

**Follow-up Questions of Senator Klobuchar  
Subcommittee on Antitrust Hearing on  
“The American Airlines/US Airways Merger: Consolidation, Competition,  
and Consumers”**

**For Horton**

1. Mr. Horton, you have long insisted that American would emerge from bankruptcy as a stronger, independent carrier. What changed your mind from competing on a standalone basis to a merger with US Airways?
2. In July 2012, you wrote a letter to your employees that said, "...last year, I approached my counterparts at other airlines about the merits of possible combinations." What other possible combinations were you considering and why did you choose to merge with US Airways?
3. Three years ago, when United and Continental merged, they made similar arguments in favor of their merger as you are today. They also said the merger would create an airline that could offer good-paying careers. So it was surprising when in January, the CEO announced another 600 job cuts, on top of several hundred made following the merger, citing a fourth quarter net loss of \$620 million. You have a bright outlook on the future, as you should, but we cannot help but question whether the benefits will be realized or whether job cuts and more financial trouble – perhaps another merger – might be on the way. Especially, given the fact that the new American would have nearly 20,000 more employees than United. What's your response?
4. The latest American Customer Satisfaction Index gives American a score of 63 out of 100 for service and US Airways one point higher at 64. And, according to government statistics, both companies also receive a higher-than-average number of customer complaints. Often, the bigger a company gets, the more difficult it is to improve service. Can consumers expect these numbers to improve? And if so, how will you do that?
5. What are American's plans for American Eagle if the merger is approved and how could that affect regional service?

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**For Horton**

1. Mr. Horton, you have long insisted that American would emerge from bankruptcy as a stronger, independent carrier. What changed your mind from competing on a standalone basis to a merger with US Airways?

Response of Mr. Horton:

I am very proud of what the American team accomplished in the restructuring process to create a strong and viable independent plan, and indeed it was that plan that gave us the ability to negotiate the merger agreement with US Airways that promises to bring so many benefits to American's creditors, customers, employees, and even shareholders. That independent plan was, and remains, a viable path for American. However, the question is not whether American could emerge from its bankruptcy on its own, the question is what is the best outcome for American and its constituencies. As I explained in my comments before the committee, we went through a rigorous and disciplined process to answer the question of whether American should remain independent or merge with US Airways. The results of that review were compelling for our financial stakeholders, people and our customers. We are convinced that a merger creates a better American, one that is better positioned to serve our customers, to expand our business, and to provide our employees with more rewarding careers.

2. In July 2012, you wrote a letter to your employees that said, "...last year, I approached my counterparts at other airlines about the merits of possible combinations." What other possible combinations were you considering and why did you choose to merge with US Airways?

Response of Mr. Horton:

As I've stated, our analysis was rigorous, and we thought about other potential opportunities. However, none of those opportunities came close to replicating the benefits we saw from a combination with US Airways, and none resulted in any serious discussions or negotiations.

3. Three years ago, when United and Continental merged, they made similar arguments in favor of their merger as you are today. They also said the merger would create an airline that could offer good-paying careers. So it was surprising when in January, the CEO announced another 600 job cuts, on top of several hundred made following the merger,

citing a fourth quarter net loss of \$620 million. You have a bright outlook on the future, as you should, but we cannot help but question whether the benefits will be realized or whether job cuts and more financial trouble – perhaps another merger – might be on the way. Especially, given the fact that the new American would have nearly 20,000 more employees than United. What's your response?

Response of Mr. Horton:

I am not in a position to comment on what United and Continental might have represented, whether the recently announced reductions at United are consistent with those representations, or whether they are related to the merger or other factors. We operate in a highly competitive industry that is exposed to many factors outside our control, so I don't think you can easily draw straight lines of causation. With regard to our planned merger, I can offer the following few points. First, we do expect employee reductions in our respective headquarters and management ranks. While we are mindful of the impact on the people of both airlines, these reductions are part of the cost synergies that we have identified and intend to capture. We would expect that those reductions would occur over time, as the integration progresses over the next several years. However, the size of the remainder of our workforce will be determined by the size of the network we plan to operate. As both Doug and I have stated, we don't expect to close hubs or stop serving the communities we serve to today. If anything, we hope and expect that the larger network will provide a broader platform for growth, should economic conditions and demand warrant it. We have affirmed American's record breaking aircraft order, and we'll need the employees to fly and service those aircraft.

4. The latest American Customer Satisfaction Index gives American a score of 63 out of 100 for service and US Airways one point higher at 64. And, according to government statistics, both companies also receive a higher-than-average number of customer complaints. Often, the bigger a company gets, the more difficult it is to improve service. Can consumers expect these numbers to improve? And if so, how will you do that?

Response of Mr. Horton:

Let me start by saying that American is not satisfied with these results, and we have been working very hard to improve them. The fact is, we have improved on many of our customer service metrics, even while we have been operating under the overhang of our restructuring process. Our on-time operating performance in the first quarter of this year was the second best quarterly performance we have had since 2003, but we know we have more work to do. The relevant question is not whether room for improvement remains, but rather what is the best path to accomplish those improvements. Our cost structure, and lack of profitability over a decade, had an impact on our ability to invest in our products and services, and the numbers you have cited reflect that fact. Our restructuring and the merger give us the best chance to achieve the financial success and security that we need to invest in customer service. If you have any doubts about our commitment to an improved customer experience, I encourage you to view one of our

new Boeing 777-300ERs. That aircraft is just one of many steps we are taking to put American back on top in customer service.

5. What are American's plans for American Eagle if the merger is approved and how could that affect regional service?

Response of Mr. Horton:

American Eagle will emerge from bankruptcy as part of the American Airlines group, and will be part of the merger with US Airways. It is well known that we have looked at other options for American Eagle, and looking at the longer term, we do not know whether American Eagle will remain part of the American Airlines Group, or will be separated to operate independently. That decision will have to be made by the newly appointed board of the merged carrier together with management. What I can say is that regional aircraft service is extremely important to our network, and that will not change. Regional aircraft and regional aircraft operators allow us to provide small and medium sized markets with access to our broader, global network. Both carriers in the merger have a long history in serving these markets through regional carriers. American Eagle, either as an affiliated company or as an independent company, will remain an important part of our regional network.

# Questions for the Record: The American Airlines / US Airways Merger

For Mr. Horton from Senator Blumenthal

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## Fares

As the witnesses noted, the overlap in exact routes is not large, but competition for direct flights between several major cities would decrease in the wake of the merger.

Mr. Horton, as you noted in the hearing, "...airlines are a network business, as you know. So even where we don't have a direct overlap, of course we're competing via connections over hubs."

Mr. Parker you similarly noted, "We absolutely are competitors today. We compete vigorously against each other. But we have two route networks that independently aren't as capable of competing against the larger carriers as we will be together. So I think by putting us together we create a stronger competitor to the rest of the industry."

After this merger four major airlines would control 70 percent of the US market

- Mr. Horton, what assurances to travelers have that the prices for direct flights won't significantly increase as a result of the decreased competition after this merger?

## Response of Mr. Horton:

This merger will enhance, not decrease, competition. It will provide American and its customers with a domestic network comparable in size to United, Delta, and Southwest, all of which have used mergers to become better competitors. We are able to achieve this broader, more competitive network, with minimal loss of competition, because, as your question notes, this is a merger of highly complementary networks, with minimal overlap. With no carrier having more than 25% of the national domestic market, competition between these four largest carriers will remain intense. Moreover, low cost carriers, such as Spirit, Virgin America, and JetBlue, remain the fastest growing segment of the industry. History has proven that well managed low-cost-carriers (LCCs) can emerge and prosper in this industry. They are always looking for opportunities to provide better service where other carriers are reducing capacity or charging high fares. And, of course, we also are competing on global routes against powerful, aggressive, and well financed foreign carriers, such as Lufthansa, Singapore, And Emirates.

## Pensions

I have heard from retired American Airlines employees in Connecticut who are concerned their pensions and benefits will be cut as a result of American's bankruptcy. Some of these retirees are in their 70's and 80's, and the health benefits package is their only medical coverage. I feel strongly that retirees should not be exposed to undue financial hardship.

- Mr. Horton, what is American Airlines doing to address the concerns of employees that retired prior to November 2012?
- Mr. Horton, how does this merger impact the ability of American Airlines to fulfill its obligations to its retired workers?

## Response of Mr. Horton:

We are cognizant of the contributions of our retired employees to the American Airlines brand. In that regard, I am especially proud of the fact that we have not walked away from any of our pension obligations, as others carriers did before us. These obligations are in the billions of dollars and will have to be funded from future operations. The synergies from this merger, which we estimate will be \$1 billion annually by 2015, will enable us to be a more profitable airline, thereby improving our ability to meet these future obligations. It is worth noting that most of these synergies are the result of capturing more revenue and business from our competitors rather than through cost reductions. Thus, retirees are clearly among our constituencies that will benefit from this transaction.

We have filed a motion seeking to make some adjustments to retiree health care benefits, and that motion remains pending before the court. American's philosophy throughout the bankruptcy has been to work toward a common program for health and retirement benefits across all work groups, and to align the benefits available to current employees when they retire (and to those who have already retired) with those offered by other airlines and large corporations. We are in ongoing, good-faith negotiations with the official retiree committee established by the court, and we are attempting to reach an agreeable outcome for all stakeholders. Health care benefits have been a significant issue for all parties and our efforts will continue with the bankruptcy court.

**Questions for the Record from Senator Mike Lee**  
**“The American Airlines/US Airways Merger: Consolidation, Competition, and Consumers”**  
**Tuesday, March 19, 2013 10:00 AM**

**Questions for Thomas Horton, CEO, American Airlines**

1. We heard testimony at the hearing expressing concerns about coordinated conduct. The theory of coordinated conduct holds that tacit collusion occurs in industries where a few dominant players control a large portion of the market. In such situations, these few competitors know what their counterparts are doing with respect to prices and service and, without ever explicitly colluding, they are able to raise prices or cut back on services in tandem.
  - a. Some analysts allege that U.S. carriers already engage in coordinated conduct and that it is commonplace for all airlines in a market to raise prices soon after a competitor does so. They point to the example of baggage fees, noting that after one airline began charging such fees, most others followed suit. Some see this as evidence that the airlines tacitly collude to raise prices and harm consumers. What is your response to these allegations?
  - b. How might this merger affect the likelihood of coordinated conduct in the airline industry and the potential for resulting increased prices?

**Response of Mr. Horton:**

Fees are only one element of price, and competition will ensure that prices, of all types, remain competitive. Bag fees are an interesting example. Some airlines, like American and US Airways, have decided to offer customers more options by unbundling services. By unbundling bag fees, we are able to offer lower prices to those customers willing to travel without checked bags. Other customers are deciding to consume these optional services. The fact that bag and other ancillary fees are growing only means that airlines are offering more choices, not that overall prices are increasing. Indeed, I think the evidence is strongly to the contrary. Air fares, even with fees included, are a remarkable value, and air fares in real dollars have decreased over time. According to statistics published by Airlines For America, air fares, including ancillary fees, have increased by 20% from 2000 to 3Q 2012. During that same period, the Consumer Price Index rose 33%. Thus, adjusting for inflation, fares, inclusive of fees, have declined by over 10%. Even more remarkably, during that same period the spot price for fuel – which is our single largest component of costs – rose 260%.

As illustrative of a highly competitive market, other carriers are making different choices from those made by American. Southwest, the nation’s largest domestic carrier, does not

charge for bags and has made this a major point of differentiation in virtually all of its marketing. Spirit, the other hand, is a low cost airline, which now charges even for carry-on bags. By charging these and other fees, Spirit is able to offer ultra-low fares, and it has proven to be a strong and fast growing competitor, often at the hubs of some of the largest carriers. Even among network carriers, like Delta, American, and United, there are differences in fees charged in various markets, different approaches to exempting customers from paying such fees, and, most recently, in new pricing models pioneered by American that re-bundle pricing by packaging different services together. These different models and customer options provide evidence of a strong and dynamic market for consumers.

While it is true that carriers tend to match each other's prices, that matching only shows that the airline industry is highly competitive and that no carrier can afford to be at a consistent competitive disadvantage by charging uncompetitive high prices. For reasons I explained at the hearing, the airline industry will remain highly competitive, both among the four largest carriers, as well as with the strong and growing group of well managed smaller carriers, such as Alaska, JetBlue, Virgin America, Spirit, and Allegiant. We do not believe this merger will lead to coordinated activity or higher prices. Indeed, all of our analyses of this merger have assumed no price increases. We expect to win by capturing higher share and creating more travel options, not by charging customers more.

2. Some critics contend that airline prices have risen significantly over the last decade and they worry that this merger will result in additional fare increases for consumers. I understand that ancillary revenue from charges like baggage fees were as high as \$12 billion in 2011 for the top five US carriers alone.
  - a. How do you respond to those who worry over increased ticket prices and additional fees and who fear that this merger will only contribute to the problem?

See response to question 1.

3. In the last decade, the airline industry has experienced a great deal of consolidation. If this merger is consummated, the number of legacy carriers will have decreased from six to three. This deal would also leave this country's domestic airline industry with only four carriers comprising more than 80 percent of the market. Some analysts fear that this merger is one step too far and will leave the airline industry too concentrated.



- a. In your view, how much consolidation is too much? Is there a point when antitrust officials should worry about additional airline mergers given the high level of industry concentration?

Response of Mr. Horton:

I would expect that each merger would be evaluated on its own merits, and as airlines become larger through mergers or otherwise, it will become more difficult to put together complementary networks, like we have here. This merger creates all the benefits of a significantly expanded network, with minimal loss of competition.

4. Some proponents of this deal have suggested that without this merger, American Airlines would not be a viable company for more than a few more years.
  - a. As I understand it, the parties to this transaction are not claiming the so-called “failing firm” defense as a matter of antitrust law. Do you believe it is important for this Subcommittee to consider whether American is a viable competitor absent this merger?

Response of Mr. Horton:

We are not claiming that American is a failing firm for purposes of merger analysis. In fact, the new American is emerging as a strong, profitable, and vibrant competitor.

5. In response to concerns about competition, proponents of the merger have suggested that the transaction will have important pro-competitive effects. They argue that the combination of the routes currently held by American and USAir will create a strong domestic carrier able to compete with Delta, United, and Southwest. They also point to pro-competitive effects with respect to international flights.
  - a. How specifically do you believe this merger benefits competition -both domestically and internationally?

Response of Mr. Horton:

The merger has many procompetitive benefits including: (1) creating a larger network of online services that will connect more people to more places, and at the times they want to travel; (2) allowing American and US Airways to identify and capture cost synergies, leading to more affordable prices; (3) increasing the size and the scope of the **oneworld** alliance, resulting in three roughly comparably sized and highly competitive global alliances; (4) creating more options for frequent flyers to earn and use miles; (5) placing American on a stronger financial footing, thereby increasing its ability to grow and invest in the type of service and product exemplified by our new 777-300s; and (6) adding US

Airways' European and Middle Eastern services to the scope of American's international services, and giving our alliance partner customers access to an expanded network on which to fly, earn, and redeem frequent flyer miles. For more details concerning the potential consumer benefits, I would reiterate Doug Parker's and my comments before the Committee, in which we described the opportunities to create better travel options, as well as our vision of creating an airline that is both more profitable and better able to serve its customers.