OPENING STATEMENT
THE HONORABLE JAMES L. OBERSTAR
SUBCOMMITTEE ON AVIATION
IMPACT OF CONSOLIDATION ON THE AVIATION INDUSTRY, WITH A FOCUS ON THE PROPOSED MERGER BETWEEN DELTA AIR LINES AND NORTHWEST AIRLINES
MAY 14, 2008

Today, we begin hearings on a proposal that could do more to determine the future of the airline industry than anything that has happened in the 29 years since deregulation: the proposed merger between Delta Air Lines and Northwest Airlines.

I have serious concerns about the consequences of this merger as a single, stand-alone transaction and also because I think it would be likely to lead to other mergers among our largest carriers. The end result could be an industry of three major carriers, with much less competition, higher fares, worse service to the public, and financial problems that could lead to failure in an economic downturn. In short, the pending merger places at risk the consumer benefits of airline deregulation.

There are only a few of us left, Mr. Chairman, who voted in this Committee room in 1978 on deregulation. I know that when I cast my vote I expected the antitrust laws to be vigorously enforced, as did others. Most of us would never have voted for deregulation if we thought it would mean only three major carriers.

That is why the government has to view this merger holistically, with great weight given to the potential "downstream" effects; that is, the possibility that if this merger is approved, other carriers will be forced to merge to stay competitive. To ignore the "downstream" effects of the proposed merger would be to ignore reality. As soon as the Delta-Northwest merger was proposed, other major carriers began their own merger discussions. In fact, it is rumored that United and US Airways are currently in merger discussions.

Reducing the airline sector to three major carriers would substantially reduce competition and raise fares. The way airline competition works today, when established carriers control markets, the tendency is for the carriers to follow each other's fare changes so that the fares are identical, and passenger choice is limited. These tendencies would be magnified if there were only a few major airlines. There would be enormous incentives for each carrier to avoid competing with the others at their strong hubs and routes. This strategy would likely lead to the greatest mutual profitability, while strong competition across the board could prove suicidal. As the Department of Transportation (DOT) aptly stated, "[e]conomic theory teaches that the competitive outcome of a duopoly is indeterminate: the result could be either intense rivalry or comfortable accommodation, if not collusion, between the duopolists."

I am particularly concerned about the effects of mergers in discouraging competition at major hubs dominated by a singe carrier. The Government Accountability Office has found that fares at concentrated hubs are already higher than fares elsewhere. Those differences are likely to increase if there are only a few carriers, and a hub carrier has the ability to retaliate throughout the country against a challenge to its hub.

Delta and Northwest claim the merger is pro-consumer because they will provide single carrier service in many new markets, but will not reduce service elsewhere. It is hard to see how they can do this. Both carriers are already flying with 85% of their seats filled. How can they provide new service without reducing service somewhere else? Similarly, the carriers suggest that they will increase revenues without raising fares by selling more seats in international markets with higher fares. But if they fill seats with international passengers there are going to be fewer seats for passengers paying lower domestic fares.

A merger of dominant U.S. air carriers would also have a significant impact on international competition. The U.S.-European market is already dominated by three alliances of U.S. and European carriers. Members of these alliances have, or are about to receive, antitrust immunity to coordinate schedules and prices, and operate as though they were one carrier. Two of these groupings would control over 80 percent

of the traffic between the U.S. and Continental Europe. Mergers between major U.S. carriers will lead to even less competition within and between the three alliances.

Moreover, the impact on fares goes deeper than having only three major competitors. Government studies have found that in markets where the merging carriers now compete, fares are likely to rise after a merger.

Delta and Northwest argue that the growth of low cost carriers has created new competition that would offset historical regulatory concerns with mergers. I caution against an over-reliance on low cost carriers. Low cost carriers do not serve many of the same markets that the large network carriers serve. In addition, for some traffic, low cost carriers may be non-competitive because they do not offer the same benefits as network carriers, such as frequent flier benefits to foreign destinations. Moreover, many low cost carriers are struggling financially, with several going out of business or having filed for bankruptcy. In the last few weeks, Aloha and ATA, have ceased operations, and Frontier Airlines has filed for bankruptcy. Faced with competition from larger network carriers, some low cost carriers may be driven out of the industry or into a merger with a network carrier.

Northwest and Delta also cite fuel as a reason for consummating this merger. Fuel prices have hit unexpectedly high levels and this added expense has impacted the

cost of airline operations. I am doubtful that this merger will help with fuel costs. The carriers acknowledge that they will not be able to purchase fuel more cheaply. Moreover, much of the increase in fuel costs can be passed on to consumers. Just last week, both Delta and Northwest levied a $20 per round trip fuel surcharge on passenger tickets – the 11th fare increase since December 2007.

Experience tells me that mergers will likely add to the difficulties we already face. Historically, most airline mergers have created problems for consumers. Consumer service generally falls by the wayside while management grapples with merging two proud cultures, and dealing with employee unrest over potential closing of facilities and the integration of seniority lists. I have experienced these problems first-hand in my area of the country -- the Northwest-Republic merger led to major service difficulties that lasted for years. Following their merger over three years ago, US Airways and America West have had considerable hurdles to overcome including pilot unrest over seniority integration that has yet to be resolved.

As the *Weekly Standard,* a supporter of free markets and limited government regulation, recently opined:

> History is on the side of the pessimists. In the period immediately following every airline merger, chaos is the order of the day – or year. Pilots find that the control panels on the merged carriers differ; baggage losses mount, as they did when Northwest acquired Republic Airlines in 1986; the merging of reservation systems causes kiosks and websites to malfunction, as US Airways and America West discovered; strikes occur as disgruntled employees find the new

> pension package inferior to the old one. All of these are in the new Delta's future . . . .

In sum, the inescapable lesson of 29 years of deregulation is that mergers and a reduction in competition are likely to lead to higher fares, a deterioration in service, and financially weakened survivors.

As we listen to the testimony of our witnesses today, we should be guided by the words of George Santayana: "Those who cannot remember the past are condemned to repeat it." We should take heed of the lessons of history, and do everything possible to ensure that the public continues to receive the airline service it needs and deserves.