwest has 500. What will happen to these employees as a result of the merger?

Mr. ANDERSON. Well, we obviously want—I don't know the specifics of the Northwest. I can tell you about the Delta situation are principally we have recalled all the flight attendants, we have recalled all the pilots, and those are principally mechanics. And we are going through an early out program right now and an early retirement program that our employees have asked us for repeatedly. Well, we put one in place, and we are hopeful that it is going to give us the opportunity to get the furloughed mechanics back on quickly as we build our maintenance business.

Senator KLOBUCHAR. And then to follow up on some of Senator Dorgan's questions. Back in January, I sent a letter, you sent a response back, about the service to some of the rural areas. And in that letter, you wrote to me that the merger between your two carriers "would deliver significant benefit to consumers by, among other things, increasing service to smaller, more thinly traveled routes."

Could you describe what you mean by that commitment?

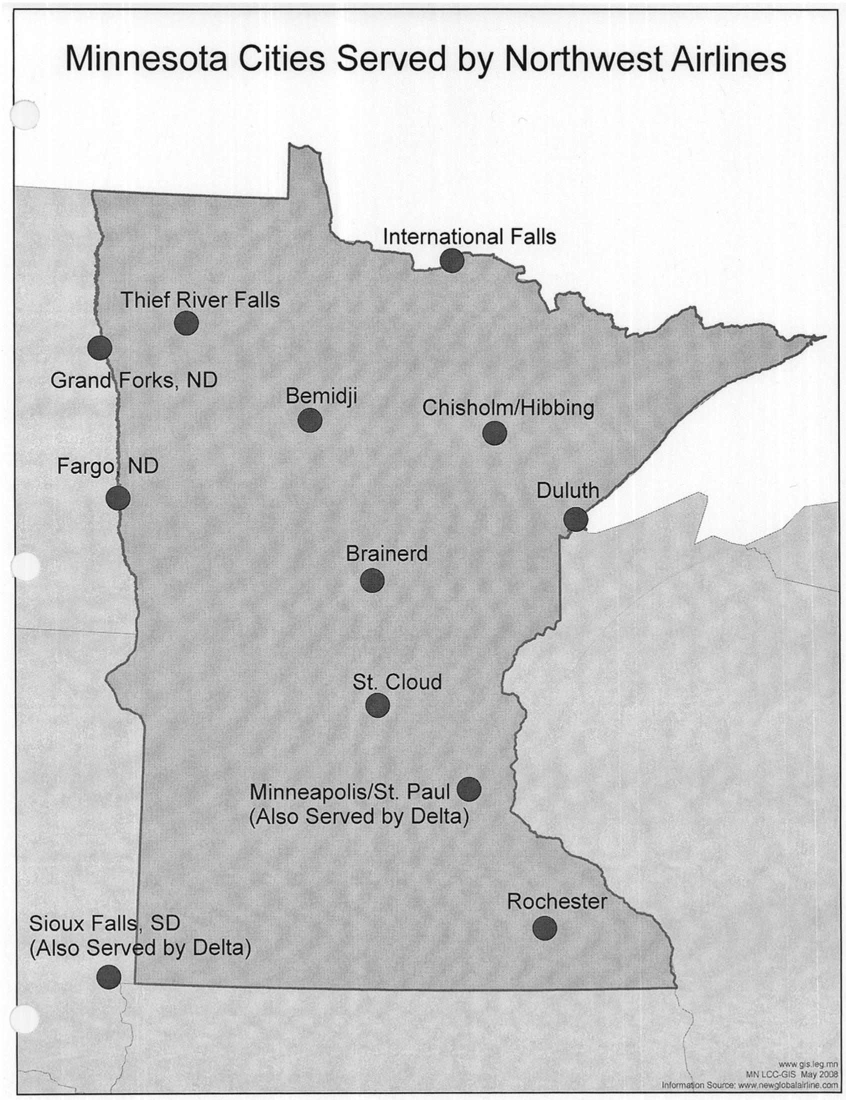
Mr. ANDERSON. Well, I think it is just generally the point that a stronger hub and spoke carrier that would emanate from this combination would allow us to go into cities where—take, for instance, Fargo. And we don't have antitrust—or we are not a single entity. So we haven't—we have got to operate separately and still compete.

But the kinds of things you think about are we had one flight a day, Fargo-Salt Lake City. We just didn't have—Great Plains Software in Fargo was not going to sign a corporate agreement with Delta because we only had one flight a day, whereas Northwest has been in Fargo since the 1930s. And when you take that network and combine it with the Delta network, now we have the opportunity to go into cities that either of us maybe served alone, but because we have enough presence, we will be able to connect that city to another hub.

Senator KLOBUCHAR. You know, there is about 140 combined communities that you both serve, smaller communities?

Mr. ANDERSON. Yes.

Senator KLOBUCHAR. And I guess Minnesota—we have our picture here of our state with the service to the communities. Sioux Falls, South Dakota, right across the border. Fargo, as you mentioned. Grand Forks, Thief River Falls, Bemidji, International Falls, Chisholm and Hibbing, Duluth, Brainerd, St. Cloud, Rochester.



Minnesota Cities Served by Northwest Airlines

Senator KLOBUCHAR. Do you envision that the service to those areas is going to change as a result of the merger?

Mr. STEENLAND. No. And we have provided service to those communities for a long time. Several of them are EAS communities, and I think we have said that is another program that probably, for the Congress, is worth looking at because when you sign EAS, make EAS commitments, you make them for 2 years. And when you think about what has impact—what has changed in the world of fuel prices during that 2-year period, that clearly has some impact on willingness to make that commitment.

But having said that, we are—have no intention to eliminate service to any of those cities. And what the evidence shows is that when you are able to offer service on the same airline with the same brand, the same policies, the same frequent flyer program and the like, that provides more incentives for customers to fly on that airline.

So somebody coming out of International Falls or Thief River Falls or Bemidji or Duluth, when they are looking at flying on the post merger airline, there is going to be a lot more destinations that they are going to be able to get to that will be online single carrier points than what they previously could do just out of Northwest.

And that is going to make flying over the Minneapolis hub more attractive, and we think it will allow us to be better able to justify and to continue the level of service that we provide to those small communities.

Senator KLOBUCHAR. Thank you very much.

Senator ROCKEFELLER. Thank you.

Senator Thune?

STATEMENT OF HON. JOHN THUNE, U.S. SENATOR FROM SOUTH DAKOTA

Senator THUNE. Thank you, Mr. Chairman. And I want to thank you for holding the hearing. I think this is an important discussion to have not only with respect to the merger in front of us, which is awfully important to those of us who represent States that are going to be most impacted by this, but I think generally speaking as well the entire aviation industry. I expect we are going to see a lot more of this.

And something has to give, and I can understand why Northwest and Delta, from an economic standpoint, want to do this. It, in many respects, becomes a matter of survival in the airline business today.

But there are many of us who are very concerned about the future of the industry, the impacts of this merger and potential mergers that we might be reviewing in the future. But I guess I would just like to follow up on a couple of the questions that have perhaps already been asked and get at the—some of the service and cost issues, particularly with regard to smaller communities in the network.

But the first question I wanted to ask has to do, though, with—my understanding is that the rationale for the combined airline is about a billion dollars in savings, and the losses in the first quarter were like $10 billion. It seems to me like if you are going to save a billion dollars and you are losing $10 billion in a quarter, that the economics of that in the long run are going to be awfully difficult to make work.

So I understand why you are doing it. I understand that the necessity of trying to find some synergies and the end-to-end concept and that many of your routes don't overlap, but expand you—create expansion opportunities into other areas. But could you just kind of elaborate a little bit on how these savings in the long run are going to be useful in terms of the viability of the company when you have got those types of—declaring those types of losses?

Mr. STEENLAND. Well, first, as to the first quarter losses, the real, true economic loss that Northwest experienced was $191 million, and Delta, I believe, was about $275 million.

Our accountants required us to basically write down the net worth that was on our balance sheet because of, in part, what oil was doing, and so we both took very large noncash accounting write-offs that helped produce that very large number. So they were legitimate write-offs from a GAAP accounting perspective, but they weren't real economic losses to reflect how the business was otherwise performing.

Now, obviously, the bottom line results are going to be impacted by the price of oil. From our perspective, these benefits, which we think are conservative at a little bit north of $1 billion, are going to be there whether the price of oil is $100, whether the price of oil is $110, $120. So the merged carrier will always be better off in terms of being economically more viable.

But obviously, as the price of oil, if it continues to increase, the economic challenges that the merged carrier will face will be increasingly difficult, although it will always be at least a billion dollars better off because of this transaction.

Senator THUNE. And maybe you answered this question already. But did that billion dollars in savings assume an agreement with the pilots? Did that billion, that is assuming that, OK, which hasn't been reached yet.

If, in fact, gas prices, fuel prices continue to do what they are doing today—and I think, Mr. Anderson, you have mentioned somebody that had projected $200 a barrel at some point? I mean, I don't know how any airline is going to be able to survive under those economic circumstances.

But let us just say, for example, that fuel costs continue to go up. How would service to rural states like South Dakota be impacted? And do you see reductions occurring on those routes to areas like the ones that were on the map that Senator Klobuchar put up just now?

Some of those cities are—in my state are EAS cities, but there are some that aren't. And already, we are seeing I don't think there has been a lot in terms of announcements with regard to summer service. I think there is an aircraft change going into Rapid City this summer. But clearly, one of the main concerns of those of us who represent that part of the country have is in a post merger airline, what the service is going to be like? Are we going to continue to have frequency of flights?

And then, second follow up to that is what about affordability and cost? Are you going to see the types of cost and prices that we are seeing in some of our communities today continue to go up, fares?

Mr. STEENLAND. Well, I think, Senator, the—we are in a reality where we both have restructured. We have committed we are not going to go back to our employees. We are going to continue to meet our pension obligations. Our aircraft cost have basically been marked-to-market so there is no more savings to be had there.

We have gone after our vendors with a passion to try to be sure we get the best prices from them. And as our fuel costs go up, we really have no choice but to pass them on. And as they get passed on and fares increase, simple economics would say that there will be fewer passengers that travel at higher prices.

Now one of the things—the benefits and one of the ways that we can address that is that we serve rural communities with multiple aircraft types. So if you just think about what we do in South Dakota, we operate several airplanes that seat 150 passengers. We operate several Saab propeller airplanes that seat 34 passengers. So maybe in a higher fuel price world, the 150-passenger airplane becomes a 125-passenger airplane or maybe becomes a 100-passenger airplane.

And we adjust for that decrease in demand that higher prices drive by taking the investments that we have made in having a varied fleet and being able to preserve the service, but perhaps with fewer seats. And we also want to try to preserve frequency because the South Dakota flights come into Minneapolis. We operate multiple banks during the day, and it is in our interest as well as your constituents and our customer interests to try to provide as many multiple times of day when they can depart Aberdeen or Rapid City or Sioux Falls.

Today at Sioux Falls, we fly seven times a day to Minneapolis. And that helps our hub. It also helps the people destined for Sioux Falls. And to the extent that we can, maybe seven becomes six. Or maybe, as I said, the airplane size becomes a little smaller. I think that is how we adjust for this potential new world.

Senator THUNE. I think I have asked this question of you previously. But from an operational standpoint, I have been told that it was more costly to operate RJs because you had fewer seats to help pay for the cost of the fuel increase. And you had indicated that is not necessarily an issue. Because a lot of the premise for service into smaller communities is smaller planes, fewer seats, higher loads. But that some of those types of flights might be in jeopardy because of higher fuel costs—from an operations standpoint, an RJ relative to one of your more standard widebody.

Mr. STEENLAND. Sure. On a seat basis, the larger airplane is going to be more efficient to operate. But if you think about comparing the 50-seat CRJ with the 100-seat DC–9, if you were going to operate the 50-seat CRJ, you would end up putting on that airplane your 50 highest-paying passengers. And so, in essence, your unit revenues that you would collect on that flight would be higher as well compared to what you would collect on the bigger airplane because you would have a bigger dispersion of what fares would be.

Senator THUNE. Well, Mr. Chairman, the industry is a lot like we have described agriculture in past years. We have had some commodity price improvement here in the last year or so, but for a lot of years, farmers would lose a little bit on each sale and make up for it in volume. And it seems to me that is kind of what maybe characterizes or describes the airline industry today.

And if we see these continued increases in fuel costs, I don't know where this is headed. But it seems to me we are going to have to take a very hard look at where the industry is headed. And these types of—I think we are going to see a lot more of this in the future, and like I said, from an economic standpoint, I don't fault you at all for trying to figure out how you survive in an environment that is going to be very difficult.

But I thank you for your answers to the questions and look forward to continuing the dialogue as the process moves forward. Thank you all.

Thank you, Mr. Chairman.

Senator ROCKEFELLER. Thank you, Senator Thune.

I am going to have to close this now, much to my regret, due to a specific timing of a phone call that I have to make to the Director of National Intelligence. He is waiting on a phone call.

But let me close with these thoughts. When you have hearings—this has been very interesting to me. People say if they are in an operational situation what their problems are. People say if they are in a worker situation what their problems are. And often some of it is said with a particular passion because, after all, they are there at the witness table, and it needs to be said.

I also have a feeling that just looking at all of you, that the stakes are so enormous for each one of you to make all of this work. And we have failed in the Congress, for reasons which I will not go into, to pass a Federal aviation bill in this past week. We have moved to reconsider so that we can still do work in the future, and I believe that we will.

The interplay of personalities works in the Senate just as it does anywhere else. But I come out of this hearing, frankly, somewhat optimistic simply because the whole concept of the United States of America without a viable aviation industry is not only repugnant, but it sort of defines national security and the ability for people to move from here to there and to do business.

I understand companies go overseas and they can do better over there. I am not against the merger. I want very, very strong scrutiny of it by the Department of Justice and others and with great detail. But I am not convinced that anybody here is operating out of ill faith. I think people are angry or frustrated simply because of, one, the times, the price of oil, the unpredictability.

Senator Klobuchar had this whole series of commitments, and I admire you enormously, Mr. Anderson, for accepting most of them. But I don't think that morally or in the real world that you know what is going to happen 2 years from now, or Mr. Steenland, or Ms. Friend, or Mr. Cooper, Mr. Roach. None of us know.

The trends are all strictly downhill now, and there is nothing that is particularly hopeful at the present time. So I think we need each other a lot more than we are willing to admit and that it is good to get emotions out and to get plans out and to get analysis out. But at the end of the day, we are going to have to fix this system.

And I have said that I am not against re-regulation. I don't think I want to go back to that day. But if I get desperate enough, count on me to be that kind of a vote because I represent a rural constituency with no possible way of developing its potential without the essential Air Service Program, the Airport Improvement Program and the hub and spoke system working.

We have had to make substantial adjustments since U.S. Air moved out of Pittsburgh and with United to go to Dulles. And it is working, but we are always holding on by our fingertips. And you know that. You all know that. And you are all holding on by your fingertips. I mean, not to be schmaltzy, but we are all in this together.

And so, rather than say that this has been an unuseful session, I think it has been very useful. I think there have been people who have been absolutely candid. You have been very forthcoming. Mr. Anderson, I have never heard such a commitment in my entire life from any corporate executive.

[Laughter.]

Senator ROCKEFELLER. And I think that is wonderful, and I hope that it all works out. But everything is changing all the time. The war on terror has not finished its business in this country or elsewhere, and it will continue to change the way we have to do our aviation system.

I had an all labor group come in to see me a couple of weeks ago and say let us get that FAA bill passed, and we did try. And I would be delighted to talk with you why it didn't work. But it is not over yet. It is not over yet.

One thing around here, and I will just say this for the record and then I will stop. I am not an enormous fan of railroads. When I came here, there were 50 Class A railroads, 24 years ago, there were 50 Class A railroads. And they all competed with each other, and then the Staggers Act passed. And the Staggers Act made a very simple declaration.

It said that 80 percent of wherever there are two railroads competing for a market, and this takes place over the entire country—that means it is all 50 states—then the market will set the price. Where there is only one railroad operating, then the railroad will not the set the price, but the Surface Transportation Board will set the price.

Now that has been conveniently forgotten by every single chairman of the Commerce Committee over the past 20 years. So the law has been broken consistently. The American Railroad Association stays under the radar. So nobody ever says that much or they would make special arrangements with people to keep them calm. But it is no way to run a transportation system.

I am thrilled to chair the aviation system. I admire its challenges. I admire the way all of its people are trying to cope with the difficulties that emerge out of this, and I simply pledge to you that this, from my point of view, will be the first of a very serious effort to try and get an aviation system that works. Not just through congressional legislation, but, in fact, in the practice of it. Easily said, hard to do, but time to start.

Senator KLOBUCHAR. Mr. Chairman, could I say one more thing?

I just want to make one point as part of this. I am glad that they were willing to commit in current situations to this, but remember there were promises that was made to our state in exchange for our state giving the money, basically, so that they wouldn't go financially under. And so, there was more than just asking these questions in the course of a hearing and trying to get commitments. There were actual promises made to the state of Minnesota at a time when the airlines were having financial problems, and there is actual fiscal penalties that attach if those promises aren't met.

So I wanted to clarify that for the record and also that I would be submitting some questions in writing about what I was thinking at the end here, as the commitments are triggered by if the price of oil goes up more, maybe we won't have the commitment for the employees. But perhaps there could be some way to estimate at what point those commitments would change, given where the price of oil could be?

And I can do that in writing since I know that you have to go to something else. But I wanted to thank the witnesses today.

Senator ROCKEFELLER. This hearing is adjourned.

[Whereupon, at 4:35 p.m., the hearing was adjourned.]

A P P E N D I X

PREPARED STATEMENT OF HON. TED STEVENS, U.S. SENATOR FROM ALASKA

Chairman Rockefeller, thank you for scheduling our hearing today on the financial state of the airline industry. I would also like to thank our witnesses for their participation.

In the past 10 years, this Committee has witnessed dramatic "ups and downs" in the airline industry. For a state like Alaska, which depends on aviation more than any other mode of transportation, the seemingly constant state of turmoil and uncertainty is very concerning.

Over the last week and a half Congress has debated the need to modernize the Nation's aviation infrastructure. This modernization has important implications for both our busiest cities and rural areas, like Alaska. Unfortunately, other issues made this impossible. I hope that Congress will continue to work to modernize our aviation infrastructure.

Today, we turn to the financial state of the airlines. On Monday of this week, crude oil rose to over $120 a barrel. Already, many of the airlines and their employees have gone through difficult bankruptcy proceedings and restructuring. If the price of oil continues to increase, or even remains stagnant at over $100 a barrel, sustainability of U.S. air carriers is going to be significantly impacted and we may see consolidation through elimination instead of mergers.

Obviously, one solution to the crude oil problem is increased domestic production, but that is an issue for another hearing.

Thank you Chairman Rockefeller, I look forward to the testimony.

PREPARED STATEMENT OF CAPTAIN LEE MOAK, CHAIRMAN, DELTA AIR LINES MASTER EXECUTIVE COUNCIL, AIR LINE PILOTS ASSOCIATION, INTERNATIONAL

Mr. Chairman, Ranking Member Hutchison, Members of the Committee, thank you for providing me the opportunity to submit testimony for today's "Hearing on The State of the Airline Industry and the Potential Impact of a Delta/Northwest Merger."

My name is Lee Moak, and I am a Captain with Delta Air Lines. I am also 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 have flown for Delta for over 20 years. 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 U.S. Navy fighter pilot.

I mention my military credentials because as I continue, I want to emphasize that I am proud of my service in 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 U.S. 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 he 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 U.S. 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 U.S. 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. In the years that followed the airline industry was rocked by record financial losses, skyrocketing oil prices (which are a bargain in comparison to today's prices), increased security costs, and numerous airline bankruptcies and liquidations. In response Congress approved, and several airlines took advantage of government backed loans through the Air Transportation Stabilization Board (ATSB).

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 1 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. This week, the price of crude set another new record as it broke through $122 per barrel, an increase of approximately *85 percent* in less than 1 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 last month, due largely to the unavailability of debtor-in-possession financing, 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 U.S. Airways been successful in its attempt to take over Delta. Delta and U.S. Airways are strong competitors in many markets, with large overlapping route structures 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 huh 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 analysis 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 is currently before 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, as demonstrated by our successful integrations of the pilots of Northeast Air Lines in the 1970s, Western Airlines in the 1980s, and Pan Am in the 1990s. Make no mistake, once the corporate transaction closes, the Delta and Northwest pilots will all be Delta pilots. Our ethics, our integrity and our record of 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 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 Committee.

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 4,200 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:

- The 500 NWA mechanics currently on furlough, whose last opportunity to return to work will expire on November 6, 2008.
- 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 5 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 90s 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.

AMFA currently has approximately 400 Technicians and a little less than 100 cleaners on nonvoluntary furlough. In order for us to support the merger NWA needs to insure these employees are given the opportunity to return to work for the "New Delta". Many of these furloughed employees were working for NWA long before Mr. Steenland or Mr. Anderson joined NWA; some of these men and women have 20 plus years at NWA. NWA and Delta have been unwilling to even sit down with AMFA to discuss our concerns. It seems they feel the only group they need to get buy-in from is the pilot group. Thousands of other employees and their representatives have needs and concerns that need to be addressed as well.

On November 6, 2008 the approximate 500 employees on non-voluntary furlough will be terminated as a result of the expiration of their recall rights. NWA arbitrarily reduced the recall period from 5 years to 2 years in our strike settlement agreement. The "New Delta" could show some good faith to support their claims that they intend to protect jobs by:

- Reestablishing the original five-year recall rights which would extend by 3 years the November 6, 2008 termination deadline currently looming over the heads of hundreds of NWA employees. Unless this action is taken approximately 500 NWA mechanic and related employees will be terminated in November of this year. By taking this action these long time NWA employees would simply be given the opportunity to bid for a job as they became available.

- Offer the furloughed employees that have recently reached the age of 55 the opportunity to return to work for one day in order to retire active, which would increase their pension payments by hundreds of dollars per month. NWA has been given a freeze on benefit accruals and many years of relief from the government to fund their pension obligations. The "New Delta" should be required to at least live up to their end of the agreement by paying the full value of the pension and not receive yet another opportunity to short change their retirement eligible employees by terminating them.
- Offer the rule-of-60 flight benefits to those currently on furlough (age + yrs of service = 60). This action would result in lifetime retired employee flight benefits, something offered to all employees that chose to resign but not those who chose the furlough.

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 percent rise in ticket prices"[1] 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, work forces 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 percent 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—71).[2] 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, 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 U.S. 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 U.S. does not liberalize its ownership requirements for a Stage II agreement, Stage I will be negated and withdrawn.

[1] Delta CEO Richard Anderson quoted by Associated Press. *USA Today* April 22, 2008.
[2] *Aviation Week & Space Technology Aerospace Sourcebook 2008.* Pgs 364 and 372.

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.

PREPARED STATEMENT ON BEHALF OF THE MINNESOTA PARTIES [1]

Introduction

Chairman Rockefeller, Senator Hutchison, 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.

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.

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[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.

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, 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.

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

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.

PREPARED STATEMENT OF THE MEMPHIS REGIONAL CHAMBER AND THE MEMPHIS/SHELBY COUNTY AIRPORT AUTHORITY

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 work force, 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 percent, 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 percent 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.

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.

PREPARED STATEMENT OF THE DETROIT REGIONAL CHAMBER

Chairman Rockefeller, Senator Hutchison, 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

[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.

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.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARK PRYOR TO PATRICK V. MURPHY, JR.

Question 1. A merged Delta/Northwest airline is expected to have a total of 20 percent market share in the domestic marketplace. What impact will additional mergers that are currently anticipated have on nationwide market share domestically and internationally?

Answer. The Delta/Northwest merger now appears to be the only major airline merger on the horizon for 2008. The macroeconomic pressures from a slowing economy and soaring fuel prices have caused other carriers to forego additional mergers for the time being as they look to hunker down and attempt to ride out the current economic storm without the added cost burden of undertaking a merger. Nevertheless, should one or two additional network airline mergers be completed in the mid-term future, the impact will be to reduce the number of airlines but not necessarily competition at the national level. There have been 15 to 17 airlines with a 1 percent or greater U.S. domestic market share during each of the past 20 years. New entry continues, and the industry is very competitive. In fact, it is the low-cost carriers like Southwest, Jet Blue and AirTran that are driving much of the price competition and growth in the domestic market. Mergers by network carriers would not necessarily change that situation, although airline concentration levels would rise in the short to medium term. In the long term, low cost carriers' growth could return concentration levels to 2008 levels.

In the international arena the expected network airline merger partners often have complementary route systems, *e.g.,* Delta strong over the Atlantic and Northwest strong over the Pacific. Again, mergers could raise concentration measures, but competition should not be seriously affected internationally. U.S. airlines are only half the story for international markets. Foreign airlines have been growing faster, earning greater profits, enjoying better customer relations and in some cases consolidating more than U.S. carriers. U.S. airlines could find that mergers improve their ability to compete in the global market against their strengthening foreign competitors.

In summary, a wave of mergers could increase measures of concentration, but the industry should remain competitive at the national and international levels.

Question 2. Some proponents of consolidation in the aviation industry argue that consolidation is necessary for air carriers to remain financially stable, deal with rising fuel costs, keep consumer prices relatively low, reduce duplicative capacity, and creating stronger route structures that will help U.S. carriers better compete in a global market. Do you think you could explain how consolidation in this case will achieve some of these goals? What do you view as the major benefits and major drawbacks?

Answer. The mergers being discussed almost always involve the six large network carriers. Those firms are under enormous competitive pressure from the low cost carriers that continue to enjoy lower costs, high growth rates and more stable profits. The low cost carriers have gained significant market share and now pressure prices downward for ¾ of all U.S. passengers. Network carriers find it difficult to compete head-to-head with a Southwest Airlines and often withdraw in the face of large service increases by them. (See for example U.S. Airways' situation at Pittsburgh or the recent withdrawal of network airlines from Oakland.) Consequently, network airlines are looking to their core market advantage—large hub-and-spoke networks—to collect traffic. These networks are ideal for feeding international markets where low cost carriers have not yet ventured.

Mergers increase the scope of network carrier systems and give them a greater ability to collect traffic both for domestic and international competition. This advantage is needed because international competitors are growing through their own mergers (*e.g.,* Air France/KLM and Lufthansa/Swiss) or higher market growth rates (*e.g.,* Emirates Air, Singapore Airlines, Chinese and Indian airlines). The benefits of these kinds of network airline mergers are that they could make U.S. network airlines bigger, stronger and internationally more competitive. The primary risks are that a merger proves too expensive or disruptive. Another threat is that the international markets may eventually face competition from U.S. and foreign low cost carriers that have so far been considered unlikely to be effective competitors for long-haul international routes. That may not necessarily prove to be correct as international markets continue to deregulate and low cost carriers look for new ways to enter faster growing international markets either through partnerships or new services of their own.

Question 3. The U.S. airline industry has experienced a major transformation over the past decade. LCCs have grown to represent approximately a quarter of the Nation's market share, up from about 15 percent in 2000. What led to this LCC increase in market share? What impact do you think consolidation will have on LCC market share within the domestic marketplace? Will it be easier or more difficult for LCCs to grow in a consolidated industry?

Answer. LCC's have grown rapidly since 2000 for several reasons. First their costs, and therefore their fares, are lower. Second, the Internet has given consumers a powerful tool for comparison shopping thereby pressuring fares downward. Third, the dot.com collapse contributed to the demise of a large portion of high-end business fares that the network carriers specialized in offering. This fare collapse has cost the network carriers at least $12 billion per year in lost revenue. Surprisingly, even after multiple bankruptcy reorganizations, the network carriers still suffer from higher costs and that propels the increasing LCC market shares.

Network airline mergers seem likely to provide LCC's with more market opportunities in the short to medium term as merged network carriers consolidate services. In the longer run, if a merger is successful the new airline should be a more effective competitor and better able to compete with LCC's. This could slow the steady stream of LCC gains in market shares since 2000. To the extent LCC managers have commented on network airline mergers, they have tended to favor the new market opportunities that they anticipate being created for them, and they do not seem overly concerned with the formation of larger competitors.

Question 4. We are all aware of the poor quarterly financial reports that were recently announced by the domestic legacy carriers. What do you attribute the cause to be? Has the industry fully felt the economic impact of the economic slowdown and the increased fuel prices? What are you expecting for the upcoming quarters for airlines?

Answer. Airlines have historically been one of the least profitable and most cyclical of all industries. The current weakening economy and fuel price spike have thrown the airlines from a profit position to a large loss situation. The airlines have been unable to shrink their systems, lower their costs and raise fares fast enough to remain profitable. I anticipate that the network airlines will continue to cut capacity and attempt to raise fares for the remainder of the year. The impact of these changes will be felt more directly beginning in the fall of 2008 when the already scheduled and already sold peak summer season is completed. The large airlines appear to have enough cash to carry them into 2009, even with large losses for 2008. Whether they all survive 2009, or several liquidate as has happened in earlier downturns, will be a function of fuel prices and the economy. Liquidation, of course, could result in industry consolidation without mergers.

Question 5. If DOJ is to approve this merger, it is almost certain that they will require divestiture of key assets as a condition of approving the consolidation in order to ensure viable competition. What do you anticipate as being necessary or potential divestiture requirements resulting from this merger? Do the airlines have plans to divest under the current agreement?

Answer. I anticipate that DOJ will have few divestiture requirements for the Delta/Northwest merger because the two carriers do no compete head-to-head on many routes. The merger is more end-to-end than overlapping. To the extent DOJ requires remedies, those conditions usually revolve around the hub cities of the applicants. Delta and Northwest operate a combined total of seven hubs, and there are a few routes between those hubs where there are no nonstop competitors (*e.g.,* Cincinnati—Detroit or Minneapolis—Salt Lake City). DOJ might want to ensure that airport facilities are readily available to competitors on those routes. In addition, at some hub cities low cost carriers might seek DOJ's intervention to ensure that airport facilities' are readily available. DOJ can be expected to interview competitors to determine if any intervention/divestiture would be necessary to approve the transaction. Such assets typically have been gates and slots at busy airports.

Question 6. Will a consolidated aviation industry focus more heavily on their hubs for providing air service across the nation, or are there more plans to provide point-to-point service?

Answer. Network carriers appear far more likely to focus on their hubs, either with or without consolidation. Competitive and macroeconomic pressures make the advantages of hub traffic flow more important than ever. Low cost carriers should continue to be significantly less focused on hub systems, although not completely independent of hubbing.

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. AMY KLOBUCHAR TO PATRICK V. MURPHY, JR.

Question. I am concerned that the DOJ will evaluate this merger in isolation and not take into consideration its larger effects on the airline industry as a whole and the American flying public, in particular. Should Congress consider strengthening the DOJ airline merger review process, and require DOJ to consider the impact of such mergers on employees, communities and the industry at-large?

Answer. DOJ will review the Delta/Northwest merger in the context of a Sherman Act, Clayton Act, and Hart, Scott Rodino Act antitrust review. That analysis considers the merger's impact on the industry, employees and the public primarily as a function of maintaining a competitive market structure. Should Congress determine that a broader review of the impact of airline mergers on employees, communities and the industry at large is necessary, that role would not be optimally performed in the DOJ Antitrust Division. The Department of Transportation might be better suited to conduct that broader public interest analysis as it does on an ongoing basis for numerous airline issues and as it did for 5 years before all airline merger functions shifted to DOJ in 1989. That broad public interest analysis of airline mergers by DOT from 1985 to 1989 was a vestige of airline economic regulation carried out for almost 40 years by the Civil Aeronautics Board. To some degree, once again subjecting the airlines to a special merger review would take the oversight of the industry back in the direction of economic regulation distinct from other industries. There is no evidence that the public would be better served by such a policy shift, since deregulation of the airlines has generally been found to have greatly benefited the American traveling public. Broad public interest reviews of mergers would ultimately bring greater political and regional pressures on government decisionmakers, thereby further limiting the ability of airline managers to restructure a financially weak industry that is already handicapped by special airline investment laws that prohibit substantial cross-border investments or international mergers.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARK PRYOR TO DOUGLAS M. STEENLAND

Question 1. I would appreciate you providing me in writing details of current service for Arkansas passengers on your airlines, and what your specific plans are for the future service for Arkansas passengers. Some things I am concerned about include: Will the Memphis hub remain open? Are there plans to expand or reduce current flight operations at Memphis?

Answer. Currently, Memphis is a small but efficient and well-performing hub. We have no present intention of dismantling Memphis or any other hubs as a result of the merger. We see the Delta/Northwest network as benefiting from its seven geographically balanced U.S. hubs.

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. Northwest's Memphis hub has existed alongside Delta's Atlanta hub since its inception, and, in and of itself, the merger is not cause for its elimination. By coordinating and optimizing schedules across the complementary multi-hub network, the new carrier should be able to 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 or near capacity. Memphis is a flexible and less congested alternative hub.

That said, no one can predict the future price of oil and consumer demand, which will impact the service levels and operations of all carriers irrespective of the merger. When the Delta-Northwest merger was announced on April 14, oil was at $112 barrel. Today, oil is at $143, an over $1 billion annual cost increase to Northwest alone. We do think that the merger provides the best opportunity for Delta and Northwest to preserve and expand on their hub infrastructure investments by generating additional traffic flows throughout the broader combined network.

Another key consideration in maintaining our hub at Memphis is the business relationships and important corporate customers we have developed. FedEx is headquartered in Memphis and is one of Northwest's top five customers in the world. We carry their sales people, their executives, their pilots, and other of their employees throughout our global network. The existence of Northwest's hub in Memphis actually has helped FedEx to grow and to expand. And, they have helped us by sharing costs at the airport, which makes the Memphis airport a very attractive place for us to do business. FedEx is a critical customer and a great partner of Northwest. And they'll be a great partner of the merged airline going forward. Simply stated, the combined carrier has strong incentives to maintain service at all of the hubs.

Question 1a. Will access to all current hubs currently served by Delta and Northwest from Little Rock National, Northwest Arkansas Regional, and Fort Smith Regional remain available?

Answer. We expect Arkansas customers and the airports you have noted to benefit from the merger because the combined carrier can provide better service to customers across a broader, world-wide network. The new carrier's pattern of service will be optimized to provide the best and most efficient connecting opportunities, as well as serving hubs that have significant local market demand. Today's schedule from the spoke cities in Arkansas to Delta's hubs and Northwest's hubs is what is optimal for each carrier operating separately. Once the merger takes place, a combined schedule will be developed that optimizes for the entire combined network, so changes will take place.

Question 1b. Will the same frequencies of flights continue? Will the same number of seats from and into each airport remain available?

Answer. In the face of staggering fuel prices and a slowing economy, the entire domestic airline industry is shrinking. However, a combined Delta and Northwest will be much better able to meet these challenges and mitigate against loss of flights and jobs that are afflicting the industry as a whole. For example, last month United announced that it will reduce its mainline fleet by 100 aircraft and cut domestic capacity by 17 percent. Continental will retire 67 mainline aircraft and reduce domestic capacity by 11 percent. American will retire at least 75 aircraft and cut domestic mainline capacity by 12 percent.

We expect the merger will enable Delta and Northwest to preserve more service and capacity together than would be possible by either carrier on a stand-alone basis. Together, Northwest and Delta can make more efficient use of their resources. However, with fuel prices continuing to climb, no one can predict whether the number of frequencies and seats will remain the same at any given airport.

As noted above, today's schedule from the spoke cities in Arkansas to Delta's hubs and Northwest's hubs is what is optimal for each carrier operating separately. Once the merger takes place, a combined schedule will be developed that optimizes for the entire combined network, so changes will take place.

Question 1c. Can consumers count on adequate service at airports? How many cuts to employees at our airports will you make?

Answer. The Arkansas airports are important to the new carrier's network and customers will have access to an improved global single carrier network. However, the level of service is subject to the economic fundamentals of supply and demand. Fuel prices continue to wreak havoc on the airlines, and all major legacy carriers have had to cut back on capacity, because fewer people want to fly at the higher prices that are necessary to cover today's increased costs. The merger better positions Northwest and Delta to remain a strong and viable carrier in the face of $143/bbl oil and a $30 crack spread.

Northwest currently employs about 40 people in Arkansas, and Delta about 90. While some overall reduction in force will occur, it is too early to specify the precise number.

Question 1d. Will prices be reasonable and competitive? Who will be your competitors in these airports?

Answer. All Arkansas airports will have competitive air service at fair and reasonable prices, taking into account the cost pressures facing the airline industry today. It is inevitable, however, that the increased price of fuel must be reflected in air fares. Our desire is to develop a sustainable, dependable carrier that is less vulnerable to the boom-and-bust cycle that has typified the industry. This is in the best interest of our customers, employees, and the communities that depend on our services. We don't know our competitors plans for future service; we do know that they are feeling the impact of exorbitant and unexpected fuel price increases. Based on published schedules, the following are the competitors at the three Arkansas airports——

Little Rock is served by every major legacy carrier, plus Southwest Airlines, the largest U.S. domestic carrier, which is know for its LCC (Low Cost Carrier) business model. Specifically, the carriers at Little Rock are: American, Continental, Delta, Northwest, Southwest, United and U.S. Airways.

Northwest Arkansas Regional is served by American, Continental, Delta, Northwest, United, and U.S. Airways.

Fort Smith is served by American, Delta, and Northwest. Notably, Delta began service to Fort Smith just last year with regional jet service to Atlanta. Fort Smith will continue to have competitive service by American.

The domestic U.S. airline business is highly competitive and expected to stay that way.

Question 1e. What metrics do you use to determine comparative hub performance and will you please provide me with your latest hub performance data?

Answer. Comparative hub performance is measured by the P&L of the various hubs. This is confidential, proprietary, and competitively sensitive data. However, as noted above, we consider MEM to be an efficient and well-performing hub.

Question 1f. Can you provide revenue per passenger miles data for flights originating in Little Rock National, Northwest Arkansas Regional, Fort Smith Regional Airport?

Answer. The table below contains outbound revenue passenger miles for flights operated by Northwest and its regional affiliates, for the year ended February 2008, from each of the three airports:

Fort Smith	6,243,924
Little Rock	31,675,102
Northwest Arkansas	28,839,570

Question 1g. Can you please provide me with current yields in the Little Rock National, Northwest Arkansas Regional, Fort Smith Regional markets? How do those yields compare to other similarly situation markets?

Answer. The yields the three Arkansas airports are comparable to those in similarly situated markets. Below are the current yields for each of the three subject airports, together with representative counterparts, based on 4th Quarter 2007 DOT industry data.

1. *Little Rock:*

Birmingham, Alabama	BHM	$0.170
Little Rock, Arkansas	LIT	$0.170
Des Moines, Iowa	DSM	$0.169

2. *Northwest Arkansas Regional:*

Northwest Arkansas Regional Airport, Arkansas	XNA	$0.212
Tallahassee, Florida	TLH	$0.212
Greenville/Spartanburg, South Carolina	GSP	$0.200

3. *Fort Smith Regional:*

Beaumont/Port Arthur, Texas	BPT	$0.211
Fort Smith, Arkansas	FSM	$0.210
Jacksonville, North Carolina	OAJ	$0.209

Question 2. While one of the main arguments you make in support of your merger is a lack of route overlap, I see many NWA/DAL hub or "connection" overlap concerns for Arkansans traveling from Arkansas to destinations in the eastern U.S. and other regions of the country. For instance, when I travel from Little Rock to Washington, I traditionally look at both Northwest Airlines and Delta Airlines to compare schedules and prices (that is because they are the most sensible connections, and currently they offer many options). Under a merged airline, I will essentially only be looking at one airline. I am concerned that the connection competition in this case will likely be reduced or eliminated under a single airline. How can you assure me that this will not occur? How can you guarantee the current competition that exists will continue and prices will remain competitive in these types of instances?

Answer. The industry will continue to have competition from a host of legacy and LCC carriers in both nonstop and connecting markets. Due to skyrocketing fuel prices which carriers must pass on to customers to cover their costs, air fares have increased in markets nationwide. However, the industry will remain competitive and there is no reason to conclude that fares will increase *as a result of the merger.* Post merger, no carrier will have greater than 20 percent domestic market share. Southwest is and will remain the largest U.S. domestic carrier.

Based on published schedules, it is clear that service between Little Rock and Washington will remain competitive after the merger. Indeed, today Southwest operates *nonstop* service between Little Rock and BWI. U.S. Airways offers one-stop service via Charlotte to all three Washington Airports, and American serves Washington Reagan and BWI via O'Hare. Furthermore, in addition to serving Little Rock itself, Southwest operates substantial regional connecting complexes at Nashville, St. Louis, and Birmingham.

There is ample competition in the Little Rock-Washington market, and other similar city-pairs serviced by Delta and Northwest on a connecting basis.

Question 2a. What is the current status of your discussions with flight attendants, machinists, other administrative employees and "front-line" employees?

Answer. We are pleased that the NW–ALPA pilot leadership, together with Delta management and DALPA, were able to reach a tentative agreement this month concerning a labor contract. Because there are no common unions (like ALPA) within the other employee groups, Delta must await the results of the representation elections after the close of the merger to commence discussions with other employee groups.

Question 3. I understand that you estimate savings of a merged airline to be approximately $1 billion. I assume you will attain some of these savings through both revenue increases and cost reductions. Could you be more specific as to where you anticipate having new revenue under the merger and where you anticipate reducing costs through such a merger?

Answer. The synergies we project are as follows:

Revenue Benefits

First, by having access to a larger inventory of aircraft, we will create a balanced and more flexible fleet and be able to better match capacity to demand. For example, we fly a 747 with 403 seats from Minneapolis/St. Paul to Tokyo, whereas Delta flies a 275 seat 777 from their much larger hub at Atlanta. Both cities can sustain nonstop service, but it may make more sense to fly the larger aircraft at the larger hub. Delta has no aircraft over 285 seats; whereas Northwest has 37 planes in this category. In addition, Delta has no aircraft in the 100 seat range, where Northwest's DC–9s have 100–125 seats. This provides an opportunity to upgauge some regional jet routes to larger, more efficient aircraft. All together, we estimate that the fleet optimization benefits will total $400–$500 million.

Second, we will offer customers a better and more attractive network. We will have the best frequent flyer program in the industry and will also be able to compete more effectively for corporate contracts. The expanded schedule and marketing benefits created by bringing the two airlines together are anticipated to attract $200–$300 million in additional revenue.

Lower Costs

We also expect to realize substantial savings on the cost side. We have identified more than $700 million in annual cost synergies that can be realized from moving to a common information technology platform, reducing sales and distribution costs, improving productivity, and reducing duplicative facilities and overhead.

Total Synergies

The $700–800 million in revenue benefits along with $700 million in cost synergies produces over $1 billion in annual synergies.

Question 4. Domestic airlines have reduced their total labor costs by about 13 percent from 2000 through 2006 while also increasing employee productivity. Could you please discuss how your airlines achieved some of these efficiencies? Could you please explain how the merged airline will achieve additional efficiencies? Do you anticipate consumers to benefit from these reduced services and expenditures?

Answer. Northwest's restructuring, completed in 2007, achieved substantial annual cost reductions, including: $1.4 billion in labor cost reductions, $400 million in annual fleet ownership cost savings and a $150 million reduction in annual interest expense related to unsecured debt. Unfortunately, these important efficiency achievements—and employee sacrifices—have been largely consumed by skyrocketing fuel prices. In 2003, 17 cents of every passenger dollar went to fuel. Today, fuel consumes over 40 percent of every revenue dollar.

As detailed above, the merger creates cost and revenue synergies valued at more than $1 billion. The success of the merger depends on using our aircraft and hubs more efficiently, attracting additional customers, and lowering costs. Hub-andspoke systems depend on collecting traffic from across a broad network and taking passengers where they want to go. Together, Northwest and Delta can offer their customers a better and more efficient network through the end-to-end combination of complementary hubs.

Question 5. It is my understanding that fuel costs now exceed labor as the primary cost for air carriers. It is also my understanding that air carriers are paying more than $140 per barrel due to refinery issues to produce jet fuel. On an international route competitive stage are U.S. carriers at a competitive disadvantage to foreign international carriers due to oil prices (value of dollar)?

Answer. European carriers, which receive the bulk of their revenues in Euros are paying for oil in stronger currency, whereas U.S. carriers are paying in weaker dollars.

Question 5a. What measures are you currently taking to counter recent spikes in fuel prices (luggage fees, seat preference fees, etc.)? What are you doing to increase fuel efficiencies in aircraft?

Answer. Northwest is trying to price its services to recoup as much of its expenses as possible. In 2008, U.S. airlines are forecast to spend $61.2 billion on jet fuel, $20 billion more than in 2007, and are projected to incur losses totaling close to $10 billion. If the current pricing dynamic does not change, our industry will be severely challenged and will continue shrinking. There have been a number of rounds of general fare increases, as well as additional service fees imposed for consumer discretionary items such as checked baggage. At the moment, Northwest charges some domestic customers $25 for the second checked bag, but does not charge for the first bag. Moreover, Northwest has announced that it will be 8.5–9.5 percent smaller in Q4 2008 versus Q4 2007.

Since 2000, Northwest has reduced its annual fuel usage by 575 million gallons (while also reducing CO_2 emissions by 5.5 million metric tons). NWA has accomplished this substantial improvement in fuel efficiency through a number of different initiatives, the cornerstone of which is our $6 billion fleet renewal program. Northwest operates thirty-two (32) Airbus 330s. The A330s are approximately 30 percent more fuel efficient than the similarly-sized McDonnell Douglas DC–10s, which were retired from the NWA fleet in 2007. In 2007, Northwest ordered seventy-two (72) new regional jets. These 76-seat aircraft are approximately 30 percent more fuel efficient than the similarly-sized McDonnell Douglas DC–9. Since 2003, NWA has operated a fleet of over one-hundred and thirty (130) Airbus A319s and A320s. The A319s and A320s replaced the less fuel efficient Boeing 727–200s and DC–9s and are 30 percent more fuel efficient. In 2007, the average fuel efficiency of Northwest's fleet was fifty-three (53) passenger-miles per gallon.

NWA is the North American launch customer for the new Boeing 787. We anticipate delivery of eighteen 787 aircraft beginning in 2009, thereby replacing some of NWA's Boeing 747–400s. The 787s are anticipated to perform with a greater than 20 percent fuel efficiency improvement over the 747–400s.

NWA has also instituted a number of fuel-savings initiatives where operationally feasible including:

- single engine taxiing and no engine taxiing (high speed tractor towing);
- engine washing;
- conversion from mobile to stationary fueling vehicles;
- addition of aircraft winglets;
- adjusting aircraft speed and altitude; and
- removal of excess weight from planes.

According to 2007 DOT data, Northwest ranks second among U.S. network carriers in terms of revenue passenger miles per gallon:

RPMs/Gallon

	Domestic	Atlantic	Latin America	Pacific	International	System
American	49.1	47.2	53.7	48.0	50.2	49.5
Continental	56.4	56.3	50.8	44.9	52.1	54.4
Delta	53.7	50.6	52.9	49.1	51.1	52.7
Northwest	**50.6**	**62.8**	**N/A**	**53.1**	**56.3**	**53.0**
United	55.4	48.6	51.4	44.6	46.5	51.4
US Airways (US+HP)	50.8	57.2	50.8	N/A	54.9	51.5
US Airways (US only)	48.9	57.2	50.6	N/A	55.1	50.4
Average	52.3	52.1	52.6	47.5	50.8	51.8

Question 5b. What would a combined Delta/Northwest plan for dealing with high fuel prices look like?

Answer. Delta and Northwest cannot change the price they pay for fuel. However, as explained above, the combined carrier will realize over $1 billion in cost and revenue benefits. The stronger and financially more resilient carrier will be better able to cope with the challenges of high fuel prices.

Question 6. I note that without a merger, you believe you may be at a competitive disadvantage to other foreign carriers in international carriers under the upcoming, new "Open Skies" agreement between the United States and European Union. Could you explain these disadvantages and why a merger will benefit you and consumers on international service? What are the benefits and drawbacks of the agreement?

Answer. European carriers are stronger and better financed. For example, the current market capitalization of Lufthansa is greater than that of all the U.S. legacy carriers *combined*. Moreover, as noted above, European carriers enjoy a cost advantage in paying for fuel in Euros versus dollars. Northwest and Delta need to be able to meet this growing foreign flag challenge by combining into a stronger and more robust international carrier.

7. What is the current state of your aircraft fleets as far as age and fuel economy? What does the merged airline plan on doing with aging aircraft and less efficient aircraft in your fleet?

Answer. The Age of Northwest/Northwest Airlink fleet is set forth in the following table:

	747	A330	757	A320	A319	DC9	CRJ900	CRJ200	E175	Saab 340	Total
up to 1994	25	0	32	45	0	88	0	0	0	0	190
1994–2002	6	0	20	26	45	0	0	48	0	48	193
2003–2006	0	25	19	2	12	0	0	89	0	0	147
2007 or newer	0	7	0	0	0	0	19	0	11	0	37
Total	31	32	71	73	57	88	19	137	11	48	567

The fuel economy of the Northwest/Northwest Airlink fleet with respect to revenue passenger miles and available seat miles (based on 2007 DOT data) is set forth in the following table:

Northwest Airlines and Northwest Airlink

	Aircraft	RPMs	ASMs	Gallons	RPMs/Gallon	ASMs/Gallon	LF%
Domestic	A330-200/300*	889,320,341	1,014,709,317	12,915,357	68.9	78.6	87.6%
	DC-10-30	15,214,607	16,135,938	432,964	35.1	37.3	94.3%
	757-300	6,064,227,123	6,849,112,480	86,827,978	69.8	78.9	88.5%
	757-200	10,201,411,202	11,709,714,048	169,840,284	60.1	68.9	87.1%
	A320	11,458,306,032	13,595,744,424	205,874,446	55.7	66.0	84.3%
	A319	6,847,125,458	8,614,193,944	142,135,061	48.2	60.6	79.5%
	DC-9-50	2,275,875,944	2,963,643,500	80,582,074	28.2	36.8	76.8%
	DC-9-40	684,789,879	883,013,560	24,982,424	27.4	35.3	77.6%
	DC-9-30	2,275,875,944	2,963,643,500	80,582,074	28.2	36.8	76.8%
	Total	**40,712,146,530**	**48,609,910,711**	**804,172,662**	**50.6**	**60.4**	**83.8%**
Atlantic	A330-200/300	10,706,343,029	12,444,321,221	170,092,120	62.9	73.2	86.0%
	DC-10-30	777,024	1,240,512	29,615	26.2	41.9	62.6%
	757-200*	803,787,545	1,024,726,761	13,122,191	61.3	78.1	78.4%
	Total	**11,510,907,598**	**13,470,288,494**	**183,243,925**	**62.8**	**73.5**	**85.5%**
Pacific	747-400	13,825,347,941	15,799,720,464	262,110,275	52.7	60.3	87.5%
	747-200	598,328,266	822,854,619	14,658,127	40.8	56.1	72.7%
	A330-200/300	4,547,328,224	5,217,480,278	81,087,312	56.1	64.3	87.2%
	757-200	937,150,882	1,161,233,892	16,882,411	55.5	68.8	80.7%
	Total	**19,908,155,313**	**23,001,289,253**	**374,738,125**	**53.1**	**61.4**	**86.6%**
	Mainline Total	**72,131,209,441**	**85,081,488,458**	**1,362,154,712**	**53.0**	**62.5**	**84.8%**
Airlink	E-175 (CP)	93,132,941	118,989,628	2,349,760	39.6	50.6	78.3%
	CRJ-900 (XJ)	160,702,437	213,826,380	4,651,492	34.5	46.0	75.2%
	CRJ-200 (9E)	4,624,938,760	6,014,360,976	149,109,304	31.0	40.3	76.9%
	CRJ-200 (XJ)*	32,884,740	41,353,850	1,139,131	28.9	36.3	79.5%
	CRJ-200 (CP)*	7,857,832	8,580,600	203,637	38.6	42.1	91.6%
	Saab 340 (XJ)	478,843,931	800,316,454	17,828,465	26.9	44.9	59.8%
	Total	**5,398,360,641**	**7,197,427,888**	**175,281,789**	**30.8**	**41.1**	**75.0%**
	Passenger Total	**77,529,570,082**	**92,278,916,346**	**1,537,436,501**	**50.4**	**60.0**	**84.0%**

The merged company would seek to optimize fuel efficiency of the combined fleet by matching capacity to demand, and using the largest and most fuel efficient aircraft practical for a given market. For aircraft of a given size class, the oldest and least fuel efficient will be considered for retirement, subject to the capacity requirements of the network. The combined company also hopes to invest in newer, more fuel efficient aircraft, including up to 20 new Boeing widebody jets, as permitted by economic circumstances.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. AMY KLOBUCHAR TO DOUGLAS M. STEENLAND

Question 1. What will happen to the around 1,100 employees who work at Northwest Airlines headquarters in Eagan? The press release announcing the merger noted that the combined carrier intends to keep "executive offices" in the Twin Cities. But you also indicated at both the House and Senate Judiciary Committee hearings in April 2008 that there would be job cuts—of around 1,000 employees—at both Delta's Atlanta headquarters as well as Northwest's Eagan headquarters? Of the approximately 1100 employees who work in the Eagan headquarters, how many of these employees will lose their jobs?

Answer. The number of jobs that will remain in Eagan has not been determined.

Question 1a. Do you plan to eliminate these headquarters jobs through natural attrition, or do you plan to actually layoff employees?

Answer. There will be natural attrition, retirements and potentially other opportunities in the system. There will likely be layoffs associated with headquarters jobs.

Question 1b. Will you offer any of these Eagan headquarters-based employees who are slated to be laid-off the opportunity to move to Atlanta or will these jobs be eliminated outright?

Answer. Some employees will be offered the opportunity to move to Atlanta, some will be asked to continue with the merged carrier in Minnesota, and some will not have an opportunity with the merged airline.

Question 1c. In an effort to streamline the combined carriers' headquarters operations, will you offer the effected employees voluntary "buy out" packages?

Answer. Severance packages will be offered to employees who do not have a job opportunity with the merged airline.

Question 2. At the Senate Antitrust Subcommittee hearing in April 2008, I asked about the "staying power" of the combined carriers' commitments to maintain jobs, service and hubs. Mr. Anderson's response was: "The issue is going to be fuel. Tell me where fuel will be." What if the cost of jet fuel remains around where it is today? Are your commitments premised on the current environment of high fuel prices or are your commitments—to maintain jobs, service and hubs—based on a more favorable fuel environment?

Answer. Under any scenario, Delta and Northwest will be more resilient and better able to maintain jobs, services, and hubs together, as a combined company, than they can on a stand-alone basis. On the date of our merger hearing on April 24, oil was at $116 per barrel. As of July 1, oil stood at over $140—$24 more. Each $10 per barrel increase adds $420 million to Northwest's annual costs—over $1 billion since April. So, today, we can't do as much flying as we thought we could in April. It is imperative that the merger be approved and approved quickly so that we can realize the benefits and efficiencies and mitigate against the challenges that are afflicting the industry.

In the time since the hearing in April, all six U.S. network carriers have announced significant capacity cuts and service reductions, as well as difficult headcount reductions, to take effect after the summer travel season. American Airlines intends to reduce fourth quarter domestic capacity 11–12 percent, retire at least 75 mainline and regional aircraft and may eliminate thousands of jobs. United Airlines said it will ground at least 100 airplanes and is looking at shrinking staff including 950 pilots. Delta is reducing domestic capacity by 13 percent in the second half of 2008, eliminating 4,000 positions and shedding aircraft. Continental Airlines announced that it would reduce fourth quarter domestic mainline capacity by 11 percent, will eliminate 44 routes and cut 3,000 jobs. U.S. Airways will shrink domestic capacity in the fourth quarter by 6–8 percent. Northwest plans to reduce fourth quarter capacity by 8.5 percent to 9.5 percent.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARK PRYOR TO RICHARD H. ANDERSON

Question 1. I would appreciate you providing me in writing details of current service for Arkansas passengers on your airlines, and what your specific plans are for the future service for Arkansas passengers. Some things I am concerned about include: Will the Memphis hub remain open? Are there plans to expand or reduce current flight operations at Memphis?

Answer. Yes, the Memphis hub will remain open and an important part of the new Delta's network. 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 as a result of the merger, and have committed to maintaining Atlanta, Cincinnati, Detroit, Memphis, Minneapolis/St. Paul, New York-JFK, and Salt Lake City. These hubs 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. 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 as a result of the merger. Memphis will continue to play an important role for the combined carrier, as will both the Cincinnati-Northern Kentucky International and Detroit Airports.

Question 1a. Will access to all current hubs currently served by Delta and Northwest from Little Rock National, Northwest Arkansas Regional, and Fort Smith Regional remain available?

Answer. The combined carrier will not eliminate service to any city in Arkansas as a result of the merger. While there may be some adjustments to frequency and equipment (capacity) in certain markets, we believe the overall effect of the merger will be favorable relative to service levels in Arkansas. There may well be some reductions in service as a result of the meteoric rise in fuel prices but those decisions are unrelated to the specific effects of this merger. It is our hope that we will be able to increase service to Arkansas communities in the future as we connect the two networks to take advantage of the growth and revenue synergies that we expect from this merger.

Question 1b. Will the same frequencies of flights continue? Will the same number of seats from and into each airport remain available?

Answer. While there may be some adjustments to frequency and equipment (capacity) in certain markets, we believe the overall effect of the merger will be favorable relative to service levels in Arkansas as the combination of Delta and Northwest will create a stronger company with route systems that complement each other and provide opportunities to offer travelers a global network that neither airline could offer independently. There may well be some reductions in service as a result of the meteoric rise in fuel prices but those decisions are unrelated to the specific effects of this merger.

Question 1c. Can consumers count on adequate service at airports? How many cuts to employees at our airports will you make?

Answer. We believe the overall effect of the merger will be favorable relative to service levels in Arkansas, and we do not plan to eliminate any front-line employee positions as a result of the merger. As a result of the meteoric increase in the cost of fuel, we have announced a voluntary early-out and early-retirement program that we anticipate will result in a reduction of approximately 3,000 employees across the entire Delta system, both front-line and administrative/management positions. Any additional changes to our employee counts will result from fuel-cost driven changes to service levels, not the merger.

Question 1d. Will prices be reasonable and competitive? Who will be your competitors in these airports?

Answer. We believe the overall effect of the merger will be favorable relative to service levels in Arkansas, permitting the combined company to offer customers greater choice, more competitive fares, and a superior travel experience. 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. Little Rock is served by every major legacy carrier, plus Southwest Airlines, the largest U.S. domestic carrier, which is know for its LCC (Low Cost Carrier) business model. Specifically, the carriers at Little Rock are: American, Continental, Delta, Northwest, Southwest, United and U.S. Airways. Northwest Arkansas Regional is served by American, Continental, Delta, Northwest, United, and U.S. Airways. Fort Smith is served by American, Delta, and Northwest. Notably, Delta began service to Fort Smith just last year with regional jet service to Atlanta. Fort Smith will likely continue to have competitive service by American.

Question 1e. What metrics do you use to determine comparative hub performance and will you please provide me with your latest hub performance data?

Answer. Comparative hub performance is measured by profit and loss at each hub. We believe hubs in the Delta system to be performing very well.

Question 1f. Can you provide revenue per passenger miles data for flights originating in Little Rock National, Northwest Arkansas Regional, Fort Smith Regional Airport?

U.S. DOT O&D Dynamic Table Report for all Airlines for flights from Arkansas to ALL for YE 4Q07 (Directional)

Domestic Carrier RPMs	FSM	LIT	XNA	Total
American Airlines	163,201	743,847	700,005	1,675,136
Aloha Airlines		101		101
Alaska Airlines	367	7,480	1,628	9,827
Continental Airlines	413	276,735	152,824	448,983
Delta Air Lines	*34,026*	*614,968*	*278,932*	*929,329*
Frontier Airlines	32	141,523	189	142,223
Hawaiian Airlines	98	1,416	294	1,809
America West Airlines, Inc.		1,228	58	1,429
Northwest Airlines	53,658	293,103	145,847	492,936
Horizon Air		87		87
Sun Country Airlines			370	665
ATA Airlines	127	2,124	678	2,975
United Airlines	1,260	45,938	143,008	191,747
US Airways	548	145,911	79,197	226,468
Southwest Airlines		759,939		759,981
Mesa Airlines				16,502
Midwest Airlines	16	121	84	274
Unknown Carrier		168		168
Total	259,381	3,108,838	1,563,713	5,042,018

Notes: "*https://www.apgdat.com/apgDat/reports/OandD/hlpOandDTaxes.jsp*" for Airfare taxes and fees calculation overview.

Question 1g. Can you please provide me with current yields in the Little Rock National, Northwest Arkansas Regional, Fort Smith Regional markets? How do those yields compare to other similarly situation markets?

U.S. DOT O&D Dynamic Table Report for all Airlines for flights from Arkansas to ALL for YE 4Q07 (Directional)

Domestic Carrier Yields	FSM	LIT	XNA	Average
American Airlines	0.20	0.17	0.22	0.20
Aloha Airlines		0.13		0.13
Alaska Airlines	0.06	0.11	0.07	0.10
Continental Airlines	0.17	0.17	0.20	0.18
Delta Air Lines	*0.21*	*0.19*	*0.24*	*0.21*
Frontier Airlines	0.23	0.14	0.25	0.14
Hawaiian Airlines	0.14	0.10	0.11	0.10
America West Airlines, Inc.		0.14	0.15	0.14
Northwest Airlines	0.27	0.18	0.23	0.20
Horizon Air		0.10		0.10
Sun Country Airlines			0.12	0.11
ATA Airlines	0.29	0.09	0.10	0.11
United Airlines	0.19	0.14	0.21	0.20
US Airways	0.29	0.21	0.25	0.23
Southwest Airlines		0.16		0.16
Mesa Airlines				0.43
Midwest Airlines	0.00	0.42	0.40	0.34
Unknown Carrier		0.00		0.00
Total	0.21	0.17	0.22	0.19

Notes: "*https://www.apgdat.com/apgDat/reports/OandD/hlpOandDTaxes.jsp*" for Airfare taxes and fees calculation overview.

Question 2. While one of the main arguments you make in support of your merger is a lack of route overlap, I see many NWA/DAL hub or "connection" overlap concerns for Arkansans traveling from Arkansas to destinations in the eastern U.S. and other regions of the country. For instance, when I travel from Little Rock to Washington, I traditionally look at both Northwest Airlines and Delta Airlines to compare schedules and prices (that is because they are the most sensible connections, and currently they offer many options). Under a merged airline, I will essentially only be looking at one airline. I am concerned that the connection competition in this case will likely be reduced or eliminated under a single airline. How can you assure me that this will not occur? How can you guarantee the current competition that exists will continue and prices will remain competitive in these types of instances?

Answer. 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. 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, the availability of 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.

Question 2a. What is the current status of your discussions with flight attendants, machinists, other administrative employees and "front-line" employees?

Answer. Delta and Northwest took the unprecedented step early on in our merger discussions of asking the two pilot groups, who were represented by the same union, to try to reach agreement on a common contract and operational integration plan before the merger transaction was completed. The two pilot groups have undertaken discussions to reach agreement on those issues. Upon completion of the merger, the status of the union representation of the various Delta work groups, along with the status of the various Northwest groups, will be resolved through a fair and equitable process under procedures administered by the National Mediation Board based on the requirements of the Railway Labor Act.

Question 3. I understand that you estimate savings of a merged airline to be approximately $1 billion. I assume you will attain some of these savings through both revenue increases and cost reductions. Could you be more specific as to where you anticipate having new revenue under the merger and where you anticipate reducing costs through such a merger?

Answer. The $1 billion in benefits is derived from separate costs and revenue synergies. The revenue benefits are created by expanded schedule opportunities, broader networks and an expanded fleet that better optimizes capacity to demand. These benefits are estimated at $700–$800 million. The cost synergies are also estimated at $700 million and are attained from common information technology platforms, reduced overhead, improved productivity and efficiencies gained from increased scale.

Question 4. Domestic airlines have reduced their total labor costs by about 13 percent from 2000 through 2006 while also increasing employee productivity. Could you please discuss how your airlines achieved some of these efficiencies? Could you please explain how the merged airline will achieve additional efficiencies? Do you anticipate consumers to benefit from these reduced services and expenditures?

Answer. Employees in the airline 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 improvements 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 percent 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, and equip us better to invest back in our people, our fleet and our customers.

Question 5. It is my understanding that fuel costs now exceed labor as the primary cost for air carriers. It is also my understanding that air carriers are paying more than $140 per barrel due to refinery issues to produce jet fuel. On an international route competitive stage are U.S. carriers at a competitive disadvantage to foreign international carriers due to oil prices (value of dollar)?

Answer. Because of the relative weakness of the dollar, U.S. Carriers pay between $55 and $63 more per gallon of jet fuel than most of our European competitors.

Question 5a. What measures are you currently taking to counter recent spikes in fuel prices (luggage fees, seat preference fees, etc.)? What are you doing to increase fuel efficiencies in aircraft?

Answer. Delta has responded to the meteoric rise in the price of fuel by, among other measures, reducing approximately 10 percent of our domestic capacity, offering an early retirement or early-out package we anticipate approximately 3,000 employees (front-line and management/administrative) will elect to take, and initiating certain new fees related to the cost of providing commercial air service. We have been improving our fuel efficiency steadily over the last few years with initiatives like developing satellite based approach and departure procedures single-engine taxi in Atlanta, procedures to reduce fuel consumption on the ground, repositioning of aircraft with ground equipment, a cabin refurbishment program that reduces weight, and adding blended winglets to more than 60 aircraft.

Question 5b. What would a combined Delta/Northwest plan for dealing with high fuel prices look like?

Answer. The merged carrier will see a much stronger balance sheet resulting from revenue and cost synergies that should enable us to withstand additional increases in the cost of fuel.

Question 6. I note that without a merger, you believe you may be at a competitive disadvantage to other foreign carriers in international carriers under the upcoming, new "Open Skies" agreement between the United States and European Union. Could you explain these disadvantages and why a merger will benefit you and consumers on international service? What are the benefits and drawbacks of the agreement?

Answer. Today foreign flag carriers carry more passengers to and from the U.S., Europe and Asia than U.S. flag carriers. They are frequently funded by their governments and benefit from regulatory policies that promote consolidation into a handful of strong competitors. The Open Skies agreements recently transacted offer U.S. domestic carriers excellent opportunities but also pose new challenges in that these strong foreign airlines will be able to fly new routes to, from and beyond the United States in head-to-head competition with U.S. carriers. In that this merger will result in the new company's having a strong presence throughout the globe—combining Northwest's comprehensive Asian network with Delta's strong transatlantic and south/central American international networks—it will position the new company to be a very strong competitor to such foreign carriers.

Question 7. What is the current state of your aircraft fleets as far as age and fuel economy? What does the merged airline plan on doing with aging aircraft and less efficient aircraft in your fleet?

Answer. During Delta's bankruptcy restructuring process we reduced the number of aircraft types we fly, including eliminating the most fuel inefficient older aircraft from our fleet. With the stronger balance-sheet we anticipate will result from the merger we anticipate being able to exercise existing Delta options on purchase of approximately 20 new widebody aircraft, and will consider investments in other new, more fuel efficient aircraft to replace older, less fuel-efficient aircraft as capacity needs warrant. In addition, the merged company would maximize use of combined fleets by matching capacity with demand more effectively than the two carriers can do separately, using the largest and most fuel efficient aircraft practical for a given market.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. AMY KLOBUCHAR TO RICHARD H. ANDERSON

Question 1. What will happen to the around 1,100 employees who work at Northwest Airlines headquarters in Eagan? The press release announcing the merger noted that the combined carrier intends to keep "executive offices" in the Twin Cities. But you also indicated at both the House and Senate Judiciary Committee hearings in April 2008 that there would be job cuts—of around 1,000 employees—at both Delta's Atlanta headquarters as well as Northwest's Eagan headquarters? Of the approximately 1,100 employees who work in the Eagan headquarters, how many of these employees will lose their jobs?

Answer. It is too early to determine.

Question 1a. Do you plan to eliminate these headquarters jobs through natural attrition, or do you plan to actually layoff employees?

Answer. There will likely be a combination of attrition, retirements and other opportunities in the merged company, in addition to some layoffs associated with headquarters.

Question 1b. Will you offer any of these Eagan headquarters-based employees who are slated to be laid off the opportunity to move to Atlanta or will these jobs be eliminated outright?

Answer. We anticipate that there will be opportunities for some employees in Minnesota to move to Atlanta, and for some to stay in Minnesota.

Question 1c. In an effort to streamline the combined carriers' headquarters operations, will you offer the effected employees voluntary "buy out" packages?

Answer. Delta has actually already offered employees in our system an early retirement or early-out program. After that process has concluded, severance packages will be offered to headquarters employees not asked to stay on with the combined company.

Question 2. At the Senate Antitrust Subcommittee hearing in April 2008, I asked about the "staying power" of the combined carriers' commitments to maintain jobs, service and hubs. Mr. Anderson's response was: "The issue is going to be fuel. Tell me where fuel will be." What if the cost of jet fuel remains around where it is today? Are your commitments premised on the current environment of high fuel prices or are your commitments—to maintain jobs, service and hubs—based on a more favorable fuel environment?

Answer. Our commitment is that the merger transaction itself will not result in elimination of service, front-line jobs or hubs. We will take the steps necessary to provide service levels commensurate with economic conditions, but believe that the enhanced network and stronger balance sheet of the combined carriers will enable the combined company to withstand increases in the cost of fuel better than the two stand-alone companies, including providing service, jobs and maintaining hubs.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARK PRYOR TO RAY NEIDL

Question 1. A merged Delta/Northwest airline is expected to have a total of 20 percent market share in the domestic marketplace. What impact will additional mergers that are currently anticipated have on nationwide market share domestically and internationally?

Answer. Because of the high price of oil we do not believe that there will be any additional major airline mergers at this time. With merger costs to be incurred up front and benefits accrued at a later date, airline management believes that it is too risky at this time to proceed. Airlines are now trying to conserve cash to face the current fuel cost crisis. Bankruptcies and possible liquidations of certain airlines as a result of the oil price crisis may cure the problem of too many airlines and relieve future pressure on mergers. We believe that three large full service network airlines supplemented by a few large low cost airlines would provide adequate competition and service. Once things settle down, we believe new entries will once again spring up even at permanently higher fuel costs but will remain niche in nature.

Question 2. Some proponents of consolidation in the aviation industry argue that consolidation is necessary for air carriers to remain financially stable, deal with rising fuel costs, keep consumer prices relatively low, reduce duplicative capacity, and creating stronger route structures that will help U.S. carriers better compete in a global market. Do you think you could explain how consolidation in this case will achieve some of these goals? What do you view as the major benefits and major drawbacks?

Answer. Consolidation may not be the answer; the answer is that we have too many airlines with too many expensive hub operations offering too many seats in a high fuel cost environment and this is what has to be addressed. This problem would be fixed by reducing the number of airlines and this can be done either through consolidation or letting some carriers go out of business. The former is probably the more humane way of handling the situation from an employee, passenger and investor viewpoint. In consolidation, more market mass resulting from mergers could actually generate additional incremental revenues through enabling the carrier to offer a broader market line and possibly through stealing revenue from smaller competitors. A larger airline should also be able to reduce cost overhead and operate more efficiently if structured correctly.

Question 3. The U.S. airline industry has experienced a major transformation over the past decade. LCCs have grown to represent approximately a quarter of the Nation's market share, up from about 15 percent in 2000. What led to this LCC increase in market share? What impact do you think consolidation will have on LCC market share within the domestic marketplace? Will it be easier or more difficult for LCCs to grow in a consolidated industry?

Answer. The LCC's were able to gain market share after 9/11 when the network carriers cut back their capacity by about 10 percent. The LCC's rushed in to fill the vacuum. If there is consolidation by the network airlines we believe that LCC's will move in to fill the vacuum if it can be done profitably with their lower cost structure. However in the current high fuel cost environment, we do not expect as rapid an expansion as there was after 9/11.

Question 4. We are all aware of the poor quarterly financial reports that were recently announced by the domestic legacy carriers. What do you attribute the cause to be? Has the industry fully felt the economic impact of the economic slowdown and the increased fuel prices? What are you expecting for the upcoming quarters for airlines?

Answer. The industry financial crisis and large losses is due primarily to run away fuel costs. Airline ticket prices cannot be increased fast enough to meet the skyrocketing fuel price increases. We do not believe that the industry as yet has felt the full impact of increased fuel prices and the economic slowdown. Upcoming quarters will produce large losses for the industry which we expect will lose over $5 billion this year.

Question 5. If DOJ is to approve this merger, it is almost certain that they will require divestiture of key assets as a condition of approving the consolidation in order to ensure viable competition. What do you anticipate as being necessary or potential divestiture requirements resulting from this merger? Do the airlines have plans to divest under the current agreement?

Answer. Since there is little overlap between the Delta and Northwest systems, we do not expect the DOJ to mandate any significant divestiture of assets.

Question 6. Will a consolidated aviation industry focus more heavily on their hubs for providing air service across the nation, or are there more plans to provide point-to-point service?

Answer. We expect the network carriers to continue to increase their concentration on their key hub cities to flow traffic between domestic cities and onto their international routes in the most efficient and cost conscious manner. At current high fuel costs, it makes it difficult to do much point-to-point service except between major business centers.

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. AMY KLOBUCHAR TO RAY NEIDL

Question. I am concerned that the DOJ will evaluate this merger in isolation and not take into consideration its larger effects on the airline industry as a whole and the American flying public, in particular. Should Congress consider strengthening the DOJ airline merger review process, and require DOJ to consider the impact of such mergers on employees, communities and the industry at-large?

Answer. In theory I believe each proposed merger should be looked at individually by the DOJ. It is more in the realm of the DOT to look at the big picture affects of mergers since that department is more aware of developments in the industry and worldwide trends. Any review process concerning merger effects on employees, communities or the industry at large should be done by the DOT. Primarily airline mergers have to be looked on as a business proposal unless we want to re-regulate the industry and be prepared to have the tax payer subsidize it (AmAir?). Investors should not be forced to subsidize losing business propositions and if other social factors are put in the equation we should be prepared to have the taxpayer subsidize it.

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. MARK PRYOR TO PATRICIA A. FRIEND

Question. I appreciate hearing of your concerns about management within the aviation industry. From your testimony you state that the aviation industry is currently failing employees, consumers, and communities. You state that the industry in recent years has been handed over to management teams with little or no understanding of the interest and are focused primarily on pay and benefits rather than company performance, customer service, or employee morale. Could you please explain your thoughts in more detail and cite specific examples of where such corporate management decisions have led to a weakened airline industry? What is your current view of this proposed merger? Please list your top 5 concerns with regard to employees affected by this merger.

Answer. With only a couple of exceptions (Continental and Southwest) management in the airline industry failed to prepare and execute a business plan that would have protected against the severe economic results of the events of September 11, 2001. They didn't hedge fuel and they didn't make any effort to preserve cash reserves. As a result they were totally unprepared for the severe economic hardship of a post September 11 industry and the uncertainty of the market.

A number of airlines—United and Northwest are the most well known examples—used the bankruptcy courts to reorganize and renegotiate contracts with workers, vendors and airports. However none of the bankrupt or near bankrupt carrier CEOs took any less of a salary or any fewer bonuses or stock options. In fact many of them used the bankruptcy process to manipulate their salaries and bonuses.

The most blatantly obvious CEO is Glen Tilton of United. While eliminating employee pensions and slashing wages in bankruptcy, he managed to keep his $4.5 million pension and has handsomely rewarded himself with numerous bonuses since emerging from bankruptcy. He came directly to United from the oil industry, took the Company through bankruptcy and instead of focusing on keeping the company profitable and planning for the long term, he has since then hung out the For Sale sign and focused on nothing but selling the airline or merging with another airline. This shortsightedness has prevented the airline from focusing on surviving this downturn.

In regards to your questions around the current Delta/Northwest merger, the merger as it has been proposed has no protections for employees and certainly no guarantees for the communities currently served by the 2 separate airlines.

Our top 5 concerns for employees are——

1. Job Loss
2. Forced Relocation
3.No provision for severance package, retraining or relocation expenses
4. Places the collective bargaining rights of the Northwest flight attendants in serious jeopardy
5. Delta management using the merger to destroy union representation at Northwest Airlines

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RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. AMY KLOBUCHAR TO PATRICIA A. FRIEND

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Answer. We too share your concerns about the DOJ's review process. We agree that Congress should definitely strengthen the DOJ airline merger review process and require that the impact of mergers on employees, communities and the industry as a whole must be considered. Just as the repercussions of this merger will not take place in a vacuum, the DOJ should not review the merger in a vacuum.

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