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SCIENCE AND TRANSPORTATION
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Chairman McCain, Ranking Member Hollings, and other Members of this distinguished Committee, on behalf of United Airlines' more than 100,000 employees worldwide, thank you for the opportunity to testify today. United appreciates the chance to explain why our customer-driven merger with US Airways should be approved and how this transaction will significantly benefit consumers and the communities served by both carriers.

As I will explain in more detail in a moment, the merger is a "win win" for valued customers of both carriers as well as all air travelers. The transaction will create a 21st Century airline that offers consumers significantly improved choices for more convenient, single-carrier service on thousands of routes around the world. At the same time, it will usher in new, competitive air service at capacity-controlled Ronald Reagan Washington National Airport.

Moreover, communities, especially US Airways hub cities, will receive considerable travel and economic benefits as a result of the transaction. The combined reach and efficiency of the new network will also enable United to offer improved service to smaller cities throughout the system.

Mr. Chairman, last year this Committee reminded us that as an industry we need to do a better job listening and responding to our customers. Frankly, you should not have had to remind us of this fact since customers are the lifeblood of our business. At United, we certainly took that advice to heart. We implemented a comprehensive customer service enhancement program – "our United Commitment" – to improve the traveling experience of our valued customers. I am proud of the improvements, which that program continues to produce. However, we are not resting on our laurels. Each day, the entire United family is striving to provide the best customer service possible.

At the same time, we intensified our efforts to identify what type of service our customers valued most and expected us to provide. As a result of the evaluation, this is what we learned. Our customers told us they want hassle free, single-carrier service in as many city-pair markets throughout the U.S. as possible. Similarly, international passengers told us that they want seamless, global network service such as that offered by the Star Alliance, the premier alliance with which United is proud to be affiliated. Listening to the marketplace, the message was unmistakable – our customers expect us to offer them the benefits of the most comprehensive air service network possible and they want such service benefits as soon as possible.

Put in that context, let me explain our decision to acquire US Airways. Like a chain, an airline's network is only as strong as its weakest link. As United examined its ability to respond fully to our valued customers, we considered whether we could improve our efficiency and the sustained level of service we provide. What we discovered was that United's weakest link was US Airways' strongest link and vice-a-versa. Accordingly, United concluded that by combining the two carriers, we would draw upon the strengths of both airlines and simultaneously fill service voids in each other's existing networks. The result, we believe, will be the first truly efficient nationwide network that will provide consumers with unparalleled travel convenience and service.

United has an extensive east-west system in the U.S. with hubs in the Midwest and the West. In contrast, US Airways has a comprehensive north-south route system along the East Coast anchored by hubs in Pittsburgh, Philadelphia and Charlotte. Together, the two networks are highly complementary.

Let me emphasize the complementary nature of our respective networks and tell you the other reasons why the transaction will produce unprecedented consumer benefits. Unlike previous airline mergers dating back to the 1980s, United and US Airways do not share a common hub. Moreover, the United-US Airways combination will increase consumer choice and competitive service as we expand our network to improve single-carrier service throughout our system. For example, we plan to offer new single-carrier service on 560 city-to-city routes – routes on which neither United or US Airways even competes today. Examples of new one-stop routes include Charleston, W.V., to Portland, Oregon and San Jose, Calif.; Charleston, S.C., to Austin and San Antonio, Texas; Bangor, Maine to San Diego, Calif.; Reno, Nev., to Tallahassee, Fla.; and Fargo, N.D., to Panama City, Fla. The 560 new routes also include a number of international flights as well, including new one-stop flights from Phoenix to Copenhagen; San Jose, Calif., to Madrid; Birmingham; Ala. to Brussels; and Tulsa, Okla., to London.

Mr. Chairman, let me share several statistics that illustrate the complementary nature of our networks and how it will expand single-carrier service options for consumers. Along the East Coast, US Airways carries about 38 percent of passengers compared to just 1.7 percent for United. On the West Coast, in contrast, US Airways flew under 1 percent of passengers while our share of that market is about 25 percent. By combining our complementary domestic systems, passengers on both coasts – especially US Airways passengers on the East Coast – will be better linked with United's network of global service.

Not only are consumers and competition protected by the complementary nature of our respective networks, we have taken great care to proactively identify and remedy what we thought might be an issue for regulators. I am referring to the combining of our operations in Washington. To address any possible issue about the overlap on routes we would have as a result of the transaction, we are voluntarily divesting the bulk of US Airways' significant and valuable resources at Reagan National. As a result, DC Air, an independent new-entrant carrier, will be able to bring significant new competitive service to the nation's capital.

Before I discuss the significant consumer benefits this transaction will produce by adding DC Air as a new entrant competitor at Reagan National, let me take a moment to respond to questions some have raised about DC Air's independence. Simply put, DC Air will be a wholly independent carrier owned by Mr. Johnson and United intends to compete vigorously against it just like any other carrier. Mr. Chairman, I cannot speak for Mr. Johnson but I firmly believe that DC Air intends to compete vigorously against us as well. To dispel any misperception, let me share some facts with the Committee. Like any other independently operated carrier, DC Air will (1) determine its own scheduling, (2) determine its own pricing, (3) collect its own revenue and (4) hire its own employees.

Mr. Chairman, it is true that we have an arms-length agreement to assist DC Air in the initial phase of its start-up operations. That commercial arrangement is intended to help DC Air successfully get off the ground, not to somehow keep it under United's thumb. Let me be clear, United is merely offering DC Air the opportunity to acquire services. However, we are not obligating it in any way to do so on a continuing basis. In addition, the services are being offered to DC Air at market price, just as our subsidiary UAL Services offers services to a multitude of competitor carriers around the world. For instance, United is offering to wet-lease 10 Boeing 737-200 aircraft to DC Air during its initial two-year transition period but DC Air can discontinue this arrangement with four-months notice.

As is commercially customary, the agreement also gives DC Air the option of extending the wet-lease arrangement under certain circumstances. By no means will this wet-lease arrangement account for DC Air's entire fleet. In fact, DC Air intends to lease 19 regional jet aircraft that currently are operated by US Airways commuter affiliates.

In addition to aircraft, United also is offering DC Air the chance to purchase an array of other services at market price including station handling, maintenance, training, and access to club facilities. Consistent with industry practice, such agreements can be terminated by DC Air if it finds a better deal elsewhere.

Now, let me turn to the significant benefits this transaction will create for passengers using Reagan National. The transaction will not simply maintain status quo competitive levels and consumer choice at Reagan National, it will expand both in a meaningful way. For instance, DC Air has said it plans to offer service from Reagan National to 43 cities. That total includes all 31 cities in which US Airways' service from Reagan National competes today with United service from Reagan National or Dulles.

In the case of routes between Reagan National and three cities – Pittsburgh, Philadelphia and Charlotte – that currently are served by US Airways alone, United will enter those routes and offer consumers at Reagan National a new competitive choice. As part of the transaction, United will also operate the shuttle between Washington, New York and Boston. I can assure you that we will compete vigorously with Delta on those popular routes.

Mr. Chairman, let me make one additional point about DC Air which I believe is very important. An important feature of the DC Air plan is to preserve non-stop air service between Reagan National and many small and medium-sized communities throughout the eastern U.S. Under the plan, DC Air will provide non-stop service from Reagan National to cities such as Charleston, S.C., Charleston W.V., Columbia, S.C., Knoxville, Tenn., Morgantown, W.V. and Portland, Maine.

As I mentioned, combining our airlines will create the first truly efficient nationwide air service network. Now, let me explain how this translates into benefits for consumers, communities and the U.S. economy.

For consumers, the combination of United and US Airways will create a new millennium airline that will deliver significant benefits to millions of passengers. This transaction brings together two complementary route systems that will result in a new network connecting US Airways' eastern U.S. routes with United's western U.S. routes and our international network. The result for consumers: more convenience and more travel options to more places in the United States and around the world. Added to that is the reach of our Star Alliance partners, which will link passengers to a comprehensive network that will directly carry them to destinations around the globe in a way not currently possible.

The transaction will enable consumers to enjoy the considerable benefits that travel on United will offer – benefits that will help simplify travel and make it as hassle-free as possible. Those benefits range from the convenience of single-carrier service and one baggage check-in to United's #1-rated Internet site, the best airport lounges in the industry, and a frequent flyer program – Mileage Plus – that delivers more opportunities to earn miles and many more destinations for award travel throughout the world.

For our cargo customers, the transaction means new, single-carrier service to more efficiently move freight around the world.

United will continue to serve all cities now served by US Airways. However, by no means will United simply offer status quo service. Enhanced service is the hallmark of this customer-driven merger. Passengers will benefit from 93 planned new non-stop flights. Of these, 64 are domestic flights and 29 will be international flights. It is important to note that half of these 93 flights will be on routes where no airline provides non-stop service today. On domestic routes, for example, consumers will benefit from planned new non-stop flights between Pittsburgh and San Jose, Calif.; Washington Dulles and Orange County, Calif.; Raleigh-Durham, N.C. and San Francisco, Calif.; Austin, Texas and Charlotte, N.C.; Denver, Colorado and Ft. Lauderdale, Fla.; and between San Francisco, Calif. and Tampa, Fla. Portland, Oregon will receive new non-stop service to Philadelphia, Pittsburgh and Charlotte.

For United passengers, the merger will create new, single-carrier service to 93 destinations and add about 5,000 routes to the network. For U.S. Airways passengers, the benefit is even greater – new, single-carrier service to 145 destinations and an additional 7,000 routes.

United also plans to introduce daily non-stop service to other international destinations as well. For example, from Dulles, our plan is to offer the only daily non-stop flight from Washington to Copenhagen and, subject to government approval, the only daylight service to London Heathrow. In Boston, United plans an additional daily flight to Frankfurt and the only daily non-stop service to Tokyo. And from Denver, we plan to offer new service to London Gatwick.

I would like to share another example of how our merger will improve the competitive landscape for consumers. The transaction will strengthen Charlotte's competitive position as a hub in the southeastern United States. Charlotte will become an important, competitive alternative to Atlanta and give the city and its businesses greater access to key domestic and global trade centers. It will also make it easier for Charlotte passengers to travel to Latin America, Asia, Europe and other destinations around the world on United and its Star Alliance partners.

The strength of the Charlotte hub as a competitive counterbalance will be enhanced by new non-stop service we plan to offer. That new service includes new non-stop service to three cities --- Portland, Oregon, Austin and San Antonio --- as well as additional non-stop flights to Denver, Seattle and San Francisco. In all, United plans to provide non-stop or one-stop service from Charlotte to 215 cities in the United States, Canada and Mexico as well as to 34 other international destinations.

In addition to injecting new competition into the domestic market, the merger will increased foreign investment to tourism. Sometimes such beneficiaries can be far removed from the airline industry. For instance, I understand the Maine and Massachusetts seafood industries may benefit as a result of gaining quicker and more efficient access to the Japanese market through our planned new, non-stop access to Tokyo via Boston. Such community and regional economic benefits are inextricably linked with improvements in air service.

This discussion of the benefits of the transaction for communities must address an issue of great importance to this Committee – its impact on small community air service. At the root of the merger is our goal to build a truly national airline network that will carry passengers as conveniently and efficiently as possible. Small communities are an important part of both United's and US Airways' networks. The same will be true for our combined network.

Let me assure the Committee that United will maintain its firm commitment to provide the best small community air service possible. We understand how critical access to the national air transportation system is for smaller cities. We also recognize that small community air service is an important economic development issue for many small cities and some states.

As the largest provider of Essential Air Service in the U.S., United has firsthand experience knowing how vital a link to the national air transportation system is for smaller cities. However, we are not limiting ourselves to that distinction. United is already delivering on its promise to expand our service to communities. Thanks to this Committee and this Congress, the easing of High Density Rule at Chicago O'Hare has allowed us to add flights from O'Hare to a number of small and medium-sized communities. United Express recently introduced service to Springfield, Ill. And by October, we will be offering 22 new daily United Express flights – mostly on regional jets – to destinations that will also include Tulsa, Okla., Columbia, S.C., and Little Rock, Ark.

Passenger feed into our system from small city markets is critical to the efficient operation of our network. To put it succinctly, our network relies on passengers from small city markets and therefore we have an important stake in ensuring that our small community air service remains as vibrant and efficient as possible. The network efficiencies resulting from the merger will better position United to fully capitalize on opportunities in small city markets. For instance, we plan to give consumers in Charleston, S.C., new travel options by introducing one-stop service to three cities --- Portland, Oregon, Austin and San Antonio --- and additional one-stop service to three other cities --- Denver, Seattle and San Francisco. Other small cities like Bangor, Maine, will gain new one-stop, single-carrier service to important international destinations such as Tokyo. Simply put, as our network expands and strengthens, our ability to serve small city markets improves.

Finally, the merger is in the best interest of the U.S. economy. There is no doubt that the airline industry is a major contributor to our nation's economy and its prosperity.

Besides its own direct spending and employment, our industry also contributes significantly to the creation of earnings and jobs in every major sector of the economy. A study by the Air Transport Association found that the U.S. airline industry generated $273 billion in economic activity in 1998 through direct, indirect and induced expenditures. Each dollar spent directly by the airlines produced another 2½ dollars in economic activity.

Recently, there have been a number of press reports indicating possible consolidation in the airline industry in Europe and elsewhere. Airlines are not seeking to get bigger solely for the sake of size alone. That is not the case at all. As with this transaction, airlines are being forced by the marketplace to build the strongest and most comprehensive route structure possible to compete effectively in the global economy. As Clyde Prestowitz, the President of the Economic Strategy Institute, explained in Congressional testimony just last week, our transaction "reflects the reality that the airline industry is not immune to the impact of globalization." To respond to consumers, airlines are seeking to build the strongest and most efficient networks possible.

Since the airline industry is global in scope, it is in the national interest to ensure that our carriers are not placed at a competitive disadvantage vis-à-vis foreign carriers that are permitted to optimize network-operating efficiencies. Mergers such as ours should be considered with an open mind on a case-by-case, fact specific basis.

Mr. Chairman, let me conclude by again thanking you for the opportunity to testify today. As I have said, we strongly believe this transaction should be approved. It is in the best interest of consumers, communities served by both carriers and the U.S. economy. I would be pleased to respond to any questions.