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

For Mr. Horton from Senator Blumenthal

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.