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Consumers to get more competition after US Air, American deal

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IdeaWorksCompany contributed information to this article - - see italics.

The creation of the world's biggest airline may actually be a good deal for some of its low-cost competitors, but it's still unclear if the merger will come at the cost to passengers in small towns that could lose service.

The Department of Justice said Tuesday that US Airways and American Airlines had agreed to give up dozens of gates in New York and Washington to make way for their merger, now valued at \$17 billion.

"I think the outcome of this is very positive for the consumer," said Jay Sorensen, the president of IdeaWorks, an airline research firm. "It allows a fourth entity to have a strong position against Southwest, United and Delta," which US Air and American don't have if they don't merge, he said.

The agreement heads off a court battle with the department and six state attorneys general—Arizona, Florida, Pennsylvania, Michigan, Tennessee and Virginia – and the District of Columbia.

"This agreement has the potential to shift the landscape of the airline industry," Attorney General Eric Holder said in a statement announcing the deal. "By guaranteeing a bigger foothold for low-cost carriers at key U.S. airports, this settlement ensures airline passengers will see more competition on nonstop and connecting routes throughout the country."

"For the last year and the foreseeable future, that no longer means cheap fares," Sorensen said. "We are leaving an era where investors are subsidizing consumer airfares. The airlines have been losing money for too long. They need to quit apologizing for the fact that they need to make money. In order to serve their customers, they have to make money."

In a call with journalists Tuesday, US Airways Group Chairman and CEO Doug Parker and AMR Chairman, President and CEO Tom Horton said the improved finances of the new American will pay off in customer service.

"Employee attitude" hasn't always been great, Parker acknowledged, partly because of the "financial strain this industry has been under."

Horton said has has been able to hire 1,500 flight attendants and 1,000 reservation agents this year, and "we're on the verge of hiring new pilots for the first time in a decade."

The deal requires a few more approvals, including a Nov. 25 U.S. Bankruptcy Court hearing, which should pave the way for the deal to close in the first half of December, the CEOs said. Customers will begin seeing the airlines operating as one on Jan. 7, the target date for frequent-flier miles to converge, along with other changes.

The two airlines are required to give up 52 slot pairs at Ronald Reagan Washington National; 17 slot pairs at New York LaGuardia; and others at Boston Logan International, Chicago O'Hare International, Dallas' Love Field, Los Angeles International and Miami International. Holder said those reassignments will benefit the low-cost carriers.

JetBlue and Southwest are among the likely winners. The deal may even give rise to the creation of low-cost start-ups, Sorensen said.

"We congratulate all the parties on a tentative settlement that preserves vigorous competition in the U.S. airline industry," Southwest spokesman Brad Hawkins said in a statement emailed to CNBC. "We look forward to working with DOJ on a fair and transparent process by which Southwest can expand our low-fare competitive presence at Washington Reagan National and New York LaGuardia."

"We're very happy with the outcome and are interested in growing our presence at DCA," JetBlue spokeswoman Tamara Young said in an email to CNBC. "We'll be looking through court documents and awaiting DOJ guidance on how slots will be divested."

But the loss of gates at Reagan probably means smaller and midsize cities could lose less lucrative routes unless the federal government chooses to reassign them with certain cities in mind, Sorensen said.

Virgin America CEO David Cush echoed that sentiment on CNBC.

"DCA slots, great, LaGuardia slots, great. But what about the people in Peoria and Colorado Springs?" Cush said.

The combined company will have 6,700 flights a day in 330 destinations, making it the biggest airline in the world.

"Even with the divestitures of slots, US Air will be larger at Reagan than it was before the merger," Horton told CNBC.

CNBC's Phil LeBeau contributed to this report.