STATEMENT OF
CONGRESSMAN THOMAS M. REYNOLDS
before the
COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION
February 1, 2001
concerning
AMERICAN AIRLINES ACQUISITION OF TWA

Mr. Chairman and Members of the Committee, thank you for the opportunity to testify before the Committee today. I represent the 27th district of New York State, including the rural and suburban areas surrounding the upstate cites of Rochester and Buffalo.

Both these areas are working to rejuvenate their local economies: working to tie academia and industry to a technology base to create a pro-growth atmosphere that encourages job creation and retention.

In seeking to foster economic development, experts often cite a number of factors as disincentives to new business development in the region, including high taxes, regulatory burdens, energy prices and astronomical airfares.

Pending mergers and acquisitions in the airline industry present the prospect that my constituents, who currently pay some the highest airfares in the nation, will continue to find themselves locked into these high fares in virtual monopoly markets. It is highly unlikely that the conditions of current proposals—including the proposed sale to DC Air of US Airways' valuable slots at Reagan National—will provide any prospect of relief.

Mr. Chairman, in your opening statement before the July 27 hearing of the Committee on antitrust issues in the airline industry, you quoted the "father of airline deregulation," Professor Alfred Kahn: "If I had to choose between encouraging low-fare entry like the kind that has benefited the public with low prices, and the unencumbered ability of major airlines to respond to low-cost competition…I will pick he first every time." It is just this type of low-fare competition that has been a saving grace for the upstate New York economy thus far, and it is just this type of competition that we desperately need more of.

Southwest Airlines currently provides service between Buffalo and Baltimore-Washington- International Airport. JetBlue Airways provides service between New York's John F. Kennedy International Airport and both Buffalo and Rochester. The low-fare service these airlines provide upstate New York has been a successful first step in bringing greater competition to our marketplace. These carriers as well as others, such as AirTran Airways and Sun Country Airlines, have expressed an interest in bidding for assets at Reagan National with the intention of providing low-fare service to upstate New York. Without such a consumer-friendly arrangement I'm afraid that I agree with your statement, Mr. Chairman, that on balance, pending mergers and acquisitions will do air-travelers more harm than good.

The possible divestiture of US Airways slots at Reagan National is an opportunity to bring expanded service and lower costs to Buffalo, Rochester, and other areas of the Northeast, mid-Atlantic and Midwest. However, a transfer of these assets to a large carrier would essentially be the death warrant for such relief.

Consider for a moment, some of the elements of the massive merger deals involving American, TWA, United and US Airways:

- American will obtain from TWA 175 gates and related terminal support facilities and 173 slots. American will purchase current US Airways assets including 14 gates, 36 slots, and the gates and slots necessary for American to operate half of the DC-Laguardia-Boston (United Airlines will operate the other half). In other words, the two largest carriers in the world will work together to operate the shuttle with joint marketing agreements, frequent flyer programs, and clubs.

- American will acquire 49% of DC Air including additional slots (222 at Reagan National) and gates. American will gain a total of 467 slots from the transaction (173 from TWA, 36 from US Airways, 36 for the Shuttle and 222 from DC Air.)

- American Airlines will guarantee that the following routes involving current United hubs or new hubs obtained from US Airways will be served by at least two roundtrips a day for the next 10 years: Philadelphia-Los Angeles, Philadelphia-San Jose, Philadelphia Denver, Charlotte-Chicago (O'Hare), and Washington DC-Pittsburgh. To assist American's service in these markets, United has agreed to provide codesharing with American at United's dominated hubs.

- American and United have also agreed that if American enters any other transactions within four years causing American to be at least 7.5% larger than United, the shuttle and associated gates and slots will revert to United. Think about that for a minute-- the nation's two largest competitors dividing up markets. This appears to be contrary to the spirit, if not the letter of our antitrust laws.

As a result of the disappearance of US Airways and TWA, along with the new alliance between American and United, there will be a reduction in the number of hub airports competing for traffic to small and medium markets in the Northeast, mid-Atlantic and the Midwest. Options will drop for all of these communities. Moreover, none of these mergers will create low-fare carriers. DC Air's flirtation with being a low-fare carrier has long since disappeared.

Numerous media outlets, including the Buffalo News, reported long ago that DC Air not only wouldn't promise lower airfares, but may also very well reduce seats from Buffalo to Reagan National. Neither does any independent analysis of the merger to date show DC Air to have a cost structure that is likely to allow low fares. Mr. Goodwin, Chairman and CEO of United, in a letter to me, went as far to say that the airline would realize "merger synergies" that could result in a reduction in seats to upstate New York.

The nation's largest carriers have had approximately 10 fare increases in the past 18 months. More recently, they have agreed to increase the charge of changing a non-refundable ticket from $75 to $90. It stands to reason that without increased competition, those increases will become more frequent when we have only four major carriers.

Also relevant today is the fact that a number of DOT, GAO and other studies have listed slots, gate limitations, and the computer reservation system as factors that keep new entrants out of markets. In *Enforcement Policy Regarding Unfair Exclusionary Conduct In The Air Transport Industry,* DOT reports: "to keep entrants from obtaining slots at slot-restricted airports, incumbent airlines have allegedly purchased the slots that come on the market. Incumbent airlines additionally 'baby-sit' slots—they use the slots in relatively unprofitable markets in order to keep from losing them to a potential entrant." Incumbent's understandable reluctance to part with slots that will give a foothold to new entrant low-fare competition is an issue that can and should be addressed through the current merger deliberations.

The consolidation of the industry at this point in time to no more than a handful of carriers will only make what is already a bad situation close to intolerable. The passage of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR 21) was hailed as a bill to make our skies safer, modernize air traffic control, reduce flight delays and boost airline competition. Announcing the passage of AIR-21 in the House, Transportation and Infrastructure Chairman Bud Shuster said, "Our air traffic control systems must be modernized, single airlines have gained monopolistic supremacy at many of our large airports, and flight delays and customer complaints are increasing. This legislation will go a long way in relieving our overburdened aviation system without raising taxes."

Unfortunately, the spirit of AIR-21 has been violated by events such as the FAA auction to rescind the slot exemptions granted under AIR-21 at LaGuardia (which was the subject of a recent hearing before the House Aviation Subcommittee). With the passage of AIR-21, which created incentives for carriers to serve medium and small communities with regional jets, Rochester saw the proposed number of seats to LaGuardia nearly double and daily aircraft operations triple. In addition to the proposed increase in seats and daily operations, the number of airlines proposing to serve LaGuardia doubled from two to four. However, the FAA lottery to restrict access to LaGuardia is now having a disproportionate impact on airports like those in Rochester and Buffalo that are striving to provide service options to the travelling public. While these actions threaten to undo AIR-21's success, industry consolidation threatens to permanently trap my constituents in a traveler's nightmare of high fares and poor service.

We are witnessing what may be the most significant mergers in U.S. history. These mergers would allow United Airlines and American Airlines to dominate most airports on the East Coast including Reagan and LaGuardia. New entrant carriers would be blocked from getting into these airports. Actions need to be taken to ensure that new entrants can obtain access at National and to increase operations at LaGuardia. Failing that, these mergers will not achieve the maintenance of any real competition in the marketplace and will therefore fail the consumer and fail western New York.

In closing, Mr. Chairman, I believe these mergers and acquisitions not only threaten the existence of real competition in the airline industry, but will further negatively impact on the economies of those communities which can least afford additional burdens.

Thank you, Mr. Chairman, for the opportunity to address the Committee today on an issue of such great importance to western New York and the nation.