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The Status Of The Airline Industry

*'A Sense of the Customer'*

Mr. Chairman, and Members of the Committee, thank you for inviting the Business Travel Coalition to this important hearing, and for your interest in the views of the customer of the commercial air transportation system.

The airline industry is in crisis. Major network airlines will transform themselves or go out of business. The process will be painful for employees, their families and the communities in which they live and work. However, major network airlines have the prospect of coming out at the other end of this crucible more competitive and responsive to customers and better able to solve their own problems.

There is a backlash among many business travelers and corporate senior managements regarding major airlines' policies and the overall travel experience. Sky-high business airfares, eroding customer service levels and aviation system gridlock converged during the late 1990s to help deepen the falloff in business travel demand airlines are facing today.

However, BTC is very optimistic about the future. Over the next eighteen or so months it is very likely that these three issues--pricing, service and aviation system reliability--will be largely addressed. A driving factor forcing the major network airlines to restructure is the recognition, as late as it might be, that the business traveler now has an unprecedented range of alternatives to a seat on a major airline. These alternatives—the automobile, train, bus, charter jet, fractional jet, video conferencing, web casting—to name just a sampling, combine to form an effective proxy for the market contestability theory.

Of all the alternatives, though, it is the low-fare airline product that is disciplining the major airlines the most. Low-fare airlines, as a segment, have nearly doubled their national market share since the last airline cyclical downturn in the early 1990s. They have great management teams, more and newer aircraft, expanded route systems and an airfare structure that all consumers can understand and embrace.

When low-fare competition and the consumer were threatened in the late 1990s by artificial barriers to entry and, in some cases predation, this Committee was critical in drawing national attention to the problem and helping preserve competition. Were it not for a resurgent low-fare airline segment, it is doubtful that major airline managements and airline union leaders would be taking restructuring so seriously. Competition and the consumer will benefit greatly from successful major airline reforms.

There has been much industry discussion about whether there is room for the low-fare, point-to-point business model and the hub and spoke model embraced by major network airlines. BTC agrees with those whose determination it is that both models can coexist in a similar manner as the U.S. automakers coexist with low-cost foreign competitors.

The question is how fast can the major airlines reconfigure their cost and productivity platforms to stem threatening financial losses and market share losses to the low-fare airline segment. Every day major airlines operate with relatively high cost and low asset utilization levels they cede ever more share to low-fare competitors. This competitive reality is encouraging pro-customer reforms such as America West's new air fare structure, or American Airlines' fare structure reduction and simplification experiment—now in several hundred markets.

As optimistic as I am, however, there are three serious threats to low-fare competition, and to successful major airline restructurings, that BTC hope this Committee will seek to better understand and influence through future hearings.

1—The proposed marketing alliance among Continental, Northwest and Delta—comprising close to forty percent of the marketplace—is bad for low-fare competition and would be harmful to consumers and the corporations that fund business travel activities.

2—The taxes that are now baked into the price of an airline ticket can exceed a third of the price. This burden is threatening the continued democratization of air travel enabled by deregulation and the health of an industry that represents a powerful economic engine for the national economy.

3—The airline industry should be provided some permanent relief from post 9/11 security and insurance-related costs. Moreover, once a baseline financial responsibility was established for the airline industry for security, it should be codified that any future increases in security fees should be born by the taxpayer.

I thank you again for the opportunity to speak here today.