Questions for the Record from Senator Mike Lee
"The American Airlines/US Airways Merger: Consolidation, Competition, and Consumers"
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Questions for Douglas Parker, CEO, USAirways

1. **Critics have expressed concerns about US Airways operations out of Reagan National Airport. They allege that your airline, which controls a large share of the available slots, often uses smaller regional aircraft to constraining output and raise prices. Some worry that this merger would make things even worse at Reagan National.**

    a. **How do you respond to this concern and what are you prepared to do to ensure that your dominant position at Reagan will not serve to artificially constrain output?**

    Our hub airports are at the heart of the consumer benefits created by our merger. By connecting a large number of origins and destinations with well-timed flights to a common intermediate point, and aggregating the traffic from those origins and to those destinations, our hubs make feasible service that otherwise would not be economical. Nowhere is the consumer benefit of our hubs more apparent than at Washington Reagan National Airport (DCA). Our hub at DCA allows us to serve a wide variety of small and medium sized cities that other carriers cannot serve. 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. For example, a passenger seeking to travel between Dallas/Ft. Worth and Islip, NY cannot do so today on American Airlines. However, after the merger that same passenger will be able to connect to Islip via two nonstop flights connecting in Washington. It is the hub at DCA that makes this possible. Small communities alone do not generate sufficient demand to support the frequency of service that US Airways is able offer by aggregating demand from multiple cities served by our hub.

2. **In your written testimony, you assert that the merger will result in a renewed commitment to serve small and medium sized communities. Some critics contend that past mergers have led to decreases in service from certain hubs. For example, after the merger between American and TWA, the hub in St. Louis apparently experienced a reduction in service. It would seem natural that a transaction of this size and nature would lead to changes in route structure and the emphasis the combined company places on certain geographies.**

    a. **Do you anticipate this merger affecting service from any of your hub cities?**

    No. Our intent is to keep all the airplanesand retain service to all the ciities we serve today independently and hopefully expand service to additional cities.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 to more destinations at the times they want to travel.

For example, there are a number of American-only cities in the Central United States that US Airways does not serve. In the larger of 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. 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.

b. What would you say to those who are concerned that the merger will adversely affect service in their region due to changes brought about by the merger?

I don't anticipate that any region of the country will be adversely affected by this merger. To the contrary, I think that every region of the country will benefit from the New American Airlines. The merger of US Airways and American Airlines will 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.

3. In past airline mergers, the Department of Justice has focused attention on how the transaction would affect individual routes, seeking to ensure that a single airline does not have monopoly power over specific city-to-city routes, able to raise prices without competitive constraints. But increased concentration may also pose more general barriers to entry. For example, some worry that a few larger airlines with extensive route networks exercise dominance in the market for high-volume corporate contracts. The market for such contracts is already dominated by only a few carriers, and some worry that this merger will exacerbate that situation.

a. How do you think this merger will affect the market for business contracts?

The competition for corporate contracts will be enhanced following the merger. High-volume corporate accounts require ubiquitous service—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 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, including corporate accounts. Perhaps no region better demonstrates this than New York. Three carriers—Delta, JetBlue and United—have hubs in the New York region, but neither American nor US Airways has enough flights to enough destinations to successfully compete for broad corporate travel contracts. However, by adding the US Airways' Shuttle service to American and **one**world's JFK presence, the combined airline can offer corporations more flights to more places and truly compete for broad corporate contracts.

4. In analyzing a proposed transaction's effect on consumer welfare, we sometimes look to see if the market includes a maverick—whether one or more companies serve to discipline the market by offering low prices or providing innovative services to consumers. Within the airline industry, low-cost carriers have often served the role of mavericks. For example, Southwest has traditionally been considered a maverick. But some contend that the airline industry is no longer served by any significant mavericks and that it is instead mostly characterized by large businesses with similar offerings.

a. In your view, does USAirways function in some ways as a maverick?

No. US Airways is certainly a competitor, but so are large numbers of other airlines. The airline industry, both domestically and internationally, is intensely competitive, with numerous different companies offering different business models in the hope of appealing to consumers. The airline industry includes a number of fast growing low cost airlines that have and will continue to compete vigorously for business.

b. After this merger, will there be any remaining mavericks in the airline industry?

Although it will be the largest airline in the U.S., the new American Airlines will have less than 25 percent of domestic available seat miles and will compete against the nationwide networks of Delta, with 21 percent, and United and Southwest, each with 19 percent. Moreover, the new American Airlines will also compete against Southwest's significantly lower cost structure and a host of smaller, but fast-growing lower cost airlines, including Southwest/AirTran, 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. For example, Spirit has already announced that they will look at entering a number of hub-to hub routes where the New American will operate.

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?**

The merger of US Airways and American Airlines will join two highly complementary networks across the globe, filling critical competitive service gaps for each airline and creating over 1,300 new connecting routes. Domestically, US Airways will fill American's network gaps in the Northeastern and Southeastern United States while American will fill US Airways' network gaps in the Central United States. Combining the two networks and moving US Airways from the STAR Alliance to **one**world will also increase competition internationally. Today three international alliances are important to global competition. But **one**world, to which American Airlines belongs, lags Star Alliance and SkyTeam in total passenger traffic. The New American will enhance **one**world's competitiveness and expand international choices for millions of consumers in all regions of the country; and in particular, from the Eastern United States to Europe where **one**world lacks the coverage offered by the Star Allinace and SkyTeam. The addition of US Airways to **one**world will result in three roughly equal sized alliances competing head to head for international traffic. The merger will therefore not only benefit millions of passengers across the United States, many in small and medium sized communities, but will also provide passengers with greater choices of direct service to international locations at competitive prices, with improved service and product options.

6. **Past mergers have resulted in inconveniences for travelers as the merging airlines had difficultly combining technologies, resulting in disruptions to ticketing and other electronic operations. The same is often true of challenges in combining workforces and reconciling divergent corporate cultures. Merging firms generally are confident they can combine without undue hardship, but often underestimate these disruptions. Some have expressed concern that the costs associated with this merger will offset and interfere with many of the claimed efficiencies.**

a. How can we be assured that this merger is different from past consolidations that encountered difficulty in integrating operations?

We recognize that putting together two airlines is not an easy task, but we have learned valuable lessons from our own prior experiences and the integration efforts of others. US Airways has done this before when we merged with America West. We have also watched closely the integration efforts following the Delta-Northwest, United-Continental and Southwest-AirTran mergers. We have already started our integration planning and are focused on adopting best practices from other recent mergers to ensure that we integrate in an efficient manner, without disruptions.

Importantly, we have the support of our employees and have reached agreements with all of our unions regarding how they will integrate. In the past, this has been one of the more difficult aspects of integration. In fact, we learned—in attempting to combine with Delta—that mergers in this industry do not work without the support of the vast majority of employees. Lucky for us one of the biggest items on the integration planning checklist is taken care of with the contracts in place with the unions of both companies. American's pilot, flight attendant and ground employee unions, and US Airways' pilot union have agreed to terms for improved collective bargaining agreements. US Airways' flight attendants union has reached a tentative agreement, which includes support for the merger. And importantly, American's unions representing pilots and flight attendants are already working with their US Airways counterparts to determine representation and single agreement protocols. This is an historic level of labor cooperation and we continue to be grateful for their support.

b. What safeguards are in place to ensure that this merger does not share the fate of other recent mergers and impose costs and inconveniences on consumers?

We have a robust integration plan in place that is focused on avoiding the mistakes of the past. The integration planning team includes a number of the very best people from US Airways and American Airlines. This integration team, with the help of outside advisors, is adopting the most effective practices emerging out of the integration efforts of other recent mergers, including US Airways' own merger with America West. We are guided by the lessons we have learned and are confident that our integration strategy will ensure a smooth transition without imposing costs and inconveniences on consumers.

When it comes to systems, for example (such as reservation, maintenance control, and flight-out), we are very mindful of the intense complexity of each of these and what it takes to successfully integrate them. One lesson we learned the hard way during the America West / US Airways merger is that it is much easier to put the larger airlines' systems in place at the smaller carrier than it is to attempt the inverse. We also watched the Delta-Northwest integration process very closely and were extremely impressed with how well they combined their two systems. Their integration philosophy was called "adopt and go." In other words, adopt the larger

airline's system unless there is a very compelling reason to do otherwise. So, while there are exceptions to every rule, our premise will be to adopt American's systems for the new airline.

7. **A number of my constituents have highlighted the injustice that occurred in 2001 when the Association of Professional Flight Attendants (APFA) stripped 4,100 former TWA flight attendants of their earned date-of-hire seniority from TWA after an airline merger.**

    a. **What will you do in your capacity as CEO of the post-merger American Airlines to help ensure that all flight attendants who have lost such seniority as a result of airline consolidation are restored to a seniority status on a basis no less favorable than the USAirways and American Airlines flight attendants will receive?**

We are very proud of the fact that both airlines' unions, representing pilots and flight attendants and the American Airlines mechanics and fleet service employees all strongly support this merger. The seniority integration process during mergers and other transactions are handled by collective bargaining agreements and union internal procedures or governed by union bylaws. On a going forward basis, the McCaskill-Bond law provides an equitable seniority integration and arbitration process that can resolve seniority integration disputes, if any. We are committed to working with all of the unions representing our employees on labor integration to ensure a smooth transition. In regards to the seniority integration process used during the 2001 transaction between American Airlines and Trans World Airlines, we respectfully ask that you contact the Association of Professional Flight Attendants (APFA) at American Airlines.