

STATEMENT OF SENATOR JOHN McCAIN
CHAIRMAN, SENATE COMMITTEE ON
COMMERCE, SCIENCE, AND TRANSPORTATION
FULL COMMITTEE HEARING
ON CONSOLIDATION IN THE AIRLINE INDUSTRY
FEBRUARY 1, 2001

- Eight months ago, United Airlines announced its intention to merge with US Airways, potentially creating the largest airline in the world. At that time, I expressed my strong reservations about the proposal. I was concerned that the proposed transaction would lead to further industry consolidation which would have a detrimental effect on competition and, in turn, the consumer. As a result, this committee passed a resolution disapproving the United/US Airways merger.
- Four months ago, the Chairmen of the second and third largest airlines in the U.S., American and Delta Airlines respectively, sat in front of this committee and warned that they would be forced to react to the proposed United US Airways merger, if approved, to remain competitive. Today one of them, American, is here to discuss its proposed actions that would make American comparable in size to United if the currently proposed transactions are approved. This would result in two airlines controlling approximately 50% of the U.S. market.
- It comes as no surprise that current news reports indicate that Delta is involved in negotiations with both Northwest and Continental in order to remain competitive in light of these proposals. A move by Delta would result in three major airlines controlling an estimated 75 to 85 percent of the U.S. airline market, the very situation that I and others predicted eight months ago. I don't know of anyone, other than the airlines, who thinks that a "big 3" industry is good for the consumer.
- The airlines tout network benefits and "seamless travel" as a benefit to the consumer. Maybe I am mistaken, but I thought it was competition that was good for the consumer. And that is something that there will be little of if these transactions all come to fruition. These "big 3" will control markets, gates and access to facilities. They will have the pricing power to slowly force out or severely constrict the growth of new entrants. The consumer is the one who will pay the price.
- A "big 3" industry also gives labor increased leverage to disrupt service. We need only to look at United's problems last summer and Delta's and Northwest's current problems. If labor disruptions occur at a consolidated United or American, the rest of the system will not be able to absorb the displaced passengers and the system will grind to a halt.

- Mr. Compton, I recognize the benefit of this acquisition to your company and employees. Senator Carnahan, I also recognize the benefit to your state and the city of St. Louis. However, the airline industry is facing a crisis right now. The report authored by our current Secretary of Transportation, Secretary Mineta, sets out some good ideas to fix the system. I personally believe the answer is to pour more concrete, increase competition and fix the air traffic control problem. We are at a crossroads and have a tremendous opportunity to take steps to address these issues. I cannot help but believe that a "big 2" or "big 3" consolidated airline industry will limit this opportunity and make the current situation even worse.
- I thank the witnesses for their time and look forward to their testimony.