S. HRG. 113–318

AIRLINE INDUSTRY CONSOLIDATION

HEARING

BEFORE THE

SUBCOMMITTEE ON AVIATION OPERATIONS,
SAFETY, AND SECURITY

OF THE

COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

JUNE 19, 2013

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AIRLINE INDUSTRY CONSOLIDATION

WEDNESDAY, JUNE 19, 2013

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

The Committee met, pursuant to notice, at 2:06 p.m. in room SR–253, Russell Senate Office Building, Hon. Maria Cantwell, presiding.

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

Senator CANTWELL. The Senate Commerce Committee and Subcommittee on Aviation Operations and Safety will come to order.

Today's hearing examines the proposed merger between US Airways and American Airlines and the overall impact on consolidation in the American airline industry.

If the Department of Justice approves the proposed merger between American Airlines and US Airways, the new American Airlines, it will not only be the Nation's largest air carrier, but the world's largest air carrier.

The new American Airlines would offer more than 6,700 daily flights to 336 destinations and 56 countries. The U.S. Department of Justice Antitrust Division is reviewing the merger. Its traditional analysis for horizontal mergers focuses on the overlap of competitive routes between merging airlines. And there are a number of important consumer issues at hand.

If this merger is to be approved, it will lead to even more consolidation of the domestic airline industry. New American, Delta, United, and Southwest Airlines combined will control over 70 percent of the domestic airline capacity. And more important to consumers than any national percentage is, will this merger mean higher ticket prices, more fees, and fewer options per flights? With some prior mergers, air passengers in some cities have become increasingly captive to a given airline or experience high fares and reduced services on a given route, whether that is direct or through a one-stop airline hub. The question also arises, will the merger impact airline employees, suppliers, regional partners, customers, and affected communities? The impacts on these stakeholders should not be overlooked.

Another consumer issue that I expect to come up today is the issue of slots at DCA. Obviously some people may not be familiar or as intimate with this—the Committee is—but slot allotted time for takeoff and landing. Reagan National is one of the few airports in the country that is slot controlled. This means there are a fixed number of openings per hour for airlines to arrive and depart. Airlines can buy and sell and lease these rights to operate time slots, and airlines must use all their slots at least 80 percent of the time or face losing it.

A few years back, US Airways and Delta traded slots between Reagan and La Guardia. When it approved the deal in 2011, DOT set a number of slots US Airways could own at Reagan National Airport. So I expect that the consumer interest in these slots, because this new American would control over two-thirds of takeoff and landings at Reagan National, would be something that Department of Justice and DOT must deal with.

In the year 2000, tiered airlines controlled more than 90 percent of U.S. domestic capacity. As a result of 9/11, the Great Recession, high volatility, and fuel prices, the industry obviously has shrunk. What we must do today is make sure that we are thinking about the flying public and their interests at this hearing in this proposed merger.

So I look forward hearing the testimony of all the witnesses, and want to point out that my colleague, Senator Klobuchar, held a similar hearing before the Subcommittee in Judiciary on Antitrust, Competition, and Consumer Rights. So I look forward to her questioning or any thoughts that she might have as she conducted a similar review and hearing.

So now I want to turn to the Ranking Member, Senator Ayotte, for her opening statement.

STATEMENT OF HON. KELLY AYOTTE, U.S. SENATOR FROM NEW HAMPSHIRE

Senator AYOTTE. Thank you, Madam Chairwoman, and I thank you for holding this hearing to examine the issues associated with the proposed merger between US Airways and American Airlines. I also want to thank our witnesses for being here. We appreciate your expertise. We look forward to hearing your opinions on this subject. And we appreciate the importance of this process going forward in this hearing today.

As some of you may know, today marks my first Aviation Subcommittee Hearing serving as Ranking Member. And although this is the first official hearing that we have held this year, issues under the Subcommittee's jurisdiction have been anything but inactive. From contract tower closures to controller furloughs, events in the first half of this year clearly demonstrate the immediate connection between Washington decision-making and the health of our national air space system.

That connection will perhaps be no more apparent than as applied to the merger that is under examination today. The proposed merger between US Airways and American should, to many, come as no surprise. Over the last decade, we have certainly experienced external shocks to the industry that have helped foster a trend of consolidation among the major carriers, and that is a consideration as we look at this merger and as the Department of Justice looks at this merger.

In fact, this merger would mark the fourth merger among major carriers in just the last 5 years, and it would decrease the number of large carriers from five to four, which combined would control up to 70 percent of the domestic market.

Of course, the Department of Justice must first approve this $11 billion proposed transaction, and under the authority provided by the Hart-Scott-Rodino Act, the Department of Justice must analyze and make a determination using its horizontal merger guidelines as to whether or not the combined US Airways and American Airlines merger would violate the Clayton Act. That is simply, would creation of the new airline substantially lessen competition? This question will underlie each and every issue that is discussed today.

And certainly as we look at this merger, it would result in the airline becoming the largest U.S. carrier with up to 24 percent of domestic airline market share. And the real question is, how will this impact competition, and certainly, most importantly, how does it impact consumers?

There are many benefits that US Airways and American have identified as a result of this merger, including that the new American will offer more than 6,700 daily flights to 336 destinations and 56 countries, create over 1,300 new routes worldwide, and domestically will provide access to over 48 cities served by American that are not currently served by US Air, and 64 cities served by US Air, but not served by American.

As the Department of Justice looks at this merger and as we hear the testimony of the witnesses today, I know that this will be a careful evaluation to make sure that this merger is positive for not only our economy, but also positive for consumers with respect to the impact on competition.

And so, I look forward to the testimony of our witnesses today. I also appreciate that the chair has mentioned the DCA slot issue because this is a very important issue in terms of providing access to many of our smaller communities to the capital of this country. So I look forward to addressing that issue and hearing what the witnesses think about the impact on the DCA slot issue.

Thank you.

Senator CANTWELL. Thank you, Senator Ayotte.

We will turn to our witnesses, and we may end up having votes at 3 o'clock this afternoon, so we want to get through as much testimony as we can and questions by members. So we really appreciate your assistance in that.

We are going to hear from the Honorable Susan Kurland from the Department of Transportation. Mr. Gerald Dillingham, thank you for being here again. You testified before us in the full committee on aviation issues just last month. Mr. Douglas Parker, CEO of US Airways; Mr. Gary Kennedy of American Airlines, Vice President and General Counsel, and Charlie Leocha—is that right, Leocha?

Mr. LEOCHA. Leocha.

Senator CANTWELL. Leocha, thank you, from the Consumer Travel Alliance. Welcome to all of you, and we appreciate you being here this afternoon.

Ms. Kurland?

STATEMENT OF HON. SUSAN L. KURLAND, ASSISTANT SECRETARY FOR AVIATION AND INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF TRANSPORTATION

Ms. KURLAND. Thank you, Chairman Cantwell, Ranking Member Ayotte, and members of the Committee. I appreciate the opportunity to appear before you to discuss airline industry consolidation. In the more than 30 years since airline deregulation, consumers have reaped enormous benefits as market forces have determined airline fares and services. During this period, air transportation was transformed from a luxury that few could afford to an affordable and indispensable service that connects families and businesses across America and the globe.

While deregulation brought enormous benefits for consumers, the results were not as positive for the airline industry, particularly, the legacy carriers. The legacy airline industry has been characterized by highly cyclical periods of profits and losses, and when profits were made, they were at extremely thin margins.

In the years since the steep rise in oil prices during the summer of 2008 and the global economic recession that followed, the U.S. airline industry has taken a number of steps to operate more successfully in a seemingly permanent high cost environment. And as a result, the balance sheets and bottom lines for many airlines are showing significant improvement. Airline management credit mergers as having played a key role in the industry's climb to financial sustainability.

Given the importance of the airline industry to the economy, consumers benefit from having a financially healthy industry. However, the consolidation and capacity cuts that are part of the industry's restructuring efforts raise questions about their effect on consumers, both in the short and the long term.

The Department of Justice has a lead role in reviewing proposed airline mergers, given its statutory authority to enforce the antitrust laws. DOT does have a role, however. Using its special aviation expertise, DOT typically conducts its own analysis of mergers and confers with the Antitrust Division about its findings and concerns. Each transaction we review is considered on a case-by-case basis.

Concerns also have been raised regarding the effect of mergers on service to smaller communities. While some of the recently merged carriers have maintained or added service to these types of communities, others have substantially cut service, choosing instead to concentrate on larger markets. As a result, various stakeholders and analysts have expressed concern that mergers can lead to cuts to smaller communities.

The impact of airline mergers on service to such communities is one of the areas on which the Department of Transportation is focusing during our review of the proposed merger of American and US Airways. Air service to small and medium-sized communities is a priority for the Department of Transportation. And as a general matter, with or without a slot divestiture, we do not believe that efforts to maintain competition as a result of a merger should be inconsistent with an airline's ability to continue to offer service to these communities.

In conclusion, the Department is committed to promoting an air transportation industry that is responsive to the needs of all of its stakeholders. Our goal is to achieve an environment where economic sustainability for our carriers can co-exist with an air transportation system that is both highly competitive and which continues to serve the needs of communities throughout the United States.

Thank you again for the opportunity to be here this afternoon.

[The prepared statement of Ms. Kurland follows:]

PREPARED STATEMENT OF HON. SUSAN L. KURLAND, ASSISTANT SECRETARY FOR AVIATION AND INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF TRANSPORTATION

Chairman Cantwell, Ranking Member Ayotte, and members of the Committee:

Introduction

I appreciate the opportunity to appear before you to discuss the state of the airline industry and the role of the Department of Transportation (DOT) in the review of the proposed American Airlines/US Airways merger.

State of the Airline Industry

Let me begin by providing a broader historical context for this transaction. In the more than 30 years since airline deregulation, consumers have reaped enormous benefits, as market forces have determined airline fares and services. During this period, air transportation was transformed from a luxury that few could afford, to an affordable and indispensable service that connects families and businesses across America and the globe. The new entrant carriers brought innovative business models and substantial price competition to a marketplace dominated by the incumbent, high-cost legacy carrier business model, just as the architects of deregulation had predicted.

While deregulation brought enormous benefits for consumers, the results were not as positive for the airline industry, particularly the legacy carriers. The legacy airline industry has been characterized by highly cyclical periods of profits and losses and, when profits were made, they were at extremely thin margins. Even as most low-cost carriers continued to profitably grow through most of the challenges of the last decade, the legacy carriers suffered significant losses and have restructured their businesses through the bankruptcy process. Following several consecutive years of losses from 2001 to 2005, the industry returned to modest profitability in 2006 and 2007, only to confront rapidly increasing fuel costs and then a global recession. 2008 and 2009 were some of the most challenging years in the history of U.S. aviation, primarily due to the global recession. Analysts began to question the financial sustainability of an industry that chased market share rather than profits and consistently failed to earn its cost of capital. Airlines began aggressively taking corrective action by reducing capacity and moving toward more fuel-efficient aircraft and operations.

In the years since the steep rise in oil prices during the summer of 2008 and the global economic recession that followed, the U.S. airline industry took steps to operate more successfully in a seemingly permanent high-cost environment. Airline managements, at legacy, hybrid, and low-fare carriers, have prioritized financial performance over gains in market share by cutting capacity, executing several mergers, and unbundling certain products and services for sale resulting in billions of dollars in ancillary revenue. They also focused on significantly reducing non-fuel related expenses in a number of ways and began to manage their networks more efficiently. As a result of these structural changes in the industry, the balance sheets and bottom lines for many airlines are showing significant improvement. Airline managements credit mergers as having played a key role in the industry's climb to financial sustainability.

As recently as five years ago, there were six major U.S. network carriers. Since then, Delta has acquired Northwest, and Continental merged with United. US Airways, having joined forces with America West in 2005, is now seeking to merge with American. Consolidation has also taken place in the low-fare carrier segment of the industry as a result of the combination of Southwest and AirTran. Mergers are, however, very difficult for the companies, their employees, and the customers they serve as varying fleets, systems, corporate cultures, and route networks are blended and rationalized into viable business plans. These changes take years to accomplish, especially on the network side and occur while the marketplace continues to evolve.

Given the importance of the airline industry to the economy and economic growth, consumers benefit from having a financially healthy industry. However, the consolidation and capacity cuts that are part of the industry's restructuring efforts raise questions about their effect on consumers both in the short-and long-term. They put upward pressure on airfares, as load factors continue to surge past historical highs. While inflation-adjusted fares remain low relative to recent decades, they have increased 16 percent since 2009. The economic effects of the current transformation of the industry have been further reinforced by persistently high and volatile fuel costs and have been exacerbated by the restructuring of the regional airline industry as well.

In a deregulated industry, airlines are free to determine the routes they will serve and the prices they will charge, disciplined by competition. Mergers often produce shifts in management focus, changes in relationships with regional airlines, and significant network restructuring that can have an impact on cities used to a particular level of air service. As some airline managements have argued, larger airline networks will sustain service to more communities, especially small and medium-sized communities. While some of the recently merged carriers have maintained or added service to these types of communities, others have substantially cut service, choosing instead to concentrate on larger markets. As a result, various stakeholders and analysts have expressed concern that mergers can lead to troubling cuts to small communities.

Airlines seek financial sustainability and good returns for their shareholders; consumers seek lower fares and better service. While these interests are not necessarily diametrically opposed as airlines benefit when more people travel and consumers benefit from the product and service options of larger global carriers, it is competition that determines the appropriate balance between firm and consumer interests in a deregulated market. As the industry continues its transformation and adapts to a dynamically changing economy, the Department is committed to doing what it can to foster an economically viable air transportation industry—including entry into air transportation markets by new and existing air carriers—and to prevent unfair and deceptive practices in the airline industry.

DOT's Authority to Review Merger Transactions

While I am sure you can understand that I am not able to discuss the specifics of the proposed American/US Airways merger, or any proposed transaction that is before us for review, I will briefly describe DOT's role in this process.

The Department of Justice (DOJ) has the lead role in reviewing proposed airline mergers, given its statutory authority to enforce the antitrust laws. This practice is consistent with Congress' determination that the deregulated airline industry should generally be subject to the same application of the antitrust laws as other unregulated industries. DOT does have a role, however. Utilizing its special aviation expertise, DOT typically confers with the Antitrust Division. Each transaction we review is considered on a case-by-case basis consistent with antitrust principles and practice.

Both the antitrust laws and the transportation statutes governing DOT strive to ensure that consumers receive the benefits of competition. This is the prism through which the Department analyzes airline mergers. I can therefore assure you that the Department is committed to fostering an environment that embraces competition and provides consumers of all types with the price and service benefits that competition brings.

We also recognize that the airline industry is dynamic. Cyclical economic conditions, the competitive environment, infrastructure access and capacity, and industry innovation all need to be taken into account to allow the industry to adapt to rapidly changing economic conditions.

Should DOJ decide not to challenge a particular transaction on antitrust grounds, DOT would then address follow-on issues that fall within its jurisdiction, including international route transfers, economic fitness, code-sharing, and possible unfair or deceptive practices.

As to international routes, the carriers must apply to DOT for approval to consolidate the international routes they individually hold under one certificate, which is part of the merger process. By statute (49 U.S.C. 41105), DOT may approve a transfer of such routes only if we find that it is consistent with the public interest. As part of that analysis we must examine the transfer's impact on the viability of each airline party to the transaction, competition in the domestic airline industry, and the trade position of the United States in the international air transportation market.

We would only decide an international route transfer case after we had established a formal record and given all interested persons the opportunity to comment.

If DOT determines that the transfer would be contrary to the public interest on competitive grounds or for another reason, DOT could disapprove the transfer in whole or in part.

DOT may also review any code-share arrangements concluded between the merging carriers. In DOT's experience, code-share arrangements would likely be necessary during the early phases of integration after the transaction is closed.

Finally, at DOT, we take our responsibility for consumer protection seriously. For example, if carriers in pursuing or implementing a merger were to engage in unfair or deceptive practices, we have ample authority to protect affected consumers based on our unfair and deceptive practices statute (49 U.S.C. 41712).

Conclusion

Civil aviation plays a critical role in the U.S. economy amounting to $1.2 trillion in 2009 and generating more than 10 million jobs, with earnings of almost $394.4 billion. Airlines connect national and global communities—linking friends and family, suppliers and producers, retailers and manufacturers, facilitating business partnerships, and fostering educational and cultural exchanges of all types. Every American has both a personal and an economic interest in access to safe and affordable air travel. It is therefore easy to understand why so many people take an interest in airline mergers.

Our consideration of aviation economic policy focuses on what is best for a healthy and a competitive industry, for its workers, and for the communities and consumers that it serves. Our goal must be to strike what is often a very difficult balance in the face of a complex and dynamically changing industry. Importantly, in doing so we must also consider the longer term, collective impact on all stakeholders, most importantly America's traveling public.

Chairman Cantwell, this concludes my testimony. I would be happy to answer any questions you may have.

Senator CANTWELL. Thank you.

Dr. Dillingham?

STATEMENT OF GERALD L. DILLINGHAM, PH.D., DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Dr. DILLINGHAM. Thank you, Madam Chairwoman, Ranking Member Ayotte, and members of the Subcommittee. I, too, appreciate the opportunity to appear before you this afternoon to discuss the potential competitive implications of the proposed merger between American Airlines and US Airways. This proposed merger follows several other large airline mergers, including Delta-Northwest, United-Continental, and most recently, Southwest-Air Tran.

As you are aware, if allowed by the Department of Justice, which has the responsibility for reviewing this merger under U.S. antitrust laws, the new American would surpass United Airlines to become the largest U.S. passenger airline. A key aspect of DOJ's review is a loss of competition on airline routes, and whether any loss of competition is offset by gains in efficiencies that would benefit the flying public.

The loss of a competitor that serves the market on a non-stop basis is most significant from a competitive perspective because non-stop service is typically preferred by most passengers. Although US Airways and American overlap on only 12 non-stop routes, there are no other non-stop airline competitors on seven of those 12 routes. However, because both airlines operate extensive networks, the potential loss of competition when connecting traffic is considered could be far more extensive. Specifically, our analysis shows that combining these airlines would result in a loss of one effective airline competitor in about 1,600 airport pair markets, affecting more than 53 million passengers during the last year.

The competitive effects could be reduced, however, because at least one other airline competitor exists in almost all of the overlapping markets. Conversely, the merger could create a new effective airline competitor with at least 5 percent of the market share in 210 airport pairs affecting 17.5 million passengers during the last year.

While the airlines have not announced specific plans for changes in their network or operations that might occur should the merger eventually be allowed to proceed, the combined airline could be expected to change its network structure over time, including where it maintains hubs. Concurrently, American and US Airways do not share any network hubs. Therefore, the amount of airport market share overlap that currently exists at these hubs is relatively small. But the new American Airlines market share could grow or contract at these hub airports.

Closing or reducing capacity at hubs is not unprecedented, as is evidenced by their occurrence in previous airline mergers. In addition, four of the U.S. airports that these two airlines serve are slot controlled. We found that slot controls limit access to new entrants and expansion by smaller carriers. Therefore, slot controlled airports tend to limit competition and have higher fares compared to other hub airports. The new American Airlines would control one-third of the slots at LaGuardia and two-thirds of the slots at Washington Reagan where US Airways already controls over half the available slots.

Internationally, both American and US Airways have worldwide networks serving a combined 107 international cities from U.S. airports. The two airlines do not directly compete on any of the same international city pairs, but they both serve 37 of the same international destinations through their U.S. hubs. However, because both airlines are part of a immunized alliance, it is unclear what effect, if any, this merger might have on competition for international services. DOT will be responsible for reviewing any changes in these alliances.

Madam Chairwoman, Ranking Member Ayotte, and members of the Subcommittee, this concludes my prepared statement. I will be happy to answer any questions at the appropriate time.

[The prepared statement of Dr. Dillingham follows:]

PREPARED STATEMENT OF GERALD L. DILLINGHAM, PH.D., DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Highlights of GAO–13–403T, Airline Mergers, Issues Raised by the Proposed Merger of American Airlines and US Airways

Why GAO Did This Study

In February 2013, American and US Airways announced plans to merge the two airlines and entered into a merger agreement. Valued at $11 billion, the merged airline would retain the American name and be headquartered in Dallas-Fort Worth. This follows the mergers of United Airlines and Continental Airlines in 2010 and the acquisition of Northwest Airlines by Delta Air Lines (Delta) in 2008. This latest merger, if not challenged by DOJ, would surpass these prior mergers in scope to create the largest passenger airline in the United States. The passenger airline industry has struggled financially over the last decade and these two airlines believe a merger will strengthen them. However, as with any merger of this magnitude, this proposal will be examined by DOJ to determine if its potential benefits for consumers outweigh the potential negative effects.

This testimony focuses on (1) the role of Federal authorities in reviewing merger proposals, (2) key factors motivating airline mergers in recent years, and (3) the implications of merging American and US Airways. To address these objectives, GAO drew from its previous reports on the potential effects of prior airline mergers and the financial condition of the airline industry issued from July 2008 through May 2010. GAO also analyzed DOT's airline operating and financial data, airline financial documents, and airline schedule information since 2002.

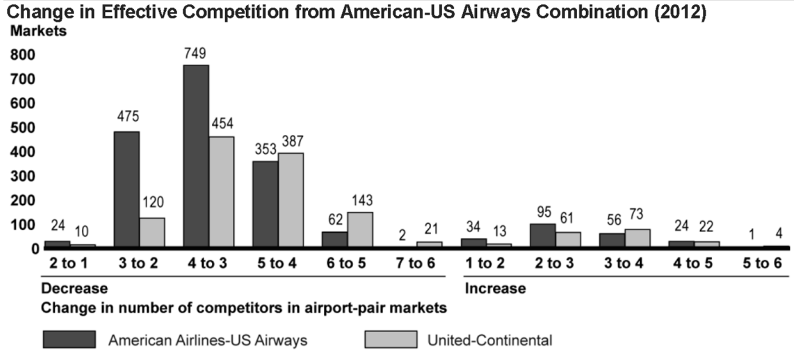
What GAO Found

The Department of Justice's (DOJ) antitrust review will be a critical step in the proposed merger between American Airlines (American) and US Airways. DOJ uses an integrated analytical framework set forth in the *Horizontal Merger Guidelines* to determine whether the merger poses any antitrust concerns. Under that process, DOJ assesses, among other things, the extent of likely anticompetitive effects of the proposed merger in the relevant markets, in this case, airline city-pair markets, and the likelihood that other airlines may enter these markets and counteract any anticompetitive effects, such as higher fares. DOJ also considers efficiencies that a merger or acquisition could bring—for example, consumer benefits from an expanded route network. The Department of Transportation (DOT) aids DOJ's analysis.

Airlines seek mergers to reduce costs and improve revenues. GAO has previously reported that mergers can result in increased revenues by offering improved network connections and schedules, but also through higher fares on some routes. Cost savings can be generated by eliminating redundancies and operational efficiencies, including reducing service, but can be muted by problems in combining different aircraft, technologies, and labor forces. In the case of US Airways and American, they estimate that a merger would yield $1.4 billion in annual benefits from increased revenues and reduced costs.

If not challenged by DOJ, the merged American would surpass United to become the largest U.S. passenger airline by several measures. While US Airways and American overlap on only 12 nonstop routes, no other nonstop competitors exist on 7 of those 12. Our analysis of 2011 and 2012 ticket data also showed that combining these airlines would result in a loss of one effective competitor (defined as having at least 5 percent of total airport-pair traffic) in 1,665 airport-pair markets affecting more than 53 million passengers while creating a new effective competitor in 210 airport-pairs affecting 17.5 million passengers. However, the great majority of these markets also have other effective competitors.

Change in Effective Competition from American-US Airways Combination (2012)



Source: GAO analysis of DOT Origin & Destination (OD1B) ticket data.

TESTIMONY OF GERALD L. DILLINGHAM, PH.D.

Chairman Cantwell, Ranking Member Ayotte, and Members of the Subcommittee:

I am pleased to be here today to discuss the potential implications of the merger proposal recently announced by American Airlines (American) and US Airways. In February 2013, these two airlines announced plans for American to merge with US Airways through a stock swap the airlines valued at $11 billion. This follows the acquisition of Northwest Airlines (Northwest) by Delta Air Lines (Delta) in 2008, the merger of United Airlines (United) and Continental Airlines (Continental) in 2010, and Southwest Airlines' (Southwest) acquisition of Air Tran Airways (AirTran), in 2011. If approved by the Department of Justice (DOJ), the American-US Airways merger would surpass United's in terms of number of employees, seat capacity, and operating revenues to create the largest passenger airline in the United States. However, as with any merger of this magnitude, this proposal is being examined by DOJ with assistance from the Department of Transportation (DOT) to determine if the potential benefits for consumers outweigh the potential negative effects.

Extensive research and the experience of millions of Americans underscore the benefits that have flowed to most consumers from the 1978 deregulation of the airline industry, including dramatic reductions in fares and expansion of service. These benefits are largely attributable to increased competition from the entry of new airlines into the industry and established airlines into new markets. At the same time, however, airline deregulation has not benefited everyone; some communities—especially smaller communities—have suffered from relatively high airfares and a loss of service. We have been analyzing aviation competition issues since enactment of the Airline Deregulation Act of 1978.[1] Our work since 2000 has focused on airline competition and industry performance, including the financial health of the passenger airline industry, the growth of low cost airlines, changing business models of airlines, and prior mergers.[2] In the airline context, DOJ has the primary responsibility to evaluate most mergers in order to carry out its antitrust responsibilities.[3] In addition, American remains under Chapter 11 bankruptcy protection, however the bankruptcy court approved the merger with US Airways in May 2013.

My statement today presents the (1) role of Federal authorities in reviewing merger proposals, (2) key factors motivating airline mergers in recent years, and (3) implications of merging American and US Airways. My testimony is based on several reports we previously prepared for this Committee—our 2008 report on the potential effects of the proposed merger between Delta and Northwest and our 2009 report on the financial condition of the airline industry and the various effects of the industry's contraction on passengers and communities—as well as our 2010 Statement for this Committee on the United-Continental merger[4] and other past work on aviation issues since 2000. In addition, we conducted analysis of the proposed American and US Airways merger, including some analysis of the airlines' financial, labor, fleet, and market conditions. To describe the role of Federal authorities, in particular DOJ and DOT, in reviewing airline merger proposals we relied on information developed for our 2008 report and updated it as necessary.[5] For example, we reviewed new merger guidelines issued in 2010 and recent merger decisions. To provide an overview of the factors motivating airline mergers in recent years, we relied on information developed from past reports on the airline industry and updated it as necessary.[6] For example, we reviewed American Airlines bankruptcy and merger documents. To identify the implications of the proposed merger of American and US Airways, we reviewed airline documents about the merger, financial analyst reports, and analyzed data submitted by the airlines to DOT since 2002 (BTS Form 41 finan-

[1] Pub. L. No. 95–504, 92 Stat. 1705 (1978).

[2] See list of related GAO products attached to this statement.

[3] Under the Hart-Scott-Rodino Act, an acquisition of voting securities and/or assets above a set monetary amount must be reported to DOJ (or the Federal Trade Commission for certain industries) so the department can determine whether the merger or acquisition poses any antitrust concerns. 15 U.S.C. § 18a(d)(1). Both DOJ and the Federal Trade Commission have antitrust enforcement authority, including reviewing proposed mergers and acquisitions. DOJ is the antitrust enforcement authority charged with reviewing proposed mergers and acquisitions in the airline industry.

[4] GAO, *Airline Mergers: Issues Raised by the Proposed Merger of United and Continental Airlines,* GAO–10–778T (Washington, D.C., May 27, 2010).

[5] GAO, *Airline Industry: Potential Mergers and Acquisitions Driven by Financial and Competitive Pressures,* GAO–08–845 (Washington, D.C.: July 31, 2008).

[6] *Commercial Aviation: Airline Industry Contraction Due to Volatile Fuel Prices and Falling Demand Affects Airports, Passengers, and Federal Government Revenues,* GAO–09–393 (Washington, D.C.: Apr. 21, 2009) and GAO–08–845.

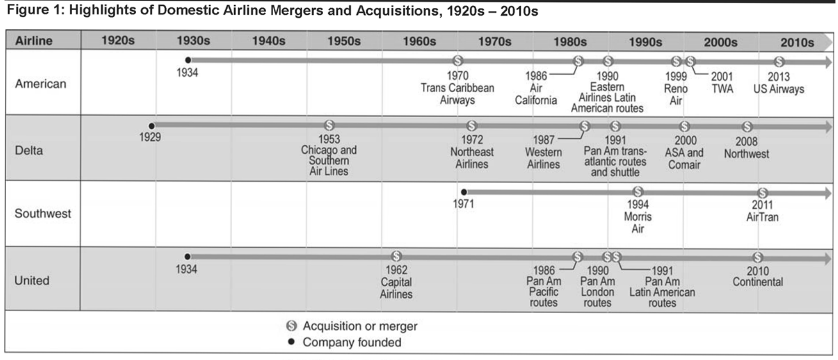
cial data, origin and destination ticket sample, and operations). We also analyzed airline schedule data. We assessed the reliability of these data by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this testimony.

We conducted this work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The airline industry has experienced considerable merger and acquisition activity since its early years; especially immediately following deregulation in 1978. Figure 1 provides a timeline of mergers and acquisitions for the four largest surviving airlines, assuming an American–US Airways merger, based on passengers served. A flurry of mergers and acquisitions occurred during the 1980s, when Delta and Western Airlines merged, United acquired Pan Am's Pacific routes, Northwest acquired Republic Airlines, and American and Air California merged. In 1988, merger and acquisition review authority was transferred from DOT to DOJ.[7] Since 2000, American acquired the bankrupt airline TWA in 2001, America West acquired US Airways in 2005, while the latter was in bankruptcy; Delta acquired Northwest in 2008; United acquired Continental in 2010; and Southwest acquired AirTran in 2011. Certain other attempts at merging since 2000 failed because of opposition from DOJ or employees and creditors. For example, in 2000, an agreement was reached that allowed Northwest to acquire a 50 percent stake in Continental (with limited voting power) to resolve the antitrust suit brought by DOJ against Northwest's proposed acquisition of a controlling interest in Continental.[8] A proposed merger of United and US Airways in 2000 also resulted in opposition from DOJ, which found that in its view, the merger would violate antitrust laws by reducing competition, increasing air fares, and harming consumers on airline routes throughout the United States. Although DOJ expressed its intent to sue to block the transaction, the parties abandoned the transaction before a suit was filed. In 2006, the proposed merger of US Airways and Delta fell apart because of opposition from Delta's pilots and some of its creditors, as well as its senior management.

Figure 1: Highlights of Domestic Airline Mergers and Acquisitions, 1920s – 2010s



Sources: Cathay Financial and airline company documents.

Since deregulation in 1978, the financial stability of the airline industry has become a considerable concern for the Federal Government due, in part, to the level of financial assistance it has provided to the industry through assuming terminated pension plans and other forms of assistance. From 1979 through 2012, there have been at least 194 airline bankruptcies, according to Airlines for America (A4A), an airline trade group. While most of these bankruptcies affected small airlines that were eventually liquidated, 4 of the more recent bankruptcies prior to American's (Delta, Northwest, United, and US Airways) are among the largest corporate bank-

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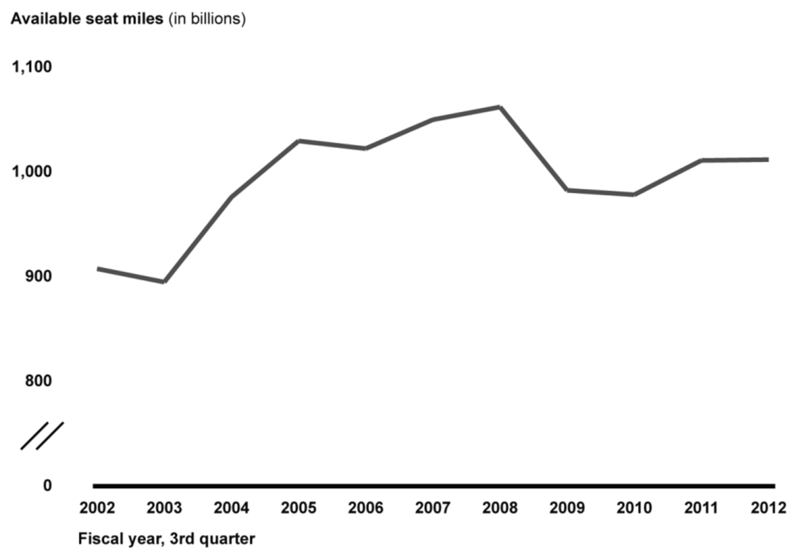
[7] Civil Aeronautics Board Sunset Act, Pub. L. No. 98–443, 98 Stat. 1703 (1984).

[8] GAO, *Aviation Competition: Issues Related to the Proposed United Airlines-US Airways Merger,* GAO–01–212 (Washington, D.C.: Dec. 15, 2000) p. 10, footnote 6.

ruptcies ever, excluding financial services firms. During these bankruptcies, United and US Airways terminated the defined benefit pension plans for their labor groups and $9.7 billion in claims were shifted to the Pension Benefit Guarantee Corporation (PGBC).[9] Further, to respond to the financial shock to the industry from the September 11, 2001, terrorist attacks, the Federal Government provided airlines with $7.4 billion in direct assistance and authorized $1.6 billion (of $10 billion available) in loan guarantees to six airlines.[10]

Although the airline industry has experienced numerous mergers and bankruptcies since deregulation, growth of existing airlines and the entry of new airlines have contributed to a steady increase in capacity, as measured by available seat miles. Previously, we reported that although one airline may reduce capacity or leave the market, capacity returns relatively quickly through new airline entry and expansion of the remaining airlines.[11] However, in recent years this dynamic may be changing. Domestic capacity growth stalled in 2008 owing to the recession and high fuel prices and has not rebounded despite a strengthening economy and demand for air travel (see fig. 2).

Figure 2: Domestic Passenger Airline Capacity (Fiscal Years 2002 to 2012, Third Quarter)



Source: GAO analysis of DOT data.

In recent years, a key factor limiting capacity growth has been high fuel prices, according to industry analysts. In the early part of the last decade while network airlines[12] were restructuring their costs through bankruptcy, low cost airlines like

[9] PBGC was established under the Employee Retirement Income Security Act of 1974 (Pub. L. No. 93–406, 88 Stat. 1003 (1974) (ERISA) and set forth standards and requirements that apply to defined benefit plans. PBGC was established to encourage the continuation and maintenance of voluntary private pension plans and to insure the benefits of workers and retirees in defined benefit plans should plan sponsors fail to pay benefits. PGBC operations are financed, for example, by insurance premiums paid by sponsors of defined benefit plans, investment income, and assets from pension plans trusted by PBGC, and recoveries from the companies formerly responsible for the plans.

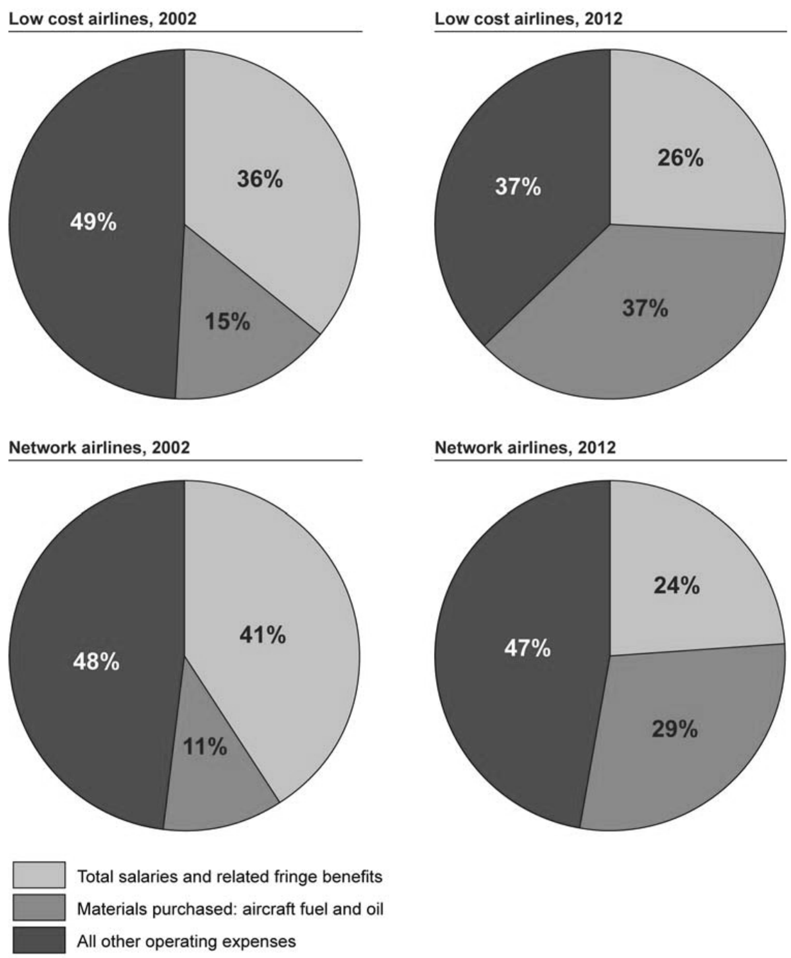
[10] The six airlines receiving loan guarantees were Aloha, World, Frontier, US Airways, ATA, and America West.

[11] GAO, *Commercial Aviation: Bankruptcy and Pensions Problems Are Symptoms of Underlying Structural Issues,* GAO–05–945 (Washington, D.C.: Sept. 30, 2005).

[12] Network (or legacy) airlines are essentially those airlines that were in operation before the Airline Deregulation Act of 1978 and whose goal is to provide service from "anywhere to everywhere." To meet that goal, these airlines support large, complex hub-and-spoke operations with thousands of employees and with hundreds of aircraft of various types, with service at numerous fare levels to domestic communities of all sizes and to international destinations. For purposes

Southwest and JetBlue expanded owing to lower costs, especially for labor (see fig. 3). As a result, while in 2002, network airlines offered 67 percent of domestic seat capacity versus 23 percent for low cost airlines, by October 2012, network airlines share of domestic seats had fallen to 52 percent and low cost airline's share had risen to 33 percent. However, the expansion of low cost airlines in recent years may have slowed owing to higher fuel costs that diminished their relative cost advantage over network airlines. With fuel costs consuming a greater proportion of airline operating costs for all airlines, any cost advantage that low cost airlines had with respect to labor costs over network airlines is diluted.

Figure 3: Total Operating Costs (Fiscal Years 2002 and 2012, Third Quarter)



Source: GAO analysis of DOT Form 41 data.

Finally, DOJ and DOT's analysis of merger impacts have relied on an expectation that entry by low cost airlines, especially Southwest, would check airline fare increases following a merger. However, that practice might erode as Southwest expansion has slowed and it recently merged with a key low cost rival, reducing the num-

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of this report, we have defined American, Continental, Delta, Northwest, United, and US Airways as network airlines and Allegiant, AirTran, Frontier, Midwest, JetBlue, Southwest, Spirit, and Sun Country as low cost airlines.

ber of low cost airlines that might challenge post merger fare increases. In 1993, DOT published a report entitled the The Southwest Effect that concluded that low cost airlines like Southwest lowered fares in markets they entered and that DOT policy should be to encourage the growth of Southwest and airlines like it.[13] Congressional action and DOT policy in subsequent years, especially in the award of operating rights called "slots" at congested airports like Washington Reagan and New York LaGuardia, favored new entrant airlines like Southwest. Similarly, DOJ cited the relinquishment of 36 slots by Continental to Southwest at Newark Liberty International Airport as alleviating its principle concerns in determining not to object to the United–Continental merger in 2010. A November 2008 paper by Goolsbee and Syverson, found that even the threat of entry by Southwest in a market helped to lower fares in that market, but only if Southwest already operated at one of the market endpoints.[14] More recently though, a 2013 study suggests that the Southwest Effect may not be as prominent following a merger. This study found that Southwest raised fares in markets following the mergers of Delta–Northwest and US Airways–America West more than average fare increases overall, unless another low cost airline was already in that market.[15] The merger of Southwest with a key rival in 2011 could further lessen the potential that Southwest would deter or counteract higher fares in markets following a merger.

The Department of Justice's Antitrust Review Is a Critical Step in the Airline Merger and Acquisition Process

The DOJ's review of airline mergers and acquisitions is a key step for airlines hoping to consummate a merger. For airlines, as with other industries, DOJ uses an analytical framework set forth in the Horizontal Merger Guidelines (the Guidelines) to evaluate merger proposals.[16] In addition, DOT plays an advisory role for DOJ and, if the combination is consummated, may conduct financial and safety reviews of the combined entity under its regulatory authority.[17] Finally, because American has been under Chapter 11 bankruptcy protection since 2011, the merger also required Federal bankruptcy court approval.

Most proposed airline mergers or acquisitions must be reviewed by DOJ as required by the Hart-Scott-Rodino Antitrust Improvements Act (Act).[18] In particular, under the Act, an acquisition of voting securities or assets above a set monetary amount must be reported to DOJ (or the FTC for certain industries) so the department can determine whether the merger or acquisition poses any antitrust concerns.[19] To analyze whether a proposed merger or acquisition raises antitrust concerns—whether the proposal will likely create, enhance, or entrench "market power" or facilitate its exercise[20]—DOJ follows an analytical process set forth in the Guidelines.[21] The commentary to the Guidelines identifies five factors that the department considers in reviewing a merger but notes that their importance varies according to the nature of the industry and the scope of the merger. The five factors considered by DOJ are:

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[13] Randall Bennett and James Craun, U.S. Department of Transportation, *The Airline Deregulation Evolution Continues: The Southwest Effect,* May 1993.

[14] Austan Goolsbee and Chad Syverson, "How Do Incumbents Respond to the Threat of Entry? Evidence from the Major Airlines," *The Quarterly Journal of Economics,* (November 2008).

[15] Najmus Sakib bin Salam, *Is There Still A Southwest Effect?* Transportation Research Record publications, Volume no. 2325 (May 2013).

[16] The *Guidelines* were jointly developed by DOJ's Antitrust Division and the Federal Trade Commission (FTC) and describe the inquiry process the two agencies follow in analyzing proposed mergers. The current version of the *Guidelines* was revised in August 2010.

[17] 49 U.S.C. § 41110.

[18] Pub. L. No. 94–435, 90 Stat. 1383 (1976).

[19] See 15 U.S.C. § 18a(d)(1). Under the Hart-Scott-Rodino Act, DOJ has 30 days after the initial filing to notify companies that intend to merge whether DOJ requires additional information for its review. If DOJ does not request additional information, the firms can close their deal (15 U.S.C. § 18a(b)). If more information is required, however, the initial 30-day waiting period is followed by a second 30-day period, which starts to run after both companies have provided the requested information (15 USC § 18a(e)(2)). Companies often attempt to resolve DOJ competitive concerns, if possible, prior to the expiration of the second waiting period. Any restructuring of a transaction—e.g., through a divestiture—is included in a consent decree entered by a court, unless the competitive problem is unilaterally fixed by the parties prior to the expiration of the waiting period (called a "fix-it first").

[20] "Market power" is the ability to maintain prices profitably above competitive levels for a significant period of time.

[21] United States Department of Justice and Federal Trade Commission, *Horizontal Merger Guidelines* (Washington, D.C., rev. Aug. 19, 2010).

- the relevant product and geographic markets in which the companies operate and whether the merger is likely to significantly increase concentration in those markets, which in the case of airlines principally applies to city-pair markets;
- the extent of potential adverse competitive effects of the merger, such as whether the merged entity will be able to charge higher prices or restrict output for the product or service it sells;
- whether other competitors are likely to enter the affected markets and whether they would counteract any potential anticompetitive effects that the merger might have posed;
- the verified "merger specific" efficiencies or other competitive benefits that may be generated by the merger and that cannot be obtained through any other means; and
- whether, absent the merger or acquisition, one of the firms is likely to fail, causing its assets to exit the market.

In making the decision whether the proposed merger is likely anticompetitive, DOJ considers the particular circumstances of the merger as it relates to the Guidelines' five-part analysis. The greater the potential anticompetitive effects, the greater the offsetting verifiable efficiencies for DOJ to clear a merger must be. However, according to the Guidelines, efficiencies almost never justify a merger if it would create a monopoly or near monopoly. If DOJ concludes that a merged airline threatens to deprive consumers of the benefits of competitive air service, then it will seek injunctive relief in a court proceeding to block the merger from being consummated. For example, a proposed merger of United Airlines and US Airways was opposed by DOJ, which found that, in its view, the merger would violate antitrust laws by reducing competition, increasing air fares, and harming consumers on airline routes throughout the United States. In some cases, the parties may agree to modify the proposal to address anticompetitive concerns identified by DOJ—for example, selling airport assets or giving up slots at congested airports—in which case DOJ ordinarily files a complaint with the court along with a consent decree that embodies the agreed-upon changes.

DOT conducts its own analyses of airline mergers and acquisitions. While DOJ is responsible for upholding antitrust laws, DOT reviews the merits of any airline merger or acquisition and submits its views and relevant information in its possession to DOJ. DOT also provides some essential data—for example, the airlines' routes and passenger traffic—that DOJ uses in its review. In addition, presuming the merger moves forward after DOJ's review, DOT can undertake several other reviews if the situation warrants. Before commencing operations, any new, acquired, or merged airlines must obtain separate authorizations from DOT—"economic" authority from the Office of the Secretary [22] and "safety" authority from the Federal Aviation Administration (FAA).[23] The Office of the Secretary is responsible for deciding whether applicants are fit, willing, and able to perform the service or provide transportation. To make this decision, the Secretary assesses whether the applicants have the managerial competence, disposition to comply with regulations, and financial resources necessary to operate a new airline. FAA is responsible for certifying that the aircraft and operations conform to the safety standards prescribed by the Administrator, for instance, that the applicants' manuals, aircraft, facilities, and personnel meet Federal safety standards. Also, if a merger or other corporate transaction involves the transfer of international route authority, DOT is responsible for assessing and approving all transfers to ensure that they are consistent with the public interest.[24]

In addition, American has been under Federal bankruptcy protection since November 2011.[25] In May 2013, the Federal judge overseeing the bankruptcy approved

[22] 49 U.S.C. § 41104.

[23] 49 U.S.C. § 44702.

[24] 49 U.S.C. § 41105. DOT must specifically consider the "transfer-of-certificate" authority's impact on the financial viability of the parties to the transaction and on the trade position of the United States in the international air transportation market, as well as on competition in the domestic airline industry.

[25] 11 U.S.C. § 1101 et seq. Chapter 11 of the United States code governs business reorganizations. This chapter is designed to accommodate complicated reorganizations of publicly held corporations. Among other things, it allows companies, with court approval, to reject agreements made under collective bargaining and renegotiate contracts with other creditors. With the approval of the bankruptcy courts (which administer the bankruptcy laws), companies may also modify retiree benefits.

American's merger with US Airways as part of the reorganization.[26] Shareholders of US Airways must also approve the merger for it to be consummated.

Financial Benefits to Shareholders Drive Airline Mergers

On February 13, 2013, American and US Airways announced an agreement to merge the two airlines. The airlines have also notified DOJ of their intent to merge. The new airline would retain the American name and headquarters in Dallas-Fort Worth while the current US Airways Chief Executive Officer would keep that title with the new airline, and the current American CEO would become Chairman of the new American. The proposed merger will be financed exclusively through an all stock transaction with a combined equity value of $11 billion split roughly with 72 percent ownership to American shareholders and 28 percent to US Airways shareholders. The airlines have not announced specific plans for changes in their networks or operations that would occur if the combination is consummated, but the airlines' conservatively estimate that the merger will result in $1.4 billion in annual benefits to shareholders of the new airline as outlined in table 1.

Table 1.—Estimated Annual Benefits and Costs from American—US Airways Merger (Dollars in Billions)

Benefit	Estimated value
Revenue (network) benefit	$1.12
Cost benefits	.64
Increased labor costs	(.36)
Total annual benefits	$1.40

Source: US Airways.

A key financial benefit that airlines consider in a merger is the potential for increased revenues through additional demand (generated by more seamless travel to more destinations), increased market share, and higher fares on some routes. As we reported in May 2010, mergers may generate additional demand by providing consumers more domestic and international city-pair destinations.[27] Airlines with expansive domestic and international networks and frequent flier benefits particularly appeal to business traffic, especially corporate accounts. The American–US Airways merger is estimated by airline executives to generate $1.12 billion in revenue synergies from improved network connectivity, increased corporate and frequent flier loyalty, and optimization in the use of their aircraft.

At the same time, capacity reductions in certain markets from a merger or acquisition could also serve to generate additional revenue through increased fares on some routes. Some studies of airline mergers and acquisitions during the 1980s showed that prices were higher on some routes from the airline's hubs soon after the combination was completed.[28] Several studies have also shown that increased airline dominance at an airport results in increased fare premiums, in part, because that dominance creates competitive barriers to entry.[29] At the same time, though, even if the combined airline is able to increase prices in some markets, the increase may be transitory if other airlines enter the markets with sufficient presence to counteract the price increase. In an empirical study of airline mergers and acquisitions up to 1992, Winston and Morrison suggest that being able to raise prices or

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[26] On April 15, American filed a formal restructuring plan to exit bankruptcy protection based on its merger with US Airways. On May10, 2013, the presiding judge in the American Airlines bankruptcy signed an order approving the merger between American Airlines and US Airways. *In re AMR Corp.,* United States Bankruptcy Court for the Southern District of New York, No. 11–15463–SHL.

[27] GAO–10–778T.

[28] See Severin Borenstein, "Airline Mergers, Airport Dominance, and Market Power," *American Economic Review,* Vol. 80 (May 1990); Steven A. Morrison, "Airline Mergers: A Longer View," *Journal of Transport Economics and Policy* (September 1996); and Gregory J. Werden, Andrew J. Joskow, and Richard L. Johnson, "The Effects of Mergers on Price and Output: Two Case Studies from the Airline Industry," *Managerial and Decision Economics,* Vol. 12 (October 1991).

[29] See Severin Borenstein, "Hubs and High Fares: Dominance and Market Power in the U.S. Airline Industry," *RAND Journal of Economics,* 20, 344–365 (1989); GAO, *Airline Deregulation: Barriers to Entry Continue to Limit Competition in Several Key Markets,* GAO/RCED–97–4 (Washington, D.C.: Oct. 18, 1996); and GAO, *Airline Competition: Effects of Airline and Market Concentration and Barriers to Entry on Airfares,* GAO/RCED–91–101 (Washington, D.C.: Apr. 16, 1991).

stifle competition does not play a large role in airlines' merger and acquisition decisions.[30]

The other key financial benefit that airlines consider when merging with or acquiring another airline is the cost reduction that may result from combining complementary assets, eliminating duplicative activities, and reducing capacity. As we reported in May 2010, a merger or acquisition could enable the combined airline to reduce or eliminate duplicative operating costs, such as duplicative service, labor, and operations costs—including inefficient (or redundant) hubs or routes—or to achieve operational efficiencies by integrating computer systems and similar airline fleets.[31] By increasing the fleet size, airlines can increase their ability to match the size of aircraft with demand and adjust to seasonal shifts in demand. Other cost savings may stem from facility consolidation, procurement savings, and working capital and balance sheet restructuring, such as renegotiating aircraft leases. Airlines may also pursue mergers or acquisitions to more efficiently manage capacity—both to reduce operating costs and to generate revenue—in their networks. Given recent economic pressures, particularly increased fuel costs, the opportunity to lower costs by reducing redundant capacity may be especially appealing to airlines seeking to merge. In the case of the American–US Airways merger, airline executives estimate that the merger will allow $640 million in cost savings from reducing overlapping facilities at airports and in combining purchasing, technology, and corporate activities.

Despite these benefits, there are several potential barriers to successfully consummating a merger, potentially reducing the benefits and increasing the costs. As we reported in July 2008,[32] the most significant operational challenges involve the integration of workforces, organizational cultures, aircraft fleets, and information technology systems and processes, challenges that can be difficult, disruptive, and costly as the airlines integrate.[33] For example, in the case of the American–US Airways merger, with unions supporting the merger, pilots' and others' pay will increase by $360 million annually if the merger is completed. However, merging workforces can take time–for example, US Airways' pilot seniority lists have not been resolved following their merger with America West in 2005. Integrating technology, especially reservation systems, can also be difficult and costly. For example, United has struggled to integrate computer and reservation systems following its merger with Continental in 2010.

The Proposed American and US Airways Merger Would Create The Largest U.S. Passenger Airline

If approved by DOJ, the merged American-US Airways would surpass United as the largest U.S. passenger airline. Table 2 shows that combining American and US Airways Airlines would create the largest U.S. airline based on data for the four quarters ending October 2012, as measured by capacity (available seat miles) and operating revenues. The combined airline would also have the largest workforce among U.S. airlines based on February 2013 employment statistics, with a combined 101,197 full-time equivalent employees (table 3). The airlines' workforces are represented by different unions, except dispatchers (table 4). Some of American's unions have already signed memorandums of understanding for future contracts if the airlines are merged. The combined airline would need to integrate 1,215 aircraft (table 5). American has a predominantly Boeing fleet, while US Airways has a largely Airbus fleet. In addition, in July 2011, American placed a $40 billion order for 200 Boeing 737 series and 260 Airbus A320 series aircraft. Despite its bankruptcy, the bankruptcy court allowed the order to proceed. American has also been trying to sell its regional airline, American Eagle, and its fleet of almost 280 aircraft.

[30] See Steven A. Morrison, and Clifford Winston, "The Remaining Role for Government Policy in the Deregulated Airline Industry." *Deregulation of Network Industries: What's Next? eds.* Sam Peltzman and Clifford Winston, (Washington, D.C., Brookings Institution Press 2000) pp. 1–40.
[31] GAO–10–778T.
[32] GAO–08–845.
[33] Airlines also face potential challenges to mergers and acquisitions from DOJ's antitrust review, which is discussed in the previous section.

Table 2.—Total Assets, Operating Revenue, and Capacity of Top U.S. Airlines (4 Quarters Ending October 2012)

Airline	Capacity as measured by available seat miles (thousands)	Total operating revenue (thousands) [a]	Total assets (thousands)
Combined American-US Airways	226,545,216	$38,847,509	$130,928,916
United	218,563,833	37,470,318	154,554,977
Delta	200,931,079	36,615,819	144,019,527
Southwest [b]	128,365,001	17,023,282	75,640,126
Alaska	27,655,088	4,561,605	19,770,760

Source: Bureau of Transportation Statistics Form 41.
[a] Revenues include revenues from regional operations but assets exclude regional carrier assets unless wholly owned, as in the case of American Eagle.
[b] Includes AirTran.

Table 3.—Full-Time Equivalent Employees of Top U.S. Airlines (February 2013)

Full-Time Equivalent Employees	
Airline	Total
Combined American-US Airways [a]	101,197
United	82,212
Delta	73,320
Southwest	45,846
JetBlue	12,636
SkyWest	9,931
Alaska	9,279
Hawaiian	4,423

Source: Bureau of Transportation Statistics.
[a] Includes American Eagle.

Table 4.—Union Representation for Various Employee Groups

	Employee groups			
	Pilots	Flight Attendants	Mechanics	Dispatchers
American	Allied Pilots Association (APA)	Association of Professional Flight Attendants (APFA)	Transport Workers Union (TWU)	TWU
US Airways	US Airline Pilots Association (USAPA)	Association of Flight Attendants (AFA)	International Association of Machinists and Aerospace Workers (IAM)	TWU

Source: American Airlines and US Airways.

Table 5.—American and US Airways Aircraft Fleet (2013)

Aircraft	American	US Airways	Merged
Embraer 190		18	18
Boeing 737	194	28	222
Boeing 757	104	24	128
Boeing 767	72	10	82
Boeing 777	49		49
Airbus 319		93	93
Airbus 320		72	72
Airbus321		75	75
Airbus 330		16	16

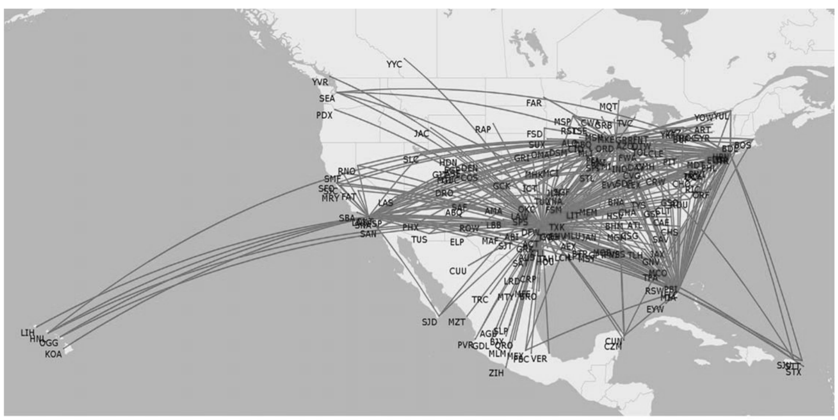
Table 5.—American and US Airways Aircraft Fleet (2013)—Continued

Aircraft	American	US Airways	Merged
MD–80	188		188
CRJ [a]	59		59
E135 [a]	21		21
E140 [a]	74		74
E145 [a]	118		118
Total	879	336	1,215

Source: American Airlines and Diio.
[a] American Eagle aircraft.

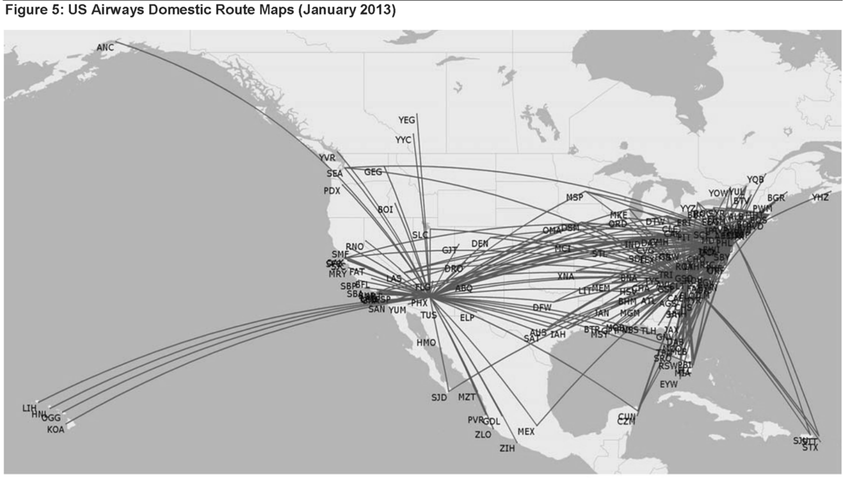
If approved by DOJ, the airlines would combine two distinct networks supported by different hubs, where the airlines connect traffic feeding from smaller airports. American's major hubs are in Chicago O'Hare (ORD), Dallas (DFW), New York (JFK), Los Angeles (LAX), and Miami (MIA), and US Airways has hubs in Charlotte (CLT), Philadelphia (PHL), Phoenix (PHX), and Washington D.C. (DCA), as shown in figures 4 and 5.

Figure 4: American Airlines Domestic Route Maps (January 2013)



Source: Innovata schedule data.

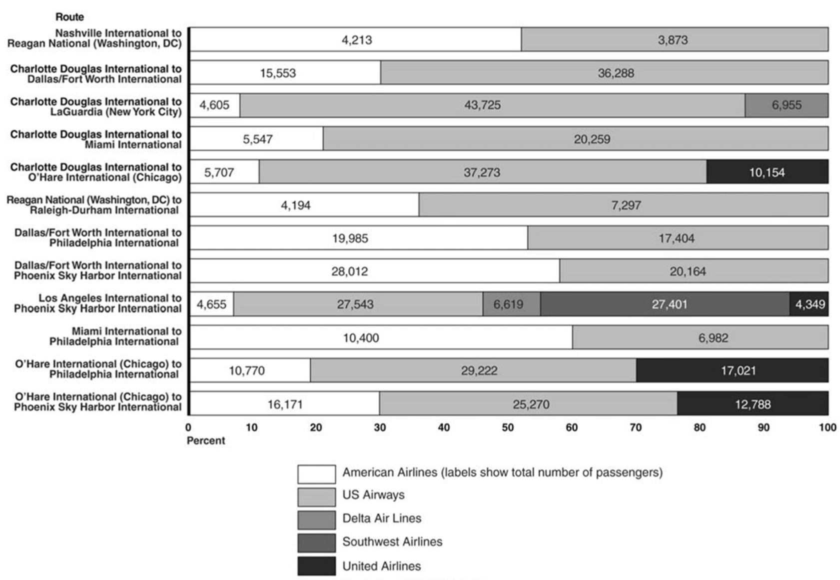
Figure 5: US Airways Domestic Route Maps (January 2013)



Source: Innovata schedule data.

A key concern for DOJ in reviewing an airline merger is the loss of a competitor on nonstop routes. The loss of a competitor that serves a market on a nonstop basis is significant from a competitive perspective because nonstop service is typically preferred by most passengers and routes that only have nonstop service do not benefit from the availability of alternative, albeit lower valued, connecting service. Based on October 2012 traffic data, the two airlines overlap on 12 nonstop airport-pair routes, which are listed in figure 6.[34] For 7 of these 12 nonstop overlapping airport-pairs (generally between an American hub and a US Airways hub) there are currently no other competitors on a nonstop basis and in only one instance is a low cost airline (Southwest) present. And unlike the United—Continental merger, where most of the endpoint cities had other airports in the region, fewer of these airport pairs have significant other airports in the region. This is especially true for the Charlotte (CLT)—Dallas (DFW) and Phoenix (PHX)—DFW pairs where few alternate options are available at either endpoint.

Figure 6: Total Passengers on Overlapping Nonstop Airport Pairs (October 2012)



Source: GAO analysis of DOT T-100 traffic data.

The amount of overlap in airport-pair combinations is far more when considering all connecting traffic; however, on most of the overlapping airport-pair markets, there is at least one other competitor. Based on 2011 and 2012 ticket sample data, for 13,963 airport-pairs[35] with a minimum level of passenger traffic per year, there would be a loss of one effective competitor in 1,665 airport pair markets affecting more than 53 million passengers by merging these airlines (see fig. 7).[36] As the figure shows, compared to the last major airline merger in 2010 between United and Continental, there would be 530 more airport pairs losing an effective competitor. This would affect 18 million more passengers compared to the merger between United and Continental. In addition, any effect on fares may be dampened by the

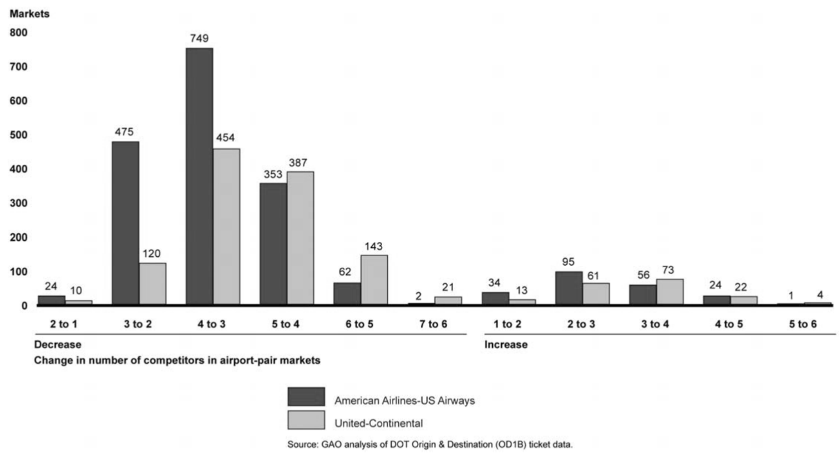
[34] This compares coincidently to the same number of nonstop overlapping airport pairs in the United—Continental merger.

[35] It is generally preferable, time permitting, to assess city-pair, rather than airport-pair, changes in competition. Some larger U.S. cities (New York, Chicago, Los Angeles, Washington, D.C.) have more than one commercial airport that can compete for passenger traffic. DOJ generally considers the relevant market to be a city-pair combination, but also examines the airport pair if relevant.

[36] We assessed more than 96,000 airport pairs with any passenger traffic over the last 4 quarters ending October 2012, but eliminated any airport-pair with 520 or fewer annual passengers in one direction or 1,040 for two-way traffic because they would to be too small to ensure statistical accuracy. We defined an effective competitor as having at least 5 percent of total airport pair traffic. These are the same minimum passenger and market share that we have previously used to assess whether an airline has sufficient presence in a market to affect competition. See GAO–10–778T and GAO–08–845.

presence of a low cost airline in 473 of the 1,665 airport pairs losing a competitor.[37] The combination of the two airlines would also create a new effective competitor with at least a combined 5 percent market share in 210 airport-pairs affecting 17.5 million passengers.

Figure 7: Change in Effective Competition from American-US Airways Combination (2012) Compared to United-Continental Merger (2010)



Note: All origin and destination airport pairs with at least 520 passengers in either direction. An effective competitor holds at least 5 percent of market share.

If approved by DOJ, the combined airline could be expected to rationalize its network over time, including where it maintains hubs. The two airlines do not share any airport hubs; therefore, the amount of airport market share overlap that currently exists at these hubs is relatively small but could grow at some hubs while contracting at others under a merger (see table 6). For example, New York could serve as a better hub and international gateway than Philadelphia in the Northeast, while Miami could be a better hub than Charlotte in the Southeast. In addition, 59 out of 116 domestic airports served by US Airways from Charlotte are also served by American from Miami (MIA). Closing hubs is not unprecedented, following the American acquisition of TWA in 2001, St Louis ceased to be an American hub and following the Delta–Northwest merger, service at Delta's hub in Cincinnati and Northwest's hub in Memphis has been greatly reduced.

Table 6.—Domestic Passenger Market Share at Hub and Key Airports (4 Quarters Ending October 2012)

American airports	American share (%)	US Airways airports	US Airways share (%)	Total (%)
Dallas (DFW)	67		7	74
Miami (MIA)	66		6	72
	7	*Charlotte (CLT)*	63	70
	5	*Philadelphia (PHL)*	49	54
	15	*Washington DC (DCA)*	34	49
Chicago (ORD)	36		7	43
New York (LGA)	20		14	34
	5	*Phoenix (PHX)*	27	32
Los Angeles (LAX)	18		5	23
New York (JFK)	15		3	18

Source: DOT origin and destination ticket sample data.
Note: Hub airports in bold.

[37] We defined low cost airlines as JetBlue, Frontier/Midwest, AirTran, Allegiant, Spirit, Sun Country, and Southwest.

Three of the airports noted in table 6 are slot-controlled airports with restricted access for new entrants or expanded service. As we reported last year, slot-controlled airports have more limited competition and tend to have higher fares compared to other hub airports.[38] Based on February 2012 slot holdings, a combined American and US Airways would control one-third of the slots at LaGuardia and two-thirds of the slots at Washington Reagan as noted in Table 7.

Table 7.—Slot Holdings of American and US Airways at Slot-Controlled Airports (February 2012)

Airports	American share (%)	US Airways share (%)	Combined American-US share (%)	United share (%)	Delta share (%)	Other share (%)
Washington DC (DCA)	14	54	68	9	12	11
New York LaGuardia (LGA)	22	11	33	5	46	16
New York (JFK)	18	1	19	4	40	36
Newark (EWR)	5	3	8	81	6	6

Source: FAA.

Both American and US Airways have worldwide networks and serve many international destinations. Between the two airlines, they serve 107 international cities from airports in the United States, 37 of them in common, according to published February 2013 schedules. However, the two airlines do not directly compete on any of the same international city pair markets, though both serve slot-controlled London Heathrow airport with more than 830,000 passengers over the last year.[39] For international routes, U.S. airlines aggregate traffic from many domestic locations at a hub airport where passengers transfer onto international flights. In other words, at Philadelphia, where US Airways has a large hub, passengers traveling from many locations across the U.S. transfer onto US Airways' international flights. Likewise, American aggregates domestic traffic at New York's JFK for many of its international flights to some of the same destinations. As such, a passenger traveling from, for example Nashville, may view these alternative routes to a location in Europe as substitutable.

Whether service to international destinations from different domestic hubs will be viewed as a competitive concern will likely depend on a host of factors, such as the two airlines' market share of traffic to that destination and whether there are any barriers to new airlines entering or existing airlines expanding service at the international destination airports. US Airways is part of the larger Star Alliance, and American is a member of the smaller oneworld alliance. [40] US Airways has announced it will leave the Star Alliance and join American in oneworld as part of the merger. The DOT has authority to approve antitrust immunity applications,[41] but DOJ may also comment if it has antitrust concerns. According to a 2011 paper prepared by DOJ economists, "Over the past 17 years, DOT granted immunity to over 20 international alliance agreements, permitting participants in these alliances to collude on prices, schedules, and marketing."[42] They found that in granting immunity to larger groups of airlines in the three major international alliances, the number of independent competitors over the North Atlantic was significantly reduced adversely affecting consumers through higher fares. Because both airlines are already part of immunized alliances it is unclear what effect, if any, this merger might have on competition in international service. According to DOT officials responsible for reviewing and approving the immunity requests, the agency has analyzed and documented the impact of immunized alliances in its many public orders

[38] GAO, *Slot-Controlled Airports: FAA's Rules Could be Improved to Enhance Competition and Use of Available Capacity,* GAO–12–902 (Washington, D.C., Sept. 13, 2012).

[39] Of these 830,000 passengers, US Airways transported 52,000 and American Airlines transported 778,000.

[40] An airline alliance is an agreement between two or more airlines to cooperate on a substantial level. The three largest passenger airline alliances are the Star Alliance, SkyTeam and oneworld. Alliances provide a network of connectivity and convenience for international passengers. Alliances also provide convenient marketing branding to facilitate travelers making inter airline "codeshare" connections within countries.

[41] 49 U.S.C. §§ 41308, 41309.

[42] See William Gillespie and Oliver Richard, "Antitrust Immunity and International Airline Alliances", *Economic Analysis Group of the Department of Justice's Antitrust Division,* EAG 11–1, February 2011. The views are those of the authors and not the department.

and has concluded that in its experience, integrated airline alliances enable a number of valuable consumer benefits, including lower prices for many travelers.

Chairman Cantwell, Ranking Member Ayotte, and Members of the Subcommittee, this concludes my prepared statement. I would be happy to answer any questions that you may have at this time.

Senator CANTWELL. Thank you, Dr. Dillingham.

Mr. Parker, thank you very much for being here. I look forward to your testimony.

STATEMENT OF DOUG PARKER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, US AIRWAYS GROUP, INC.

Mr. PARKER. Thank you. Good afternoon, Chairman Cantwell, Ranking Member Ayotte, and members of the Subcommittee. My name is Doug Parker. I am Chairman and Chief Executive Officer of US Airways Group. Thank you for the opportunity to testify today about the merger of US Airways and American Airlines, which will create the world's best airline through a combination that will be good for competition, consumers, and choice.

And, Madam Chair, I'd like to acknowledge the employees from American Airlines and US Airways here in the room with us today, who came to join us for the hearing. They are a huge part on why we are here today. And we, and I, in particular, are extremely appreciative for their support. So thank you all for being here. I very much appreciate it.

This is an exciting time for the airline industry. The industry has transformed, placing a sharper focus on enhancing service and expanding choice for passengers, establishing stable and prosperous careers for our employees, and partnering with airports and communities to better serve our mutual customers.

Only 10 years ago, our focus and results were starkly different as the airline industry was struggling to recover from the tragic events of 9/11. At that time, I was working as CEO of America West Airlines, a small Phoenix-based carrier. But to adapt to the changing world and to become a stronger competitor, we merged with US Airways in 2005. That merger has worked very well, and we were able to combine into a much stronger competitor.

But the industry has continued to evolve in response to consumer demand for bigger and better networks. Delta has merged with Northwest, United has merged with Continental, and Southwest has merged with Air Tran. Earlier this year, we announced a merger agreement with American Airlines. We are extremely excited about what that means for our customers, and our employees, our investors, and the communities we each serve. The combination of American and US Airways will create a new, more competitive global airline.

The decision to merge was driven by the unparalleled benefits derived from integrating our two networks. Once combined, the new American Airlines will operate over 1,500 aircraft, employ more than 100,000 employees, and serve more than 300 communities around the world. We have conservatively estimated that we will expand our passenger base by over 2.6 million travelers each year and generate over $1 billion in annual net synergies from increased revenues delivered by our combined enhanced network and cost reductions from elimination of duplicative systems.

We have no illusions. This will not be easy. The U.S. domestic airline industry is and will remain extremely competitive with two other large network airlines, both with a head start from their own recent mergers, plus a number of fast-growing low cost carriers. Internationally, the marketplace is equally competitive with two other larger global alliances and a host of other airlines competing, some of them with government support. But the combination of American and US Airways and the enhancement of the One World Alliance will allow us to compete more successfully in both domestic and international markets.

Consumers will benefit from this enhanced competition. The new American, a better airline with a significantly expanded network on a sound financial footing, will challenge our competitors and offer the flying public more and better travel choices. The merger will join two highly complementary networks, filling critical gaps for each carrier, and enabling us to bring heightened levels of service to those communities that neither airline could afford to provide on its own.

We will remain committed to small and medium-sized communities. The new American Airlines will give passengers in small and medium-sized communities better connecting options and service to more places than ever before at more convenient times. Where appropriate, we expect to increase such service.

The best example of our commitment to smaller communities is our service to and from the nation's capital. Because of our hub operations, US Airways is able to serve 40 small and medium-sized communities from Reagan National Airport, something no other airline can or will do.

I believe that great things are ahead for the new American Airlines and our employees. Our customers and the communities we serve will be the primary beneficiaries of this merger, a fact acknowledged by the civic and business leaders across our two systems. We will only benefit if we can improved service to our customers, and we can.

Thank you. I will be happy to take any questions.

[The prepared statement of Mr. Parker follows:]

PREPARED STATEMENT OF DOUG PARKER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, US AIRWAYS GROUP, INC.

Good afternoon Chairman Cantwell, Ranking Member Ayotte, and members of the Subcommittee on Aviation Operations, Safety, and Security. My name is Doug Parker and I am Chairman and Chief Executive Officer of US Airways Group, Inc. Thank you for the opportunity to testify today about the merger of US Airways and American Airlines, which will create the world's best airline through a combination that will be good for competition, consumers, and choice. And, Mr. Chairman, I'd like to acknowledge the employees from American Airlines and US Airways here in the room with us today who came to join us for the hearing. They are a big part of why we are here today and we are extremely appreciative of their support.

This is an exciting time in the airline industry. The industry has transformed, placing a sharper focus on enhancing service and expanding choice for passengers, establishing stable and prosperous careers for employees, and partnering with airports and communities to better serve our mutual customers. Also, 2012 was one of the best years yet for domestic airlines in terms of safety and operational performance, and that's something we can all be proud of.

Only 10 years ago, our focus and results were starkly different as the airline industry was struggling to recover from the tragic events of 9/11. At the time, I was working as CEO of America West, a small Phoenix-based airline. At America West, like at all the other airlines, we were anxious to get back on our feet, we wanted to encourage more people to fly and create better opportunities for our employees. To adapt to the changing world and to become a stronger competitor, we merged with US Airways in 2005, creating an airline that could attract more customers than we could independently, while maintaining a cost advantage over some of our larger competitors. That merger worked very well. We were able to combine two carriers that likely could not have independently survived the enormous industry loss years of 2008 and 2009 into a stronger competitor that in 2012 produced record profits and had the highest shareholder return of any company in the Fortune 500. The merger resulted in more consumer choice and saved over 30,000 jobs.

But the industry continued to evolve in response to consumer demand for bigger and better networks. Delta merged with Northwest, United merged with Continental, and Southwest merged with AirTran. We at US Airways were cognizant of that trend, but while we worked to meet our customers' demands for broader networks, we were unable to participate in the series of mergers. Until now.

Earlier this year, we announced a merger agreement with American Airlines. We are very excited about what that means for our customers, our employees, our investors, and the communities we each serve. The combination of American and US Airways will create a new, more competitive global airline. We will be roughly the same size as United and Delta, and better able to compete with each of those airlines. Altogether, we will have less than 25 percent of domestic available seat miles.

The decision to merge was driven by the unparalleled benefits derived from integrating our two networks. Once combined, the new American Airlines will operate over 1,500 aircraft, employ more than 100,000 employees and serve more than 300 communities around the world. We have conservatively estimated that we will expand our passenger base by over 2.6 million travelers each year and generate over $1 billion in annual net synergies from increased revenues delivered by our combined, enhanced network and cost reductions from scale and elimination of duplicative systems.

We have no illusions—this will not be easy. The U.S. domestic airline industry is, and will remain, extremely competitive. There are two other large network airlines—both of which are themselves products of recent mergers—that already have a head start. Plus, there are a number of fast growing, low-cost airlines. Internationally, the marketplace is equally competitive with two other global alliances, both larger than the oneworld alliance that US Airways will join as a result of the merger, and a host of other airlines competing, some with the support of governments. But the combination of American and US Airways, and the enhancement of the *one*world alliance, will allow us to compete more successfully in both domestic and international markets.

More than ever, consumers want the ability to reach a broad range of destinations, whenever they want, on one airline system. Because of the limited size and scope of our respective networks, neither American nor US Airways is able to respond fully to that demand and both operate at a competitive disadvantage to the larger networks of Delta and United. The merger will join two highly complementary networks across the globe, filling critical competitive service gaps for each airline, and create a better and more competitive alternative for consumers.

A broader airline network is better for passengers because it gives them more choices, a wider variety of services, and more competition on more routes. The network is able to provide these choices and services because it aggregates demand that independently cannot support profitable service, but collectively can do so. Adding more origins and destinations to hubs has an exponential effect on the number of possible routings served by a network, the number of passengers that can be served, and the ways that they can be served. For example, this merger will improve service between Madison, Wisconsin and Columbia, South Carolina and between Rochester, Minnesota and Burlington, Vermont. It is these benefits which we seek to provide to passengers by combining the complementary networks and nine hubs of American and US Airways. And by providing those benefits, the new American will enhance competition.

Consumers will benefit from this enhanced competition. The new American—a better airline with a significantly expanded network, on a sound financial footing—will challenge our competitors and offer the flying public more and better travel choices including service to 336 destinations in 56 countries. Also, we expect to compete fiercely for travelers' loyalty with the first and best mileage rewards program, AAdvantage. When we merge programs we will provide our customers the opportunity to earn and redeem rewards across more destinations in a much larger network, especially in desirable international locations. Importantly, we will keep the iconic American Airlines brand.

Nationally, the merger will join two highly complementary networks, filling critical gaps for each carrier and enabling us to bring heightened levels of service to those communities that neither airline could afford to provide on its own. The number of passengers benefitting from the existing combination of service will grow as communities receive new online connecting service. Domestically, American currently serves 48 cities not served by US Airways and US Airways serves 64 cities not served by American. The superior combined network will create over 1,300 new connecting routes, benefitting millions of passengers. In particular, US Airways will fill American's and *one*world's critical network gaps in the Northeastern and Southeastern United States allowing passengers access to American's and *one*world's systems, and American's and *one*world's passengers more convenient access to those populous regions. Likewise, American will fill US Airways' network gaps in the Central United States with the unique cities served from its Chicago and Dallas hubs and provide US Airways' passengers expanded international travel opportunities.

We will remain committed to extensive service to small-and medium-sized communities throughout our merged network and, where appropriate, we expect to increase such service and add destinations. US Airways historically has provided extensive service to smaller communities and the merger will allow us to continue to extend that focus, building on complementary service offered by American Eagle. Almost all of the 64 cities currently served by US Airways and not served by American are to small-and medium-sized communities. Many of these communities, over time, will be candidates for service to American's hubs. The new American Airlines will therefore give passengers in small-and medium-sized communities better connecting options, and service to more places than ever before at more convenient times.

Some of the new connecting opportunities involve cities familiar to this Committee such as Melbourne, Florida to Lubbock, Texas and Springfield, Missouri to Roanoke, Virginia.

The best example of our commitment to smaller communities is our service to and from the Nation's Capital. Because we have been able to build a robust slot portfolio, US Airways currently serves 40 small-and medium-sized communities from Reagan National Airport. No other airline at Reagan provides any significant service to smaller communities, such as Charleston, West Virginia and Des Moines, Iowa. At DCA our customers benefit from access to and from a wide number of small cities and we are committed to small city service for the long term.

We have our work cut out for us, but I believe that great things are ahead for the new American Airlines, our dedicated employees, our customers, and the communities we serve. This merger has received an unprecedented level of labor support, reflecting the confidence that we and our employees have in our ability to deliver on the promise that this combination offers. Our customers and the communities we serve will be the primary beneficiaries of this merger, a fact acknowledged by civic and business leaders across our two systems. We will only benefit if we can bring improved service to our customers. And we can. The new American will be a stronger and better competitor. We will bring more and better service to more destinations than ever before. We will offer competitive prices and convenient travel times. We will remain committed to all communities—large and small. We are excited about the opportunities that the merger brings and are looking forward to what lies ahead.

Thank you. I would be happy to take any questions.

Senator CANTWELL. Thank you.

Mr. Kennedy, welcome.

STATEMENT OF GARY F. KENNEDY, SENIOR VICE PRESIDENT, GENERAL COUNSEL AND CHIEF COMPLIANCE OFFICER, AMERICAN AIRLINES, INC.

Mr. KENNEDY. Thank you. Chairman Cantwell, Ranking Member Ayotte, and members of the Committee, thank you for the opportunity to testify today.

As General Counsel of American Airlines, I have been intimately involved in both the Chapter 11 restructuring of American and the proposed merger between our two companies. I am pleased to announce that we are quickly approaching the end to the most successful restructuring in the history of the airline industry. Our plan of reorganization, which is based on the announced merger with US Airways, promises to be a tremendous success for all constituencies.

Our unsecured creditors will receive equity in the new American with the potential to receive a full recovery of their claims. Our current shareholders will also receive valuable equity stake in the new company, a result that is highly unusual in any restructuring, but one that reflects the enormous value of the proposed merger that we have created.

Our union employees will also receive a significant percentage of the equity in the new company, and they have negotiated post-merger pay benefits and work rules that are far superior to those imposed by other airlines exiting bankruptcy. The enthusiasm among our work groups for this merger will be a powerful driving force behind the new American for years to come.

And finally, but certainly not least, our customers stand to benefit greatly. The new American Airlines expects to win more business from passengers here at home and across the globe, and winning that business will allow the company to invest in its people and its products all with the goal of restoring America's position as one of the world's great airlines.

The path over the last decade and a half that brought America to this point has not been easy. The airline industry as a whole has seemingly lurched from crisis to crisis, beginning with the horrific events of September 11. Those events were followed by the SARS epidemic, along with an unprecedented run up in the cost of fuel, and the worst financial crisis since the Great Depression. The toll taken on the airline industry was amply reflected in a string of bankruptcy filings by our competitors.

For most of the past decade, American charted a different path. In 2003, we came close to filing for bankruptcy protection, but we were able to negotiate new agreements with our labor unions. They gave us more time to find a path forward. However, the competitive landscape and the macroeconomic environment continued to change around us in ways that further eroded our competitive position and our financial strength. Despite those efforts, our losses continued to mount, reaching $12 billion over the last 10 years.

In November 2011, our Board came to the painful conclusion that we needed to restructure our business under Chapter 11 of the Bankruptcy Code. Through this process, we streamlined our management structure, renegotiated our financial obligations, and reached new agreements with our labor unions. One of the most important objectives we achieved was to freeze, rather than terminate, our employee pension plans. As a result, American expects to fulfill those obligations rather than unload them on the PCGB as other airlines have done.

Of course, the exit door from Chapter 11 is a plan of reorganization, and our plan, which is nothing short of historic in what it accomplishes, is built around a merger with US Airways. The combination puts together two highly complementary networks with minimal loss of competition, and creates a network that consumers will find substantially more attractive than American standing alone can produce.

American and US Airways are under no illusions that mergers are easy or seamless. Both companies are keenly focused on using the lessons from prior mergers to maximize value and minimize disruptions. This merger is good news for everyone except our competitors. The new American will lift the competitive bar in a highly competitive U.S. airline industry, and this merger will position the company to accomplish great things for its employees, its customers, and its shareholders.

Thank you for the opportunity to testify. I will be happy to take questions.

[The prepared statement of Mr. Kennedy follows:]

PREPARED STATEMENT OF GARY F. KENNEDY, SENIOR VICE PRESIDENT, GENERAL COUNSEL AND CHIEF COMPLIANCE OFFICER, AMERICAN AIRLINES, INC.

Chairman Cantwell, Ranking Member Ayotte and members of the Subcommittee, thank you for the opportunity to testify today about the proposed merger of American Airlines and US Airways.

As General Counsel of American Airlines, I have been intimately involved in both the Chapter 11 restructuring of American and the proposed merger between our company and US Airways. I am pleased to announce that we are quickly approaching the end to the most successful restructuring in the history of the airline industry. Our plan of reorganization, which is based on the announced merger with US Airways, promises to be a tremendous victory for all constituencies. Our unsecured creditors will receive equity in the new American with the potential to receive a full recovery on their claims. Our current shareholders will also receive a valuable equity stake in the new company, a result that is highly unusual in any restructuring, but one that reflects the enormous value the proposed merger has created.

Our unionized employees will also receive a significant percentage of the equity in the new company, and they have negotiated post-merger pay, benefits, and work rules that are far superior to those imposed by other airlines exiting bankruptcy. The enthusiasm among our work groups for this merger will be a powerful driving force behind the new American for years to come. Finally, but certainly not least, our customers stand to benefit greatly. The new American expects to win more business from passengers here at home and across the globe, and winning that business will allow the company to invest in its people and its products, all with the goal of restoring American's position as one of the world's great airlines.

The path over the last decade and a half that brought American to this point has not been easy. The airline industry as a whole has seemingly lurched from crisis to crisis, beginning with the horrific events of September 11. Those events were followed the SARs epidemic, along with an unprecedented run up in the cost of fuel, and the worst financial crisis since the Great Depression. The toll taken on the airline industry was amply reflected in a string of bankruptcy filings by our competitors.

For most of the past decade, American charted a different path. In 2003, we came close to filing for bankruptcy protection, but we were able to negotiate new agreements with our labor unions which reduced our costs and bought us more time to find a path to financial stability. However, the competitive landscape and the macroeconomic environment continued to change around us in ways that further eroded our competitive position and our financial strength. In 2001, American was the largest airline in the world. However, the mergers of Delta and Northwest, United and Continental, and Southwest and AirTran, moved American from the largest to the fourth largest airline in terms of U.S. domestic passengers. And, despite our best efforts, our losses continued to mount, reaching $12 billion over the previous 10 years.

In November 2011, our Board came to the painful, but inevitable, conclusion that we needed to restructure our business under Chapter 11 of the Bankruptcy Code. Through this process, we streamlined our management structure, renegotiated our financial obligations, leases, and contracts, and reached new agreements with our unions, including long-term agreements that will become effective once American has successfully merged. One of the most important objectives we achieved was to freeze, rather than terminate, our employee pension plans. As a result, American expects to fulfill those obligations, rather than unload them on the PBGC, as other airlines have done.

Of course, the exit door from Chapter 11 is a Plan of Reorganization, and our plan—which is nothing short of historic in what it accomplishes—is built around a merger with US Airways. We have conservatively estimated that by 2015 revenue and cost synergies will outweigh cost dis-synergies by over $1 billion. The combination puts together two highly complementary networks, with minimal loss of competition, and creates a network that consumers, of all types, will find substantially more attractive than the network American, standing alone, could produce. The combined network will be comparable in size to the networks of United and Delta, which have both used bankruptcies and mergers of their own to leapfrog American.

American and US Airways are under no illusions that mergers are easy or seamless. Both companies are keenly focused on using the lessons from prior mergers to maximize value and minimize disruptions. This merger is good news for everyone except our competitors. The new American will lift the competitive bar in an already highly competitive U.S. airline industry, and this merger will position the company to accomplish great things for its employees, customers and shareholders.

Thank you again for the opportunity to testify today.

Senator CANTWELL. Thank you very much.

Mr. Leocha?

STATEMENT OF CHARLES A. LEOCHA, DIRECTOR, CONSUMER TRAVEL ALLIANCE

Mr. LEOCHA. Chairwoman Cantwell, Ranking Member Ayotte, and other members of the Subcommittee, my name is Charlie Leocha. I am the Director of the Consumer Travel Alliance. We, the passengers, thank you for a place at this hearing.

About 3 years ago I sat here before the full Commerce Committee to discuss the merger of United and Continental. I reread that transcript and noticed the same rationale for merger then as now, almost word for word. But this time, there are enormous differences.

During the previous mergers, the airline industry was under severe financial stress. Today the airline industry is thriving. The two airlines sitting before you are in their best positions in years, even without any merger. Both can fly on their own wings. Their CEOs have both confirmed that.

We, the passengers, need your careful examination of this merger from a consumer's point of view. Number one, competition will be clobbered. A study done by the Consumer Travel Alliance showed that we, the passengers, in 38 out of 50 states will lose significant airline competition. The recent GAO report released today is even more dramatic. On 1,665 connecting markets, effective competition will be reduced.

Two, prices will go up. In past mergers, we the people have faced price increases three times more than the norm where airlines have any semblance of market control. Now with fees, airlines have already acted. Only last month, the big four airlines raised the change in fees from $150 to a whopping $200, even when these two airlines sitting before you were faced with antitrust hearings, and one of them was raking in record profits. We, the passengers, have no power to even vote with our wallets when the legacy carriers raise their fees in concert like that. These are the kinds of avaricious fees that require competition, not more power for the airlines.

Three, airports will suffer. Overlapping routes mean airports are in danger. Airports like Boston, Bradley, Seattle, San Francisco, Fresno, Minneapolis, San Antonio, Orlando, and others are all in danger of right sizing. That is airline speak for layoffs and service cuts. Every Senator here will see her or his state lose competitive airline service, and many airports in their states will face layoffs as the airlines consolidate. Some hub airports will be downsized. If I was from Arizona, North Carolina, Pennsylvania, or Florida, I would never vote to approve this merger.

Number four, there are no significant benefits for consumers. Most airline mergers claim big financial synergies or big benefits for we, the passengers. This merger does neither.

Five, passengers will suffer. With every merger, massive computer glitches delay thousands and thousands of airline passengers. This merger will be the same if history is to bear. And on planes, American Airlines has already announced that they are moving their seats closer together. That is what we can expect.

Combining American Airlines and US Airways brings together two of the worst airlines for customer service according to the American Customer Satisfaction study. Bad plus bad equals worse, not better.

Finally, on labor issues, they will bog down the merger. Any promises about labor peace are pie in the sky, and bad labor relations translates to bad customer service. This merger will see coming labor unrest. After eight years, as we sit at this hearing, US Air pilots are still not integrated, and their flight attendants were only united a couple of months ago. For them to promise anything different today cannot be believed.

And within American Airlines, TWA flight attendants have been battling to reclaim their shamefully stolen seniority. Mr. Parker and the American Airlines flight attendant unions should sort out this date of hire disgrace.

In conclusion, there are no benefits overall. Consumers will dramatically lose competition. Air fares will go up, airport service may be reduced, consumers will suffer during the merger integration, and there is no magic union peace. How many times does Congress, the government, and the airlines have to do the same thing over and over, again expecting different outcomes? It is time to stop this merger madness and do what is best for consumers and the free market. We, the passengers, are depending on you, our representatives.

I am ready for any questions.

[The prepared statement of Mr. Leocha follows:]

PREPARED STATEMENT OF CHARLES A. LEOCHA, DIRECTOR, CONSUMER TRAVEL ALLIANCE

The Consumer Travel Alliance objects to this proposed merger of American Airlines with US Airways for the following reasons—

- There is no need for this merger.
- There are no overall benefits to consumers from this merger.
- The aviation system will dramatically lose competition and see fares and fees rise.
- Airline service may be reduced.
- Consumers will suffer during the merger process.
- Labor issues will continue to be a factor affecting customer service.

Members of this subcommittee need to ask whether this merger will benefit their constituents. The simple answer is: no.

When this merger is examined, no matter how you dress it up, competition will be reduced, consumers will ultimately have fewer choices, they will have to bear the burden of merging operations and labor unions, and will enjoy no net gains in destinations.

Antitrust is designed to protect consumers

Let's start with the basics. Antitrust protections are designed to protect consumers from the effects of oligopolies and monopolies. These laws were passed in order to ensure competition in the marketplace. The leaders from US Airways and American Airlines are asking you to ignore their prima facie assault on competition. They're hoping you overlook the results of two previous mergers, which created enormous problems for consumers.

When this merger was proposed, statements from both US Airways and American Airlines would have you believe that there was virtually no competition, the routes were "complementary," and that the only semblance of competition was on 12 overlapping non-stop routes. Later in the testimony, we will point to studies that show dramatic route overlap—as much as 40 percent of the current American Airlines connecting routes and 30 percent of US Airways routes compete head-to-head with each other. Consumers will lose that competition.

There are no net benefits for consumers

Overall, consumers will see no new routes or improved service that couldn't be achieved without a merger. In addition, frequent flier programs will be upended and businesses near current airline hubs may face cutbacks in airline service. Whatever "benefits" claimed by better US Airways/American Airlines connectivity and frequent flier choice will come at the expense of the current US Airways/United airline alliance service and frequent flier programs. What this merger purports to give with one hand, it takes from consumers with the other.

1. No compelling economic reason for this merger

This merger is unique in the airline industry among recent mergers. In the past, one of the major airlines being merged has always been in financial distress. Delta merged with cash-strapped Northwest. Continental merged with struggling United. American West merged with bankrupt US Airways. Plus, the airline industry was losing money hand-over-fist.

In this case, neither airline is in danger of collapse—US Airways just reported a record profit and American Airlines, having just made aviation's largest aircraft order, will emerge from bankruptcy with billions of dollars in the bank with its labor costs slashed through the bankruptcy process. Its CEO, Tom Horton, has repeatedly claimed that American Airlines would be able to stand alone after emerging from Chapter 11.

It is only because of the intensely poor labor relations, where American Airlines' unions united in their mantra ("Anything but the current management would be an improvement") that Mr. Parker, CEO of US Airways, managed to turn the American Airlines board of directors in favor of the merger. Otherwise, American Airlines was predicting that bondholders and most stakeholders other than stockholders would be made almost whole.

Remember, these bonds and the commercial paper are held by seasoned investment professionals. American Airlines' woes were well-publicized. There is no reason for this committee, whose purpose is to protect consumers against the loss of competition, to be concerned with financial stakeholders. That is the job of the bankruptcy court, not the U.S. Senate or the Department of Justice.

With past mergers, the aviation system was at a tipping point. Today, that is not true. The antitrust laws and review need to be used to benefit consumers, not to make creditors whole. That is a basic difference between antitrust and bankruptcy issues.

Consumer score: No consumer benefit

2. No discernible consumer benefits from this merger

This merger brings no new routes, no new competition, no savings that can be passed on to consumers. Even if there were significant savings created by synergies in this merger, they would be overwhelmed by the negative consequences of higher airfares and reduced competition.

Past testimony from Mr. Parker and Mr. Horton alludes to new destinations and better connections between American Airlines destinations and US Airways destinations. However, their testimony and statements conveniently exclude the current connections that are offered between United destinations and US Airways destinations by virtue of their airline alliance arrangements. When Mr. Parker claims new connections between US Airways and American Airlines destinations, there is no evidence to suggest that there will be any improvement in route connections over those already provided by these carriers' current alliance arrangements.

When looking at the international routes, airline alliances and destinations, the changes for current US Airways customers are bleak. They will be exiting the Star Alliance that has 1,329 destinations served by 28 member airlines and will be affiliating with the Oneworld Alliance that serves 850 destinations by 13 member airlines.[1] This will be a dramatic cut of 479 destinations that are today available to current US Airways passengers.

When this committee looks at whether customers will enjoy additional destinations or not, take into account the dismantling of Star Alliance frequent flier and code-share partnerships that will harm millions of passenger because of reduced destinations.

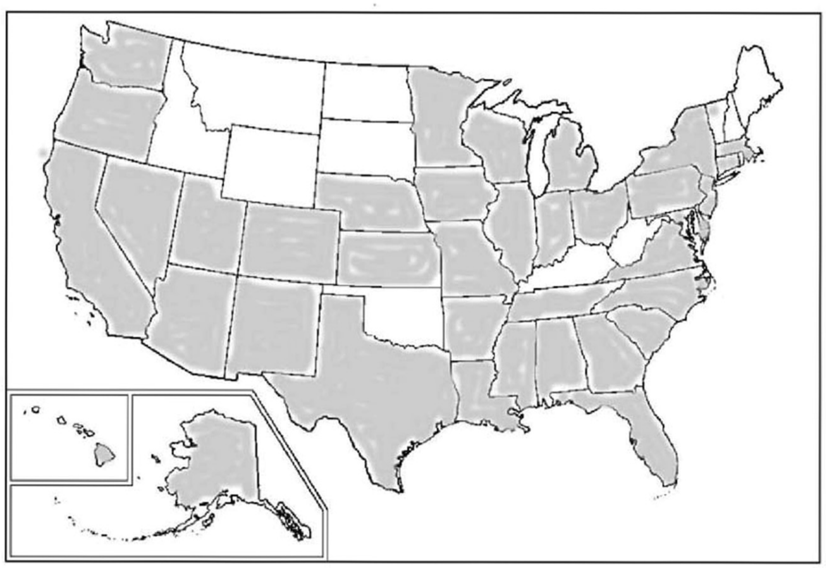
American Airline passengers may see some benefits of additional destinations; however, overall, 46 million members[2] of the Star Alliance will see a reduction in their available destinations and frequent flier mileage options.

Consumer score: Consumers receive no net benefit and possibly lose destinations

3. Lost route competition across airlines will harm consumers

The total number of national, domestic carriers will be reduced from five to four—a 20 percent reduction. Consumers will be faced with less choice, less service, fewer non-stop flights and higher airfares.

A study commissioned by the CTA found that competition will be clobbered in 38 out of 50 states by this merger. The CTA study[3] showed that 761 routes between domestic airports overlap between these two airlines. Forty percent of American Airlines' routes face daily competition from US Airways and 30 percent of US Airways' routes face competition from American Airlines. A recently completed GAO study echoes these findings and shows the loss of competition and dramatic number of overlapping routes.



38 of 50 states will lose competition on one-stop overlapping routes plus Puerto Rico and Washington, DC (grey states)

Though the new American Airlines message is that there are only 12 non-stop overlapping routes, the real competition between hub-and-spoke airlines comes via connecting routes. Hub-and-spoke systems live and die through connecting routes.

For example, take a passenger deciding between airlines flying from Seattle, Washington, to Austin, Texas. Currently, American Airlines and US Airways compete vigorously on this route—US Airways connects via Phoenix, Arizona, and American Airlines connects via Dallas, Texas.

[1] *http://en.wikipedia.org/wiki/Airline__alliances*
[2] *Ibid.*
[3] See Appendix B

Another example might be passengers flying between Hartford, Conn., and Phoenix, Arizona. They would fly via Dallas on American Airlines and connect in Philadelphia if flying on US Airways.

Even where one airline may have non-stop service and the other features connecting service, many passengers choose to fly on a connecting flight because the prices are normally lower in most markets.

Furthermore, consumers will lose from the perspective of price competition. The system of "signaling" airfare increases only requires one airline belonging to the "Big 5" (American, Continental, Delta, Southwest and US Airways) to decline to participate in an airfare increase. When all the majors do not agree, tested airfare increases are rolled back. Several years ago, there were seven airlines in this fare-setting universe. If the American Airlines/US Airways merger is approved, we will only have four domestic airlines participating and, effectively, only three international airline alliances (protected by antitrust immunity and operation joint ventures). Airline passengers will, on balance, lose 20 percent of their competition dynamic with this merger.

According to the *Wall Street Journal,*[4] "When two competitors combine to dominate prime routes, those markets tend to bear the brunt of higher prices." The effect on airfares has been brutal.

> Consider United Airlines and Continental Airlines, which used to compete for customers flying between Chicago and Houston, for example. After the two airlines merged in 2010, the combined company, which took the United name, now carries 79 percent of the traffic traveling between Houston's Bush Intercontinental Airport and Chicago's O'Hare Airport, not counting connecting passengers. United's average fare on that route soared 57 percent in the three months ended September 2012 compared with the same period three years earlier, according to Department of Transportation data compiled by *PlaneStats.com.* By comparison, United's total average domestic price per mile over the same three-year period went up only 16 percent.
>
> . . .
>
> Travel will change significantly for consumers on a few routes served by both American and US Airways. Between Miami and Philadelphia, for example, US Airways carries 54 percent of travelers, according to DOT data for the third quarter of last year. American has 44 percent, and a combined American-US Airways will have 98 percent unless other airlines decide to do battle against the behemoth.

In testimony before the Senate Judiciary Committee's Subcommittee on Antitrust, Competition Policy and Consumer Rights, Diana Moss, VP, American Antitrust Institute, said that post-mergers, "Fare increases are above average at the origin airport on 70 percent of routes affected by Delta-Northwest and on over 90 percent of routes affected by United-Continental."

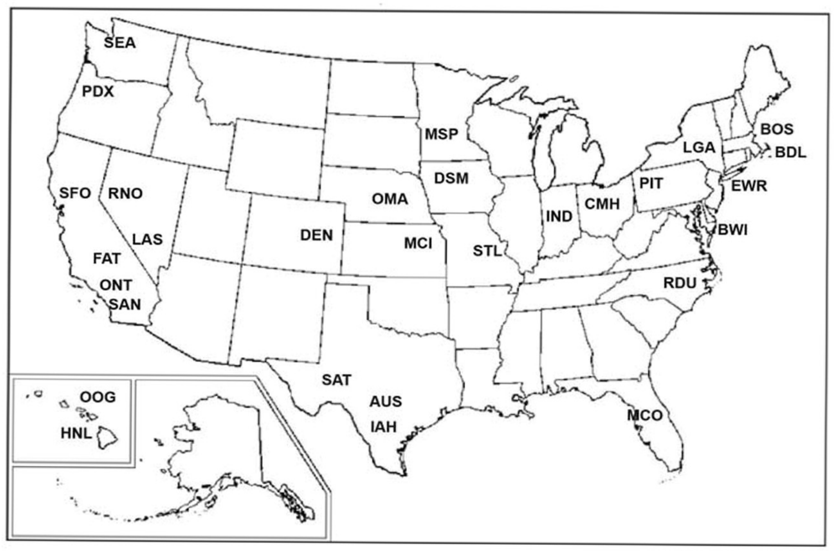
Airlines are already effectively colluding with one another when it comes to capacity controls. US Airways executives have publicly stated that when airline industry capacity is restrained, it allows the industry to pass on the added costs of increased fuel prices. There are many ways to compete. Capacity control and price are two of them. This merger will make it easier to raise prices on consumers via either route.

Now that airlines have created a bifurcated pricing model that combines airfares with ancillary fees, they can squeeze consumers with airfare increases or with arbitrary fee increases. A perfect case in point is the recent ratcheting up of the change fees on domestic airline tickets from $150 to $200. Even when preparing to face congressional and DOJ scrutiny, legacy carriers followed each other with this 33 percent increase. Consumers have no viable way to counter this heavy-handed airline fee increase, since every legacy airline increased these fees in concert. This raw pricing power over ancillary fees will only become worse with consolidation.

[4] *Wall Street Journal,* April 10, 2013 *http://online.wsj.com/article/SB10001424127887324010704578414813368268482.html*

Consumer core: Negative—competition will be reduced and airlines will find it easier to raise prices

4. Popular, mid-sized, non-hub airports like St. Louis, Fresno, Seattle and Las Vegas that are at the end of "spokes" in US Airways and American Airlines hub and spoke systems are in danger of losing service as the airlines "right-size."



Airports that will suffer the greatest loss of competition from one-stop connecting routes
Airports that have the best chance of losing service due to "right-sizing"

The Consumer Travel Alliance (CTA) study shows many non-hub airports where American Airlines and US Airways vigorously compete, such as Austin, Bradley, Pittsburgh, Raleigh Durham, Kansas City, San Diego and Las Vegas. That competition will disappear. Flights to those cities will be cut back should they be considered "unprofitable redundancies."

Las Vegas and St. Louis have already taken hits from other mergers. They certainly do not need compounded damages. Other vibrant airports will face difficulties as one support company is laid off for another as the new American consolidates its support services. In each of these airports, the ancillary airport service industry will take a significant hit and result in unemployment and regional displacements. Remember, the airlines are not the only part of the economy that may or may not suffer layoffs; there are strong ripple effects.

When no longer forced to compete for leisure and business travelers attending conventions and sales meetings, both airlines will be able to eliminate individual "spoke" flights to these airport in order to gain efficiencies. This will result in less service to these outlying airports.

Consumer score: Negative—Consumers will have less choice

5. Consumers will lose one of the most competitive national legacy carriers

US Airways has prided itself on low labor costs that have allowed it to compete successfully with larger rivals even while its service was via hubs that did not have high numbers of originating traffic. That labor advantage will evaporate when the merger is complete and prices will be forced to rise.

Consumer Score: Negative consumers get less choice and less competition

6. Consumer harm in addition to increased airfares are the norm with recent mergers

Post-merger system integration problems plagued the Delta/Northwest and the Continental/United mergers. While the airline management rakes in merger bonuses, consumers are the ones who bear the brunt of post-merger integration service problems. With prior mergers, these issues have created major problems for passengers. DOJ should analyze the performance of previous mergers, their post-merger problems and the erosion of consumer choice and competition.

The problems with integration of United Airlines and Continental has resulted in what Jim Compton, COO of United Continental Holdings, called a "dis-synergy."[5]

> United executives reiterated Thursday that not only did the merger bring higher cost and lower revenue in 2012, but also labor costs will rise in 2013 as a result of new contracts that resulted at least partially from the merger.
>
> On the United call on Thursday, CEO Jeff Smisek called 2012 "the toughest year of our merger integration" and said, "We are absolutely not satisfied with the financial results we produced last year."
>
> In its summer schedule, United sought for the first time to fully merge operations of the two airlines. Operational performance plummeted, reaching a low in July when the carrier's 64 percent on-time arrivals rate was the worst in the industry. Problems included the introduction of new fleet types in various stations, unaccompanied by the introduction of appropriate jet bridges; a series of computer glitches; and a reduction of the number of spare aircraft in the fleet. One result of the latter miscalculation: in the second week of July, 300 passengers were stranded in Shanghai for three days.

The Delta/Northwest merger also resulted in a similar "dis-synergy."[6]

> Delta, for instance, had the worst on-time record among major carriers in 2010. Delta shares, which traded near $11 when the merger was announced in April 2008, spent almost all of 2009 trading in the single-digits and fell as low as $3.51 in March 2009. Analysts kept saying, "They need more time."

Should this merger be approved, the exact same events will probably occur.

While the pain in past mergers may have been necessary to save the airline industry from devastating financial losses, there is no such condition now. In the case of this merger, there is no compelling national reason to merge—no airline is in danger of failing—but, there is a compelling case, according to both the CTA and GAO studies, to be made that competition will be lost.

Consumer score: Negative—Coming reservation hassles are the norm. Every merger has had to deal with these problems. This merger will be no different. Airline consumers will suffer

7. Some hub cities may suffer as a result of mergers

Past mergers have seen once-vibrant hubs disappear. St. Louis airport is a ghost town compared to when it was a hub for TWA. After American acquired TWA's assets in 2001, the merged airline's daily departures out of TWA's former hub in St. Louis plunged from nearly 500 down to just 36.

Reno, Nevada, was abandoned by American Airlines. Cincinnati has shut down several of its terminals because of cutbacks from Delta. Cleveland was forced to negotiate a separate agreement with Continental/United to keep its hub operating temporarily. And, only a few weeks ago Delta abandoned Memphis as a hub after vowing to maintain their post-merger-with-Northwest service.[7]

With this merger, Charlotte may lose much of its international service—Latin American service may shift to Miami and European service to JFK and Philadelphia.

On the other hand, Mr. Parker, the incoming CEO, is committed to cost savings that have, in part, resulted in Charlotte, NC, being the lowest-cost major airport in the Nation.[8] With Miami Airport rating as one of the more expensive airports in the country and one of the airports with the worst customs and border protection service, Charlotte may end up the winner. There are no promises either way.

Phoenix as a hub may disappear as Los Angeles and Dallas would absorb much of its traffic. It will still be an important airport for US Airways, but its service levels may dip below those of its main local competitor, Southwest Airlines, in the not-too-distant future.

This shift away from once-important hubs harms both small and large communities and citizen-funded airports, adds to unemployment woes and drains government funding. These are all possibilities of this merger with no compelling counter argument for the public good.

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[5] CNBC Stock Blog, The Street, Friday, 25 Jan 2013

[6] *Ibid.*

[7] Fox News *http://www.foxnews.com/travel/2013/06/05/delta-air-lines-dropping-memphis-as-hub-airport-this-fall-will-cut-230-jobs/*

[8] *CharlotteObserver.com http://www.charlotteobserver.com/2013/04/05/3962857/study-costs-primary-driver-behind.html*

Consumer score: Negative—This is what mergers are all about, squeezing synergies from the operating systems. In this case no public good is proffered to mitigate possible economic damages

8. The airline industry will enter the too-big-to-fail world

With the airline industry consolidated to four domestic airlines and three international airlines, the specter of massive airlines that affect too much of our Nation's economy will come into focus.

This is a two-edged sword. The too-big-to-fail reality will also provide the unions negotiating with these big airlines more power with their ability to disrupt the national economy.

Consumer score: Negative—Both big airlines and big unions can hold the economy hostage. With this development, all taxpayers will have to pay for a possible government bailout

9. A multiplication of labor issues and higher labor costs

For more than half-a-decade, US Airways has operated with its labor force of pilots and flight attendants divided into the America West group and the US Airways side. Over the past few years, American Airlines has faced some of the most contentious labor strife of any airline. Putting these three competitive groups of workers together—former America West, former US Airways and American Airlines—will be a challenge to say the least.

Mr. Parker has already announced that new contracts with a unified workforce would increase the US Airways' costs and erode much of the airline's current cost advantage that has allowed the carrier to grow and profit. These additional costs can only be paid for with an increase in airfares and/or fees.

Though US Airways and American Airlines have announced that the merger has the support of their unions, that support is only skin deep and union peace only has been declared until the merger is consummated. (The inter-union ceasefire is fraying.)

- *Pilots:* The CTA has heard from USAPA pilots who have not agreed to the current Memorandum of Understanding signed by American Airlines pilots. Disagreements between pilots' unions are baked into the merger cake. As these hearings are being held, Mr. Parker has not been able to bring the pilots' union from American West under a common contract with pilots from the old US Airways. That American West/US Airways merger took place back in 2005, about 8 years ago. For Mr. Parker to declare union peace and agreement with the merger is only a partial truth as far as pilots are concerned.
- *Flight Attendants:* Only in the last few months have flight attendants from America West and US Airways agreed how to merge their seniority lists. The two, once-separate groups are only now getting comfortable (or uncomfortable) with the new contract. During a visit to Phoenix for US Airways Media Day, I had the opportunity to speak with many former America West flight attendants who are not happy with the new contract and doubtful about the merger. According to sources, there will be a battle between the much larger overall Association of Flight Attendants (AFA—representing US Airways) and the Association of Professional Flight Attendants (APFA—representing American Airlines).

  Ex-TWA flight attendants who were "stapled to the bottom of the American Airlines flight attendant seniority list" are fighting for their proper positions in the new American Airlines. Their original TWA dates of hire are still preserved by American Airlines. The computer can combine the names in 7 seconds.[9]
- *Machinists:* his union is in the midst of an open battle for representation between the Teamster Union and the Transport Workers Union.[10]

Bottom line: Union peace is far from certain. When there are poor management/union relations or union vs. union disruptions, consumers suffer. This latest survey of the American Customer Satisfaction ranked US Airways and American Airlines dead last among major airlines.[11] Notably, both of these airlines have the most union unrest among major airlines.

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[9] See Appendix C

[10] Tompson Reuters May 5, 2013 *http://newsandinsight.thomsonreuters.com/Legal/News/2013/05__-__May/Teamsters__union__seeks__to__displace__union__at__American__Airlines/*

[11] American Customer Satisfaction Index™ *http://www.theacsi.org/?option=com__content&view=article&id=147&catid=14&Itemid=212&i=Airlines*

Consumer score: Negative—Reducing the number of remaining carriers can only further aggravate the consequences to be felt by the public. Higher labor costs translate to more expensive airfares. Poor labor relations result in low customer service rankings

Conclusions

- There is no need for this merger.
- There are no net benefits to consumers from this merger.
- The aviation system will dramatically lose competition.
- Airline service may be reduced at both hub and non-hub airports.
- Consumers will suffer during the merger process.
- Labor issues will continue to be a factor affecting customer service.

It is the role of Congress and DOJ to protect the American public from loss of competition. In the past that loss was mitigated by financial benefits to the airline systems and, thus, the economy and the public. This merger comes with no such apocalyptic backdrop and with no clear benefits to consumers.

The only clear and present result will be a loss of competition among the major airlines. That will not be good for the American public, American business and the American economic system.

Consumer Travel Alliance

The Consumer Travel Alliance (CTA) is a nonprofit, nonpartisan organization that works to provide consumers an articulate and reasoned voice in decisions that affect travel consumers across all of travel's spectrum. CTA's staff gathers facts, analyzes issues, and disseminates that information to the public, the travel industry, regulators and policy makers.

APPENDIX A

Possible Competition and Free-Market Remedies

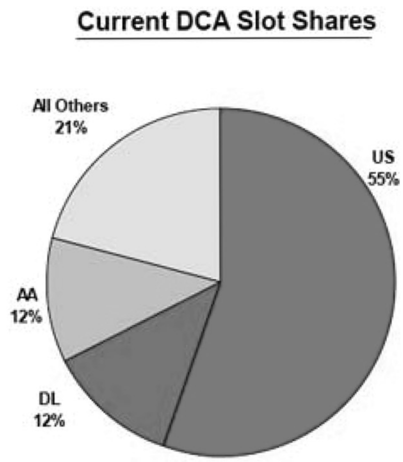
With some substantive aviation policy changes such as these, consumers may receive something positive out of this transaction.

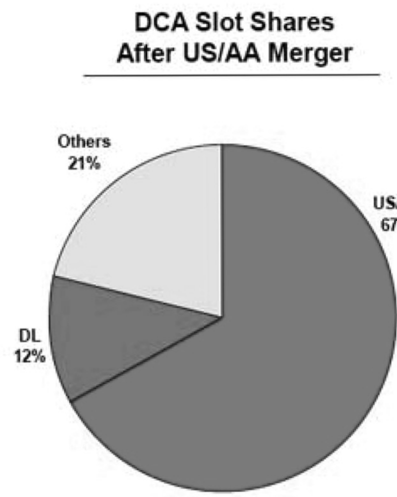
- Slot divestiture at DCA and LGA
- Airline ancillary fee transparency
- Cabotage, with Essential Air Service carve-outs
- Customer service improvements

1. Divestiture of slots at slot-controlled airports. Most of these divested slots should go to low-cost carriers and new entrants. Gates and counter space should be made available to airlines that choose to compete with the entrenched carriers at these slot-controlled airports. This will provide some semblance of new competition, especially at Washington, DC.

While US Airways and American Airlines argue that competition in the nation's capital region is strong with three airports—Dulles, Baltimore-Washington and Reagan-National—the new American Airlines will control 67 percent of the slots at DCA.

Representatives of the new American Airlines have been lobbying furiously on The Hill, warning many members that small communities may lose service to Ronald Reagan Washington National Airport (DCA) if slot controls are changed. However, that small-airport service can just as well feed into one of the other Washington-region airports. New rail connections and the bus/metro connections (as well as the coming extension of the DC Metro to Dulles) make reaching Baltimore Washington Marshall Airport (BWI) and Dulles International Airport (IAD) easier than ever.





Plus, their use of those slots shows a preponderance of smaller regional jets used in order to maintain their slot supremacy. A study prepared by Southwest Airlines notes that US Airways' aircraft size at DCA is smaller than any airline at any other U.S. hub.

Take-off and landing slots are a national resource that should be used efficiently. CTA has been arguing for better use of these slots since the deliberations over the slot swap between Delta and US Airways. A redistribution of these slots, resulting in a reduction of merged carrier's domination of DCA (to less than 50 percent of the operations), would serve the greater consumer good and instill competition into the DCA airport market.

Redistributing some of the smaller airport markets to either BWI or IAD will not be a major inconvenience to passengers and will allow more citizens to travel in and out of DCA.

At New York LaGuardia airport, this merger will result in 77 percent control of that airport by new American Airlines and Delta. No low-cost carriers will have more than five percent of the slots. An example of changes that come into effect when efficient low-costs carriers are allowed to compete with legacy carriers at airports formerly closed to them because of slot controls can be easily seen at Newark. When Southwest acquired divested slots at Newark Liberty Airport, Southwest airfares were reduced by 13 percent and passenger loads out of the airport increased by 36 percent, while other Newark fares rose 10 percent.

2. Airlines must disclose all ancillary fees through all channels where they choose to sell airline tickets. If competition is wrung out of the airline system through this merger, Congress can put competition back into the system by mandating that airlines disclose ancillary fees to travel agents so that passengers can easily comparison shop across airlines. Consumers should also be allowed to purchase any ancillary services and pay any ancillary fees at the time of booking either through airlines or travel agents.

It is about time that a family traveling can note that they are a four-member family that will be carrying on four bags, checking two bags and want to sit together in one row. Technology has already been demonstrated to the Advisory Committee for Aviation Consumer Protections last year that shows that the airfares plus ancillary fees can be compared easily. The only barrier to this kind of pricing transparency is the airlines' refusal to disclose their ancillary fee data in a dynamic way that can be used by travel agents.

The market system only thrives when prices are transparent and comparable across airlines. This is the only way that effective full price competition can flourish. Price competition becomes more important as the number of competing airlines is reduced.

Without full and dynamic extra fee disclosure, consumers have no hope of comparing all-in prices across airlines—prices that include airfare plus baggage and seat reservation fees. If all ancillary fees are fully disclosed in a dynamic fashion, software from third parties will eventually allow comparison of the full cost of travel across airlines. Such a change would allow passengers to bundle their own airfare and compare prices before they purchase airfares.

Plus, passengers should be able to purchase airfares and any extra fees at any place that the airlines choose to sell airline tickets. This stops the present airline practice that forces passengers who buy airline tickets from travel agents to later purchase extra services directly from the airlines.

3. Congress should review the ban on allowing foreign carriers to serve domestic routes. As the domestic line-up of carriers shrinks and as domestic carriers abandon smaller airports, foreign carriers could offer service to smaller airports as a way to guarantee essential air services.

When a consolidated airline industry does not provide competition, new competition may need to be injected into the model. Plus, foreign competition can be used to create service to essential air service (EAS) airports in return for access to more lucrative routes. More than likely, U.S.-based regional airlines will serve the EAS airports, which will add revenues for the domestic airline industry.

This could be a win-win-win-win proposition. Such a system would allow small regional airports to benefit; taxpayers would save some EAS subsidies; regional airlines will most likely provide the service and will benefit; and competition will be put back into our domestic market that will help the traveling public.

4. Customer service improvements

- *Implement minimum seat width and legroom standards.* Even dogs are protected by humane minimum-space rules. It is time that airlines declare some sort of minimum pitch and width for airline seats.
- *Add customer commitments to the airline contract of carriage.* Passengers today have no contract with airlines that control how they are treated as customers. Airline-created customer service obligations dealing with airfares, flight delays, cancellations, lost baggage, bumping, etc., should be legally enforceable. Airlines already enjoy Federal preemption. Consumers should be provided an enforceable contract of carriage.
- *Adopt a "plain English" and standard contract of carriage.* Consumers have a right to have contract terms clearly stated and understandable.
- *Provide passengers clear customer service contact phone numbers.* Passengers deserve the ability to call, in real time, a customer-service number or reach an airline representative using their electronic device should they be faced with problems during their travels. This need for real-time customer service becomes more important when airline itineraries cross domestic and international airlines due to codeshare and airline-alliance arrangements. This phone number should be staffed with personnel who can solve problems and assist consumers with issues while traveling with airlines and their partners.
- *Clearly and conspicuously display consumer service rules at all airline gates and baggage claim areas.* Airlines should be required to inform passengers of their rights and the airline customer service commitments prominently at airport check-in areas, boarding gates and baggage carousels.

The E.U. has created posters that can be seen displayed at airports across the union. These humorous posters have a basic message: "You have rights." They have been produced for the past five years and their display is voluntary. Here in the USA, airports have been reluctant to display such public information posters for fear of upsetting the airlines. There should be some kind of mandated display of customer service information other than forcing consumers to request a Contract of Carriage should they want to learn their rights.

APPENDIX B

Consumer Travel Alliance Analysis of Competitive Market Overlap, American Airlines and US Airways

Methodology and Findings

- Bureau of Transportation Statistics' Airline Origin and Destination Survey (DB1B) "Market" and "Coupon" data were imported using SAS and loaded to a SQL database without modification
- Records for carriers 'US' and 'AA' were selected into a working dataset (the "analysis" dataset) based on the following operational definitions:
  - Only records meeting the following criteria were included:

§ BulkFare = 0

§ No unreported or surface carriers in OpCarrierGroup

§ Maximum of two stops (equivalent to three point-to-point segments)

- Where Carrier defined as ‘US’:
§ Where no change in carrier occurs for the route (OPCarrierChange = 0):
- Operating Carrier = ‘US’ or (Ticketing Carrier = ‘US’ and Operating Carrier in (‘YX’, ‘ZW’, ‘YV’, ‘OO’, ‘EV’, ‘RP’, ‘16’, ‘17’))
§ Where two or more operating carriers were involved (OPCarrierChange = 1):
- Ticketing Carrier = ‘US’
- All coupons in the itinerary had Operating Carrier in (‘US’, ‘YX’, ‘ZW’, ’YV’, ‘OO’, ‘EV’, ‘RP’, ‘16’, ‘17’)
○ Where Carrier defined as ‘AA’:
§ Where no change in carrier occurs for the route (OPCarrierChange = 0):
- Operating Carrier = ‘US’ or (Ticketing Carrier = ‘US’ and Operating Carrier in (‘MQ’, ‘RP’, ‘OW’))
§ Where two or more operating carriers were involved (OPCarrierChange = 1):
- Ticketing Carrier = ‘AA’
- All coupons in the itinerary had Operating Carrier in (‘AA’, ‘MQ’, ‘RP’, ‘OW’)
- Passenger Counts were summed by carrier, origin, destination, and non-stop indicator
○ Only records where Passenger Count > = 15 (approximating 150 PAX, or 1 regional jet per month)
○ Where passenger count exceeded the cutoff in one direction but not in the other (primarily due to Passenger Counts only slightly above 15) then the remaining direction was removed from analysis
- Total market share by TKCarrier-origin-destination was calculated from the base dataset
○ Market share limited to itineraries with a maximum of two stops
○ Market share calculation limited to market-carriers having Passenger Count >= 15
- Total market share by OPCarrier-origin-destination was calculated from the base dataset
○ Market share limited to itineraries with a maximum of two stops
○ Market share calculation limited to market-carriers having Passenger Count >= 15
- The Analysis dataset was then limited to contain only markets where either U.S. or AA has 5 percent or greater ticketing or operating market share, based on total passenger counts (non-stop plus connecting.)
○ A number of cases exist where one carrier serves a market primarily with non-stop flights, while the other carrier serves a market primarily with connecting flights, but also offers a limited number of direct flights. Based on the above definitions, these are classified as overlapping, non-stop markets, which number greater than the 12 markets where scheduled, direct flights overlap.
○ Additional cases exist where BTS market data may not delineate between non-stop and direct flights. For example, U.S. offers a direct flight from BWI to DFW that stops, but does not deplane, in PIT. These may appear as non-stop flights in the BTS dataset, and are also classified as overlapping, non-stop markets based on the above definitions.
- The cleansed “Analysis” dataset was then used to produce a cross-tab of overlapping and non-overlapping markets by non-stop/connecting indicator, displayed in Table 1.

Table 1.—Non-stop and connecting market overlap for U.S. and AA

Market Overlap	Non-stop Markets	Connecting Markets	Total Markets
1) AA-only	322	1,943	2,265
2) US-only	350	2,560	2,910
3) Competitive	49*	761	810
* Competitive, non-stop markets include those where competition is predominantly direct versus connecting, but where BTS data report both carriers offering non-negligible direct service.			

APPENDIX C

The TWA Flight Attendant Conundrum

TWA flight attendants should be provided seniority status that corresponds with the same standard agreed upon by the two representing unions at American Airlines and US Airways. That "fair and equitable" standard should reflect each flight attendant's actual date of hire seniority.

Current Federal law (McCaskill-Bond) requires that the two unions try to resolve the integration of their seniority lists. Whatever standard is agreed upon should apply across the board to every member of the bargaining unit to avoid compounding previous problems and inviting litigation that will delay the merger.

There are about 950 TWA flight attendants remaining who have never received any seniority integration into the system seniority list and who will be further permanently damaged unless a single standard is required. This can easily be accomplished because the company offered a buyout that 2,250 flight attendants accepted and there is no harm in slotting in the remaining 950 with their earned date of hire, not their acquisition date of the last merger in 2001. Congress should require this as a remedy under the spirit of McCaskill-Bond because the former TWA flight attendants cannot arbitrate against their own union.

The President of the Association of Professional Flight Attendants publicly admitted in an interview with the Fort Worth Star Telegram Editorial Board that the APFA 'screwed up big time' and made a 'mistake' in stapling the former TWA flight attendants to the bottom of the list in 2001. Now is the time to correct this admitted injustice.[12]

Senator CANTWELL. Thank you, Mr. Leocha.

I am going to start with you, Ms. Kurland, on this issue of slots. Do you know if—how DOT arrived at their conclusion about the previous US Air-Delta merger that they could own 55 percent—I think it is 55.6 percent—of the slots they raked in after their swap with Delta? And did under that—answer that question first. Sorry.

Ms. KURLAND. Yes, under the slot swap transaction that was proposed to us by Delta and US Airways, we took a careful look at what the outcomes would be both at LaGuardia and at DCA. And in doing an analysis we came up with the conclusion that it would be appropriate for US Airways and Delta to divest of a certain amount of slots. We put them up for auction, and they were obtained by Jet Blue at the time.

So at the time, we made the conclusion or we made the judgment that 55.6 percent—I believe that was the number—that it should not go higher at that time.

Senator CANTWELL. And did the Department of Justice at that time consider Dulles or Baltimore as substitutes for consumers, or was that separate?

Ms. KURLAND. We took a look at all three markets, and there is not perfect substitutability between all three markets. Different

[12] APFA website *http://www.apfa.org/content/view/2301/929/*

passengers want different things from particular markets. For example, at DCA, you have got passengers who are interested in being close in to the Capitol, the ease of getting to the Capitol. You also have passengers that live close to DCA, so there is not a perfect substitutability between all three markets—all three airports.

Senator CANTWELL. And, Mr. Kennedy, prior to the merger announcement, what were the American slots used for at Reagan? Were they large or medium-sized, you know, airport pairings?

Mr. KENNEDY. We served a number of airports out of—at Reagan, and not as many small and medium-sized cities as US Air because they have more slots than we do. But we serve a number of airports. I do not know the exact number.

Senator CANTWELL. OK. If you could get that information for us, I would appreciate it.

Mr. KENNEDY. We can do that, yes.

Senator CANTWELL. And, Mr. Leocha, I certainly understand your focus and certainly your frustration with what has transpired in the aviation—in the airline industry. And you bring up a very, very important point. There is probably nobody more frustrated by airlines dumping employee pensions at the PCGB only to have employees greatly wiped out for a lifetime of earnings. So I understand your frustration and your concern.

Mr. Kennedy has said that in this case that they are not dumping this at the doorstep of the PCGB, which would seem to be good news. Am I misunderstanding something here?

Mr. LEOCHA. Yes. I mean, I am not talking about dumping things on the PCGB. I was talking more about a specific situation that is within the American Airlines flight attendant union where the TWA flight attendants were stapled to the bottom of the list.

Senator CANTWELL. The date of——

Mr. LEOCHA. And that is where—the date of hire issue. And that is something which I have been—for years I have had friends who went through that, and I just think it is something which needs to be fixed. And I applaud, by the way, American Airlines and US Airways for not choosing to dump everything on the government and to find a way to work it out. I was very glad to see that happen.

And that was not their first choice, by the way, but it was—eventually their arms were twisted and they ended up doing it.

Senator CANTWELL. Well, I, from what I understand today, also think that this is good news. I do think the date and service issue does need to be fixed, and I do think that we need to look at this issue of how does airline consolidation impact pensions and pension obligations.

But I also believe that when we had this discussion as it related to US Airways and Delta Airlines, there were a lot of pilots in the back of the room, and they were not for the merger. And my understanding is there are a lot of pilots here today, and they are for the merger. So I just want to understand that point, too. And if Mr. Parker, Kennedy, or Mr. Leocha want to comment on that.

Mr. PARKER. Yes, I was here for that hearing as well, as you recall. So, yes, the distinction, of course, is in that case the employees of Delta Airlines very much wanted to remain independent. And the distinction here is the employees of American and the employees of US Airways understand that the best thing for them, for their careers, for their livelihood, is to have a carrier that can compete with the other large carriers that are out there—United, Delta, Southwest. And they fully know, and understand, and have done their work to understand that this is in their best interest. And they can speak for themselves, and they have, and are very excited about this, and we are excited to have their support.

Senator CANTWELL. Thank you.

Senator Ayotte?

Senator AYOTTE. Thank you, Madam Chairman. I wanted to ask Ms. Kurland about if the new American Airlines could potentially control approximately 67 percent of the slots at DCA. As I understand it, their passengers will account for about 50 percent of the total passengers that are using the airport. And part of that is that many of the slots are used by smaller regional aircraft serving smaller and mid-sized communities.

How does DOT intend to ensure that access to the nation's capital remains for these smaller communities? I happen to represent one in Manchester that has an airport that US Air will fly directly to Reagan, and wanted to get your thoughts on how we ensure that the smaller airports are not getting hurt on the DCA issue?

Ms. KURLAND. Thank you, Senator Ayotte. Let me start by saying that the provision of service to smaller and medium-sized communities is a priority for the Department of Transportation. And we—in terms of whether or not Justice decides that there should be a divestiture or there should not be a divestiture, we think that if there is one, it should not necessarily hurt small communities, that the merged carrier would have a slot portfolio that would be sufficient to serve the needs of smaller communities as well.

Senator AYOTTE. And if DOJ decides to require the new American to divest some of its slots at DCA or in other locations as well, is there a spelled out procedure for distributing them? If so, what would you anticipate that being? And is it a competitive auction process for all carriers that operate at DCA, or will certain airlines get a preference, for example, carriers with a smaller DCA presence? How would that process work?

Ms. KURLAND. Senator, that process is up to DOJ. You know, I know it is frustrating not to be able to talk about what the process would or would not be. But that is something that would be up to DOJ.

Senator AYOTTE. Would you have input in it?

Ms. KURLAND. We talk to DOJ. We advise them. We provide input, yes.

Senator AYOTTE. Obviously this is a really important issue, when I think about it, for communities like Manchester, New Hampshire that I represent. So I hope your attention will be paid to those communities because it is obviously important for the economy in my state, I can tell you. And I am sure that others around this table are in similar situations.

I wanted to ask you, Mr. Leocha, about—you said there would be an impact on places like Boston. Could you explain that more?

Mr. LEOCHA. Yes. Let me talk about the pilots issue. Thank you. Let me talk quickly about the pilot issue. I get phone calls about every week from people at USAPA, which is the US Airways Pilots

Association. Everybody is not happy. There are still a lot of questions, and obviously we—there may be support for the merger because they are getting rid of someone they do not like or because they are getting paid a lot more money, but that does not mean necessarily that we are going to have—we are not going to have labor unrest.

Now, back to the smaller airports. I think that what we did is when we did our overlap study, we found out that airports like Boston and Bradley have some of the highest numbers of these—of overlapping connecting routes. And so what happens is, it means that perhaps American Airlines has three or four routes back and forth between Bradley and, let us say, Seattle, or Bradley—and they might go Bradley, Chicago, Seattle, and someone else might go—and US Air would go Bradley, Philadelphia, Chicago. And so, as you take this and we right size it, it means that we could end up with fewer routes in and out of those airports because they find a way to combine some of the routes.

The other thing that could end up happening is if they have got two separate handling agents at those airports, those airports are going to end up with displacement. In other words, somebody is going to lose their job, and that is the way mergers work. The whole reason for a merger is to combine operations and throw somebody out of work. We may not see the airline lose jobs, but you will see people who are ground handlers, people who are caterers and so on who may end up losing their jobs. That is where that will work out.

And there is a series of these towns—Seattle is one of them, Minneapolis-St. Paul is one of them, Bradley, Boston. These are significant non-hub airports that will end up being losers or could be losers in this operation.

Senator AYOTTE. I know my time is expiring. Could Mr. Parker and/or Mr. Kennedy comment briefly on that? And I know that we have got other people here, so I do not want to take up their time.

Mr. PARKER. Sure. I disagree, and the reality is, first off, as it relates to labor issues, I would defer to our labor leaders who represent those people as opposed to Mr. Leocha's personal view who are supportive. And we appreciate their support and indeed have contracts that will go in place as the merger closes.

As it relates to airports, and changes in flying to airports, and reduction in work force, it is just not the case in this merger. He is just wrong. We are going to put together two airlines that are highly complementary. Nine hundred routes that we fly. Combined only 12 of them overlap.

We have said and believe that we will continue to fly and we need to fly to all the routes and to all the markets we currently serve, and we will continue service to those markets because that is how this merger is built, putting together two complementary networks. And more than just saying that, we have made commitments that are consistent with that. We have, through the American bankruptcy, confirmed large orders for additional aircraft because we know we are going to need all their airplanes.

We have committed to our employees to no furlough clause protection because we know we need all of our employees. So we have done these things because we are certain this merger is one about putting two airlines together and keeping—and having a stronger airline by having it the same size, not because of reductions like Mr. Leocha has indicated.

Senator CANTWELL. Thank you.

Senator Blunt?

STATEMENT OF HON. ROY BLUNT, U.S. SENATOR FROM MISSOURI

Senator BLUNT. Thank you, Chairman. Dr. Dillingham, do you have anything to say about this slot allocation? Are you going to be involved in that in any way?

Dr. DILLINGHAM. Senator, we will not be involved in the slot allocation. We have done some work on slot management before, like last year, and we made some recommendations to FAA and DOT, to better enforce some of the slot rules, particularly whether requiring airlines to only use the 82-month rule, the 80 percent of their slots over two months of frequency just to sort of hold on to the slot where, in fact, it could have been better used elsewhere. And, you know, there are oversight rules that we have asked FAA and DOT to look into further.

The other thing about the slots is that as we said in our statement, where slot restrictions exist, the fares tend to be higher because it is difficult for new competitors to come into those airports. But I think it is important to realize that even if slots are divested or if they are maintained by the new American, it is not clear that those same routes will be served.

If a new competitor is able to obtain a slot, for example, they may decide to fly to a more profitable route, or, although US Airways and the new American have made commitments to maintain the services to small and medium communities, that may be difficult when reality takes place if you are asking an airline to maintain a route that it is not profitable. As we have seen in mergers in the past, sometimes it happens and sometimes it does not. So there are two sides to the slot coin we have to see. We have to find out what the new American is going to do. There are a lot of conjectures, but we will not know until it is consummated as a new airline.

Senator BLUNT. Right. And, Ms. Kurland, you mentioned that there would still be plenty of—I think your word, the “slot portfolio” would be sufficient to meet the needs of smaller communities. But you really do not negotiate that when you negotiate the slots, do you?

Ms. KURLAND. No, and what I was referring to, Senator, is the fact that, as you know, there are two types of slots. There are air carrier slots and then there are also the commuter slots. And the commuter slots cannot be aircraft that are larger than 76 seats. And those types of aircraft are particularly suitable for smaller communities. But again, it is a business decision, a commercial decision made by the airline.

Senator BLUNT. Well, I thought Senator Ayotte’s point was really well taken that over 70 percent of the flights might be between these two airlines, which is barely 50 percent of the passengers, and that is a pretty significant difference in looking at how they compete and where they compete.

Before I run out of time here, I do want to mention this topic that has been around a long time of just if there is any way to possibly eliminate some of these employee equity issues that have developed over the years. You know, in my state we have TWA that was bought by American. We have Ozark in my hometown that was bought by TWA. And I think it has already been mentioned maybe some issues in the America West and US Air merger.

Everybody is pretty familiar with these issues. Everybody, I think, realizes—you know, Senator Bond and Senator McCaskill worked really hard to get some legislation so a similar thing could not happen again. But everything has been slightly different or, at least, it never goes back and corrects the old problem.

I actually think if everybody involved here decided, OK, we are going to treat other people like we would want to be treated, this would work out pretty easily. But, you know, I am in the Senate, and that seldom happens here.

[Laughter.]

Senator BLUNT. It probably seldom happens anywhere else. But it would——

Senator CANTWELL. Well, on this committee——

Senator BLUNT. On this committee with Senator Cantwell's leadership, it always happens that we are always treated fairly and equitably and like she would like to be treated, and that is generally pretty true.

But this may have been answered while I was gone. I felt like I came in in the middle of this answer. But anybody want to talk about these problems and how they can be dealt with? And, Mr. Parker, maybe Mr. Leocha, anybody else that wants to——

Mr. PARKER. Certainly. Yes, Senator, you are right, there have been issues in the past. As airlines have merged on seniority integration, indeed those issues are—I was not around for the American-TWA integration, and I have heard a lot about it from the employees there. But indeed those are generally determined not by the company, but by the union leadership themselves as they work through to determine how the work group is going to be integrated. And it has historically been a problem.

Thankfully, it has been addressed through the McCaskill-Bond legislation, which now requires that if the unions cannot come to an agreement, then it goes to binding arbitration. And that is what will happen here. Again, that is a prospective solution. That is what is going to happen here I am happy to report.

As to what has happened in the past, it is difficult, if not impossible, to correct—to go back and correct things that have happened in the past. My definition—by enhancing some group of employees' seniority, you are reducing others, and it makes it very difficult to change things that have occurred in the past.

But again, that is more of a union to union issue, and going forward if indeed the union cannot resolve it themselves, it goes to binding arbitration, which I think is a great solution.

Senator CANTWELL. Thank you.

Senator Klobuchar? I am sorry, the time—I want to make sure we get these members in before we do have a vote, so thank you.

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

Senator KLOBUCHAR. Thank you very much, Madam Chairman, and thank you to all of you. Mr. Parker was at the hearing that Senator Lee and I had, and we want to make clear we sent a letter actually yesterday, Senator Lee and I did, together to the Department of Justice highlighting some of the concerns again that had been raised during our hearing. And some of them have been mentioned here about the result of this merger and other mergers would be that the nation's top four airlines would control nearly 90 percent of the market.

Recent concern that within a few days and weeks of each other, the four legacy carriers all raised their ticket change fees from $150 to $200, that elimination of head-to-head competition on 17 city and 12 airport pairs and on seven routes where American and US Airways are the only two carriers providing service. And then, of course, the concentration of the combined companies with 70 percent of the slots that have been discussed by many of my colleagues at Reagan Airport. So those are a few of the concerns we mentioned.

I did want to first mention, Mr. Leocha, that, in fact, Minneapolis-St. Paul is still a major hub for Delta—you were saying we were a non-hub airline—airport, and, in fact, we welcome you there because last year *Travel and Leisure* voted us the most cheerful airport in the country.

[Laughter.]

Senator KLOBUCHAR. And the most welcoming airport in the country, and so we are very proud of our airport. That being said, at the hearing, I discussed several issues relating to those non-hub airports, what has been happening in Pittsburgh, and St. Louis, Cincinnati, and some of the other cities where the results of the consolidations is that they have so many fewer flights, and we are very concerned about that.

I thought that Senator Ayotte did a good job in asking the question, as Senator Blunt mentioned, about making sure that if there is divestiture—Assistant Secretary Kurland, that, in fact, that if there is divestiture, that it would be able to be competitively bid. But concerns have also been raised about potential divestiture and if it would lead to the merged company having to reduce service to small and mid-sized markets. What is your view of that?

Ms. KURLAND. Thank you, Senator. As I mentioned, if there were to be a divestiture, the merged airline would still have a substantial portfolio, which would be made up of both air carrier and commuter slots, and it would not necessarily have to hurt small communities. It would be a business decision of the carrier as to which communities they desired to serve.

Again, the air carrier slots are for use by aircraft with 76 seats or less. And the idea is that those are particularly suited toward the smaller and medium-sized communities.

Senator KLOBUCHAR. OK, one other question. Inflation-adjusted fares remain low relative to recent decades, but they have increased 16 percent since 2009, and that is right along when the most recent wave of consolidation began. Could you comment on the causes for that, and is there a correlation between the price increases and the mergers?

Ms. KURLAND. Well, yes, I think that is an important question. But I think it is also important to take a look at the economic situation as a backdrop for when these mergers were taking place. You know, we had the economic downturn in 2008. We have been in a seemingly high situation of permanently high oil prices. The airlines have taken a number of steps in order to achieve profitability. They have become much more rigorous in their——

Senator KLOBUCHAR. But how about the fact that a lot of the rates between non-hub cities have gone up so much? Does that concern you compared to other cities?

Ms. KURLAND. Yes. I mean, one of the points is that after deregulation, the government was taken out of the equation of setting rates and setting routes. It becomes a market decision, a business decision for the carriers. The only areas where we have some ability in that area is with the Essential Air Service [EAS] and the Small Community Air Service Development [SCASDP] program.

Senator KLOBUCHAR. Mr. Leocha, do you want to comment on that?

Mr. LEOCHA. First of all, I want to tell you that I do know Minneapolis-St. Paul's hub after spending many wonderful hours there.

[Laughter.]

Senator KLOBUCHAR. Oh, excellent. That is just so excellent. Thank you.

Mr. LEOCHA. They have great restaurants.

Senator KLOBUCHAR. OK. Quickly, though.

Mr. LEOCHA. However, it is not a hub for US Airways or for American Airlines.

Senator KLOBUCHAR. Yes.

Mr. LEOCHA. And that is what I am talking about. You as a spoke are in danger of that kind of right-sizing from these airlines. Plus, when they are face to face with another big hub person like Delta, it might be in their interest to back away a little bit.

Senator KLOBUCHAR. OK. And so, you are saying—because I probably have time for one more question here. You are saying you think that the mergers could be contributing to these fare increases. That was my question.

Mr. LEOCHA. Absolutely.

Senator KLOBUCHAR. OK. And then last, this issue of the change fees on most discount fares going up from $150 to $200, that was a result that United raised theirs. American, Delta, US Air quickly followed their move and also increased their fees. I guess I would ask you this, Mr. Parker: what, if anything, changed that that would necessitate—what changed in the market that suddenly necessitated this fee increase?

Mr. PARKER. Well, all sorts of things can affect pricing. But the reality is these change fees, you know, are on non-refundable tickets. We and other airlines provide non-refundable fares that are much lower than our refundable fares. In order to give us certainty, the customer agrees to, in that case, give us certainty that they are going to fly on a certain flight at a certain time, which is a different product than the people who buy a ticket that says, I want to go tomorrow, you know, when I am ready to go. We need to hold seats open for them.

But to provide lower—but to be able to provide lower fares, we also provide a product that says if you are willing to lock in your time to fly, this is—you know, we will sell you a non-refundable ticket. Changing that—making a change to that is expensive for airlines.

Senator KLOBUCHAR. OK.

Mr. PARKER. The fees and——

Senator KLOBUCHAR. I am just again concerned when we go down to four, we are going to see more lockstep behavior.

Mr. PARKER. And the fees and the——

Senator KLOBUCHAR. When we go down to three, we will see more.

Mr. PARKER. The fees are meant to discourage changes.

Senator KLOBUCHAR. OK, thank you.

Senator CANTWELL. Senator Warner?

STATEMENT OF HON. MARK WARNER, U.S. SENATOR FROM VIRGINIA

Senator WARNER. Thank you, Madam Chair. Let me also thank you for this hearing and acknowledge the fact that in my 4 years here, this issue of slots probably had as much controversy as any single item that I have been involved in. And, I guess, one of the things I would like to point out that Mr. Kurland's comment, but also Mr. Parker since you are going to be, if the merger goes through, the beneficiary of this enhanced presence.

You know, as we were having the FAA reauthorization, there were lots of discussions about the age-old perimeter rule and what we are going to do with the slots. And there were lots of conversation that said, well, a few more here, a few more there, it really will not make that much difference. The point I say from the Commonwealth of Virginia's standpoint is that when we think about Washington air traffic, and I also think I can speak somewhat for my colleagues from Maryland who concurred with me on this, is that, you know, there were agreements made long time ago that we were going to have three airports in the region: BWI, National, and Dulles. Financial commitments were made based upon those promises, and that is slowly being nicked away.

And I guess, Ms. Kurland, the question I have is, you know, we were all assured that the additional slots, particularly for more of the West Coast flights, would not have any effect on Dulles. And the challenge is, and I say this as somebody who actually benefits from some of those West Coast flights because I live near National, but, you know, the numbers just say otherwise. We have seen numbers from 2011, 16.7 million passengers coming through Dulles down to 15.9 in 2012, 800,000 passenger loss, particularly as you are thinking about flow-through flights to Europe—from the West Coast to Europe. That has enormous ramifications.

And it has been challenging as well as we try to think about the ability for these combined airport authorities to be able to jointly bond, which we were not fully able to do. And I just would like to make sure as we are going through this analysis in your role at DOT—I know DOJ has got an ability to weigh in, but my hope is from DOT that you will continue to weigh in, that we will not see further erosion of the perimeter rule, and that there has to be some recognition that the commitments that were made to Dulles and the financial projections that were based upon a now changing set of rules are going to be taken into consideration.

Ms. KURLAND. Thank you, Senator. The heart of what we look at, what DOJ looks at, is this issue of competition. With respect to the slots at DCA, Congress has always taken a very special interest in the number of slots and, you know, the perimeter rule, and makes the decision on where——

Senator WARNER. People are not aware of that.

Ms. KURLAND. But in terms of the competition and the routes and if there is competition on the routes, this is something clearly that DOJ and we at DOT take a very careful look at, and it is part of the analysis.

Senator WARNER. But I do not think you answered my——

Ms. KURLAND. Sorry.

Senator WARNER. That did not answer my question at all. There is a unique relationship of an airport's authority, of a compact between the Federal Government, the local jurisdictions, and commitments that were made that said National is going to have short haul. We are going to have a perimeter. And significant major investments from the United States' Government, the Commonwealth of Virginia, and the region were going to be made into Dulles because there were promises made about how perimeters and other items we protected. Those are being, you know, basically nicked away.

My fear, of course, being that this merger may result in an effort at the next reauthorization to completely do away with the perimeter rule, and I guess I am very, very concerned if you are simply saying on the competition standpoint that this from the DOT role—this obligation to, you know, that the Federal Government made in setting up this rather unique Airport Authority and commitment to Dulles is not factored in at all? Are you saying that?

Ms. KURLAND. What I am saying, Senator, is that we will look very carefully at the competition among the different airports and the like. But in terms of slots beyond the perimeter, that is beyond our jurisdiction because that has been determined by Congress. But in terms of competition, in terms of the routes that are being served, we will take a careful look and we will go back and take a look at the various——

Senator WARNER. You will look at the numbers in terms of traffic in and out of Dulles.

Ms. KURLAND. We will go——

Senator WARNER. Let me get to Mr. Parker. The Chairman—Chairman Rockefeller was not here. He basically wanted to ask a similar question that everybody else has been asking. Commitments and promises were made the last time around that there would not be these decreased smaller markets, that some of these might be moved into Pittsburgh or elsewhere to service West Virginia. He feels that that is not happening. I want to put that on for the record.

But I would also like to ask, Mr. Parker, with the idea of moving DCA into a hub, how was that—how are those costs going to be absorbed? How are those costs—are they going to be passed onto DCA customers? Is that going to be absorbed in terms of the combined airline? Where does that kind of shake out as you think about—be thinking of DCA?

Mr. PARKER. Thank you, Senator. First off, to address Senator Rockefeller's question, I guess. You know, we have indeed heard that others have been here and made promises that people feel as though were not kept, and we are highly cognizant of that fact. All I can tell you is what I know at this point I cannot speak for where they were at that time, what they believed at that time.

But because of that—what has happened in the past and because of skepticism, therefore, about what we are saying, we are being extremely careful not to make any promises, but rather to tell people what we know at this point in time about what we believe is going to happen. And what we know is these two networks are completely complementary. And of 900 routes, only 12 where we compete against each other, and that our intention to put them together and maintain service to all the communities we currently serve. And indeed, have supported that commitment with——

Senator WARNER. My time—can you just hit the hub issue as well?

Mr. PARKER. Sure. And then as it relates to the hub, look, the D.C. hub is extremely important to us, and one that is important, I think, to the community as well, one where we have done, US Airways, I think, a very nice job of getting service to communities that would not have been served otherwise by not having a hub. The fact is we are able to serve all these small communities because we do have connecting service. There would not be service like that without it.

As to the cost, the cost to an airport as is the case for all airports, to the extent we have improvements at Reagan National Airport, which we would like to see. By the way, we are working with the Authority to get in place things such as, you know, getting rid of the busing service, which I think would be a great service to the flying public.

To the extent those are costs that are incurred by the Airport Authority, they would be passed on to us through rates and charges, as is always the case. And we would gladly pay those charges in exchange for having better customer service.

Senator CANTWELL. Senator Pryor?

**STATEMENT OF HON. MARK PRYOR,
U.S. SENATOR FROM ARKANSAS**

Senator PRYOR. Thank you, Madam Chairman. Thank you for all the panelists who are here today, and, Madam Chairman, thank you for your leadership on this.

Let me start, if I may, with Mr. Kurland, and that is, and a little bit of a follow up on what Senator Warner was asking. And I know others have talked about this.

But when you go through something like this, will the Department of Transportation provide the Department of Justice, say, a list of recommendations on, you know, either destinations or criteria that should be used in determining what slots are available for what cities?

Ms. KURLAND. Thank you, Senator. You know, our discussions with Justice are an iterative process. We will—you know, we will talk to them about the competition issues, about the service issues, about the service at DCA in particular. And, as I say, it will be an interactive process where the discussions will be comprehensive on all issues.

Senator PRYOR. But do you make recommendations, you know, what cities an airport should serve, or do you leave that to the discretion of DOJ, or do you leave that to the airlines?

Ms. KURLAND. Since deregulation, it is in the purview of the airlines to decide what cities that they are going to serve. At DCA, as I had mentioned, there are air carrier slots, and there are commuter slots. And the commuter slots, as you know, are for aircraft of 76 seats or less, and they are particularly suited toward the service of small communities. But determining where a carrier is going to serve is up to the carrier.

Senator PRYOR. Mr. Parker, I think that leads me to ask you a question.

Mr. PARKER. Yes.

Senator PRYOR. Which is, you have a situation at National Airport, for example, that, you know, you have the state capital, the national capital flights, which to me make sense. We have one of those flights currently through US Air, as you know. And I am just curious about your criteria. I know obviously you have to look at profitability. I get that.

Mr. PARKER. Sure.

Senator PRYOR. But a few years ago, there were some slots that changed hands, some gates that changed hands out there at National. And, you know, lo and behold, I look up and whoever the new carrier was, that meant they offered more flights to Atlanta. Well, people can catch a flight every hour to Atlanta.

And, you know, I am just curious about the factors you consider when you make those decisions.

Mr. PARKER. Yes, thank you. Thank you, Senator. And first off, thank you for your letter in support of asking Attorney General Holder and Secretary LaHood to consider small community service as we look at this.

Let me start by just saying—explaining since—as Ms. Kurland said a couple of times, this is a business decision, explain first how the business decision we made, which is your question, and then point out that we have some recent history that, I think, supports what will happen going forward.

First off, as has been stated, US Airways and American combined would have about two-thirds of the slots, but it also has been stated that about only 50 percent of the seats, because we do fly small aircraft to small communities versus other airlines who have one-third of the slots but are flying half the seats with only a third of the slots.

And then furthermore, if you look at the entire market, if you include Dulles, if you include Baltimore-Washington, we have less than 25 percent of the seats, fewer than United, about exactly the same as Southwest. So it is a very competitive market in terms of seats.

So all we would encourage is that the Department of Justice follow the criteria that was in Senator Klobuchar's letter, go do their work, give us enormous scrutiny, and follow the law. And what we know, if that is the case, there is so much consumer benefit in this merger, it will be approved. There is no law that would come close to suggesting there should be divestiture of slots at DCA. But if that is done, if despite the fact that it is not law, but rather a choice of policy to ask us to divest slots and give them to another carrier, what will happen is we, as the business decision that Ms. Kurland keeps referring to, will, by definition, with a scarce resource, use—continue to use the ones that are most lucrative and reduce service to those that are the least lucrative, as we should do as business people.

What that means is when we do service to small and medium-sized communities, the carriers that get those slots will not fly to those communities. They will fly to large communities. And again, you do not need to just trust me on this. This happened a year and a half ago when, through the Delta-US divestiture that was forced upon us, Jet Blue acquired 16 slots, eight round trips. We were forced to reduce service to small communities. Jet Blue took those eight round trips and flew three times to Boston, increasing Boston service from 22 times a day to 25, 10 of which are Jet Blue, two to Fort Lauderdale, two to Orlando, and one to Tampa, of all of which had at least six flights a day already.

We, the combined Delta-US Airways, had to divest those, ended up reducing service to small and medium-sized communities. The result is Madison, Wisconsin lost service completely. Grand Rapids, Michigan lost service completely.

If we are asked to do the same thing again, Madison and Grand Rapids are now gone. We would like to still be flying there by the way, but we cannot because we do not have enough slots, so we will move up the list, and it will affect markets that we want to fly to. So that is the policy decision that would be being made, and it is a policy decision? It is not a legal question. This is a policy decision.

And I was encouraged to hear Ms. Kurland say that service to small and medium communities is a priority for the DOT. Well, if it is, then this is not a policy issue that should be affected. This is not meant to sound threatening. I want to make sure everybody understands what is going to happen because what I do want to do is have to come to each of you and tell you we are going to have to reduce service to Manchester, or to Little Rock, or any place like that. We want to fly to those communities. We do well there.

The short answer to your question, what is the criteria? Is it profitable? And those communities that we are flying to today are profitable. They are profitable for US Airways because we connect service over the hub. They will not be profitable for any other airline because there are people trying to get from Little Rock to Manchester, and they are doing it over D.C. And if either of those flights has to go away, then it puts both of them at risk. And when you have a hub and you start taking away spokes, it makes it much more difficult to maintain all the spokes.

Senator PRYOR. Thank you. I am out of time. Just one super quick follow-up.

Mr. PARKER. Yes, sir.

Senator PRYOR. Really it just a one-word answer. Does the airport have any input in this, or is it totally up to the airlines?

Mr. PARKER. It is an airline decision. The airport can influence the regulator.

Senator PRYOR. Thank you.

Senator CANTWELL. Thank you. Our 3 o'clock vote has not materialized, so I intend to have a second round of questions, and so any of my colleagues who want to ask follow-up questions, you know, please stay and do so.

And I guess the good news from the first round of questioning is, in all the discussion of merger issues, the one thing that keeps popping up is slots. I think that is somewhat good news about the overall issue of the merger, but it might also not be so good news as it relates to slots, or the stickiness of that issue.

And this is a very, very important issue to many of my colleagues, as you can see. Airports are tools for economic development. And if a community does not have air access, it is pretty hard to continue to grow the economic base.

But, Mr. Parker, when we were looking at the Modernization Act, the FAA bill, there were—US Airways sought to convert 100 existing slots that you had inside the perimeter and switch them to outside the perimeter. So you basically wanted to take DCA slots and say, OK, let us now service, you know, these farther destinations in the west.

And at the time, a lot of my colleagues raised questions to say, oh, my gosh, you are going to do now what you are suggesting might happen. Basically people said, well, wait a minute, you will start servicing, you know, San Diego or someplace else, and you will get rid of the Madison, Wisconsin flight or what have you. And at the time, US Airways said, no, no, no, we have the flexibility to use these flights for large hub service and small cities will not be impacted. That is what you told many people on this committee.

So now it seems like you are advocating just the opposite. You are saying, oh, no, no, no, yes, if we have to divest, you know, we will impact those hubs. And so, I just want to make sure I am understanding you from what was previously said——

Mr. PARKER. Sure.

Senator CANTWELL.—what the difference is, because I think that there are other economic issues here about competition that DOJ has to look at, larger than just, you know, the individual hub airport issues, but how much service should DCA be allowed to be concentrated under one carrier, and what does that do to impacting price and availability? That is what I think the Department of Justice should be looking at.

So I guess, are you saying that you do not support the issue of a divestiture?

Mr. PARKER. As it relates to this merger?

Senator CANTWELL. Yes.

Mr. PARKER. Yes, we do not believe there is any reason we should be—there is no legal reason we should divest. It is a policy issue and one that we think is bad policy. That is correct. You raised the perimeter rule issue and our——

Senator CANTWELL. Yes. You had a different—it seems like it is an issue that was looking for a cause. It seems like you were—you know, you wanted before to basically switch out 100 slots and use them for long distance. And when somebody said, hey, you are going to get rid of these small cities, you said, oh, no, no, no, we have enough flexibility. Now that somebody is saying, hey, give up some of these slots, you are saying, oh, no, no, I cannot. I cannot because I will end up cutting the service to these essential areas.

Mr. PARKER. Thank you. And the answer to the question in short is what is the alternative? The reality is, in relation to the perimeter rule, what we argue——

Senator CANTWELL. So you were wrong before?

Mr. PARKER. No, let me explain, please.

Senator CANTWELL. OK.

Mr. PARKER. What our position was, that we believe—D.C. would be better served with more flights outside the perimeter to provide more service to even more communities than exist today. Understand, of course, two things: one, the desire not to increase capacity at Reagan, which is, again, fine by us. If that is what the law is going to be, that is fine. But needing to stay within that constraint, and also wanting to make sure we adapt—we were responsive to concerns from small and medium-sized communities said and agreed that what we would like to do is in exchange for the ability to fly outside the perimeter to some larger communities, we would indeed divest from some larger markets. That is a different question when that is the alternative. To be able to add a flight outside the perimeter, would you give up one inside to a larger community? The answer to that when asked was yes.

Now, a different question. If you ask us do we have to take slots away from you, we are going to, because of some policy decision, decide to take away slots from the combined airline. So your alternative now is you have to cancel something, not swap it for something. The decision will be, as it should be, to cancel the routes that produce the lowest amount of revenue for the airline, and those are small and medium-sized communities. So it is completely consistent to me.

Senator CANTWELL. I think your conclusion is the right conclusion that anybody would do something that is in the interest of the business in getting rid of the less profitable route. But the reason why someone would look at divestiture is it is not some policy. It is about competition, and it is about too much concentration at DCA, and what issues for the consumer are being left unprotected.

So I do not know, Mr. Leocha, did you want to comment on that?

Mr. LEOCHA. Yes. I have spent a lot of time on this slot issue, and I have met with DOT——

Senator CANTWELL. I am not sure if you spent more time than Senator Warner and I, but if you have——

Mr. LEOCHA. Maybe not.

Senator CANTWELL.—we are glad to let you join our club, OK?

[Laughter.]

Mr. LEOCHA. I will be glad to join you.

Senator CANTWELL. OK.

Mr. LEOCHA. We had—I have met with Susan Kurland's staff. I have talked with DOJ. And we know that the Department of Justice was not happy with the—at least as I interpret it, not happy with DOT's solution the last time.

We have a situation where we just cannot have competition when almost 70 percent of the market is controlled by one airline. And basically what US Air is doing is even though they are altruistically covering and reaching out to all these small communities, they are doing it with very small aircraft. The smallest aircraft of any hub in America comes in and out of D.C.

Also, I look at the D.C. slots as a national treasure. They are to bring people here to the nation's capital so that we can—they can interact with—here in the capital of the United States. And almost 40 percent of the people who fly in and out of DCA do not even stop here. They just change planes.

And I am sure that Mr. Parker does not mean that he is going to eliminate all of the service because they still make money doing that. The service might move to Baltimore. It might move out to Dulles. Let's say 5 years ago, that would have been a real problem, but today, we have got great connections between Baltimore and downtown. We have MARC trains, we have Amtrak trains, we have got buses to the Metro, and I am someone who actually gets to take them all, or taking good old bus 5A out to Dulles from Rosslyn, and soon we are going to have the Silver Line. So a lot of the problems that we used to have in terms of you had to be going in and out of DCA, otherwise it was too inconvenient, are leaving.

What we need to do now is increase the number of people being able to come into our nation's capital and come here and visit here, spend their money here, and learn about our government. And that is where, I think, that moving the slots around will really be important. And if the merger has to go through, this is a remedy, and there should be other remedies because this only covers one little tiny pocket of it.

Senator CANTWELL. Thank you. Senator Warner?

Senator WARNER. Thank you, Madam Chair, and let me again, since 98 percent of this last struggle, we were in arm-in-arm on this. And I guess the one comment I would want to make before I get to Mr. Parker is, you know, I agree that the Silver Line and some of the transportation in between our various airports are going to get better. But it has a dramatic effect on particularly flow-through traffic international if you do not go through Dulles, if you can make that international connection instead through Philly, Newark, or wherever else.

And what I am—and we have seen that decline all the promises that were made, oh, this is not going to affect Dulles, do not worry, do not worry, do not worry. Well, the numbers refute that. And now, and particularly, Mr. Parker, I know there has been lots of changes and stuff, and you want to come forward with not looking back, but commitments going forward.

If we are going to go forward, and I understand the notion of building out the hub at DCA, which would seem to mean that it would be a further investment in having that routing to those smaller communities so that somebody moving from Little Rock to Manchester via DCA, good for all concerned, good for the markets that are concerned, still get traffic here to DCA.

My concern, though, and I hope you will assuage that, is that, you know, with this concentration as your company did last time, will be leading the charge next round on FAA reauthorization to get rid of the perimeter rule, because I could see your business case for that. And I just feel that goes against the grain of what the commitments that were made from the Federal Government with the very unique nature of the Airports Authority. And I hope that you can assuage me of those concerns.

Mr. PARKER. Certainly. Again, where we ended up last time on our views on the perimeter rule were fully cognizant of the perspective of you and your constituents that indeed a desire to have no more increase in flights in and out of Reagan, and, furthermore, a desire to not see reduction in service to small and medium-sized communities.

So our proposal, which came in much smaller than we had requested, but was implemented in a very small way, was that so long as the carrier already has a slot, already owns a slot, and is willing to divest one of the ones to a large market inside the perimeter, you can use that to fly outside the perimeter.

The result is now that, you know, US Airways now flies to San Diego. American now flies to Los Angeles. And we each have reduced slots—we have reduced one slot each to places like Dallas or Chicago. I think that was good legislation. I believe that helps D.C. It did not increase any fly to D.C. I do not think exemptions, by the way, just adding more flights, as you said, is a good idea. And we have not——

Senator WARNER. Again, sir—one minute, sir, what I am saying, though, is that that did have a negative effect on traffic through Dulles in terms of its ability, particularly in terms of international long haul, substituting that flight. And, you know, I thought it was not what I was keen on, but there was the logic of substituting major market inside the perimeter for outside the perimeter. I get that logic.

My fear is that with this further concentration, the next step will be, you know, the basic economic premise that helped build Dulles as one of the international gateway airports is going to be dramatically undermined if the deal that was made long before I served as senator is basically reneged on on a going-forward basis. And my hope would be that the position—the combined carriers, particularly if it was not forced to divest some of these spots because of this advocacy you have made for continuing the smaller markets, that we will not have the rug pulled out from under us.

Mr. PARKER. OK, fair enough.

Senator WARNER. I would like to have your comments.

Mr. PARKER. Well, anyway, thank you very much. And, again, as we move to whenever that may be, the next FAA reauthorization or whenever this comes up again, we would be happy to work with you to figure out ways, if they are possible, to allow more flights outside the perimeter without reducing service to small communities, and without increasing flights to D.C. And if that has an impact on Dulles, we would be happy to talk about what we might do, and maybe there is no solution to it. But those are our objectives: not to see flights from D.C. increased and not to see service from small communities decreased, but rather to have the ability, if possible, to serve more cities outside the——

Senator WARNER. I do not know if Mr. Leocha would be able to comment as well before my time runs out. I just have to say in as strong terms as I can, you have a very—you know, you will have a strong anti-force against this if a major calculus of this is not also the effects these changes would have on the economic viability of the literally hundreds of millions of dollars that both the Federal Government and the Commonwealth of Virginia have made in the viability of Dulles.

Mr. PARKER. Understood.

Mr. LEOCHA. Senator Warner, your question is very—is prescient in that if this merger goes through, Dulles Airport is going to take another hit, because right now I am—I am only an elite flyer on one airline. It happens to be Mr. Parker's, and that is because I always like flying him because he is the low-cost leader. But also I can fly on his affiliates, on his alliances, going with United out of Dulles to go to Europe. And that will be eliminated. So that whole connection——

All of US Air's connecting flights to Europe are now going to no longer go through Dulles. They are going to go up to Philadelphia, to New York, to Charlotte, or down to Miami. So that is where we are going to find even more things happening. And what—that leads me to another point where the new destinations that he claims they have by uniting with American are only replacing old destinations where they already have an affiliation, which are already co-shared with United right now. So what they are giving with one hand, they are taking away with the other.

So from a consumer's point of view, we end up with no net new routes. We just end up with new players and they are shuffling the deck. And that is where I look at not having good consumer benefits from this whole merger. And it will not help Dulles one bit if it goes through.

Senator CANTWELL. Thank you. Mr. Leocha, I want to continue because your analysis of—that there are US Airways and American overlaps on 12 non-stop routes, and for seven of these cities, there are no other non-stop competitors. So Department of Justice will have to look at these competitive overlaps and, you know, understand this horizontal merger guideline.

But you refer in your study to 761 routes between domestic airports overlapped between U.S. and American, and additionally 40 percent of routes face daily competition from US Airways, and 30 percent from US Airways and American. OK. So can you explain your study, and you are saying that there is a better way to look at this issue on, you know, potential merger impacts market by market or some other things.

Mr. LEOCHA. Well, the way you have to——

Senator CANTWELL. And, Dr. Dillingham, I want you to comment on that as well.

Mr. LEOCHA. Right. The way we need to look at it is the whole concept of a hub airline or a hub system is a system that connects. You fly into the hub, you fly out of the hub. That is the whole creation of it. And so, if you look at a merger only looking at the number of non-stop direct—you know, straight flights and there are only 12 of them, that is not the good way to look at it. You have to look at how connecting flights compete. And that is what really works.

If you are flying from Seattle to Austin, Texas, you will go Seattle to Dallas to Austin, or you will go Seattle to Phoenix to Austin. But if you go into Kayak and you look it up on Expedia, or you go to your travel agency, you are going to get a price, and those airlines compete like mad with other right now. That competition is going to disappear.

So what we did is we took all of the US Air markets and we overlaid them with the American Airlines Market, and we came up with 761 one-stop flights which overlapped. At that time, the GAO also did a similar study, and their study was released today, and it shows even a more dramatic overlapping. They come up with 1,600 and something. And their study then is based upon more than one stop, maybe a two-stop connection and so on. That is how they ended up with more.

So the way you look at how network airlines compete with each other is from destination to destination, not hub to hub, not non-stop routes. And so, when you look at that, in our study, we came up with 40 percent of the current American Airline routes are covered by US Air routes, and 30 percent of the current American Airline—US Air routes are covered by American Airline routes, because US Air has a bigger domestic market. And that is the best way to look at it, and that shows real competition in the market, not necessarily only looking at the non-stop routes. Is that clear?

Senator CANTWELL. Yes. Yes, yes, yes. Dr. Dillingham, what do you think about this approach that the Consumer Travel Alliance did?

Dr. DILLINGHAM. We have not analyzed how the Consumer Travel Alliance did their work. But I would say just to be clear on what the GAO did say, yes, we said there were 1,600 overlapping routes, but we also said that there was a competitor—another competitor on most of those routes as well.

So I think—and I think the other point that we would make is that it is our understanding as DOJ and the FAA look through the merger, that they will have a comprehensive analysis more along the lines of not just non-stop, but also where there are overlapping routes.

So I think, again, as we said before, a lot has yet to be determined, but clearly those kinds of issues will be addressed, we believe, through DOJ and DOT.

Senator CANTWELL. OK. I have another question, Mr. Leocha, about just ticket price transparency. I mean, there is nothing the consumer cares about more than this ticket price. And over the last few years, the, you know, fees and ancillary charges have grown dramatically from about $1.7 billion in 2002 to $9.1 billion in 2012.

So should these ancillary fees not be a little more in lock step, and what do you think DOJ should look at that as far as the merger?

Mr. LEOCHA. Well, I would like DOJ to look at that as part of the merger. However, I do not think that falls under their jurisdiction. I have talked with the Department of Transportation. The Department of Transportation currently has a rulemaking, which is at OMB right now. And what we have been trying to do, and I have spent even more time doing this than I have been looking at slots, is we are trying to get the airlines to disclose their ancillary fees at the time that we buy our airline tickets.

Right now, if we buy our airline tickets from a travel agency, and that will be from an Expedia, an Orbitz, or from a corporate travel agency, we do not know what the—how much the baggage is going to cost us. We do not know how much seat reservations are going to cost. And then there are a lot of other fees that go in there.

But what I am concerned with are the fees—baggage fees and seat reservation fees so that consumers can compare prices, and especially if we end up with a merger coming through which is wringing competition out of the system. There has to be a way that consumers can bring—can at least have an ability to comparison shop for tickets with everything together and look at oranges and oranges. And so that is what we have been trying to do.

I think we are getting close to it. However, it is a long process to bring this thing through to fruition, and that is what consumers really need. Otherwise, we have no way to really compare the prices.

Senator CANTWELL. Ms. Kurland, is this under your jurisdiction, or is that someone else at DOT?

Ms. KURLAND. It is part of DOT. It is part of the General Counsel's office, but I can get that to you anyway.

Senator CANTWELL. OK. I know this is of great interest to lots of people and a long time in coming, so.

Well, I think we have had an airing of the issues here. I think we have raised some important questions. We will keep the record open for 2 weeks for the rest of our colleagues to ask questions, and if you will respond to them.

This is a very important issue, and I hope that the appropriate agencies take due notice of the issues that were raised here today, and try to address them before this moves forward.

Thank you all very much for being here. We are adjourned.

Mr. LEOCHA. Thank you.

[Whereupon, at 3:38 p.m., the hearing was adjourned.]

A P P E N D I X

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARIA CANTWELL TO HON. SUSAN L. KURLAND

Question 1. Ms. Kurland, do you believe that American Airlines could succeed as an independent airline after emerging from Chapter 11?

Answer. Prior to the merger transaction, the management of American Airlines stated that its proposed "Standalone Plan" would enable American Airlines to compete and grow, without a merger, following its emergence from Chapter 11 reorganization. American Airlines is currently a profitable airline.

Question 2. Ms. Kurland, do you believe that US Airways could succeed as an independent airline if it doesn't merge with American Airlines?

Answer. Prior to proposing the merger transaction, the management of US Airways stated that US Airways could succeed on its own without a merger, but would be stronger and more competitive if it merged with another airline. US Airways is currently a profitable airline.

Question 3. Ms. Kurland, we have seen four legacy carriers merge in the past five years. To what extent have the projected synergies or benefits been realized with the Delta-Northwest and United-Continental mergers? In general, how have these mergers affected airfares and service levels?

Answer. Airline mergers are typically very complex. It usually takes over two years to realize projected synergies and benefits. We are only now beginning to see the some of these effects.

The industry overall has decreased capacity. It is therefore difficult to determine, at this point in time, the extent to which consolidation has contributed to this capacity reduction. Other factors, such as persistently high fuel prices and the economic recession, also played a role in the reduction of capacity over the last several years.

Question 4. Ms. Kurland, a few years ago, Delta Air Lines proposed swapping slots it controlled at Reagan National Airport with US Airways for slots it controlled at New York LaGuardia Airport. Under their original proposal, US Airways would have controlled approximately 60 percent of the slots at Reagan-National Airport. When USDOT approved the swap, it required US Airways to divest approximately five percent of the airport's total slots, so that the airline now controls almost 56 percent of the slots at Reagan-National Airport. If USDOT considered the control of 60 percent of the slots at Reagan-National to be too much in 2011, has anything changed in the competitive landscape at the airport since then to believe that one airline controlling 68 percent of the slots would be any less anti-competitive?

Answer. In the Delta/US Airways slot swap proceeding, DOT did express concerns about the high concentration of slots held by US Airways at Reagan-National Airport. For that reason, the Department required the carriers to divest a percentage of their slots for use by competitors. A transaction which leads to one airline controlling 68 percent of the slots requires careful analysis by DOJ and DOT, and that is ongoing. That analysis will include any competitive factors that may have changed.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARIA CANTWELL TO GERALD L. DILLINGHAM, PH.D.

Question 1. Mr. Dillingham, do you believe that American Airlines could succeed as an independent airline after emerging from Chapter 11?

Answer. It is possible that American Airlines, which independently made approximately $42 million in operating profits in 2012, could succeed as an independent airline. However, that 2012 profit was only after incurring billions in losses over the last decade and entering bankruptcy protection in 2011. Whether the airline would continue to be profitable as an independent airline would depend on many factors, including the demand for air travel, fuel costs, competition, and American's own management.

Question 2. Mr. Dillingham, do you believe that US Airways could succeed as an independent airline if it doesn't merge with American Airlines?

Answer. It is possible that US Airways, which made approximately $822 million in operating profits in 2012, could succeed as an independent airline. However, during the last decade, the airline incurred more than a billion dollars in losses, entered bankruptcy protection, and merged with America West. Whether the airline would continue to be profitable as an independent airline would depend on many factors, including demand for air travel, fuel costs, competition, and US Airways' own management.

Question 3. We have had four legacy carriers merge in the past five years. To what extent have the projected synergies or benefits been realized with the Delta-Northwest and United-Continental mergers? In general, how have these mergers affected airfares and service levels?

Answer. That is a very difficult question to answer because there were many other events, notably a spike in fuel prices and a recession that occurred in the midst of these mergers. Separating the effects of the mergers from the broader economic effects is not easily done. Further complicating any assessment is that we do not have access to internal financial data that would allow us to assess whether projected revenue and cost synergies are realized. That said, some of the projections made as part of the earlier mergers, for example retaining the Memphis airports as a hub in the case of the Northwest-Delta merger, have not been realized. In other cases the mergers may be too recent to know the full effects. GAO recently initiated a review of the state of airline competition and will be reporting its findings next year.

Question 4. Mr. Dillingham, do you believe that if the new American Airlines has to divest slots at Reagan National airport, it will have no other choice but to reduce service to smaller communities within the perimeter, or is that more of an airline business decision?

Answer. If American were required to divest slots, the airline would not necessarily have to reduce service to small communities. If the merger is consummated, the merged American would control two-thirds of slots at Washington Reagan—a dominant position especially without the potential for competitive entry at that airport. As GAO reported last year in our review of slot controlled airports, airlines at slot-controlled airports, including Washington Reagan, operate more inefficiently than at non-slot controlled airports of similar size.[1] These inefficiencies result from airlines operating smaller planes, with greater frequency, and fewer passengers on average at slot controlled airports than at other airports. Scheduling flights in this way may be an effort to hoard slots to keep them from being reallocated to competitors that could potentially drive down fares, but airlines argue it is a response to passenger demand. Both airlines currently serve Nashville and Raleigh from Washington Reagan with multiple frequencies per day on smaller than average aircraft. Further, US Airways serves large and medium hub airport markets (Minneapolis, Cincinnati, Detroit, Memphis, Pittsburgh, Indianapolis, New Orleans, and Philadelphia) from Washington Reagan with smaller than average aircraft that in several cases also have lower than average load factors. A merged American could choose to consolidate flights on larger aircraft before eliminating service to smaller communities, but that may not be the profit maximizing course of action.

Question 5. Mr. Dillingham, based on your experience and the data the GAO has collected over the years, does the "Southwest effect" still exist at airports the carrier serves, or does it effectively require more than one low cost carrier to provide service at the airport for consumers to benefit?

Answer. As reported in GAO's June 19 testimony, the Departments of Justice and Transportation have relied on entry by low cost airlines, especially Southwest, to check airline fare increases following a merger. However, whether entry by low cost airlines can still provide the same market discipline is not clear. Southwest expansion has slowed, and it recently merged with a key low cost rival, reducing the number of low cost airlines that might challenge post merger fare increases.

Question 6. US Airways and American Airlines overlap on 12 non-stop routes. For seven of these routes, there are no other non-stop competitors. DOJ will look at these competitive overlaps carefully under its horizontal merger guidelines.

In Mr. Leocha's written testimony, he references a Consumer Travel Alliance study that shows 761 routes between domestic airports that overlap between US Airways and American Airlines. Additionally, he says that 40 percent of American

[1] GAO, *Slot-Controlled Airports: FAA's Rules Could Be Improved to Enhance Competition and Use of Available Capacity,* GAO–12–902 (Washington, D.C.: Sep 13, 2012).

Airlines' routes face daily competition from US Airways and 30 percent of US Airways' routes face competition from American Airlines.

In your written testimony, you state *"Our analysis of 2011 and 2012 ticket data also showed that combining these airlines would result in a loss of one effective competitor (defined as having at least 5 percent of total airport-pair traffic) in 1,665 airport-pair markets affecting more than 53 million passengers while creating a new effective competitor in 210 airport-pairs affecting 17.5 million passengers. However, the great majority of these markets also have other effective competitors."*

Do you believe the approach of looking at airport pairs through connecting routes is a more meaningful way to measure the potential impacts the merger may have on overall and market-by-market competition?

Answer. Assessing competitive effects of a merger requires looking at both nonstop and connecting traffic, as well as service to alternate airports and the potential for new entry following a merger. We reported on both nonstop and connecting route overlap because much of the focus has been on the nonstop overlap without recognizing that airlines compete on a network basis.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARIA CANTWELL TO DOUG PARKER

Question 1. Mr. Parker, could US Airways succeed as an independent airline if it doesn't merge with American Airlines?

Answer. US Airways is currently a strong and profitable airline. The motivation for the merger of US Airways and American Airlines is to bring together two complementary networks to make them better and to enhance competition in what is already a highly competitive marketplace. The expanded network of the merged airline will be able to compete more successfully with Delta and United for national/international network traffic, with Southwest and fast-growing low cost carriers, and in the international realm with a host of other airlines competing globally, some with the support of governments.

Question 2. Mr. Parker, if the merger is approved, will the new American Airlines offer more, less, or roughly the same number of daily flights to the same destinations and with the same frequency?

Answer. This merger is about growth, not cutbacks. The New American will remain committed to extensive service to small and medium-sized communities throughout our merged network and, where appropriate, we expect to increase service and add destinations. The broader network created by the merger will give us the ability to bring heightened levels of service to those communities that neither airline could afford to provide on its own, and the number of passengers benefitting from the existing combination of service will grow as communities receive new online connecting service.

The combination of American Airlines and US Airways is also expected to offer service to 21 destinations in Europe and the Middle East; deepen its coverage throughout Latin America, providing extensive access between the US Airways network and Central and South America; and create a foundation for expanded transpacific service.

Question 3. Mr. Parker, in the past, you were a leading industry voice for reducing airline capacity. There has been some concern expressed that over time US Airways intends to use the merger as a means to further reduce domestic airline capacity. Is this a valid concern?

Answer. Our plan, as reflected in the AMR Plan of Reorganization and in the proxy/prospectus that we filed with the SEC and sent to shareholders, is to increase rather than decrease capacity. The value created by the merger of US Airways and American Airlines is the ability to put together the two networks that exist today to connect more people to more places. Because these two networks are so complementary, our intent is to keep all the airplanes, keep all the people, and maintain service to all the markets we serve today independently.

Over the past several years, US Airways has consistently increased capacity—in fact, it has grown capacity faster than the rest of the industry. We have planned for this growth to continue post-merger. In addition to accepting aircraft orders that could have been rejected in bankruptcy, had it been our intention to reduce capacity, our integration planning efforts include adding seats to certain American Airlines aircraft, a further increase in capacity.

Question 4. Mr. Parker, US Airways and American Airlines estimate $1.4 billion in annual net benefits from the proposed merger. Breaking that down, the labor costs are estimated to increase $360 million a year, other costs are estimated to drop by $640 million a year, and revenue from network benefits is estimated to increase by $1.12 billion a year. Assuming the number of routes and their frequency are going to be fairly stable in the near term, where will the $1.12 billion in additional annual network benefits come from? Does this mean consumers should expect increased fares?

Answer. All of the expected network revenue synergies come from additional passengers who will fly on the New American who would not have flown on US Airways or American Airlines absent the merger. The reason they will come to the New American post-merger is that the combination of our complementary networks will enable us to offer them a better quality product. Not even a single dollar of the network revenue synergies will come from a fare increase.

The merger will result in more frequencies on nonstop routes where US Airways and American overlap, better schedules for connecting service, additional online destinations served from each carrier's airports, and new online itineraries between cities that only one party serves premerger. As a result of the more attractive combined network, the American and US Airways models predict that the merged airline would carry more than 2.6 and 3.7 million additional passengers, respectively. The broader network's improved schedule and connectivity, along with the redeployment of the combined fleet to better match capacity to customer demand, will attract those additional passengers as take advantage of the improved service offering of the New American Airlines. The combination will also generate approximately $550 million in annual cost synergies from scale improvements and the elimination of duplicative systems and management.

Question 5. Mr. Parker, one argument I have heard about the merger is that the combined US Airways and American Airlines networks can be large enough to compete with other carriers both domestically and internationally. On the domestic side, regional carriers fly over half of all domestic flights. I believe US Airways Express has code share contracts with several regional carriers.

What percentage of US Airways domestic flights are currently flown under contract with regional carriers? If the merger is approved, what percentage of new American Airline flights would be flown either by contract or regional subsidiaries?

What domestic markets will the new American Airlines network add that can't be achieved through existing code share arrangement, with United Airlines under the Star Alliance, or by contracting with a regional carrier?

Answer. Roughly 39 percent of the current US Airways domestic flights are operated by another carrier not owned by US Airways under a contract with US Airways. Assuming no change in operations, approximately 24 percent of the New American's domestic flights will be operated under contract by another carrier not owned by New American.

Many communities will benefit from the expanded network of the New American. The way that mid-sized and smaller communities receive air service is by having hub and spoke airlines like US Airways and American that fly into those cities and then connect people to other markets. The merger of US Airways and American takes two strong hub and spoke carriers and builds one network that is stronger and provides even more connections. For example, it allows the people of Rochester, Minnesota to connect on the New American Airlines to Hilton Head, South Carolina. Currently, US Airways does not fly to Rochester; American does not fly to Hilton Head. But together, we will. There are 1,300 such examples like that, where people who do not have the ability to connect between two cities will be able to connect after the merger.

Question 6. Mr. Parker, my understanding is that US Airways added nonstop service to 18 airports to/from Reagan National airport after the slot swap and each one of those airports were served by US Airways in some capacity prior to the slot swap. During the hearing, you asserted that the USDOT-imposed divestiture related to the 2011 slot swap resulted in the discontinuation of nonstop Reagan National flights to Madison, Wisconsin, and Grand Rapids, Michigan. My understanding is that both cities were traditional Delta Airlines markets and neither city had any US Airways flights of any kind prior to the slot swap itself.

Were the Reagan National to Madison and Reagan National to Grand Rapids nonstop flights discontinued as the result of the slot swap itself, the USDOT required divestiture, or did US Airways never have any intention of serving Madison, Wisconsin or Grand Rapids from Reagan National?

Answer. After the DOT imposed divestiture, it is my understanding the Delta discontinued service to Madison, WI and Grand Rapids, MI. US Airways was not serving either city from DCA. US Airways did not then, nor does it now, operate a station at either airport.

Question 7. Mr. Parker, US Airways controls approximately 56 percent of the slots at Reagan National Airport. Using these network and commuter slots, US Airways provides direct service to a number of smaller communities within 1,250 miles of the airport. According to Mr. Dillingham's written testimony, American Airlines currently uses its slots at Reagan National for flights to large and medium-sized hubs within the 1,250 mile perimeter. I have heard you say that if DOJ requires the new American Airlines to divest slots, the airline will reduce service from Reagan National to smaller markets.

When you speak about DOJ divestitures possibly causing US Airways to reduce service to smaller cities, do you mean if DOJ requires divestitures of all American Airlines current slots or do you mean if DOJ requires divestitures of all American Airlines slots plus some of those US Airways currently controls?

If US Airways gains additional slots at Reagan National beyond the approximately 56 percent of slots it currently controls, do you intend to use these slots to fly directly to more small cities within the perimeter?

The next time the Committee takes up FAA authorization legislation will US Airways propose converting a significant number of within-perimeter slots at Reagan National into slots for beyond the perimeter?

Answer. US Airways serves many small and mid-sized communities out of Reagan National, both in absolute terms and relative to our competitors. The slots that will be utilized by the New American will be used to continue to provide service to smaller communities.

A divestiture of any slots at Reagan National would not be good for competition or consumers. We need slots to fly in and out of D.C. If US Airways or the New American were asked to divest slots, it would result in a reduction of service somewhere, and we would likely have to reduce service to those communities that make the least contribution to the network. Those would tend to be service to smaller and mid-sized communities. If other airlines acquired those slots, they likely would use them to fly to large communities.

With respect to the perimeter rule at Reagan National, our objective is to have the ability, if possible, to service more cities outside the perimeter. We would be happy to work with the Committee to allow more flights outside the perimeter without reducing service to small and mid-sized communities and without increasing flights to Reagan National.

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. BRIAN SCHATZ TO DOUG PARKER

Question. As you know, the Pension Benefit Guaranty Corporation (PBGC) assumes responsibility for pension plans that are terminated because a company is unable to pay all benefits. The PBGC's insurance program pays monthly benefits to the retirees that the pension plan would have provided. PBGC requires individuals to retire at age 65 to receive the maximum retirement benefit. For years, this law was in conflict with the Federal Aviation Administration's (FAA) requirement that pilots retire by age 60. These conflicting policies continue to significantly reduce the retirement benefits of affected commercial airline pilots from Aloha, Northwest/Delta, United and US Airways. Approximately 12,000 to 14,000 pilots are currently losing up to $16,000 a year in pension benefits.

Last Congress, bipartisan legislation was introduced by Senator Daniel Akaka (S. 998) and Representative George Miller (H.R. 1867) to address this problem and assure that all pilots are provided fair benefits. The legislation would direct the PBGC to calculate pension benefits based on retirement eligibility beginning at age 60 instead of age 65 for retired pilots whose pensions are affected by the discrepancy between the FAA and PBGC retirement requirements. US Airways did not take a position on the legislation last Congress.

Will US Airways and American Airlines endorse the bill when it is reintroduced this Congress? If no, please provide an explanation.

Answer. US Airways will support the legislation. Further, I have every expectation that new American Airlines will likewise support the legislation once the proposed merger is closed.

Many pilots employed by the former US Airways were hurt by application of the Age 60 rule after their pension plan was terminated in bankruptcy. As you know, the union representing our pilots, USAPA, is strongly behind the effort. I'm told that American's pilots union, APA, also supports the legislation even though American's pilots are not affected.

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. ROGER F. WICKER TO HON. SUSAN L. KURLAND

Question. What benefits do you believe should consumers expect to derive from this merger? After all, every commercial airline merger leaves the flying public with fewer airline choices. Will there be new routes to areas not currently being served? Will there be more affordable flight options? Better customer service? Fewer delayed flights? Will the merged company invest in better baggage-handling technology for an improved consumer experience? What are your expectations?

Answer. The merger of American Airlines and US Airways, under the American Airlines brand, closed on December 9, 2013. By combining their fleet and operations, the carriers have stated that they plan to:

- Improve the efficiency of their services and thus drive greater value for customers by creating more new flights, more service options, and better quality service;
- Improve financial performance by increasing revenue and profitability;
- Improve compensation for their employees and provide more career opportunities;
- Offer more comprehensive contracts to corporate customers and thereby enhance competition for corporate customers.

In the Department's experience, it typically takes a period of years for the new management team to integrate the operations of the two carriers, achieve unified labor contracts and work rules, and to take all the necessary steps to deliver benefits of the merger. This integration period will likely occur in the case of American/US Airways as well, as the carriers have indicated that the full benefits of the merger will not be available for 24 months at the earliest. The Department will be monitoring the integration of the two carriers—and the amount of benefits delivered to the public—as we go forward. It is also incumbent upon the airlines to keep their customers and the public apprised of their progress and plans for the future.

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. ROGER F. WICKER TO GERALD L. DILLINGHAM, PH.D.

Question. What benefits do you believe should consumers expect to derive from this merger? After all, every commercial airline merger leaves the flying public with fewer airline choices. Will there be new routes to areas not currently being served? Will there be more affordable flight options? Better customer service? Fewer delayed flights? Will the merged company invest in better baggage-handling technology for an improved consumer experience? What are your expectations?

Answer. As GAO reported as part of its testimony on June 19, airline mergers combine, and therefore expand the merged airline's network, allowing for increased travel options for the merged airline's passengers. The airline claims its network will rival its chief competitors in Delta and United but whether the merged airline will serve new markets is not known. GAO testified that combining American Airlines and US Airways existing route structure would reduce the number of effective competitors (defined as controlling at least 5 percent market share) in over 1,600 airport pair markets, it would add a new effective competitor in over 200 airport pair markets. The general trend in recent years, however, has been for small and medium communities to lose service as a result of airline capacity reductions brought on by higher fuel costs and other factors. We also reported that post merger integration issues have created customer service problems for airlines, but that over time these are reduced. If the merger creates a financially stronger airline, it would be better positioned to invest in customer service and baggage systems. It is unclear if the merger will affect operational performance, including cancellations and delays. We have previously reported that the principal cause of airline delay and cancellation is airport and national airspace congestion.[1]

[1] GAO, *National Airspace System: Setting On-Time Performance Targets at Congested Airports Could Help Focus FAA's Actions,* GAO–10–542 (Washington, D.C.: May 26, 2010); *Commercial Aviation: Impact of Airline Crew Scheduling on Delays and Cancellations of Commercial Flights,* GAO–08–1041R (Washington, D.C.: Sep 17, 2008); *Airline Passenger Protections: More Data and Analysis Needed to Understand Effects of Flight Delays,* GAO–11–733 (Washington, D.C.: Sep 7, 2011); and *Slot-Controlled Airports: FAA's Rules Could Be Improved to Enhance Competition and Use of Available Capacity,* GAO–12–902 (Washington, D.C.: Sep 13, 2012).

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. ROGER F. WICKER TO DOUG PARKER

Question 1. Mr. Parker, when reviewing airline merger proposals in the past, we heard from company executives that the newly merged carrier would strengthen access for rural areas and small communities. In my experience, those commitments were less than enduring.

What assurances can you provide that, should this merger be approved, small communities will continue to have reliable and affordable airline access that is no less than that which they enjoy today?

Answer. We understand the concerns about "broken promises," arising from other airlines' failure to live up to certain assurances made while their own merger deals were under consideration. These concerns—while understandable—are not warranted here. Our merger combines complementary networks with complementary hub locations, each of which is crucial to the combined network. Our synergy analysis is based upon our expectation of increasing revenues primarily from new passengers taking advantage of the broader network and improved service that our combined network will allow. All nine of our hubs will be crucial to realizing these synergies and expanding the New American network. Each hub will serve a unique function within the overall network and a substantial portion of the incremental traffic we expect to win will flow over those hubs. We therefore have no plans to close any hubs or cut down service in any cities that we currently serve. Rather, we expect to expand service to additional cities. Growth opportunities already exist today, and they will be greater with this merger.

Our commitment to small community service is not some new discovery for US Airways. US Airways historically has provided extensive service to smaller communities and the merger will allow us to continue to extend that focus, building on complementary service offered by American Eagle. The broader network created by the merger will give us the ability to bring heightened levels of service to those communities that neither airline could afford to provide on its own, and the number of passengers benefitting from the existing combination of service will grow as communities receive new online connecting service.

Question 2. What benefits do you believe should consumers expect to derive from this merger? After all, every commercial airline merger leaves the flying public with fewer airline choices. Will there be new routes to areas not currently being served? Will there be more affordable flight options? Better customer service? Fewer delayed flights? Will the merged company invest in better baggage-handling technology for an improved consumer experience? What are your expectations?

Answer. Consumers are clear winners in this merger. The New American Airlines joins two highly complementary networks to create a better and more competitive alternative for consumers. The broader network that will result from the merger is better for passengers because it gives them more choices, a wider variety of services, and more competition on more routes. The network is able to provide these choices and services because it aggregates demand that independently cannot support profitable service, but collectively can do so. Adding more origins and destinations to hubs has an exponential effect on the number of possible routings served by a network, the number of passengers that can be served, and the ways that they can be served. For example, the merger will create over 1,300 new connecting routes benefitting millions of passengers, many in small and medium-sized communities. Our frequent flyer programs will be combined into AAdvantage, the best mileage rewards program in the world. At the same time, we will achieve significant cost reductions from scale and elimination of duplicative systems further benefitting consumers.

It is these benefits which we seek to provide to passengers by combining the complementary networks and nine hubs of American and US Airways. And by providing those benefits, the New American will enhance competition.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. ROGER F. WICKER TO CHARLES A. LEOCHA

Question 1. What benefits do you believe should consumers expect to derive from this merger?

Answer. The Consumer Travel Alliance (CTA) sees no benefits for consumers to this merger—this is a merger of convenience for US Airways and American Airlines. Neither airline is in an economic crisis—both just reported record profits last quarter.

Question 2. Will there be new routes to areas not currently being served? Will there be more affordable flight options?

Answer. Prima facie, competition will be reduced on 1,665 connecting routes according the GAO report released at the hearing and 761 one-stop connecting routes will see reduced competition according to the CTA study released several months ago. These connecting route overlaps provide 1,665 opportunities for the airlines to cut service rather than introduce new routes. Neither American Airlines nor US Airways has suggested new routes as a result of this merger.

The reduction of competition has never resulted in "more affordable flight options."

Question 3. Better customer service?

Answer. Customer service, if we look back at the last merger or United and Continental will be degraded. That merged airline ranks at the bottom of the customer service heap. AA/US will face similar challenges.

Question 4. Fewer delayed flights?

Answer. There is no way to tell. Experience from the past two mergers is that there will be significant IT issues and reservation systems will break down during the airline integration. That will result in problems for consumers for about a two to three year period. Afterward, who knows?

Question 5. Will the merged company invest in better baggage-handling technology for an improved consumer experience?

Answer. Neither airline is making that promise, nor have they made it a priority in the past.

Question 6. What are your expectations?

Answer. Flights will be reduced. Airfares will increase. Consumers will find even more ancillary fees with less transparency. Reducing network carriers in the U.S. to only three is fraught with competitive dangers.

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