

STATEMENT OF
THE HONORABLE JERRY F. COSTELLO

IMPACT OF CONSOLIDATION ON THE AVIATION INDUSTRY, WITH A FOCUS ON THE
PROPOSED MERGER BETWEEN DELTA AIR LINES AND NORTHWEST AIRLINES
MAY 14, 2008

- I welcome everyone to our Subcommittee hearing on the impact of consolidation on the aviation industry, with a focus on the proposed merger between Delta Airlines and Northwest Airlines.

- On April 15, 2008, Delta and Northwest announced a proposed merger, claiming that such a move would generate more than \$1 billion in annual revenue and create cost synergies from more effective aircraft utilization, a more comprehensive route network, and improved operational efficiency.

- This merger announcement has increased speculation that other carriers within the industry could merge and, according to published reports, discussions are underway between United and US Airways. The long term implications of a series of mergers could have a major effect on the future of the industry.

- Why are airlines discussing mergers? Many believe it is because of fuel prices. Every penny increase in the price of a gallon of jet fuel results in an additional \$195 million in annual fuel costs for the US airline industry.

- Although most airlines made a profit in 2007, the increase in fuel and the slowing economy have caused the majority of the airlines to report significant first quarter losses for 2008. In the last month, increased fuel prices have, in part, caused four

carriers to stop operations and other carriers to reduce capacity. With very few areas for airlines to reduce costs, some view merging as the only way to remain viable. While I am not entirely convinced this is true, I believe that we must take a look at the impact of fuel on the industry.

➤ I have some grave concerns about airline mergers. Previous airline mergers have rarely produced the projected benefits and efficiencies promised. This has frequently led to reduced competition and higher fares. Mergers have been good for airline executives, but not so good for consumers or employees.

➤ In addition, I am skeptical about claims that the merged Delta would retain both carriers' existing hubs. We have heard that before, when American Airlines acquired TWA.

American executives testified they would keep St. Louis as a hub, but less than two years later, flights at St. Louis were cut from over 500 per day to about 250. And many TWA employees lost their jobs and saw their pensions reduced.

- Past mergers have shown that customer service tends to suffer as carriers attempt to merge cultures, IT systems and fleets. We must make sure that consumers and employees do not end up paying a hefty price for consolidation.

- I look forward to hearing from both the Department of Transportation (DOT) and the Department of Justice (DOJ) on the process used in making decisions on proposed mergers and when a decision could be expected in this case.

- I am also interested in hearing more about how this potential merger will affect the employees. I understand that Delta pilots are supportive of this merger, but that the other employee groups have not reached any agreement with management.

- Further, I am interested in hearing from the analysts on our fourth panel regarding the pros and cons of this merger for both consumers and employees, and also if they believe that consummation of a merger between Delta and Northwest will lead to more mergers in the future.

- Finally, members of the Subcommittee should know that the DOT and DOJ witnesses can answer questions on the review process, but cannot give specifics on the Delta-Northwest merger proposal currently pending before DOJ.

➤ With that, I want to again welcome the witnesses today and I look forward to the testimony.

➤ Before I recognize Mr. Petri for his opening statement, I ask unanimous consent to allow 2 weeks for all Members to revise and extend their remarks and to permit the submission of additional statements and materials by Members and witnesses. Without objection, so ordered.