AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

S. HRG. 112–48

THE SOUTHWEST/AIRTRAN MERGER AND ITS IMPACT ON M–7 BUSINESSES, CONSUMERS, AND THE LOCAL ECONOMY

HEARING

BEFORE THE

SUBCOMMITTEE ON ANTITRUST, COMPETITION POLICY AND CONSUMER RIGHTS

OF THE

COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

FEBRUARY 25, 2011

PEWAUKEE, WISCONSIN

Serial No. J–112–6

Printed for the use of the Committee on the Judiciary

U.S. GOVERNMENT PRINTING OFFICE
67–500 PDF WASHINGTON : 2011

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00001 Fmt 5011 Sfmt 5011 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

COMMITTEE ON THE JUDICIARY

PATRICK J. LEAHY, Vermont, *Chairman*

HERB KOHL, Wisconsin
DIANNE FEINSTEIN, California
CHARLES E. SCHUMER, New York
RICHARD J. DURBIN, Illinois
SHELDON WHITEHOUSE, Rhode Island
AMY KLOBUCHAR, Minnesota
AL FRANKEN, Minnesota
CHRISTOPHER A. COONS, Delaware
RICHARD BLUMENTHAL, Connecticut

CHARLES E. GRASSLEY, Iowa
ORRIN G. HATCH, Utah
JON KYL, Arizona
JEFF SESSIONS, Alabama
LINDSEY GRAHAM, South Carolina
JOHN CORNYN, Texas
MICHAEL S. LEE, Utah
TOM COBURN, Oklahoma

BRUCE A. COHEN, *Chief Counsel and Staff Director*
KOLAN DAVIS, *Republican Chief Counsel and Staff Director*

SUBCOMMITTEE ON ANTITRUST, COMPETITION POLICY AND CONSUMER RIGHTS

HERB KOHL, Wisconsin, *Chairman*

CHARLES E. SCHUMER, New York
AMY KLOBUCHAR, Minnesota
AL FRANKEN, Minnesota
RICHARD BLUMENTHAL, Connecticut

MICHAEL S. LEE, Utah
CHARLES E. GRASSLEY, Iowa
JOHN CORNYN, Texas

CAROLINE HOLLAND, *Democratic Chief Counsel/Staff Director*
DAVID BARLOW, *Republican General Counsel*

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00002 Fmt 5904 Sfmt 5904 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

CONTENTS

STATEMENTS OF COMMITTEE MEMBERS

	Page
Kohl, Hon. Herb, a U.S. Senator from the State of Wisconsin	1

WITNESSES

Bateman, C. Barry, Airport Director, Milwaukee County's General Mitchell International Airport, Milwaukee, Wisconsin	7
Fornaro, Robert L., Chairman, President and Chief Executive Officer, AirTran Holdings Inc., Orlando, Florida	5
Kelly, Gary C., Chairman, President and Chief Executive Officer, Southwest Airlines, Dallas, Texas	3
Moss, Diana L., Vice President and Director, American Antitrust Institute, Denver, Colorado	10
Sheehy, Timothy R., President, Metropolitan Milwaukee Association of Commerce, Milwaukee, Wisconsin	9

SUBMISSIONS FOR THE RECORD

Bateman, C. Barry, Airport Director, Milwaukee County's General Mitchell International Airport, Milwaukee, Wisconsin, statement	21
Fornaro, Robert L., Chairman, President and Chief Executive Officer, AirTran Holdings Inc., Orlando, Florida, statement	27
Kelly, Gary C., Chairman, President and Chief Executive Officer, Southwest Airlines, Dallas, Texas, statement	34
La Macchia, William E., Chairman, Mark Travel Corporation, Milwaukee, Wisconsin, statement	39
Moss, Diana L., Vice President and Director, American Antitrust Institute, Denver, Colorado, statement	41
Sheehy, Timothy R., President, Metropolitan Milwaukee Association of Commerce, Milwaukee, Wisconsin, statement	51

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00003 Fmt 5904 Sfmt 5904 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

THE SOUTHWEST/AIRTRAN MERGER AND ITS IMPACT ON M–7 BUSINESSES, CONSUMERS, AND THE LOCAL ECONOMY

FRIDAY, FEBRUARY 25, 2011

U.S. SENATE,
SUBCOMMITTEE ON ANTITRUST, COMPETITION POLICY, AND CONSUMER RIGHTS,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:16 a.m., at Waukesha County Technical College, Pewaukee Campus Lecture Hall B140, 800 Main Street, Pewaukee, Wisconsin, Hon. Herb Kohl, Chairman of the Subcommittee, presiding.

Present: Senator Kohl.

OPENING STATEMENT OF HON. HERB KOHL, A U.S. SENATOR FROM THE STATE OF WISCONSIN

Chairman KOHL. Good morning, one and all. We appreciate your all being here.

Today we are here to examine the proposed merger between Southwest Airlines and AirTran and its effect on travelers and businesses here in the Milwaukee area. In recent years, air travel at Mitchell Airport has been a commercial success story. Mitchell Airport is one of the Nation's fastest-growing airports, serving more and more passengers and routes every year.

AirTran in recent years has made Milwaukee one of its key hubs and now has the largest share of the market of any airline serving Milwaukee. AirTran serves 19 cities with nonstop service and carried over 2.6 million passengers in 2010 and has gained a 31-percent market share.

Southwest began service at Mitchell Airport in November 2009 and now has achieved an 8-percent market share, carrying nearly 800,000 passengers in 2010.

The competition between AirTran, Southwest, and fellow discount carrier frontier has been an indisputable boon to air travelers and businesses in the entire Milwaukee region. This competition has kept airfares low, offered passengers frequent and reliable air service to small, medium, and large cities across the Nation, and has kept aviation-related employment in this area high.

But we are now confronted with the plans of Southwest and AirTran to merge. Southwest touts the national benefits of this merger in giving it access to key east coast airports such as Atlanta, New York LaGuardia, and Washington Reagan National, ar-

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00005 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

guing that this will make a stronger carrier to compete with the other giant national airlines.

However, the important question for us is what this will mean for air travelers and businesses in Milwaukee. Will the loss of competition between these two airlines, who together will have a nearly 40-percent market share at Mitchell Airport, mean higher fares and decreased quality of service? Will Southwest maintain the scale and growth of AirTran's hub operations in Milwaukee? Will Southwest maintain AirTran's level of employment and community involvement here? Will Southwest's no-frills service be satisfactory for business travelers who previously had the choice of upgraded levels of service?

The experience of other airline mergers in recent years gives us reason for caution. Shortly after American merged with TWA a decade ago, American dropped TWA's St. Louis hub, costing hundreds of high-quality jobs, despite promises to the contrary. Formerly strong Delta hubs such as Cincinnati have faced declining service after Delta's 2008 merger with Northwest.

Just 2 weeks ago, we learned that the newly combined United/Continental was eliminating 500 jobs at Continental's former headquarters in Houston. This occurred despite Continental's former CEO's promise at our hearing on the deal last year in D.C. that we should expect to see "a net gain" in jobs in Houston.

So it is essential that we hear from Mr. Kelly and Mr. Fornaro about their plans for the combined airline in Milwaukee after the merger. The growth of air travel in recent years at Mitchell Airport has been essential for travelers throughout the Milwaukee region and has been vital for our economic growth. In these difficult times it is critical that Milwaukee have a convenient, reliable, and inexpensive air service to other vital business centers. And vigorous airline competition has been the key to the growth of air service at Mitchell Airport.

We need to take care to ensure that nothing in this merger will degrade airline competition here. We look forward to hearing the views of our excellent panel of witnesses regarding the impact of this proposed merger on competition and airline service in Milwaukee.

I would like to introduce now our excellent panel of witnesses, and we welcome you all here to Wisconsin.

Our first witness today will be Gary Kelly. Mr. Kelly serves as Chairman of the board, president, and CEO at Southwest Airlines. He began his career at Southwest Airlines as comptroller in 1986, became CEO in 1989, and he has received numerous awards for his leadership at Southwest.

Our second witness today will be Robert Fornaro. Mr. Fornaro serves as chairman, president, and CEO of AirTran Airways.

Next we will be hearing from Barry Bateman. Mr. Bateman has served as the airport director for Milwaukee County's General Mitchell International Airport since 1982.

Next we will be hearing from Tim Sheehy who has served as President of the Metropolitan Milwaukee Association of Commerce since 1993.

Finally, we will be hearing from Diana Moss. Dr. Moss is director and vice president of the American Antitrust Institute, and she is on the faculty of the University of Colorado at Boulder.

Please keep your testimony to 5 minutes. Mr. Kelly.

STATEMENT OF GARY C. KELLY, CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SOUTHWEST AIRLINES, DALLAS, TEXAS

Mr. KELLY. Thank you, Mr. Chairman. On behalf of Southwest Airlines' 35,000 employees, thank you for today's hearing and inviting me and Bob Fornaro of AirTran to Milwaukee. During our relatively brief time here, Milwaukee has welcomed us into your community, given us access to a solid customer base, and provided us with an efficient, well-managed airport facility from which to operate. We are very grateful to Barry Bateman and his team for their professional and courteous hospitality.

Southwest began serving Milwaukee in just November of 2009. After 15 months, we feel like we are just getting started at General Mitchell with 12 daily nonstop departures to six cities. We entered the Milwaukee market because of the opportunity to extend our low-fare brand and to fill a void in our route map. Milwaukee is an attractive market as well as a convenient alternative to Chicago's O'Hare Airport for northern Illinois travelers.

Southwest sees our acquisition of AirTran Airways as a platform for new growth to cities and markets across the country that lack convenient low-fare service. Through our proposed acquisition of AirTran, we look forward to providing our Milwaukee area customers with access to an even stronger and larger nationwide low-fare, low-cost carrier network.

During the past 10 years, which I think will forever be known as a "lost decade" in the airline industry, with fewer passengers, fewer flights, fewer airplanes, and fewer aviation jobs, Southwest was different. We were and remain financially strong. We survived without bankruptcy, without furloughs, without pay cuts, without diminishing the customer experience, and without abandoning our communities. In fact, during the decade we added 206 aircraft, 13 new cities, and doubled our revenues. In 2010, Southwest Airlines celebrated our 38th consecutive year of profits and profit sharing with our people. That profit streak is unprecedented in commercial airline history because we have been a maverick. We specialize in low cost and low fares. We are the low-fare leader in America. We do things differently with no hidden fees, bags fly free, and no change fees—and pardon my cold.

We are over 80 percent unionized, and here again we are different. For 40 years, we have enjoyed outstanding labor relations, and just this week we reached an agreement with our pilots related to the AirTran transition. In fact, I would like to introduce several of our leaders with us here today.

We have Captain Kevin Henry from Baltimore; Joe Hanson, a first officer from Baltimore; Richard Jenkins, an FO from Midway; Tom Windsor, FO from Midway; and Corey Pettit, who is a first officer in Dallas. If you guys would just wave at the Senator? And Tony Dorsch, our chief pilot from Chicago, is also here today.

Also from our Milwaukee operation, our station manager, Sean Fairbanks; and Chris Barbie, who is one of our supervisors on the ramp.

I am very proud of these folks. They are representatives of our pilots union, and we appreciate their support.

After 40 years of service, we still serve only 72 cities in the United States. We have many places that we would like to add to our route map. So due to the challenging economic conditions which continue to face our country and our industry, and especially high energy prices, Southwest has not been able to add to our fleet or greatly expand our route map network over the last year.

The goal of this acquisition is to change just that. Provided that our economy continues to recover and fuel prices do not escalate to prohibitive levels, we see bright skies ahead for our combined company and the communities that we serve. It is the potential for future growth at Milwaukee and across the country that sets this airline acquisition from other recent mergers in the industry. We do not simply combine these two great low-cost carriers in order to consolidate or shrink. This merger is all about creating a larger and stronger low-cost airline that will spread low fares farther.

Southwest continues to work closely with the U.S. Department of Justice, the Department of Transportation, and various State Attorneys General on the review of our proposed acquisition. We hope that this collaborative process will be completed in the second quarter of 2011. The benefits of Southwest's planned acquisition of AirTran can be summed up in one word: growth. This transaction creates a host of exciting and unique growth opportunities that otherwise would not be realistic for Southwest, our customers, our communities, or our people.

The biggest impediment to growth in the industry is the high cost of jet fuel. Fuel prices are not affected solely by the price of crude oil. The oft cited benchmark for crude oil in the U.S. is known as "West Texas Intermediate," but the effective price of crude is currently understated for businesses like airlines, which participate in global energy markets. The world price of crude is more closely tied to a different benchmark, which is "Brent" or North Sea crude. I would have to get my iPhone out to tell you exactly what it is right now, but as February the 22nd, WTI was about $95 a barrel. As you probably know, it has actually gone over $100 and fallen back. But Brent is $111 a barrel, and that is essentially what we have to pay for jet fuel, is off of that crude oil price. That is an alarmingly huge run-up in prices over a very short period of time, and, of course, if high crude oil prices were not serious enough, the actual price that airlines pay for refined jet fuel "at the pump" has risen even faster.

Of course, high jet fuel prices do not diminish the importance of this merger. To the contrary, they make it absolutely imperative. The economies of scale and the revenue and cost synergies presented by this merger are a "hedge," if you will, against higher fuel prices. Southwest is the industry leader in hedging fuel through the derivatives market. But as we learned in 2008 when oil prices went to $147, only to plunge to $35 in a matter of weeks, derivatives are never the perfect hedge. They are but one tool. High fuel prices have stymied growth in the airline industry in the domestic

U.S. market as well as worldwide, and will continue to do so for the foreseeable future.

The AirTran acquisition is a strategic hedge to enable a resumption of growth by Southwest. Absent the merger, both carriers will be constrained and even hard-pressed to maintain current capacity levels. This transaction is the single best strategic initiative that we have to preserve jobs and maintain service to communities, and it gives us the best chance to grow jobs and add new service to our communities.

Growth is important. It is important to the future for our people, our customers, our communities, and our Shareholders. The combination of Southwest and AirTran creates that event where the whole is truly greater than the sum of the parts, and that means more competition and better quality of air service, happier employees, and lower fares.

I thank you for the opportunity to testify here today.

[The prepared statement of Mr. Kelly appears as a submission for the record.]

Chairman KOHL. Thank you very much, Mr. Kelly.

Mr. Fornaro.

STATEMENT OF ROBERT L. FORNARO, CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AIRTRAN HOLDINGS INC., ORLANDO, FLORIDA

Mr. FORNARO. Chairman Kohl, good morning and thank you for holding this hearing and giving me the opportunity to address these very important issues.

On behalf of the 8,300 hard-working men and women of AirTran Airways, several of whom are here today, including the president of our pilots union, Linden Hillman, it is my pleasure to appear before you to talk about AirTran's presence in Wisconsin and our plans to merge with Southwest Airlines.

Senator Kohl, your support of the airport and steps you have taken to support airport operations and funding is one of the reasons that General Mitchell International Airport has continued to expand and is an important part of the economic growth in this region. Thank you for that.

I would also like to acknowledge the support we have received over the years. Barry Bateman and Tim Sheehy, who are sitting next to me, have done an excellent job and played a key role in the economic development of the Greater Milwaukee area.

As you know, a longstanding and high priority for AirTran has been the continued expansion of our Milwaukee network. Milwaukee is now our third largest market behind Atlanta and Orlando. Since initiating service to Milwaukee in the summer of 2002, AirTran has grown consistently and now offers more than 55 daily departures. As a result of this increased competition, General Mitchell International is one of the few airports in the United States that have reported increased traffic over the last few years. In fact, over the last five quarters, the number of Milwaukee passengers has grown by double-digit percentages while nearby Chicago O'Hare passenger numbers have declined. I am proud to say that AirTran has played an important role in setting these records, and we are now the largest carrier, by market share, at MKE.

In 2007, we outlined our expansion plans and vision that Milwaukee was an untapped resource. We strongly believed then and continue to believe now that MKE has not reached its full potential.

However, the business and economic challenges we face today as a company and as an industry have substantially increased since 2007. We continue to deal with very high fuel costs and an uncertain economy, especially for domestic U.S. travel. Growth in this environment has been very difficult, and AirTran has not been an exception.

To weather the storm, in recent years we have dramatically reset our fleet, selling aircraft, and deferring new deliveries in order to restore profitability. Since 2008, we have sold or deferred 47 airplanes. Milwaukee has been one of the few bright spots over this period. Despite shrinking our overall capacity, we have continued to grow our network here.

When we began discussions and negotiations with Southwest last summer, the price of jet fuel, which is the benchmark across the crack spread, was $85 a barrel. As of last Wednesday, 2 days ago, the price of jet fuel was more than $125 a barrel. To put that into perspective, Mr. Chairman, every $10 increase for AirTran adds more than $90 million of annual expense.

The difficult economy and fuel volatility is a key reason AirTran agreed to merge with Southwest. We believe this merger will create growth opportunities for both airlines that would not happen independently.

Equally important, this deal is good for our shareholders, our employee crew members, and the communities we serve. By combining the AirTran network with Southwest, we can take advantage of Southwest's history of financial performance and substantial resources to create a stronger platform for growth, while providing career certainty for our employees and tremendous benefits to consumers, especially here in Milwaukee.

When we have the necessary Federal regulatory approvals and can talk with our Southwest colleagues about market specifics, it will be my recommendation to Gary Kelly and his team that Milwaukee continues to be a key opportunity for growth.

AirTran's success and growth in Milwaukee has allowed us to double our local employee in each of the last 4 years. Our 330 Milwaukee crew members are also proud to be active partners in community service. We are proud of our sponsorship of the Milwaukee Brewers and the Marquette Golden Eagles, and by assisting groups like the YMCA, the Hunger Task Force, and Habitat for Humanity.

I and all of our crew members are especially proud to say that we sponsor the Donald Driver Foundation and that Donald is an AirTran endorser. And it was great to see him and the Packers win the Super Bowl.

Senator Kohl, thank you and your staff for all you have done to promote this airport and community. I am proud that you have given me the opportunity to represent AirTran and our crew members today.

[The prepared statement of Mr. Fornaro appears as a submission for the record.]

Chairman KOHL. Thank you very much, Mr. Fornaro.

Mr. Bateman.

STATEMENT OF C. BARRY BATEMAN, AIRPORT DIRECTOR, MILWAUKEE COUNTY'S GENERAL MITCHELL INTERNATIONAL AIRPORT, MILWAUKEE, WISCONSIN

Mr. BATEMAN. Thank you for the opportunity to speak before you, Senator Kohl, regarding the merger of AirTran and Southwest Airlines.

Mitchell Airport is currently served by nine airlines. With 220 departures per day and nonstop service to 55 cities, Mitchell Airport served a record 9.85 million passengers in 2010, a 24-percent increase over 2009. There were 2 million connecting passengers, which was also a record number. Our primary service areas are southeastern Wisconsin and northern Illinois, but many of our passengers drive in from Rockford, Illinois, and Madison, Appleton, Oshkosh, Fond du Lac, and Green Bay. We also attract passengers from as far away as the Michigan Upper Peninsula and eastern Iowa.

In 2010, our passenger count increased by 1.9 million. In terms of passengers, we ranked 45th largest in the country. In 2010, we passed several airports, and we estimate that we are now the 45th largest in the country.

The reason for this meteoric growth over the past 17 months is the increase in low-cost carrier service at Milwaukee, which has brought low fares and outstanding nonstop service to 55 cities. Nonstop service, as you know, sir, is of paramount importance to business travelers and is also preferred by leisure travelers as it saves time and avoids missed connections. Low-cost carrier service and the competition which it brings have resulted in Milwaukee offering the 93rd lowest average airfares in the country.

Midwest Airlines was the growing and dominant carrier at Milwaukee in the 1980s and 1990s. Starting in 1984 with service to just three cities, Midwest grew to a peak market share of 54 percent in 2007. Its business model of providing "first-class service at coach prices" worked well in the 1980s and 1990s. But with the recession that began the summer of 2001, followed by the tragedy of 9/11, that business model no longer worked. Business travel had fallen off significantly. Midwest market share fell to 34 percent in 2009.

AirTran, seeing the opportunities at Mitchell, entered the Milwaukee market in 2002, with modest service and 1.7- percent market share in 2002. AirTran was Milwaukee's first low-cost carrier to enter the market, and with them came low fares to the cities that they served. By 2008, they became our second largest airline, with a 23-percent market share.

Frontier Airlines entered our market in 2003, with service to Denver and Western cities. As a result, Milwaukee saw more pressure of new low-cost carriers' influence on Milwaukee ticket prices, and it was being felt most by Midwest.

On several occasions, AirTran proposed merger talks with Midwest, but was rebuffed. Eventually, Midwest in the 11th hour sold to TPG Holdings and Northwest. In spite of the new ownership, Midwest continued to fail, and was bought by Republic Holdings in 2009. Republic soon after purchased Frontier and rebranded the

carrier as Frontier. Together, Frontier and Midwest account for 37 percent of our traffic in 2009 and 32 percent in 2010.

Southwest Airlines entered the Milwaukee market in November of 2009. In 2010, Southwest had 7.99-percent market share and became Milwaukee's fourth largest carrier. With Southwest's entry, low-fare service has further increased, and Milwaukee has become a pre-eminent low-fare airport.

Mitchell markets itself as Chicago's third airport. Our location on the south side of Milwaukee presents an opportunity to serve the northern suburbs of Chicago and Rockford and serve as Chicago's third airport. There are almost 1 million O'Hare passengers living in northern Illinois within 60 minutes of Milwaukee that are potential growth passengers for us. There are another quarter of a million in Rockford. We know that we can attract more customers from northern Illinois, and if we can do that, the airlines will respond with more seats and more cities served. And that is good for Greater Milwaukee.

O'Hare, of course, is a formidable airport, with 1,100 departures serving 200 destinations. We have marketed ourselves at the third Chicago airport for years, with limited success. However, with Southwest's interest in the market in 2009 and the strong brand and customer loyalty that they bring, we have seen more northern Illinois plates in our parking structure than ever before. Since Southwest entered the market in 2009, our northern Illinois passengers have increased 20 percent. Southwest's entrance into the Milwaukee market was the tipping point, building on the previous efforts of Frontier/Midwest and AirTran and has cemented our position as Chicago's third airport. Southwest not only serves Greater Milwaukee, but has bracketed Chicago with its Midway operation on the south side and the Mitchell operation on the north side.

And in a case of a rising tide raising all ships, when northern Illinois passengers book Southwest out of Milwaukee, they discover that there are eight other airlines here flying to 55 cities. We believe Milwaukee will continue to be very cost competitive airport with O'Hare. We believe that the airlines will take notice of that and use us as a northern Illinois alternative, similar to the Fort Lauderdale/Miami example.

Milwaukee, with its mid-continent location, is in the unusual and enviable position of having two airlines hubbing—AirTran and Frontier. There are only four other cities in the country that have two hubbing airlines: Atlanta, Phoenix, Denver, and Chicago.

Clearly, Milwaukee is smaller than those cities, and the scale of the Frontier and AirTran hubs is not as large as the hubs in those cities. Nevertheless, Frontier serves 33 cities and AirTran serves 22. Fourteen of those cities are served by both carriers. Now add Southwest, with their current six cities, all of which are also served by other carriers. Competition is alive and well in Milwaukee.

In 2010, AirTran had 29-percent market share, Midwest/Frontier had 32 percent, Delta had 15 percent, Southwest had 8 percent. Other airlines at Milwaukee are United, American, US Airways, Continental, and Air Canada, served by Jazz. In 2010, in October, AirTran took over as the market share leader in Milwaukee with 31 percent market share over Frontier's 30 percent.

Frontier and AirTran have built successful hubs at Milwaukee which have been very important in supporting and growing the economy of Milwaukee and the surrounding area. Should the merger of Southwest and AirTran be approved, we are very hopeful that Southwest will maintain and grow the successful Milwaukee AirTran hub, not only for Milwaukee but for the attraction of more passengers from northern Illinois. We are confident that Frontier will remain a strong and growing airline at Milwaukee. Milwaukee has the facilities and the market to continue strong growth into the future, and we look forward to the opportunities ahead.

[The prepared statement of Mr. Bateman appears as a submission for the record.]

Chairman KOHL. Thank you, Mr. Bateman.

Mr. Sheehy.

STATEMENT OF TIMOTHY R. SHEEHY, PRESIDENT, METROPOLITAN MILWAUKEE ASSOCIATION OF COMMERCE, MILWAUKEE, WISCONSIN

Mr. SHEEHY. Thank you, Senator, and thank you very much for your leadership. I have prepared remarks that I submitted earlier so I thought I would just highlight them briefly.

Our organization has about 2,000 companies as members that employ 300,000 people in southeastern Wisconsin, so it is a good chunk of the flying public and certainly great representation of the flying business public.

When I think about the hearing today and the pending merger, maybe I will start out with a piece of anecdotal evidence since I am not an industry expert here today.

My counterpart who runs the Cincinnati Chamber and are both going to the same meeting in Raleigh. We both had the same lead time. My flight to Raleigh was 200 bucks, hers was 600 bucks. It is a great example of what Barry talked about in terms of competition, and why Milwaukee is so blessed in terms of having that competition. And we certainly do not want to see anything disrupt that.

Business travelers I do not think are different from other travelers, but in particular, they are looking for markets served directly, they are looking for frequency, and they are looking for a competitive price. If we can continue to deliver that here in Milwaukee, then we have a distinct advantage.

Our economy is built on our connectivity, our ability to connect to other markets in the U.S., our ability, primarily through O'Hare, to connect to other markets around the globe. And when you look at Milwaukee in the metro area, which I would look at from Madison to Green Bay to northern Chicago and certainly the metro Milwaukee area. But metro Milwaukee has the third largest concentration of Fortune 500 companies headquartered here. We have 18 Fortune 1000 companies, and by nature, those are the types of companies that demand good quality air service. They feed off of it. It is a real competitive advantage for us. Milwaukee's leadership in manufacturing by its nature means that most of the customers are not in Milwaukee, so air service is critical to us.

So when we look at this merger, when we look at the impact on air service here, we feel positively about what is transpiring. While

in a sense we are losing a carrier, we are gaining a stronger carrier. And maybe to put it in common language for both of us, if we are going to create a new Dwyane Wade here in Milwaukee, we want to make sure there are other Brandon Jennings to compete with it. If we can continue to do that in the marketplace here, then I think Milwaukee is going to be well served and will have a competitive advantage and, quite frankly, an advantage over some of our peers, like Cincinnati, Pittsburgh, and Cleveland, that do not have this rich mix of healthy competitors in their marketplace.

So, again, thanks very much for the opportunity to appear today, and I would be happy to answer any questions when we are finished.

[The prepared statement of Mr. Sheehy appears as a submission for the record.]

Chairman KOHL. Thank you very much, Mr. Sheehy.

Dr. Moss.

STATEMENT OF DIANA L. MOSS, VICE PRESIDENT AND DIRECTOR, AMERICAN ANTITRUST INSTITUTE, DENVER, COLORADO

Ms. MOSS. Thank you, Senator, and the Judiciary Committee, for holding this hearing on the first major merger of low-cost carriers in the U.S. airline industry. It is an honor to appear here today.

For those of you not familiar with the American Antitrust Institute, we are independent advocacy group. We advocate for fair competition and enforcement of our antitrust laws.

My testimony here today is based largely on a White Paper that the American Antitrust Institute produced called "Airline Mergers at a Crossroads: Southwest Airlines and AirTran Airways." It is available on our website. In it we raise key questions, novel questions about what this particular merger might raise relative to former mergers of legacies.

The role of the LCCs in the domestic airline industry is an important one. LCCs have penetrated markets that have formerly been the domain of the legacy airlines. They have brought benefits to consumers in the form of lower prices, increased choice, innovative business models, and service offerings. LCCs have challenging their legacy counterparts to become more efficient and competitive.

Today I would like to address two major points: The effect of the merger on Milwaukee, and also what more novel or interesting questions, unusual questions this particular merger of low-cost carriers raises.

So what are the major issues that we would like to see and antitrust review give special attention to? One is the effect of the merger on price discounting and entry. AAI has done a significant amount of analysis looking at how Southwest and AirTran, relative to other LCCs and legacies, price and what markets they enter or have attempted to enter. The low- cost carriers are probably each other's closest competitors, but it is very clear that AirTran is an aggressive discounter relative to Southwest. AirTran has also pursued a very aggressive expansion strategy in new markets relative to Southwest.

The AAI, therefore, believes that it is important to consider what taking a maverick-like firm such as AirTran out of the mix, how

that could change incentives for the merged company to discount post merger and to enter new markets to serve U.S. consumers.

With the ranks of the low-cost carriers reduced through the merger, it is a fair question to ask, How will the remaining low-cost carriers exercise rivalry and competition in the market to restrain any potential price increases?

Another question that is worth asking and answering in the course of this merger review is how output and capacity will be affected. Merger concerns do not focus exclusively on price. Fewer flights, loss of choice, and discontinuation of nonstop service represent real potential adverse effects of a merger. This is particularly true in cases where two carriers overlap on routes, as they do with Southwest and at an, and are particularly adept at managing or rationalizing their capacity.

The American Midwest is particularly at risk since consumers rely on service at cities like Cincinnati, Milwaukee, Memphis, Cleveland, and Detroit to connect to other larger destinations.

Capacity cutbacks are demonstrated effects that have been largely overlooked in airline merger analysis. Reductions in flight frequencies at key airports such as St. Louis, Las Vegas, and Cincinnati following the consummation of numerous legacy mergers over the last decade show us how real those cutbacks can be and what effect they have on consumers. The Ohio Attorney General's efforts to obtain a commitment from United and Continental to maintain service at Cleveland punctuates the threat of post merger cutbacks. Low-cost carrier mergers should be no exception to this concern.

Finally, how might Milwaukee be affected by the proposed merger. I think it is safe to say that Milwaukee is a haven for low-cost carriers. There are about 130 nonstop segments that originate or terminate at General Mitchell Airport. Low- cost carriers account for about 60 percent of total passenger miles on those segments. Post merger, Southwest and AirTran would have a share of between 40 to 50 percent, depending on how it is measured.

Some routes originating or terminating at Milwaukee are extremely important. For example, 19 nonstop and connective service routes make the Department of Transparency's top 1,000 city pair rankings. Southwest and AirTran compete on almost 80 percent of those routes. They are the low-fare carrier on about three-quarters of those routes, and together they account for over one-half of total passenger miles.

The take-away from this analysis of Milwaukee is twofold:

First, passengers originating or terminating at Milwaukee are clearly dependent on low-cost carriers for service. The competitive discipline injected by LCCs here may be one reason why airfares based on the Airline Travel Price Index have actually declined 2.5 percent since 1995. In light of the importance of the LCCs here, it is worth examining very closely how the merger could change the competitive dynamics of rivalry at the airport.

Second, passengers traveling two and from Milwaukee are dependent not only on LCCs, but on Southwest and AirTran in particular. These two airlines have a significant presence here, are head-to-head competitors on important, heavily traveled routes, and in light of the fact that AirTran exhibits its characteristic ag-

gressive price discounting here, it is worth asking how the merger might change pricing behavior after the merger is consummated.

The merged airline will be in competition against legacy carriers and another major LCC, but they will no longer be in competition with each other. While they may continue to be the low-fare carrier, their fares could edge higher and rivalry diminish and consumers suffer.

Thank you for the opportunity to testify, and I again refer you to AAI's White Paper on our Web site.

[The prepared statement of Ms. Moss appears as a submission for the record.]

Chairman KOHL. Thank you very much, Dr. Moss.

Mr. Kelly, we will start with you. Air travelers and businesses in Milwaukee have greatly benefited from AirTran's presence and growth in Milwaukee in recent years. The growth of AirTran at Mitchell has been an unquestioned boon to air travelers and businesses in the entire Milwaukee region.

Would you at this time commit to maintaining AirTran's service and its growth plans at Mitchell Airport after this merger takes place?

Mr. KELLY. Mr. Chairman, we are very enthused about Milwaukee. We are very enthused about continuing to grow Southwest Airlines. If I could commit what Colonel Qaddafi is doing in Libya, and, the effect that will have an fuel prices, I think I would have a better opportunity to make a firm commitment about our future at Southwest Airlines. We want to grow, we want to add airplanes, we want to add flights, we want to hire more employees across our system. But we have to do that in a fiscally responsible way.

Our fuel budget right now stands at about $4.5 billion for a $12 billion company for 2011, and as it stands today, we are probably close to $1 billion over our fuel budget. So, with that, all else being equal, our earnings would actually be lower this year than a year ago. In that scenario, would we continue to grow? Of course not. We could not afford to. We cannot operate in a deficit that way.

Do we have the desire to maintain the AirTran level of service? Absolutely, and, in fact, we have the desire to take the Southwest flights plus the AirTran flights, sir, and grow it. I just cannot guarantee that we will have the fiscal ability to do that because we cannot predict fuel prices.

Chairman KOHL. You already have a large operation at Midway Airport in Chicago.

Mr. KELLY. Yes, sir.

Chairman KOHL. How do you plan to bring together these two operations in a way that will benefit Milwaukee? It seems to us that your large operation at Midway will inevitably tend to diminish what you or what we might expect or hope that you will do here.

Mr. KELLY. I do not see that risk at all. In fact, we choose cities based on a market opportunity and then choose airports based on that relative opportunity. So for years we have had—our only focus in Chicago has been Midway Airport. So we have never served O'Hare and have no plans to serve O'Hare.

We see Milwaukee as a separate market opportunity, and that is why we have entered that market. So it will be a very nice com-

plement, and I agree with Barry's point that it is, I think, logical to market it as the third area Chicago airport. But it is a different marketing area. We have multiple airports that we serve in the Washington, D.C., area, in the Bay area in California. On the other hand, in Dallas we have one airport that we serve because we believe that both airports in the Dallas-Fort Worth area serve the same market. So we do not see any purpose in serving DFW.

So I think they will be a very nice complement to each other. It will actually provide some economies of scale for us to increase our presence and be able to market in a broad area that way. There clearly are some customers that will be interested in using the Southwest/AirTran combined service from either airport, and obviously that creates more choice from our customers, and that is better for Southwest Airlines in the long run.

Chairman KOHL. I think most of us, gentlemen, are struggling with the idea of going from two airlines competing with each other to provide service here in Milwaukee to one airline in the sense of the two of you combining. And we are trying to figure out why this will be better. We can imagine how it might be worse in any which way, whether it is service, price, name it. You know, when people compete things get better for the consumer. When there is no competition or less competition, unless there is some explanation, the consumer has a right to imagine how things are not going to be better, they might be worse.

One thing, for example, is that AirTran has at least two classes of service. Is that right, Mr. Fornaro?

Mr. FORNARO. Yes.

Chairman KOHL. And Southwest has just one, and I am assuming that that will be what occurs after the merger, and you can correct me if I am wrong, but I think that is an automatic.

So, Mr. Bateman and Mr. Sheehy and Dr. Moss and Mr. Fornaro and Mr. Kelly, why will this be better for us? I can imagine how this will be worse for us. I cannot figure out why this is going to be better. Go ahead, Mr. Kelly. Mr. Fornaro, you are next.

Mr. FORNARO. Just again to go back, as I mentioned, yes, actually Milwaukee has been a bright spot. AirTran is smaller domestically today than we were 3 years ago, and we are not a growing maverick. We operate the same number of airplanes today as we did 3 years ago, and, you know, we have had to rationalize our focus. When we made a major aircraft order in 2003, the price of oil was just under $30 a barrel. And things have changed dramatically, and we have had to react to that.

But as I view the opportunity, again, I think we are just getting started in Milwaukee. When you look at our operation, we are completely the opposite of what Delta and Northwest are trying to do, or United and Continental. Those companies have talked about consolidation. That is a word that we have not mentioned. This is not about consolidation. This is about combining Southwest and the Midwest and West and AirTran perhaps on the east coast and the Southwest and really putting them together. On that basis we think there are a lot of opportunities. There are a lot of opportunities in secondary markets that are not served nonstop today. And so we think those opportunities, again, given the operating environment, remain.

When we viewed the Milwaukee market 3 or 4 years ago, again we envisioned a bigger operation than we are flying today. Again, obviously we have adjusted because of fuel prices. But it is our belief that we can dramatically broaden the route portfolio in Milwaukee. And I would say it is dramatically different than some of the other perhaps examples around the country. We have no intention, again, to consolidate like the other carriers, and our plan is to combine what is good about both companies and make it larger.

Just a few examples. We believe, as an example, that Southwest's great presence in the Western part of the U.S. would allow a lot more customer choice because we could tie in our strengths on the east into those great strengths that Southwest has on the west.

So I think the geography, you know, works very, very well. We do not have an overlap, and, again, I think we view Milwaukee as an underserved market. It was under a different time. We think the potential is still here, and we are seeing it. We have only been at it for a few years now, and I think we are going to continue to see the trends in this market remain.

Chairman KOHL. Mr. Kelly.

Mr. KELLY. Thank you, sir. Well, we are in business to provide a customer service, so that is our passion. The more customers we have, the better it is for Southwest Airlines. This is an opportunity for us to grow our geography by acquiring AirTran. We are buying a company that has a similar low-cost philosophy. Our cost structures are neck and neck with each other. We have similar low-fare strategies. We have very strong work ethics within our company cultures. So it will be, I think, a pretty seamless marriage between the two so that we can think about this in a successful way. But we will be able to add 39 new points of service on our route network, and from AirTran's perspective they will be now connecting into a customer base that is four times their size.

So there are very significant economies of scale to add new itineraries and new service across the United States, and we will just get our toe dipped in the water internationally.

Again, we are different, and this would be our third acquisition in our history, and the first one in 17 years. But after 40 years, we still are the low-cost leader in the United States. We are still the low-fare leader in the United States. That is what we do. We bring more competition, and by definition, if we can go more places and serve more customers, that by definition means more competition.

Even having said all of that, we are dwarfed by very large legacy airlines. Their revenues are double and triple our size. So it is an extraordinarily competitive industry and will certainly remain so after Southwest acquires AirTran.

Chairman KOHL. Mr. Bateman, I want to ask you, and then Mr. Sheehy, in your most idealized world, would you rather have these two airlines merge or would you rather have them separate and competing?

Mr. BATEMAN. In an idealized world, well, let me just answer that this way, Senator. What we are seeing here is, I think, scale. If you look at the fabric of the airline landscape for the past several years, we are seeing consolidation in United and Continental,

America West/USAirways, Delta/Northwest. And for AirTran particularly, and Southwest to some lesser degree, to compete against those mega carriers, they have to have some scale to do that. And as much as one regrets seeing the loss of competition with the merger, I think that for them to compete against those mega airlines, they need greater scale to do that. And this is one step toward that.

So as Tevye would say, on the one hand, you know, we regret it. On the other hand, I think that it is going to be to the benefit of Milwaukee.

Chairman KOHL. Mr. Sheehy.

Mr. SHEEHY. Yes, the question may be a bit over my pay grade, but I am going to take a shot at how we would look at it from the business community standpoint. And, again, I know they are not subject to this discussion, but Frontier, if you look at what happened with Frontier purchasing Midwest or Republican purchasing Midwest and then purchasing Frontier out of bankruptcy, and you look at what's happened in this market, I think as much as it is numbers of carriers and where they compete on routes, I think as Barry said, it is also the strength of the competitor. And, you know, having Frontier here, they moved I think a couple hundred of their mechanics. One of our M–7 recruitment projects was to strengthen their focus here in terms of not only serving the market but their employment base here, and they now have a couple hundred mechanics serving their fleet here. They have a call center. So I think they are well positioned to compete from here.

If that were not the case, maybe I would be a little more worried about this merger. But I think having strong competitors here, as much as we want low cost, we want the flights, we do in a sense as a flying public want healthy airlines. I mean, it is tough to look at a future if the airlines are continuing to lose money. They are reacting to, you know, global fuel prices. So I think numbers are important, but so is strength of competitor, and the ability to look ahead from the business community standpoint and plan that you can make a capital investment here, that you can expand your corporate headquarters and see a future where you have consistent air service at a competitive price, and I think we are going to get that out of here as much as I can see ahead.

Chairman KOHL. Dr. Moss, are we better served having two airlines in Milwaukee here, AirTran and Southwest, or one?

Ms. MOSS. Well, I think that is the million dollar or billions of dollars' worth of question in this particular case. I think in general more competition is always better. In the airline industry, we have some special considerations.

First of all, if pressures to bulk up to compete with other larger rivals in the market was the major motivation for merger, then in theory we would have one airline, because we would get onto the slippery slope of merging to get larger to compete with larger rivals, those rivals again merge, and then we trigger a set of mergers in the industry that is seemingly unstoppable.

I think we are already onto that slippery slope, and the downsides of that I think are very clear. The American Midwest, as I noted in my remarks, is a particularly sensitive area. These consumers are at risk because they rely on smaller cities and ac-

cess at smaller cities to get to larger destinations. So prices are not the only consideration here. It is choice, it is availability, it is nonstop versus connecting service, forcing consumers to travel to other airports because nonstop service was discontinued as a result of capacity rationalization I think is a detrimental effect of the merger.

So the more competition, the better. I also take the point very seriously that airlines grapple with some fundamental economic issues. They have high fixed costs, they have high fuel costs. American airlines have struggled in the last 20 years trying to remain profitable without getting bigger. So this is sort of a basic economic problem that we deal with.

My last remark is I think we have to ask how effective are the remaining low-cost carriers going to be if Southwest and AirTran merge. If there were to be less aggressive price discounts—let us put it that way. They would not discount as much as they do now. Instead of raising prices, we might see fewer discounts. If that were to occur—and I am not saying that that would, but it is certainly a question that we ask in mergers—how effective is the remaining competition? The legacies are not going to discipline discounting behavior or price increases. The legacies, when you put two legacies on a high-fare/low-fare route, they come out with the highest average fares of all possible combinations. So it is not the legacies who would be putting competitive pressure on a merged Southwest/AirTran. It is going to be the other low-cost carriers. Well, we have got Frontier here. I flew on Frontier last night from Denver. Is that enough? Is that enough competition? How many do we need to potentially discipline these post merger effects? I think that is a very valid question to ask.

Chairman KOHL. OK. Mr. Kelly, you are going to gain entrance to several major cities as a result of this merger. If you did not have any of that, would you still make this merger, Mr. Kelly? If you did not have those—I think there are four major cities where you are going to gain: LaGuardia, Washington, DC., Atlanta—what is the other one?

Mr. KELLY. Well, we are actually in New York LaGuardia, but we are not able to add more departures or slots, so absolutely, that is a very valuable asset that AirTran brings, is more access to New York LaGuardia. We cannot get access absent the acquisition to Reagan. So, yes, you are exactly right. And the same essentially applies to Hartsfield. It is just not otherwise an opportunity for us. I think those are the primary three.

The other large category that I would describe that we are very interested in that AirTran does is they have several dozen small cities that we heretofore have not tried to serve. They serve that with low frequency. They serve it with the Boeing 717 aircraft, which is smaller, a good short-haul aircraft, and we are very intrigued with that opportunity as well.

Chairman KOHL. Yes, but my question is: In this merger, how important is that consideration——

Mr. KELLY. Very important. Our desire is to grow Southwest Airlines. The only way that an airline can grow in this world is to offer something different. What we offer is low fares. We have done that for 40 years. That is the way I see our vision for the next 40 years, to keep our costs low and our fares low.

This, in addition to our desire to offer low fares to more places, they bring us the places. And if AirTran did not have those places, no, sir, we would not be acquiring AirTran. That is one of the more valuable assets that they bring us, expansion opportunities to new places where we can further grow those markets by continuing to add—or serve the markets with low fares.

Chairman KOHL. Well, that is an important statement you made, and it is frank and honest, and we all appreciate that. But if I hear you correctly, what you said is without those entrees into these other major markets that we have discussed this morning, you would not be buying AirTran.

Mr. KELLY. I do not see that.

Chairman KOHL. And I appreciate your frankness, but, you know, to us who are concerned only about Milwaukee—and I am sure you can understand that—we worry about how Milwaukee will fare if and when this merger is consummated because your major reason for buying AirTran is not AirTran's operations in Milwaukee. Your major reason is because it gives you entree in other cities. So if you are us, you worry about it. You worry about it, Tim.

Mr. KELLY. Well, there is a long list of reasons that AirTran makes sense for Southwest Airlines. Some of them are on the Southwest Airlines side of the ledger. In other words, if we were not financially strong, if we did not have a solid leadership team, if we did not offer good customer service, we would not be in a position where we could contemplate a transaction like this. AirTran brings many, many things that make it an attractive acquisition for us. Milwaukee is one. Milwaukee is simply—it did not fit your description because we are already in Milwaukee. But we will be able to grow Southwest Airlines and AirTran faster in Milwaukee than we would otherwise by virtue of the acquisition.

Chairman KOHL. What do you say to that traveler that is pleased with the business class service that AirTran is providing that you no longer will be providing? What do you say to that traveler?

Mr. KELLY. Well, now every customer is going to get first class service on Southwest Airlines, all 137 seats.

[Laughter.]

Mr. KELLY. But it is a model that has worked extraordinarily well for 40 years. We have never held ourselves out to be all things to all people. On the other hand, I would argue that we actually carry more business customers in the United States than any other airline. So try us. You just might like it. We do have a product that is targeted for business customers who want the seat that they want, and that is our business select product, and our customers tell us that they like it very well. But our brand rankings have never been higher, and we do serve a very substantial number of business customers.

Mr. FORNARO. Senator Kohl, if I could add one thing, when Gary and I had our first conversation in early May, we talked about four opportunities, as Gary described to me. Washington National and Atlanta were brand new to Southwest, and the other two opportunities were to increase our service in LaGuardia and the other one was Milwaukee, as they viewed as an opportunity strong Mid-

western point and the third Chicago airport. So that was in our initial conversation when we met in the first week of May.

Chairman KOHL. What is going to happen to that relationship that you now have at AirTran with SkyWest which enables you to service Des Moines, Omaha, St. Louis, Indianapolis, Akron, and Pittsburgh? Mr. Kelly, can you tell us that that relationship or your ability to serve those communities will not be impeded?

Mr. KELLY. It is premature. First of all, again, over 80 percent of our employees are subject to collective bargaining agreements. Our pilots' agreement has a provision in it that restricts domestic code sharing with Southwest Airlines. So we will want to and need to work with our pilots on the AirTran relationship with SkyWest, and then we will also need to make a determination, once AirTran is fully integrated into Southwest, what we want to do with that service.

Now, four of those cities are already served by Southwest Airlines. I can assure you that that the two that are not, we want to serve. How SkyWest fits into that is just premature to say at this point.

Chairman KOHL. What about employment here, Mr. Fornaro? You have how many people in Milwaukee?

Mr. FORNARO. 330.

Chairman KOHL. And how many are located here right now, Mr. Kelly?

Mr. KELLY. We have 35 to 40. Sean?

Mr. FAIRBANKS. About 50.

Mr. KELLY. 50.

Chairman KOHL. We are talking about somewhere close to 400. Is that right? Is that going to be diminished in any way? Or is that going to be enhanced?

Mr. KELLY. It will be different. You have a crew base here, and we will not most likely. I do not know where those employees live, on the other hand, because a lot of our crew members will commute. But in terms of the airport operations, again, what we want to do is we want to grow the daily departures here in Milwaukee, and that would certainly grow the airport operations employment if we are able to do that. That would be our desire.

Across the country, as we look at job opportunities, this is about growth. And Milwaukee, among the cities that we jointly serve, is at the top in terms of opportunities to grow. So I would hope that we could grow our flight activity and our employment here in Milwaukee.

Chairman KOHL. So I take it you are saying the employment will not diminish and it may very well grow.

Mr. KELLY. It will not diminish at least with the airport operating employees, but we will not have a crew base here in Milwaukee.

Chairman KOHL. How many people is that crew base?

Mr. FORNARO. That crew base has, I think, about 70 or 90 pilots.

Chairman KOHL. 70?

Mr. FORNARO. Yes.

Chairman KOHL. So those will be gone. That crew base will no longer be in Milwaukee.

Mr. KELLY. The crew base would not be in Milwaukee, most likely. Again, even that is premature to say, but I want to give you a straightforward answer. But I do not know—and I doubt that Bob knows—where those employees actually live. They may very well not live in Milwaukee. They simply commute in to start their duty period.

Chairman KOHL. And I am also taking for granted that the two classes of service that AirTran now offers will no longer be a part of service in Milwaukee.

Mr. KELLY. We do not have any plans to change our on-board service. So it is all first class, yes, sir.

Chairman KOHL. Well, Mr. Sheehy, your organization has many, many people who are willing to pay a little bit more to travel on the business class of AirTran. What do you say to them?

Mr. SHEEHY. Well, I think that, again, what is important, what is most important is the number of markets served directly and the frequency. Price probably does come in third, although I think in this economy and going forward more and more companies are sensitive to the price they are paying for their air service and I think will readily adapt to the model that Southwest has. They have options on Frontier. They have options on Delta and other airlines that are serving that. And I think if the business flying public thought that was an issue and they voted with how they flew, the airlines would adapt. But I really do not see that as a big barrier to the quality or type of air service that we have flying out of Milwaukee. I see Paul Upchurch here from Visit Milwaukee. I do not think it is a big issue for people coming in that are going to visit Milwaukee. So I really do not see that to be much of an issue at all unless, you know, you are Andrew Bogut or something, and then we all have problems fitting into airline seats these days.

Chairman KOHL. I would love for Andrew Bogut to be traveling on commercial airlines.

Mr. SHEEHY. Less expensive on Southwest, yes.

[Laughter.]

Mr. SHEEHY. We feel your pain.

Chairman KOHL. Well, I am getting the impression here—and I have had since the merger was announced—that there are goods and bads to it. Now, obviously, Mr. Kelly and Mr. Fornaro, your job is to present the more positive aspects of it, understandably. And our job is to be concerned that whatever you do is good for Milwaukee. I think there are reasonable questions that have been raised here this morning that cause us to worry about whether this kind of a merger is good for Milwaukee. It is obviously going to be good for your airlines. But whether it is good for Milwaukee and Milwaukee consumers is a question.

And maybe some of these questions cannot readily be answered, so I would like to ask you, Mr. Kelly, whether you are prepared to come back and visit with us annually and publicly to analyze the merger and its impact on Milwaukee and, if necessary, to make whatever accommodations or changes are necessary in order for you to fulfill your pledge to us, which is that this is going to be a good thing for Milwaukee and not a mixed bag or a bad thing. I think you are telling us that it is going to be a good thing for Milwaukee. You are not able to be particular about it because

things change and developments occur, but you are assuring us that on balance this is going to be a good thing for Milwaukee and nothing else but a good thing for Milwaukee, and you do not want us to be disappointed. So will you come back and report to us annually on how this is benefiting Milwaukee?

Mr. KELLY. I would be delighted to do that, and obviously we are here to serve our customers, and it is in our own selfish interest for you and all of our customers in Milwaukee to be happy. We know our communities want more service. We know that they want low fares. And we are the one airline over 40 years who has lived up to that. We make commitments to our communities. We become involved. We do not come in 1 year and exit the next. Part of that is having the financial wherewithal to see ourselves through the bad times.

I cannot promise you what changes we will need to make. We have made dramatic changes in Southwest Airlines over the last 5 years. We were able to do that in a way where we did not abandon our communities, where we did not furlough employees. We did not ask them for pay cuts. And I am proud of that.

So what I can promise you is that we will give it more than just our best effort, because we know this is important to your community. If we did not believe that we could take care of the Southwest and AirTran employees and crew members, also do good things for our shareholders, also do good things for our customers, we would not do it. And that is why we do acquisitions infrequently. But the last acquisition we did, I would just point out, we were probably 30 percent our size, so the track record there is pretty good that we buy as an incentive for us to continue to grow. And I hope that we can come back and tell you that we have been able to grow Southwest a lot.

We would be lying to you if we did not tell you that we are concerned about gas prices. And we are. If we can keep moderate or at least stable gas prices, I think we have a very, very strong outlook for Southwest Airlines over the next decade.

Chairman KOHL. Thank you very much for coming. Thank you all for being here today, and this hearing is closed.

[Whereupon, at 11:24 a.m., the Subcommittee was adjourned.]

[Submissions for the record follow.]

SUBMISSIONS FOR THE RECORD

U.S. Senate Committee on the Judiciary

Subcommittee on Antitrust, Competition Policy, and Consumer Rights

Senator Herb Kohl

Testimony by:

C. Barry Bateman, Airport Director

Milwaukee County's General Mitchell International Airport.

Feb 25, 2011

Thank you for the opportunity to speak before this Committee regarding the proposed acquisition and merger of AirTran Airways by Southwest Airlines.

General Mitchell International Airport (GMIA) is currently served by nine airlines. With 220 departures per day, and non-stop service to 55 cities, GMIA served a record 9.85 million passengers in 2010, a 24 % increase over 2009. There were 2 million connecting passengers, which was also a record number. Our primary service areas are Southeastern Wisconsin and Northern Illinois, but many of our passengers drive in from Rockford, Illinois, and Madison, Appleton, Oshkosh, Fond du Lac, and Green Bay, Wisconsin. We also attract passengers from the Michigan Upper Peninsula and Eastern Iowa.

In 2010, the GMIA passenger count increased by 1.9 million. In terms of numbers of passengers, GMIA ranked # 45 in the nation's airports in 2009. In 2010, we passed several airports, and we estimate that we are now the 35th busiest airport in the country. (Exact 2010 passenger counts are not yet known at several airports.)

The reason for this meteoric growth over the past 17 months is the increase in low-cost carrier (LCC) service at MKE, which has brought low fares and outstanding non-stop service to 55 cities. Non-stop service is of paramount importance to business travelers, and is also preferred by leisure travelers as it saves time and avoids missed connections. LCC service and the competition which it brings have resulted in MKE offering the 93rd lowest average fares in the country. (DOT 3Q2010 Average Fare Analysis)

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00026 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.002

Background:

Midwest Airlines was the growing and dominant carrier at MKE in the 1980's and 1990's. Starting operations in 1984 with service to just three cities, Midwest grew to a peak market share of 54.5 % in 2007. Its business model of providing "first class service at coach prices" worked well in the 1980's and 1990's. But, with the economic recession beginning summer 2001 and followed by the tragedy of 9/11, that business model no longer worked and a downhill slide began. Business travel had fallen off significantly. Midwest market share had fallen to 34% in 2009.

AirTran, seeing the opportunity at Mitchell, entered the Milwaukee market in 2002, with modest service and 1.7% of market share in 2002. AirTran was Milwaukee's first low-cost carrier to enter the market, and with them came low fares to other cities throughout their system. By 2008, AirTran grew to become our second largest carrier, with a 23.5% market share.

Frontier Airlines entered the Milwaukee market in 2003, with service to Denver and connecting to western cities. As a result, Milwaukee saw more pressure of new low cost carriers' influence on Milwaukee ticket prices, and it was being felt most by Midwest.

On several occasions, AirTran proposed merger talks with Midwest, but was rebuffed. Eventually, Midwest, in the eleventh hour, sold to TPG Holdings and Northwest Airlines. In spite of the new ownership, Midwest continued to fail, and was bought by Republic

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00027 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.003

Holdings in June 2009. Republic, soon after, purchased Frontier Airlines (October 1, 2009) and rebranded the combined carriers as Frontier (April 13, 2010). Together, Frontier and Midwest account for 37.6% and 32.9 %, respectively, in 2009 and 2010.

Southwest Airlines entered the Milwaukee market in November 2009. In 2010, Southwest had 7.99 % market share, thus became Milwaukee's 4th largest carrier. With Southwest's entry, low-fare service has further increased and Milwaukee has become a pre-eminent low-fare airport.

Chicago's Third Airport:

Mitchell markets itself as the *Chicago's Third Airport.*

GMIA's location on the south side of Milwaukee presents an opportunity to serve the northern suburbs of Chicago and Rockford, and serve as Chicago's third airport. There are almost one million O'Hare passengers living in Northern Illinois within 60 minutes of MKE that are potential growth passengers for us. There are another quarter of a million O'Hare passengers in Rockford. We know that if we can attract more customers from Northern Illinois, the airlines will respond with more seats and more cities served. And that is good for greater Milwaukee.

O'Hare is a formidable airport, with 1,160 departures to 197 domestic and international destinations. GMIA had marketed itself for decades as the third airport serving Chicago,

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00028 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.004

with limited success. However, that changed with the entrance of Southwest in 2009. Southwest's strong brand and customer loyalty has brought more Northern Illinois customers to use our airport than ever before. (Airport License Plate Inventory data). Since Southwest entered the market in November 2009, our Northern Illinois passengers have increased 20 %. (November 2009 - January 2011 over January 2009 – October 2009). Southwest's entrance to the Milwaukee market was the tipping point, building on the previous efforts of Frontier/Midwest and AirTran, and has cemented our position as Chicago's third airport. Southwest is not only serving greater MKE, but has bracketed Chicago with its Midway operation on Chicago's south side, and its Mitchell operation on the north side.

And in a case of a rising tide raising all ships, when Northern Illinois passengers book Southwest out of Milwaukee for a trip, they discover that there are 8 other great airlines flying nonstop to 55 cities. We also believe that Milwaukee will continue to be very cost competitive with O'Hare. We believe that the airlines will take notice of our airport costs vs. O'Hare, and serve Mitchell Airport as a northern Illinois alternative, similar to the Fort Lauderdale and Miami airport pattern.

Competition at MKE

Milwaukee, with its mid-continent location, is in the unusual and enviable position of having two airlines hubbing - AirTran and Frontier. There are only four other cities in the Country that have two hubbing airlines: Atlanta, Phoenix, Denver, and Chicago.

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00029 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.005

Clearly, Milwaukee is smaller than any of those cities, and the scale of Frontier and AirTran hubs is not as large as the hubs in those cities. Nevertheless, Frontier serves 33 cities and AirTran serves 22 cities. Fourteen (14) of those cities are served by both carriers. Now add Southwest, with their 6 cities served, all of which are also served by other carriers. Competition is alive and well at MKE.

In 2010, AirTran had 29.93 % of market, combined Midwest and Frontier had 32.9 %, Delta had 15.07 % and Southwest had 7.99 %. (Airlines also serving MKE are: United Airlines, American Airlines, US Airways, Continental, and Jazz (Air Canada)). In October, 2010, AirTran took over as the market share leader in Milwaukee, over Frontier, with 31.28 % and 30.5 % respectively.

Conclusion:

Frontier and AirTran have built successful hubs at Milwaukee which have been very important in supporting and growing the economy of Milwaukee and the surrounding area. Should the merger of Southwest and AirTran be approved, we are very hopeful that Southwest will maintain and grow the successful Milwaukee AirTran hub, not only for Milwaukee, but for the attraction of more passengers from Northern Illinois. We are also confident that Frontier will remain a strong and growing airline at MKE. MKE has the facilities and the market to continue strong growth into the future and we look forward to the opportunities ahead.

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00030 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.006

STATEMENT
OF
ROBERT L. FORNARO
CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER OF AIRTRAN HOLDINGS

BEFORE

THE SENATE COMMITTEE ON THE JUDICIARY
SUBCOMMITTEE ON ANTITRUST, COMPETITION POLICY
AND CONSUMER RIGHTS

FEBRUARY 25, 2011

STATEMENT
OF
ROBERT L. FORNARO
CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER OF AIRTRAN HOLDINGS

BEFORE

THE SENATE COMMITTEE ON THE JUDICIARY
SUBCOMMITTEE ON ANTITRUST, COMPETITION POLICY
AND CONSUMER RIGHTS

FEBRUARY 25, 2011

Chairman Kohl:

Good morning and thank you for convening this hearing and affording AirTran the opportunity to address the Subcommittee regarding these important issues.

On behalf of the 8,300 hardworking men and women of AirTran Airways, it is my sincere pleasure to appear before you today to talk about AirTran's presence in Wisconsin and AirTran's plans to join forces with Southwest Airlines. I am proud to represent our Crew Members and to be able to report that AirTran Airways continues to perform exceedingly well and get high industry rankings[1] for customer service and on-

[1] 2010 marks the third consecutive year AirTran Airways has been recognized for its outstanding operational performance as the number one low-cost carrier in the prestigious Airline Quality Rating (www.aqr.aero) and the sixth consecutive year the airline has been ranked in the top three among major U.S. airlines in this highly regarded, objective ranking.

AirTran Airways continued its industry–leading operational performance in 2010. Recognition of this customer service excellence culminated in the number one ranking in The Wall Street Journal's annual airline scorecard.

In addition to these operational milestones, AirTran Airways' traffic increased 5.3 percent to more than 19.5 billion revenue passenger miles on a 3.3 percent rise in

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00032 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.008

time performance. Senator Kohl, one of the reasons that General Mitchell International Airport has continued to expand and has become an important part of economic growth in this region, has been your support of the airport and steps you have taken to support airport operations and funding. Thank you on behalf of AirTran and the communities in Greater Milwaukee, Southeast Wisconsin, and Northern Illinois. I would like to acknowledge as well the support we have received over the years from the community and their representatives – Barry Bateman and Tim Sheehy – they both do an excellent job and play a key role in the economic development of the Greater Milwaukee area.

As you know, a longstanding and high priority for AirTran has been the continued expansion of our Milwaukee network. Milwaukee is now our third largest market behind Atlanta and Orlando. Since initiating service to Milwaukee in the summer of 2002 with four daily flights to two markets (Atlanta and Orlando), AirTran has grown consistently and now offers more than 55 daily departures to 25 nonstop markets. As a result of AirTran providing increased competition, General Mitchell International is one of the very few airports in the U.S. that reported increased traffic over the last few years – in fact, over the past five quarters, the number of Milwaukee passengers has grown by double digit percentages while nearby Chicago O'Hare passenger numbers have declined. I'm proud to say that AirTran played an integral role in the records set here and is now the largest carrier, by market share, at General Mitchell[2].

---

available seat miles during the year. The airline's load factor increased 1.6 points to 81.4 percent, and the number of enplaned passengers increased 3 percent to 24.7 million. Each of these metrics represents all-time records for the airline.

[2] The benefits of AirTran's commitment to growth were clear when the airport announced on January 26, 2011 that a record number of passengers, 9,848,377, were boarded in 2010 at General Mitchell International Airport. The total is 1.9 million more than the 7,935,124 passengers served in 2009, a 24.11 percent increase. The airport broke the 8 million mark in October and the 9 million mark in November. Airport Director Barry Bateman has remarked: "Passengers in Wisconsin, Chicago, northern Illinois and

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00033 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.009

In 2007, we outlined publicly our expansion plans and our vision that Milwaukee was an untapped resource. We strongly believed then, and continue to believe now, that General Mitchell International has not reached its full potential. I am confident that quality service and low fares along with the strong business base in Southeast Wisconsin could greatly expand the market. As evidenced by the record number of passengers at General Mitchell, we've realized some of that potential.

The business and economic challenges we face today as a company and as an industry have increased substantially since 2007. We continue to deal with very high fuel costs and an uncertain economy, particularly for domestic U.S. travel. Growth in this environment is exceedingly difficult. When we began negotiations with Southwest last summer, jet fuel was about $85 per barrel – as of this past Wednesday jet fuel was more than $125 per barrel. To put that into perspective Mr. Chairman, every $10 dollars in fuel cost per barrel adds more than $90 million in annual expense to our bottom line. Managing the volatility of fuel is a key reason AirTran has agreed to merge with Southwest Airlines. We believe this merger will create growth opportunities for both of our airlines that would not happen independently. Equally important, this deal is good for our shareholders, the employee Crew Members of AirTran, and the communities we serve, including Southeast Wisconsin and Northern Illinois. Combining the AirTran network with Southwest will allow us to take advantage of the Southwest's unparalleled history of financial performance and Southwest's substantial resources- these will create

---

Rockford are taking full advantage of airfares on average $93 lower than O'Hare's, plus the ease and convenience of Mitchell."

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00034 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.010

growth opportunities, provide career certainty for our employees in Milwaukee and elsewhere, and tremendous benefits to consumers – especially here in the Milwaukee region.

When we have the necessary federal regulatory approvals and can talk with our prospective Southwest colleagues about market specifics – it will be my recommendation to Gary Kelly, Southwest's Chairman and CEO, and to his management team, that Milwaukee continues to be a key market for growth. It is one of the great assets of this merger.

AirTran has had a strong commitment to the people and businesses of Wisconsin in both good times and challenging times. It would be an understatement to say that the last several years have been difficult for the airline industry – this industry has faced historic challenges brought on by volatile fuel prices and a weak economy. AirTran has not been an exception to or immune from these difficulties. To weather the storm in 2008 we had to dramatically restructure our fleet plan, sell existing aircraft, and defer new Boeing deliveries in order to restore profitability. Since 2008, AirTran sold or deferred 47 Boeing jets. Nonetheless, our commitment to, and belief in Milwaukee, has not waned. In fact, Milwaukee has been one of the few bright spots over the past few years. Despite shrinking our capacity, we have continued to grow our operations at General Mitchell. Since 2008, while our domestic network became smaller, we've grown Milwaukee by adding ten new destinations in 2008, another five in 2009, and six more last year. Equally important, we doubled our employee headcount in Milwaukee in each of the last four years, and established a line maintenance station and pilot and flight

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00035 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.011

attendant crew bases here in 2010. AirTran now directly employs more than 330 people based in Milwaukee. Our payroll for 2010 exceeded $6.5 million and will be nearly $8 million this year. In addition, last year AirTran spent approximately $12 million in Wisconsin for non-payroll goods and services and paid more than $5 million in taxes.

Milwaukee is an integral component of AirTran's network, and we are also proud to be an active partner in the broader life of the community beyond our role of providing safe, affordable, and reliable air service. Therefore, as part of our expanding presence, we have welcomed the opportunity to play a major role in community service to the entire Milwaukee area. We do so by working with local businesses, sponsoring teams like the Milwaukee Brewers and Marquette University Golden Eagles, and by assisting multiple local groups including the YMCA, the Hunger Task Force, Habitat for Humanity, the Milwaukee Film Festival and the Wisconsin State Fair, as well as being able to play a role in bringing back the Great Circus Parade in 2009. In fact, last week we announced our renewal of our sponsorship with the YMCA of Metropolitan Milwaukee Summer Camp program. I am especially proud to say that we sponsor the Donald Driver Foundation and that Donald is an AirTran endorser – it was great to see him and the Packers win the Super Bowl. All of our Crew Members are proud of these efforts, and you can count on us to continue to work to help this community prosper and to assist those in need.

AirTran has played a major role in creating the type of competition Milwaukee needed to reach record levels in 2010. We are pleased that AirTran is now the largest carrier at Milwaukee. We expect that record growth at Mitchell Field could continue with our

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00036 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.012

planned merger with Southwest Airlines. In fact, I sincerely believe this merger is necessary to reach the full potential of the Milwaukee marketplace. The combined networks and resources of AirTran and Southwest will create expansion opportunities that neither company could likely create on its own.

In today's economic and competitive environment, it will be exceptionally difficult for AirTran to fundamentally grow or increase competition. By joining forces with Southwest, the combined company will have the strength and resources to effectively grow and compete with the mega-legacy carriers like Delta, which merged with Northwest in 2008, and United-Continental, whose merger was approved in 2010.

Senator Kohl, we thank you and your staff for all you have done to promote this airport and community. We look forward to working with you and your colleagues, with local elected officials, with the airport, and with all the citizens of the Milwaukee area to expand our role as a partner in the growth and prosperity of the community.

I am proud that you have afforded me the opportunity to represent AirTran and its Crew members today.

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00037 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.013

Testimony of Gary C. Kelly
Chairman, President & CEO of Southwest Airlines
Before the Subcommittee on Antitrust,
Competition Policy & Consumer Protection
Committee on the Judiciary
United States Senate
February 25, 2011

Chairman Kohl:

I. Introduction

On behalf of Southwest Airlines, thank you for holding today's hearing and inviting me, along with Bob Fornaro, to Milwaukee. During our relatively brief time here, Milwaukee has welcomed Southwest into your community, provided access to a solid Customer base, and given us an efficient, well-managed airport facility. We are grateful for the professional hospitality that has been extended by Barry Bateman and his team.

Southwest began serving Milwaukee in November 2009. After 15 months, we're just getting started at General Mitchell with twelve (12) daily nonstop departures to six (6) cities. We entered the Milwaukee market because of the opportunity to extend our low-fare brand and fill a void in our route map. While Chicago's Midway Airport is one of our largest and best performing airports, Milwaukee is a unique and vibrant market in its own right as well as a convenient alternative to Chicago's O'Hare Airport for Northern Illinois travelers.

Southwest sees our acquisition of AirTran Airways as a platform for new growth to cities and markets across the country that lack convenient low-fare air service. Through our proposed acquisition of AirTran, we look forward to providing our Milwaukee-area Customers with access to an even stronger and larger nationwide low-fare, low-cost carrier network.

II. Why Now?

During the past 10 years, which will be known as a "lost decade" for the airline industry – fewer passengers, fewer flights, fewer airplanes, and fewer aviation jobs – Southwest survived it without bankruptcy, without furloughs, without pay cuts, without diminishing the Customer experience, and without abandoning our communities. In 2010, Southwest Airlines celebrated our 38th year of consecutive profitability and profit sharing with our job secure People.

67500.014

Yet, due to the challenging economic conditions which continue to face our country and our industry – including high energy prices – Southwest has not been in a position to add to our fleet or greatly expand our route map. The acquisition will change that position. Provided that our economy continues to recover and fuel prices do not escalate to prohibitive levels, we see bright skies ahead for our combined Company and the communities we serve.

It's the potential for future growth at Milwaukee and across the country that sets this airline acquisition apart from other recent mergers in the industry. We do not want to simply combine these two great low-cost carriers and we certainly are not looking to "consolidate" or shrink. This combination is all about creating a larger and stronger low cost airline that will spread low fares farther.

Southwest continues to work closely with the U.S. Department of Justice, the Department of Transportation and various state Attorneys General on the review of our proposed acquisition. We hope that this collaborative process will be completed in the second quarter of 2011.

III. A Great Fit

Because of our history and plans for future growth, AirTran is an excellent fit. Providing the traveling public with low fares and great Customer Service has been Southwest's mission for 40 years. It's who we are and it's in our DNA. Combined with our strong Culture, we are well known as a company that cares for our People, our Customers and our Communities. AirTran also has a strong reputation based on the same values.

Both companies are committed to supporting, and encouraging our Employees to volunteer in the communities where we live and work.

Both companies are low-cost, low-fare carriers with an emphasis on outstanding Customer Service, and a history of pursuing growth opportunities and providing strong, low-fare competition to the Legacy airlines. We plan to continue this winning tradition.

IV. Potential for Growth

The benefits of Southwest's planned acquisition of AirTran can be summed up in one word: Growth. This transaction creates a host of exciting and unique growth opportunities that otherwise would not occur for our Customers, our Communities, our Employees, and our Company.

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00039 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.015

1. Growth is possible due to the joining of two low-cost, low-fare airlines that have very little route overlap. Expanding Southwest's low-fare service to additional domestic markets will generate hundreds-of-millions in annual savings to Consumers as well as increased economic activity in the markets we serve. The U.S. Department of Transportation calls this the "Southwest Effect."

2. The Southwest Effect has been demonstrated in Milwaukee. When Southwest began Milwaukee service in November 2009, we were able to provide new competition on routes that AirTran didn't serve. Let's look at Milwaukee service to Kansas City, for example. Before Southwest, the average one-way fare to Kansas City was $148 one-way. A year later, that average fare is roughly $90. We've also seen more than a doubling of passenger volumes on that route – a classic example of the Southwest Effect. Even on a one-stop basis, we've seen lower prices and more passengers from Milwaukee to such places as Nashville and Oakland. With the creation of new itineraries as a result of joining AirTran's network with our own, we expect to see the Southwest Effect on city-pair combinations throughout the United States.

3. Growth offers our Customers more low-fare destinations and stronger low-fare competition as we extend our network and diversify into new markets – large and small; domestic and international. Acquiring AirTran will add 39 new destinations to Southwest's route network, which will allow us to offer the communities we currently serve with a multitude of additional nonstop, one-stop and connecting travel options.

4. Growth means expanded service offerings to cities we already serve; cities which are all located in vibrant regions where competition is strong and airport capacity is available for our carrier and other carriers to grow.

5. Growth due to the merger will also lead to better service at many smaller communities currently served by AirTran. Through our planned acquisition, we see opportunities to use AirTran's equipment – its Boeing 717 fleet – and operating practices to expand our combined network by adding several new small and midsized markets. Many of these communities have high average fares as compared to other cities on Southwest's system. We look forward to bringing more passengers to these communities.

6. The merger also creates the potential for exciting growth in key near-international leisure markets in the Caribbean and Mexico. Even after the acquisition was announced, AirTran continues to expand internationally. We

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00040 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.016

see an opportunity to fly to more near-international destinations in the foreseeable future.

7. Growth means more job security and better careers for our combined Employee groups. Southwest is the most unionized airline in the U.S. and offers, on average, the highest Employee wages and benefits in the industry, as well as a history of working cooperatively with all of our Employee groups. Both Southwest and AirTran Employees will benefit from the financial synergies generated by the greater strength of the merged companies.

8. Growth means more aircraft orders. Just recently, Southwest announced it was ordering twenty (20) 737-800 Boeing aircraft, which are capable of carrying more passengers and flying longer distances than our existing fleet, in place of existing orders for lower-capacity 737-700 aircraft.

9. Finally, the acquisition has the potential to boost profits and financial returns on capital, which are essential for Southwest to invest in growing our fleet, expanding our network, and providing more opportunities for Employees and Customers. In short, this acquisition will provide a platform for growth of low-fare competition across the country that otherwise would not occur.

V. Potential Barrier to Growth

The biggest impediment to growth in the airline industry is the high cost of jet fuel. Fuel prices are not affected solely by the price of crude oil. The oft-cited benchmark for crude oil in the U.S. is known as "West Texas Intermediate" or "WTI". However, the effective price of crude is currently understated for businesses like airlines, which participate in global energy markets. The world price of crude is more closely tied to a different benchmark: "Brent" or North Sea crude. As of February 22, 2011, WTI was approximately $95/barrel, while Brent was over $106/barrel, huge run-ups in price over a very short period of time. If high crude prices weren't alarming enough, what we actually pay today for refined jet fuel "at the pump" has risen precipitously—even faster than the rate of crude.

High jet fuel prices do not diminish the importance of this merger. To the contrary, they render it absolutely imperative. The economies of scale and the revenue synergies presented by this merger are a "hedge" against higher fuel prices. Southwest is the industry leader in hedging fuel through the derivatives market. But as we learned in 2008 when oil prices reached $147, but then plummeted to $33 in a matter of weeks, derivatives are not a perfect hedge. They are but one tool. High fuel prices have stymied growth in the airline industry and will continue to do so for the foreseeable future. The AirTran acquisition is a strategic hedge to enable a resumption of growth by Southwest. Absent the merger, both carriers will be constrained and even hard-pressed

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00041 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.017

to maintain current capacity levels. This transaction is the single best initiative we have to preserve jobs and maintain service to communities. It gives us the best chance to grow jobs and add new service to our communities.

VI. Conclusion

Growth is important to the future for our People, our Customers, our Communities, and our Shareholders. Southwest was determined to find a way to grow once again. With AirTran, we think we have. The combination of Southwest and AirTran creates that rare event when the whole truly is greater than the sum of the parts. That means more competition, better quality of service, happier Employees, and lower fares.

Thank you for your consideration.

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00042 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.018

THE MARK TRAVEL CORPORATION

February 18, 2011

The Honorable Herb Kohl
United States Senate
310 W. Wisconsin Avenue, Suite 950
Milwaukee, WI 53203

Dear Senator Kohl:

I hope this letter finds you well. Considering all of the challenges facing our country and state, I can't imagine having your responsibility. Running a business, even one in the travel business, is a lot easier than being a Senator.

I am writing you since I will be unable to attend the Southwest/AirTran Merger Meeting you called on February 25. I felt that it was important to share my personal perspective. Our company, The Mark Travel Corporation, has enjoyed a 20 plus year relationship with Southwest Airlines, handling their leisure package business as well as a relationship with AirTran Airways, chartering their planes to multiple destinations in the Caribbean and Mexico. I have many years, a lifetime, in the travel and airlines industry.

This merger is in the best interests of the consumer and the communities that the combined entity serves. Southwest is the best airline flying today. They bring service and value to the consumers. We know that from the ability we have in providing our consumers with high value vacations at low cost. Southwest Airlines will be taking over all of the AirTran planes which will result in little change for the communities they currently both serve.

Taking a look at Milwaukee, I believe that consolidating the two carriers into one will better serve the consumer. My simple reason is that long term, AirTran's model will struggle to survive in an environment featuring rising jet fuel costs and ever increasing pressure from other carriers' growth in capacity. AirTran has done a great job growing the airline, but their business model could be in jeopardy long term. This would not be good for Milwaukee.

With the focus of a solid performing airline like Southwest, and the synergies created by joining the two networks together into the one powerful brand of Southwest Airlines, this merger would mean expanded business opportunities for our region, both with new business and the growth of current jobs and businesses. The Southwest Brand will bring greater status to our region. This merger will create more opportunities and more jobs for companies like ours.

8907 North Port Washington Road, P.O. Box 1460, Milwaukee, Wisconsin 53201-1460
(414) 228-7472

In summary, the status quo in these economic times is no longer an option. In my opinion AirTran needs this merger, and our community will benefit from it. There will be greater opportunities for all under a Southwest/AirTran combination.

Senator, I want to thank you for your commitment to ensure Wisconsin is the greatest state to work, play, and plan for future generations.

Sincerely,

The Mark Travel Corporation

Bill

William E. La Macchia
Chairman

Before the
Committee on the Judiciary
United States Senate

"The Southwest/AirTran Merger and its Impact on M-7 Businesses, Consumers and the Local Economy"

Testimony of Diana L. Moss
Vice President and Director, American Antitrust Institute

February 25, 2011, 10:15 am
Waukesha County Technical College
Pewaukee, Wisconsin

I. Introduction

I would like to thank Presiding Member Senator Kohl, Chairman Senator Leahy, Ranking Member Senator Grassley, and the members of Senate Committee on the Judiciary for holding this hearing on the first major merger of low cost carriers (LCCs) in the U.S. airline industry. I appreciate the opportunity to appear here today. The American Antitrust Institute (AAI) is a non-profit education, research, and advocacy organization. Our mission is to increase the role of competition in the economy, assure that competition works in the interests of consumers, and sustain the vitality of the antitrust laws.[1]

My testimony today is based in large part on a White Paper issued on December 24, 2010 by the AAI: "Airline Mergers at a Crossroads: Southwest Airlines and AirTran Airways." The White Paper is available on the AAI website.[2] That analysis takes up a number of questions regarding the competitive issues raised by the proposed merger of

[1] For more information on the American Antitrust Institute, please visit www.antitrustinstitute.org.

[2] Diana L. Moss, "Airline Mergers at a Crossroads: Southwest Airlines and AirTran Airways." American Antitrust Institute (December 24, 2010). Available http://www.antitrustinstitute.org/sites/default/files/SouthwestAirTran%20White%20Paper.pdf.

67500.021

Southwest and AirTran. My testimony argues – without drawing any conclusions about the legality of the proposed transaction – that these questions deserve consideration in an antitrust review.

II. Summary of Major Points

The role of the LCCs in the domestic airline industry is an important one. LCCs have brought benefits to consumers in the form of lower prices, increased choice through penetration of markets dominated by legacy airlines, and innovative business models and service offerings. Arguably, LCCs have challenged their legacy counterparts to become more efficient and competitive. But significant merger activity among the legacy airlines such as Delta/Northwest and United/Continental, executed largely for the purpose of bulking up to become global competitors, has fundamentally changed the U.S. industry.

An antitrust challenge of the Southwest/AirTran deal could be viewed as punishing two very effective LCCs – Southwest and AirTran – for having played their role so well, whereas their larger legacy competitors were allowed to gain the benefits of merger in part because they had not done better individually. However, the first major merger of LCCs in the U.S. airline industry raises questions that may not have arisen in past mergers of legacy airlines reviewed by the U.S. Department of Justice (DOJ).

First, how will the merger potentially change Southwest's and AirTran's price discounting and entry strategies? Second, how will the merger affect short-run output decisions and longer-run capacity decisions at cities or airports where both Southwest and AirTran offer service? Third, will combining the Southwest and AirTran networks produce a result that looks and acts more like a legacy hub-and-spoke model than the hybrid and point-to-point systems maintained by each LCC independently? What are the implications for competition if this occurs? Fourth, how will the proposed merger affect competition and

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00046 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.022

consumers at Milwaukee, where both AirTran and Southwest have a significant presence? Before addressing these questions, however, it is useful to summarize the results of the standard origin-destination pair analysis that is likely to be the basis for an antitrust analysis of the proposed merger.

III. Origin-Destination Pair Analysis of the Proposed Merger

Evaluating the city-pair and/or airport-pairs affected by the Southwest/AirTran merger is fairly stock analysis. We do not offer an in-depth assessment, other than to report that the 18 airport-pairs *most* affected by the merger (i.e., where the merger will eliminate one of the merging carriers) originate either at Baltimore-Washington or Orlando. At Baltimore-Washington, for example, AirTran and Southwest will have a post-merger market share of just over 60 percent. At Orlando, that share will be almost 40 percent.[3]

In six of the 18 airport-pair markets, the merger would produce a monopoly.[4] In six airport-pair markets, post-merger concentration would be in excess of 9,000 HHI. In the remaining six markets, post-merger concentration is between 5,000 and 9,000 HHI. Pre- to post-merger changes in concentration in the 18 airport-pair markets are in the range of almost 1,000 to almost 5,000 HHI.[5] These levels exceed the thresholds for potential danger specified in the recently revised Department of Justice/Federal Trade Commission Horizontal Merger Guidelines. If other airports in the Baltimore-Washington D.C. area (e.g., Washington Dulles and Reagan National) are considered by consumers to be good substitutes for Baltimore-Washington, then the concentration statistics cited above could be lower.

---

[3] *Id.*, at 8. Market shares are based on total passengers enplaned by all types of carriers (legacies and LCCs).

[4] Market shares are based on passenger-miles flown by all types of carriers (legacies and LCCs).

[5] *Supra* note 2, at 8.

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00047 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.023

Under the foregoing circumstances, how would the proposed merger fare in a DOJ merger review? The answer may be informed by public closing statements issued by the DOJ in recent airline merger investigations. Obviously, while not all the information and analysis that goes into a merger investigation is revealed in closing statements, they do highlight a number of apparent themes. For example, the agency appears to put significant weight on claimed efficiencies from combining airline operations. Concerns over eliminating competition on overlap routes appear to be tempered if the number of routes is small, there is rivalry from LCCs and legacies on some of those routes, and entry is relatively easy at adversely affected airports. Nonetheless, the DOJ has required gate and slot divestitures in some cases.

A number of important factors that might inform the DOJ's analysis of the proposed merger, however, might not get significant weight in a standard city-pair and/or airport-pair analysis. The next section briefly summarizes those factors, which are described in detail in the AAI White Paper.

IV. Effect of the Merger on Price Discounting, Entry, Capacity, and Network Structure

A. Price Discounting and Entry

Relative to Southwest, AirTran appears to be a particularly aggressive discounter and market entrant. The merger could eliminate this source of competitive discipline. This observation is derived from an analysis of Department of Transportation fare data produced for the top 1,000 city-pair routes. Statistics on high fare and low fare carriers reveal a number of important features of competition between LCCs and legacies, between LCCs, and between Southwest and AirTran. As expected, we see that when LCCs are the low fare carrier on a route, they offer the deepest discounts off the high fare. And when LCCs compete against each other as the high fare and low fare carriers on a route, they produce the

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00048 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.024

lowest observed average fares.[6] These observations confirm the important role played by LCCs in the domestic industry.

The pricing data also reveals that AirTran's discounts are some of the deepest in the industry; in fact, higher than Southwest's, which has been considered the industry "maverick" for many years. Southwest's average discount as a low fare carrier on the top 1,000 city-pair routes is 12 percent off the high fare, while AirTran's average discount is 21 percent (the remaining LCCs' discounts are 20 to 26 percent). When the merging LCCs compete as the high fare and low fare carriers on a route, AirTran's discounts are 14 percent off the high fare. But when Southwest is the low fare carrier, its discounts are only 4 percent off the high fare.[7]

Thus, while Southwest and AirTran are probably each other's closest competitors (along with the other LCCs) relative to the legacy airlines, the two LCCs exhibit very different discounting behavior. How this discounting behavior might change as a result of the merger may not be captured by standard market share and concentration analysis. As one analyst summarized: "[T]aking AirTran, a particularly aggressive discounter, out of the mix will make matters worse, permitting Southwest to raise its prices and eroding whatever pricing discipline the low-cost carriers still exert over the legacy airlines."[8]

A brief analysis of Southwest's and AirTran's very different entry patterns also reveals important information. AirTran has pursued a far more aggressive expansion strategy than Southwest over the last five years. For example, AirTran's entry rate in markets where Southwest also offered service is about twice as high as the rate at which Southwest

---

[6] *Id.*, at 4.

[7] *Id.*, at 15.

[8] "Opposing View on Airline Mergers: A Bad Deal for Fliers," *USA Today* (Sep. 29, 2010), http://www.usatoday.com/news/opinion/editorials/2010-09-29-editorial29_ST1_N.htm.

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00049 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.025

attempted entry in markets where AirTran offered service. In markets where the rival airline does *not* offer service, AirTran has attempted entry with more than eight times the frequency than has Southwest.[9]

The reason for AirTran's maverick-like behavior on the entry front may be obvious, namely that Southwest – with a larger market presence – may be reaching saturation levels in terms of the airports it can serve using its hybrid system. This likely reflects the fact that Southwest, which is far larger and more mature than AirTran, has experienced nearly as much organic growth as possible. Merger may be the only way to extend this growth platform while AirTran may still be in expansion mode.

The evidence on entry may indicate a number of things. First, if entry is important in an antitrust analysis, then AirTran's experience may well indicate that entry is relatively "easy" for a similarly situated carrier. That is, other LCCs might be able to enter in a timely, likely, and sufficient manner so as to discipline any adverse price effects (e.g., price increases or less aggressive discounts) by a merged Southwest/AirTran. At the same time, however, with an aggressive AirTran out of the mix, entry that is effective enough to discipline post-merger competition must be accomplished by a much diminished set of players. Those players are likely to be the remaining LCCs. But the best markets for LCC entry will already have been entered by Southwest and AirTran which, when merged, will be a more formidable competitor for an entrant.

In sum, combining the new maverick, AirTran, with Southwest could change incentives for the merged company to discount and to enter new markets to serve U.S. consumers. The pro-competitive behavior by each firm independently has brought benefits to consumers over the years. With the ranks of the LCCs reduced through a Southwest/AirTran merger, effective the rivalry offered by the remaining LCCs may be relatively limited.

---

[9] *Supra* note 2, at 18.

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00050 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.026

B. The Potential for Post-Merger Output and Capacity Restrictions

Post-merger output restrictions and/or capacity reductions are demonstrated effects of airline mergers that have been largely overlooked in antitrust reviews. Hub cutbacks and closures raise local economic concerns such as job loss and weakening of the service sector that surrounds an airport and may undermine the economic viability of a city. The competition policy focus, however, is not on urban welfare generally but on the loss of choice for consumers in smaller communities who rely on hubs. The U.S. Midwest is particularly rich in consumers who rely on service, for example, at cities like Cincinnati, Milwaukee, Memphis, Cleveland, and Detroit to connect to other destinations. Fewer flights, higher fares, loss of choice, and discontinuation of nonstop service that forces consumers to use less convenient connecting service or travel longer distances to other airports represent cognizable, potential adverse effects of a merger.

There is evidence that capacity cutbacks are a real post-merger risk. For example, there have been significant reductions in flight frequencies following airline mergers. These include cutbacks at Lambert-St. Louis airport following the merger of American and TWA in 2001, Las Vegas McCarran airport following the merger of U.S. Airways and America West in 2005, and at Cincinnati following the merger of Delta and Northwest in 2009-2010. Anticipating the same fate in the wake of United/Continental, Ohio's Attorney General successfully obtained a commitment from the parties to maintain service at Cleveland's Hopkins airport.[10]

Mergers of LCCs should be no exception to a rigorous examination of the potential for post-merger output and capacity reductions. This is particularly true if the merger

[10] *Id.*, at 20.

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00051 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.027

eliminates competition on routes and the carriers are likely to be particularly adept at managing capacity – as a combined Southwest and AirTran might well be.

C. Effect of the Merger on the Combined Network

Legacy airlines such as United/Continental and Delta/Northwest operate hub-and-spoke networks, whereby traffic is routed through central hubs to the ultimate destination, which is often a smaller, behind-the-hub community. Many LCCs operate point-to-point networks, characterized by short- to medium-haul flights that are not routed through a central hub. Among other features, point-to-point networks create fewer congestion costs associated with the maintenance of hubs. Southwest's network is considered a "hybrid," displaying characteristics of both the point-to-point and hub-and-spoke systems. Combining the Southwest and AirTran networks will result in two changes. First, the network will contain a number of airports (e.g., Baltimore, Milwaukee) where the combined airline will offer a high volume of service. Second, the combined network will contain more cities where the airlines maintain sizeable ground operations.

Such a combined network could stretch the limits of Southwest's and AirTran's efficient point-to-point and hybrid systems. Without trimming capacity and eliminating redundancies where both of the merging LCCs maintain operations, the combined airline's costs could be affected by changes in network structure and configuration. Those costs include, for example, maintaining larger operations at particular airports or increased congestion associated with the bunching of flights at airports. If costs increase, the combined company may be less able to inject competitive discipline through lower fares, more choice, and entry and expansion than each LCC alone has brought to the industry.

V. Focus on Possible Effects of the Merger in Milwaukee

Since this hearing is being held in Milwaukee, it is useful to consider some of the possible effects of the merger locally. As noted above, one of the often overlooked effects of

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00052 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.028

airline mergers is post-merger capacity cutbacks on overlap routes, or routes where the two merging airlines both offer service. Milwaukee's General Mitchell (MKE) airport is such a location. Even a brief analysis reveals how important LCCs are at MKE. For example, there are about 130 nonstop segments that originate or terminate at MKE. On those segments, LCCs account for 60 percent of total passenger miles. AirTran's share is about 40 percent and Southwest's is almost 10 percent, for a total share for the merged company of almost 50 percent.[11]

Some of the routes affected by the proposed merger are quite important. For example, 19 nonstop and connecting service routes originating or terminating at MKE make the Department of Transportation's top 1,000 city-pair rankings. Southwest and AirTran compete on almost 80 percent of the routes originating or terminating at MKE. Moreover, they are the low fare carriers on about 75 percent of these routes, accounting for about 55 percent of total passenger-miles.[12] These statistics illustrate the need to consider the merger's effect on Milwaukee, for several reasons.

First, passengers originating or terminating in MKE are clearly dependent on the LCCs for service. The competitive discipline injected by LCCs at MKE may be one reason why consumers traveling to and from this city have seen, incredibly, decreases in air fares based on the Airline Travel Price Index since 1995 (i.e., about -2.5 percent).[13] In light of the

---

[11] Statistics derived from "Air Carriers: T-100 Domestic Segment (U.S. Carriers)," Research and Innovation Technology Administration, Bureau of Transportation Statistics, http://www.transtats.bts.gov/DL_SelectFields.asp?Table_ID=259&DB_Short_Name=Air%20Carriers.

[12] "Domestic Airline Fares Consumer Report," Table 1 (2nd Qtr 2010), Office of Aviation Analysis, U.S. Department of Transportation, http://ostpxweb.dot.gov/aviation/X-50%20Role_files/consumerairfarereport.htm.

[13] The national change in the Airline Travel Price Index since 1995 is about 17 percent. See "Table 11: Top 85 Markets Ranked by Percent Change from 1995," Research and Innovative Technology Administration, Bureau of Transportation Statistics, http://www.bts.gov/programs/economics_and_finance/air_travel_price_index/html/table_11.html.

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00053 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.029

importance of LCCs at MKE, it is worth examining how the merger could change the competitive dynamics of rivalry.

Second, passengers traveling to and from MKE are dependent on Southwest and AirTran, in particular, for service. These two airlines have a significant presence on flights originating and terminating at MKE and they are head-to-head competitors on important, heavily-traveled routes. In light of the fact that AirTran has the larger share at MKE where it exhibits its characteristic aggressive discounting, it is also worth asking how the merger might change the price dynamics if AirTran is eliminated through the merger with Southwest, which is a less aggressive discounter. The merged airline will be in price competition against legacy carriers, but no longer against each other. While they may continue to be the low fare operator, their fares could edge closer to legacy fares and their influence on legacies' pricing could diminish.

Consumers undoubtedly have benefited from competition at MKE in terms of low fares, a variety of airlines to choose from, and the convenience of having flight frequencies and availability of nonstop and connecting service. It is an important competition policy goal to connect the vast swath of the population in the American Midwest that lives in smaller communities and in mid-size cities with the rest of the country.

Thank you for this opportunity to testify. I again refer you to the AAI's White Paper for a more detailed discussion.

VerDate Nov 24 2008 07:50 Aug 12, 2011 Jkt 067500 PO 00000 Frm 00054 Fmt 6633 Sfmt 6633 S:\GPO\HEARINGS\67500.TXT SJUD1 PsN: CMORC

67500.030

Senator Kohl and members of the Subcommittee on Antitrust, Competition Policy and Consumer Rights:

My name is Tim Sheehy, president of the Metropolitan Milwaukee Association of Commerce (MMAC). I am here today because our organization represents the interests of 1,800 member businesses with more than 300,000 employees throughout Milwaukee, Waukesha, Washington and Ozaukee counties – a significant base of the flying public.

On behalf of the members of the MMAC, thank you for this opportunity to provide our perspective on the proposed merger between Air Tran Airways and Southwest Airlines.

The Milwaukee Region has been fortunate to count efficient, hassle-free air service among its greatest assets. Air service is a key component of our infrastructure that underpins commerce and a connected, growing regional economy. Maintaining a high level of service, frequency of flights, number of non-stop flights and competitive pricing are all essential to retaining and expanding businesses that are located in Milwaukee, and to attracting new companies and jobs to the region.

The Milwaukee metro area ranks third in the nation for the number of Fortune 500 headquarters per capita. In total, 18 regional companies make the Fortune 1000 list. The region's business plan includes a focused strategy to bring additional foreign direct investment to the region. For these firms, like so many others, frequent air travel is a business imperative.

Mitchell International Airport offers 200 daily departures to 90 destinations, with direct service to all major U.S. business locations. On average, each flight at MKE generates

67500.031

$19.7 million of business revenue annually in the southeastern Wisconsin/northern Illinois area. Passengers can fly to approximately 55 destinations non-stop – a great advantage for a market the size of Milwaukee, especially for our business travelers to whom time is truly money.

Mitchell was recently named one of the fastest-growing airports in the nation by the Air Transport Association. In 2010, passenger traffic increased more than 40%. Milwaukee is bucking the trend in which mid-size cities are experiencing reductions in air service. This has largely been due to the fact that Air Tran and Frontier have been among the strong competitors for the region's business.

Average airfares out of Mitchell are lower than fares at 58 other U.S. airports, according to U.S. Department of Transportation statistics. Mitchell was also ranked in the top 10 small airports — those with fewer than 10 million passengers annually — in the latest customer satisfaction study by J.D. Power and Associates.

The bottom line: having more than one airline with a significant presence and commitment in Milwaukee is central to maintaining competition and service. We have seen the detrimental consequences in cities like Cleveland and Cincinnati, which have lost this competition.

Our member businesses have come to expect and appreciate the benefit of quality air service. Without it, the Milwaukee Region loses a key advantage. If Milwaukee loses that advantage, we ultimately become a less attractive location for business, resulting in the loss of business and jobs.

While it is clear that the merger of Air Tran and Southwest removes a competitor from the Milwaukee market, we must also consider the strength we gain with two strong, healthy airlines in Southwest and Frontier, as well as a number of additional carriers, moving forward.

○