

GAO Highlights

Highlights of [GAO-13-403T](#), a testimony before the Subcommittee on Aviation Operations, Safety, and Security, Committee on Commerce, Science, and Transportation, U.S. Senate

Why GAO Did This Study

In February 2013, American and US Airways announced plans to merge the two airlines and entered into a merger agreement. Valued at \$11 billion, the merged airline would retain the American name and be headquartered in Dallas-Fort Worth. This follows the mergers of United Airlines and Continental Airlines in 2010 and the acquisition of Northwest Airlines by Delta Air Lines (Delta) in 2008. This latest merger, if not challenged by DOJ, would surpass these prior mergers in scope to create the largest passenger airline in the United States. The passenger airline industry has struggled financially over the last decade and these two airlines believe a merger will strengthen them. However, as with any merger of this magnitude, this proposal will be examined by DOJ to determine if its potential benefits for consumers outweigh the potential negative effects.

This testimony focuses on (1) the role of federal authorities in reviewing merger proposals, (2) key factors motivating airline mergers in recent years, and (3) the implications of merging American and US Airways. To address these objectives, GAO drew from its previous reports on the potential effects of prior airline mergers and the financial condition of the airline industry issued from July 2008 through May 2010. GAO also analyzed DOT's airline operating and financial data, airline financial documents, and airline schedule information since 2002.

View [GAO-13-403T](#). For more information, contact Dr. Gerald Dillingham at (202) 512-2834 or dillinghamg@gao.gov.

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AIRLINE MERGERS

Issues Raised by the Proposed Merger of American Airlines and US Airways

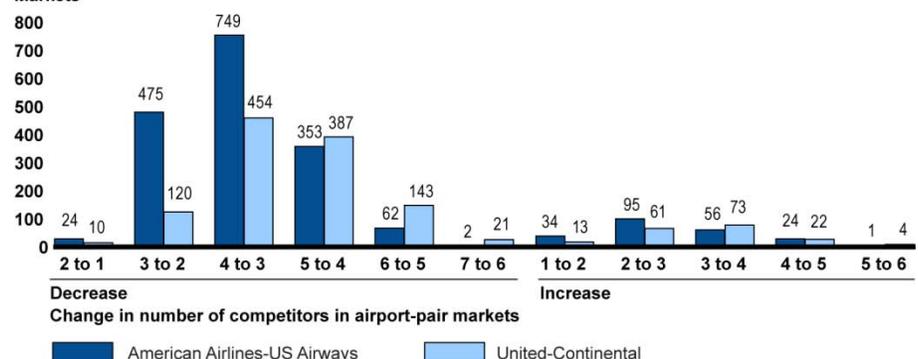
What GAO Found

The Department of Justice's (DOJ) antitrust review will be a critical step in the proposed merger between American Airlines (American) and US Airways. DOJ uses an integrated analytical framework set forth in the *Horizontal Merger Guidelines* to determine whether the merger poses any antitrust concerns. Under that process, DOJ assesses, among other things, the extent of likely anticompetitive effects of the proposed merger in the relevant markets, in this case, airline city-pair markets, and the likelihood that other airlines may enter these markets and counteract any anticompetitive effects, such as higher fares. DOJ also considers efficiencies that a merger or acquisition could bring—for example, consumer benefits from an expanded route network. The Department of Transportation (DOT) aids DOJ's analysis.

Airlines seek mergers to reduce costs and improve revenues. GAO has previously reported that mergers can result in increased revenues by offering improved network connections and schedules, but also through higher fares on some routes. Cost savings can be generated by eliminating redundancies and operational efficiencies, including reducing service, but can be muted by problems in combining different aircraft, technologies, and labor forces. In the case of US Airways and American, they estimate that a merger would yield \$1.4 billion in annual benefits from increased revenues and reduced costs.

If not challenged by DOJ, the merged American would surpass United to become the largest U.S. passenger airline by several measures. While US Airways and American overlap on only 12 nonstop routes, no other nonstop competitors exist on 7 of those 12. Our analysis of 2011 and 2012 ticket data also showed that combining these airlines would result in a loss of one effective competitor (defined as having at least 5 percent of total airport-pair traffic) in 1,665 airport-pair markets affecting more than 53 million passengers while creating a new effective competitor in 210 airport-pairs affecting 17.5 million passengers. However, the great majority of these markets also have other effective competitors.

Change in Effective Competition from American-US Airways Combination (2012)
Markets



Source: GAO analysis of DOT Origin & Destination (OD1B) ticket data.