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

For Doug Parker

1. **At the hearing, you said that US Airways does not fly to Rochester, Minnesota, but that "together you will." What do you mean by that? American currently flies from Rochester to Chicago. Do you expect that the "New American" will expand service in Rochester? For example, will you begin to serve new destinations that are currently only in the US Airways network?**

   There are a number of American-only cities in the Central United States that US Airways does not serve, including Rochester, Minnesota. In those communities, it is possible that new links to US Airways' current hubs would be established. Similarly, we anticipate that larger US Airways communities in the Eastern United States could see new flights to American's hubs. Overall, our combined carrier will reach 48 cities not presently served by US Airways and 64 cities not presently served by American Airlines. This will allow us to expand and enhance service from our hub cities and across our entire network. The New American Airlines will have the most service on the East Coast and Midwest, and will become a more relevant competitor in the West. But even without these changes, customers in Rochester will have new online access to cities uniquely served by US Airways on connecting itineraries through Chicagon and one of the US Airways hubs connected to Chicago.

2. **According to a USA Today report on February 22, 2013, there were seven major price increases in 2012. More recently, only five days after American and US Air announced their proposed merger, Delta announced price increases which were immediately followed by American, US Air and United; and a day later by Southwest. The new price increases, $4 to $10 for tickets purchased within seven days of domestic travel, mostly apply to tickets popular with busy business travelers.**

   a. **If this merger is approved, can we expect more rate increases like that where each airline follows in short order? If not, why not?**

   The airline industry, both domestically and internationally, is intensely competitive, with numerous companies offering different business models in the hope of appealing to consumers. This level of competition keeps fares down and capacity up. The merger of American Airlines and US Airways will enhance competition in the industry, escalating the downward pressure on fares. Consumers demand the ability to reach a broad range of destinations, whenever they want, on one airline system. Because of the limited size and scope of our respective networks, neither American nor US Airways is able to respond

fully to that demand today and both operate at a competitive disadvantage to the larger networks of Delta and United. The merger will join two highly complementary networks across the globe, filling critical competitive service gaps for each airline, and create a better and more competitive alternative for all consumers.

Moreover, the New American Airlines will continue to compete against Southwest's significantly lower cost structure and a host of smaller, but fast-growing lower cost airlines, including JetBlue, Spirit, Allegiant, Frontier and Virgin America. Low cost carriers will continue to offer strong competition to the New American Airlines and the other legacy carriers. These are tough, agile competitors, providing attractive service and innovative product offerings in the most competitive markets in the United States. They can and will add new service, challenge our fare offerings, and move quickly to address whatever we offer in the market.

b. In your merger negotiations, did you discuss fare increases, reduction of service, or the elimination or cut back of routes or hubs?

No. Our intent is to keep all the airplanes, all our hubs, and retain service to all the cities we serve today independently and hopefully expand service to additional cities. Moreover, we expect the merger to generate over $1 billion in net synergies, primarily due to increased revenues from new passengers taking advantage of the broader network and the improved service. Our synergy calculations are not based on *any* fare increases.

3. You have said that you have no plans to close any hubs as a result of this merger. Similar promises have been made in the context of airline mergers and those have been broken. For example, American dropped TWA's St. Louis hub, costing hundreds of high-quality jobs and hundreds of flights. Similarly, formerly strong hubs such as Cincinnati have faced declining service since the Delta/Northwest merger and Houston following the United/Continental merger. Currently, the combined airline would have five hubs on the eastern seaboard. At the hearing, you reiterated your commitment to keep all of your hubs open. How long do you commit to keep all of your existing hubs open? What portion of estimated cost savings do you expect to come from rationalization of your network, including reductions in hub operations and service?

Because the merger of US Airways and American Airlines combines two uniquely complementary networks, it will increase the flow of passengers over our nine hub airports in Charlotte, Chicago, Dallas-Ft. Worth, Los Angeles, Miami, New York JFK, Philadelphia, Phoenix and Washington, DC. This will allow us to expand service from our hub cities and across our entire network, offering consumers more and better service at competitive prices to more destinations at the times they want to travel.

Our synergy analysis is based upon our expectation of increasing revenues primarily from new passengers taking advantage of the broader network and improved service that our combined network will allow. All nine of our hubs will be crucial to realizing these

synergies and expanding the New American network. We therefore have no plans to close any hubs or cut down service in any cities that we currently serve.

4. **In your testimony, you emphasized the fierce competition you face from low cost carriers (LCCs). In which hub to hub markets between the legacy carriers might you anticipate entry by LCCs? How about excluding Southwest?**

   Low cost carriers, including Southwest, JetBlue, Spirit, Allegiant, Frontier and Virgin America have proven to be tough competitors, moving quickly in providing attractive service and innovative product offerings in the most competitive markets in the United States. They will undoubtedly continue to provide strong competition to the New American Airlines across our entire network, adding new service, new products, and challenging our fare offerings. For example, Spirit has already announced that it will look at entering a number of hub-to-hub routes where the New American will operate.

5. **The DOJ and GAO have both noted that "slot hoarding" and "babysitting" at slot controlled airports is a problem and a barrier to entry for new entrant airlines. If the merger is approved, would the new American plan to change the way it operated slots at slot controlled airports to be more efficient? For example, replacing multiple regional jets flights per day to a single destination with fewer large jet flights?**

   As you know slots allocated by the FAA limit the time of day and the equipment used to fly into and out of slot controlled airports, like Washington Reagan National Airport (DCA). In building our hub at DCA, we have made highly efficient use of our slots to meet the demand of Washington travelers. In fact our operation is as efficient, or more efficient, than other airlines at DCA and other hub carriers at slot constrained airports. At the same time, we have been able to offer service from DCA to a wide variety of small- and medium-sized cities that other carriers cannot serve. Currently, US Airways serves 39 small communities from DCA, which accounts for 97% of all small community departures at DCA. Our merger with American Airlines will enable us to enhance service to small- and medium-sized cities as we increase the flow of passengers over the DCA hub from the legacy American Airlines hubs and provide online connections for passengers currently served by US Airways to those American Airlines hubs and points beyond. We will continue to put the right aircraft on routes to match consumer demand for both frequency and volume of service.

6. **Mr. Parker, in January, US Airways reported strong quarterly numbers today, and marked its 7th consecutive profitable quarter. Topping not only Wall Street expectations, but the profits of United and Southwest. You say you need this merger to be a competitive airline. Do you believe that your company can compete on a standalone basis?**

   US Airways is certainly a competitor, and we are proud of our accomplishments over the last few years. The merger of US Airways and American Airlines will, however, create a more effective competitor that will increase and enhance service across the United States

and worldwide. The combinations of our complementary networks will create over 1,300 new connecting routes benefitting millions of passengers, many in small- and medium-sized communities. The New American Airlines will give consumers what they want—service when they want it to more places than ever before.

Moreover, we will compete more effectively as a single airline against the larger carriers—Delta, United, Southwest—than either carrier can do on its own. The recent mergers of Delta-Northwest, United-Continental, and Southwest-AirTran were driven by a desire to address network deficiencies that could not be solved on a standalone basis. The result was profitable carriers that can now reinvest in their product and create a better experience for their passengers. We found ourselves falling behind in the race to meet passenger demand, and our merger with American is motivated by a desire to improve our offering to customers and compete on an equal footing.