U.S. DOT Needs To Evaluate Airline Industry Consolidation

Business Travel Coalition calls upon the U.S. DOT to study the consequences of recent airline mergers.

April 22, 2012 (FPRC) -- RADNOR, PA - Business Travel Coalition (BTC) today called upon the U.S. Department of Transportation (DOT) to study the consequences of recent airline mergers in light of US Airways' (US) public announcement Friday, April 20 that it is aggressively pursuing a combination with American Airlines (AA) and in consideration of a rapidly changing commercial air services marketplace.

A rational case can be made that such a merger would lead to higher prices, less mid-size community service and more onerous consumer-facing airline policies. An equally coherent argument is made by some experts that disallowing the merger – after approvals of the new Delta and United - would eventually lead to US and AA being squeezed out of the market ominously leaving the U.S. with a national network-carrier duopoly.

There is no disputing that consumers, corporations and the country as a whole require a financially viable air transportation system to meet socioeconomic needs. After all, airlines are the one unique industry that virtually all other industries depend upon to service their own customers and grow their businesses and industries. There is also little doubt that recent consolidation has enabled most airlines to navigate through a volatile jet-fuel pricing environment and somewhat repair balance sheets.

Conversely, industry consolidation -- in conjunction with the economic imperatives of U.S. immunized global airline alliance partners to flow only the highest-yield traffic over U.S. hubs into alliance networks -- has helped lead to a material reduction in service to mid-size communities. These communities, and the regions in which they exist, heavily depend upon connectivity to important U.S. and global business centers that only commercial air service can provide in support of economic growth and job creation.

'Another pernicious effect of airline industry concentration is the ability of airlines to ignore the demands of their most valuable customers. For example, since 2008, when U.S. airlines began to aggressively unbundle their product and offer ancillary services, despite corporate buyers' substantial purchasing power and calls for ancillary fee transparency, airlines have refused to provide this fee information in a salable format to the marketplace,' stated BTC Chairman Kevin Mitchell.

'The ability of suppliers to ignore their very best customers' needs points decidedly to a failed market. As such, a critical determination is how much more consolidation is workable with respect to an objective of restoring and maintaining a functioning competition in the marketplace for commercial air transportation services,' added Mitchell.

BTC believes that DOT should undertake a thorough assessment of the promises, economic analyses and statements provided to the U.S. Congress, Department of Justice (DOJ) and State Attorneys General from recent airline-merger participants and compare what was presented with what the actual outcomes have been. The study should be accomplished well in advance of

Congressional hearings on a proposed US-AA merger.

Metrics examined should include service changes over time to mid-size communities, Herfindahl–Hirschman Index numbers to assess concentration levels and airfare and fee levels. Such a study would immeasurably assist all travel industry stakeholders in understanding the implications of potential risks and rewards of status quo versus additional-consolidation scenarios, including allowing yet another powerful airline to be removed from the competitive playing field.

It must be recognized, however, that marketplaces as well as government policies and government-sanctioned structural changes, such as Open Skies and antitrust-immunized airline joint ventures, do drive industry transformations and can produce consumer benefits. The domestic U.S. and global aviation marketplaces are vastly different from what they were in 2000 and this new marketplace reality needs to be better understood by policymakers and regulators alike.

For its part, BTC will immediately initiate due diligence with airlines, labor groups, analysts, corporate travel managers, travel management company executives and consumer groups with respect to this proposed US-AA merger. BTC has testified in Congress and has generally opposed domestic U.S. airline industry consolidation including the 2000 US Airways/United Airlines, 2006 US Airways/Delta and 2008 Delta/Northwest Airlines proposed mergers. Two of three of those merger attempts were blocked. BTC recognizes that the industry has changed, and that policy prescriptions of the past might not be appropriate today.

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