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AIRLINE DEREGULATION

Changes in Airfares and Service at Buffalo, New York

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Mr. Chairman and Members of the Subcommittee:

Over two decades have passed since the Congress phased out the federal government's control over airfares and service, relying instead on competitive market forces to decide the price, quantity, and quality of domestic air service. Last March, we issued a report on the changes in airfares and service quality since deregulation.[1] Our testimony today is based on information that we developed for that report and specifically addresses the changes in airfares and service quality at Buffalo Niagara International Airport (Buffalo), which serves the western portion of New York State. In summary, we found the following:

- Most communities in the United States, including Buffalo, have benefited from a decrease in average airfares since 1990; average airfares for passengers traveling to and from Buffalo are lower today than they were in 1990. Those average airfares, however, are higher than they were in 1994, particularly for travel to or from cities within 750 miles of Buffalo. By 1998, overall average airfares to and from Buffalo were 27 percent higher than those for comparably sized communities and nearly 29 percent higher than the nation as a whole.[2]
- Since deregulation, the overall quality of air service, as measured by various quantitative (i.e., number of scheduled departures) and qualitative (i.e., availability of jet service) factors has decreased for Buffalo. For example, from 1978 through 1998, scheduled departures at Buffalo decreased by 11 percent while those at comparably sized communities increased by 83 percent.

Overall Changes in Airfares and Service Since Deregulation

Over the years, our work has consistently shown that airline deregulation has led to lower fares and better service for most air travelers. This is largely due to increased competition spurred by the entry of new airlines into the industry and established airlines into new markets. However, the benefits of deregulation have been uneven, and "pockets of pain" exist—especially in small and medium-sized communities in the East and upper Midwest.

[1]Airline Deregulation: Changes in Airfares, Service Quality, and Barriers to Entry (GAO/RCED-99-92, Mar. 4, 1999).

[2]In our analysis of U.S. national airfares, we excluded communities in Alaska, Hawaii, Puerto Rico, and the Virgin Islands because their travel is often for very short distances (between islands), very long distances (between Alaska or Hawaii and the contiguous states), or may take the place of ground transportation (between cities in Alaska).

A combination of factors has limited competition at these airports and adversely affected fares and service. These factors include slower economic growth and the dominance of routes to and from these airports by one or two traditional hub-and-spoke airlines. In addition, restrictive gate leases, slot controls, and perimeter rules continue to block entry at key airports in the East and upper Midwest. As a result, it is extremely difficult for other airlines to gain competitive access to these airports. These operating barriers, combined with certain marketing strategies by established airlines—such as frequent flyer plans—have deterred entry by new airlines and fortified established airlines' dominance at these airports.

Last March, we reported on trends in airfares and the quality of air service since deregulation for airports serving comparably sized communities.[3] To determine how fares have changed, we analyzed data on airfares to and from 171 airports submitted by the airlines to the Department of Transportation (DOT) from 1990 to 1998.[4] Our findings were similar to those we reported in 1996—fares adjusted for inflation were lower in 1998 than they were in 1990.[5] During this period, average airfares decreased at 168 of the 171 airports we examined, with airports serving larger communities tending to experience greater decreases than smaller ones. Because significant changes could have occurred over this span of nearly 9 years, we also examined airfare changes from 1990 through 1993 and then from 1994 through the second quarter of 1998. For this latter period, we found that although average airfares decreased for passengers flying to or from most airports, they increased for passengers traveling to and from 39 airports. Passengers making short trips to or from airports serving larger communities were most likely to experience these increases. Although we were able to associate declines in average airfares with the introduction of competing service from low-fare carriers, we were unable to account for

[3]We analyzed data for 171 airports: 42 serving small communities, 42 serving medium-sized communities, 42 serving medium-large communities, and 45 serving large communities. Small communities were those in a metropolitan statistical area with a population of up to 300,000, medium-sized communities were those in an area with a population of 300,001 to 600,000, medium-large communities were those in an area with a population of 600,001 to 1.5 million, and large communities were in an area with a population of more than 1.5 million. Buffalo is a medium-large community.

[4]Data from the second quarter of 1998 were the most current available at the time of our work. Throughout the remainder of this testimony, references to 1998 airfares should be interpreted as those for the latest four quarters of airfare data available, beginning with the third quarter of 1997 and ending with the second quarter of 1998. We measured changes in airfares using data reported by the airlines on revenue yields per fared passenger mile. Thus, we excluded from our calculations passengers flying on free tickets. Throughout this testimony, we use the term airfare instead of yield. Additionally, all data in the testimony referring to average airfares, except as noted, have been deflated into dollars reflecting those for the last four quarters.

[5]See list of related GAO products at the end of this statement.

all of the factors that can contribute to differences in airfares to and from airports.

We also reported in March 1999 that the overall quality of air service had generally improved for most communities since 1978, although larger communities were more likely to benefit from these improvements than smaller ones. Assessing trends in the overall quality of air service is difficult because many factors contribute to the quality of service. Such an assessment requires, among other things, a subjective weighting of the relative importance of each measure that is generally considered a dimension of quality. In assessing the overall quality of air service received by communities in each of the size categories included in our study, we used four commonly accepted measures, including the number of (1) departures, (2) available seats, (3) destinations served by nonstop and one-stop flights, and (4) jet departures compared with the number of turboprop departures. Nonstop service is generally considered preferable to flights requiring a stop, and jet aircraft are favored over turboprop aircraft.

Average Airfares to Buffalo Have Not Decreased as Much as Those of Other U.S. Communities

As indicated in our recent report, decreases in airfares at Buffalo have not kept pace with those for the nation as a whole, or for those at comparably sized communities. From 1990 to 1998, for the 171 airports in our review, overall average airfares decreased about 21 percent, while average airfares for medium-large community airports, overall, decreased by more than 22 percent.[6] However, during the same time period, the decrease in average airfares at Buffalo was more modest—about 8 percent.[7] In addition, airfares at Buffalo have risen over the past few years, particularly in flights to and from nearby markets.

Total passenger traffic to and from Buffalo has remained relatively constant over the past 20 years. According to data from the Federal Aviation Administration, about 3 million passengers flew to and from

[6]Because the number of passengers traveling on routes can change over time, examining fares at two different times could reflect differences in the number of travelers going to various destinations rather than fare changes. Therefore, as with our prior reports, we held the distribution of passengers across distance categories constant at the level found with the latest four quarters ending with the second quarter of 1998.

[7]Of the airports that serve New York and are included as part of our review, none experienced a marked decrease in its average airfares commensurate with the national average. Two airports serving New York City, John F. Kennedy International and Newark Airport (N.J.), experienced the greatest declines in overall average airfares—decreases of 16.4 and 18 percent respectively—while the airport serving White Plains experienced the smallest decrease—1.8 percent. (See app. I for a summary of changes in airfares for other locations in New York State.)

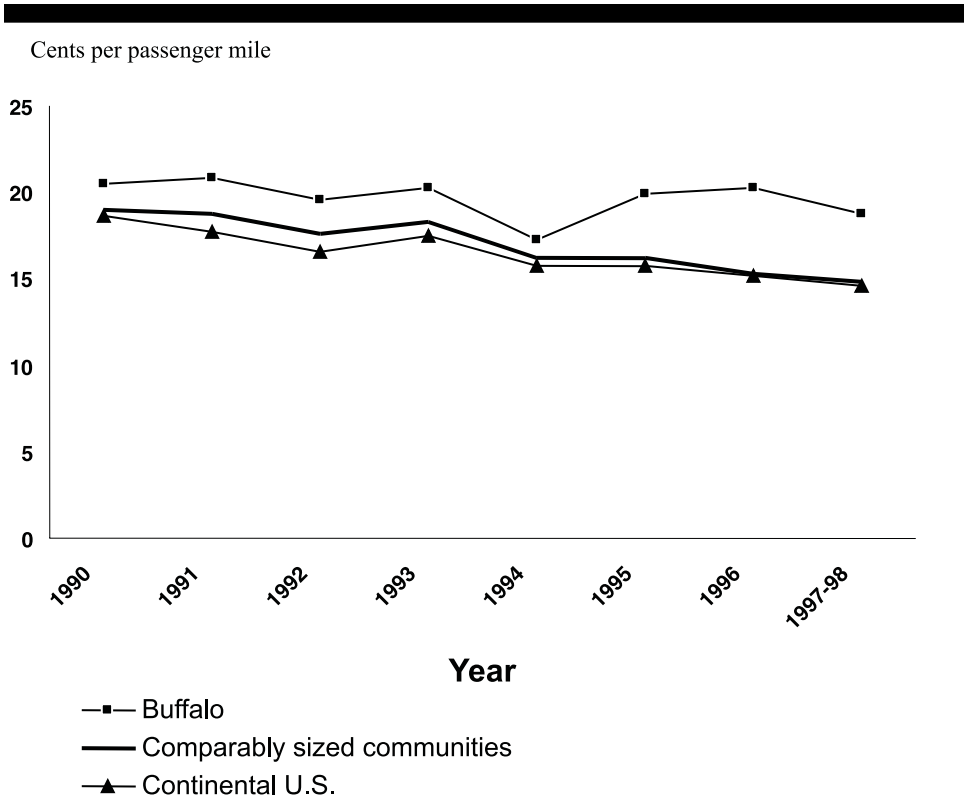
Buffalo in 1976. More than 20 years later, the number of passengers who flew to or from Buffalo was approximately 3.1 million. For the United States as a whole, however, domestic passenger traffic more than doubled over roughly the same time period.

Airfares to Buffalo Are High Relative to Comparably Sized Communities and National Averages

Throughout the 1990s, airfares to and from Buffalo have been higher than the average airfares of comparably sized communities and the national average.[8] (See fig. 1.) In 1990, Buffalo's overall average airfares—about 20.4 cents per mile—were around 8 percent higher than average airfares at comparably sized communities and almost 10 percent higher than the national average. By 1998, although Buffalo's overall average airfares declined to 18.8 cents per mile, that fare was more than 27 percent higher than those at comparably sized communities and nearly 29 percent higher than the national average.

[8]Average airfares for passengers flying to or from Buffalo are expected to be somewhat higher than the overall national average because many Buffalo trips tend to be relatively short. Short trips generally have higher costs per mile than longer trips, thus accounting for some of the difference against the national average.

Figure 1: Changes in Overall Average Airfares at Buffalo, Comparably Sized Communities, and the Continental United States

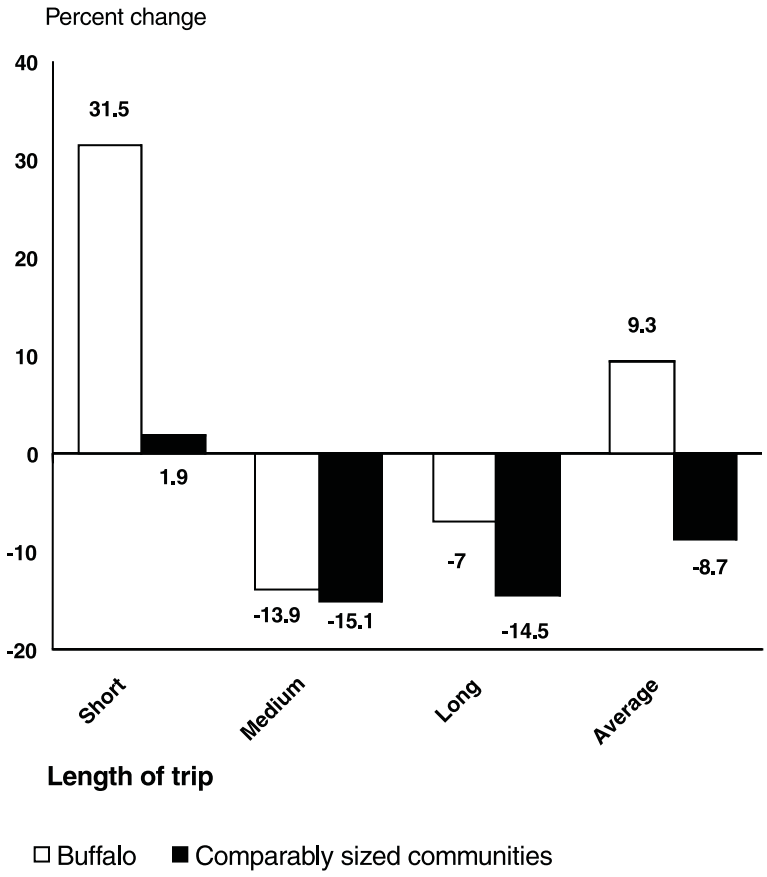


Source: GAO's analysis of information from Data Base Products, Inc.

While Buffalo's overall average airfare was lower in 1998 than it was in 1990, it has increased since 1994. This increase is attributable to the growth in average airfares for short trips, which rose by 31.5 percent.[9] This increase is of concern for Buffalo travelers because several of Buffalo's most important markets are within that distance. In contrast, since 1994, overall average airfares for short trips for comparably sized communities increased by only 1.9 percent. Buffalo did benefit from a decline in average airfares for medium and long trips—a decline of 13.9 and 7 percent, respectively. These declines were roughly the same as those in comparably sized cities. Figure 2 shows the percent change in average airfares for Buffalo and other comparably sized cities for 1994 to 1998.

[9]For our analysis, we defined short trips as being equal to or less than 750 miles, medium-length trips as being between 751 and 2,000 miles, and long trips as being 2,001 miles or more.

Figure 2: Percent Change in Average Airfares for Buffalo and Comparably Sized Communities, by Length of Trip, 1994 through 1998



Source: GAO's analysis of data from Data Base Products, Inc.

Competition in the Buffalo Market Is Limited

Average airfares paid for short trips to and from Buffalo have become relatively expensive compared to other communities. Several of Buffalo's most important markets—those with the greatest passenger volume—are a relatively short distance from Buffalo. In 1998, these markets included New York City, Atlanta, Chicago, Boston, and Washington, D.C. Of those, since 1994, only fares between Buffalo and Atlanta have fallen. We believe that the presence of low-cost competition from AirTran in the Buffalo-Atlanta market was primarily responsible for this drop in average fares. On the other hand, the other short-haul markets important to

Buffalo lacked low-cost competition and were essentially dominated by a single airline.

We examined changes in passenger traffic and airfares for Buffalo's 10 largest markets. From 1994 through 1998, the total overall number of passengers for these markets decreased by 14 percent. By 1998, the passenger volume on 5 of Buffalo's top 10 routes had decreased while the passenger volume on the others had increased or stayed about the same. The Buffalo-New York City market, with a loss of about 270,000 passengers (35 percent), had the largest decrease in passenger volume.[10] In contrast, the Buffalo-Orlando market, with a gain of 100,000 passengers (107 percent), had the largest increase in passenger volume.

Where competition—especially from low-cost airlines—was present, fares generally declined while passenger volume increased. Between 1994 and 1998, average airfares dropped and passenger volume rose for travel between Buffalo and Atlanta, Tampa, and Orlando. For example, after AirTran began service between Buffalo and Atlanta in 1998, average one-way fares fell from $159 in the second quarter of 1997 to $105 in the second quarter of 1998, a decrease of about 34 percent.[11] Similarly, for service between Buffalo and Orlando, average fares fell from about $114 in mid-1994 to about $92 in mid-1998, a decrease of about 19 percent.

In contrast, when the level of competition remained the same or decreased, passengers did not benefit from a reduction in airfares. For example, Buffalo travelers used to have two choices for flights to and from Newark Airport (NJ), an important airport linking Buffalo to the New York City market. In the second quarter of 1994, Continental carried 78,410 passengers (61 percent of the market) and US Airways carried 49,610 passengers (38 percent of the market), each for an average fare of about $58. By the second quarter of 1995, however, US Airways had dropped its

[10]Most travelers flying between Buffalo and New York City used Newark International Airport (NJ) or LaGuardia Airport (NY). Seven percent or fewer of these passengers used John F. Kennedy International Airport and those that did generally connected with overseas flights. The Buffalo-New York City market's loss of 270,000 passengers mainly reflects a decline in passengers using Newark airport. In 1998, 42 percent of passengers used Newark but in 1994 this percentage was 61 percent. The number of passengers flying between Buffalo and LaGuardia in 1994 and 1998 stayed about the same.

[11]The one-way fares cited in this and the following paragraph are based on the cost of a roundtrip ticket and are stated in nominal dollars.

service and Continental had dropped its low-fare operations.[12] Average one-way fares between Buffalo and New York (Newark) then rose to $114, an increase of 97 percent. Similarly, for travel between Buffalo and Albany, fares increased after one carrier dominated the market. Between mid-1994 and mid-1998, average one-way fares doubled from $99 to $198. Table 1 summarizes the changes in Buffalo's 10 largest markets between 1994 and 1998.

Table 1: Changes in Buffalo's 10 Largest Air Service Markets, 1994 Through 1998

1994		1998	
Market	**Passengers**	**Market**	**Passengers**
New York City	759,660	New York City	493,080
Chicago	159,090	Orlando[a]	189,370
Boston	139,840	Atlanta[a]	135,650
Washington, D.C.	115,040	Chicago	114,610
Atlanta	106,550	Boston	108,770
Orlando	91,380	Washington, D.C.	94,100
Phoenix	79,390	Las Vegas	87,720
Tampa	75,850	Tampa[a]	86,670
Albany	63,630	Phoenix	81,010
Los Angeles	57,510	Los Angeles	73,340
Total	1,647,940	Total	1,464,320

[a]AirTran, a low-cost competitor, competed in the market in 1998.

Source: GAO's analysis of data from Data Base Products, Inc.

Overall Quality of Buffalo Air Service Has Generally Decreased

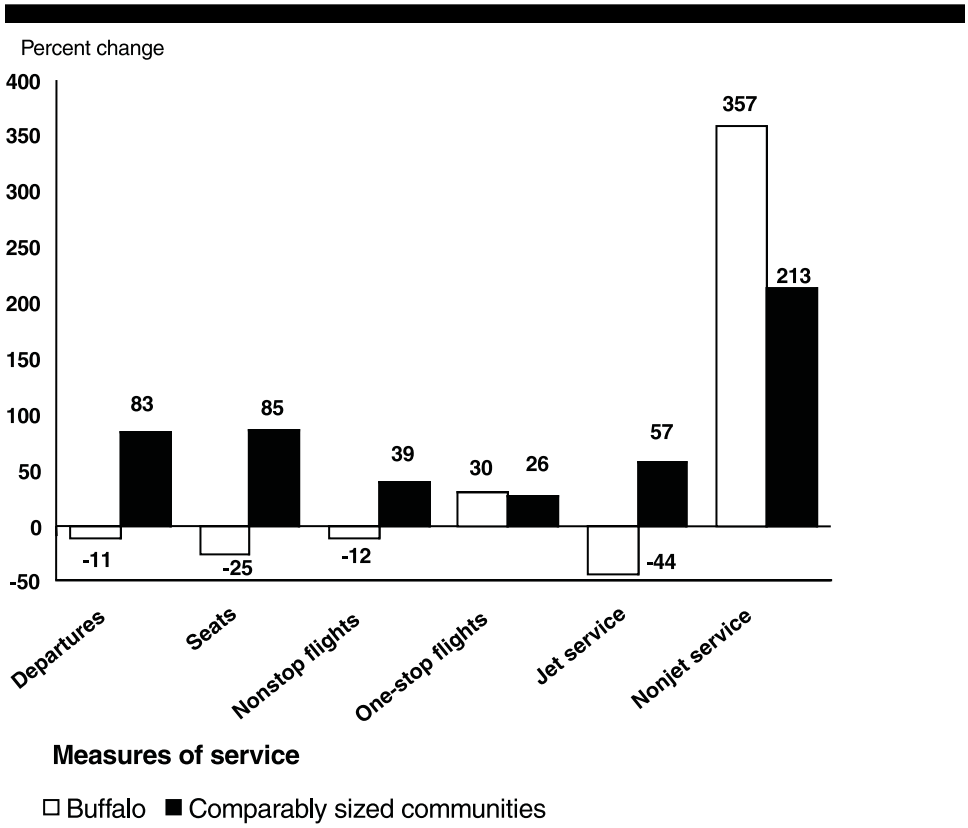
Although our previous review found that airports serving medium-large communities were more likely than smaller communities to benefit from an overall increase in the quality of air service, the airport serving Buffalo generally experienced declining service.

First, our review of air service showed that the number of airline departures has decreased at Buffalo. This decrease is more consistent with service trends we found at smaller communities. From 1978 through 1998, at Buffalo, scheduled departures decreased by 11 percent, available seats

[12]In late 1993, Continental Airlines targeted the Buffalo market by introducing "Peanut Fares," fares that dramatically reduced the cost of flying to several destinations, including Newark Airport. For example, Continental's average fare to Newark Airport dropped from $119 in the second quarter of 1993 to $59 in the second quarter of 1994. As a result, Continental's passenger volume for this route more than doubled. However, this low-fare operation proved unprofitable and Continental ended it by early 1995.

decreased by 25 percent, nonstop flights decreased by 12 percent, and jet service decreased by 44 percent. On the other hand, during the same time period, Buffalo had more destinations served by one-stop flights, and its nonjet service increased. Figure 3 compares the difference in the quality of air service between Buffalo and other airports serving comparably sized communities from 1978 through 1998.[13]

Figure 3: Percent Change in Measures of Air Service Quality at Buffalo and Other Airports Serving Comparably Sized Communities, 1978 through 1998



Source: GAO's analysis of airline schedule information provided by the Department of Transportation.

Because a variety of factors have contributed to the fare and service problems that communities, like Buffalo, have experienced since

[13]All statistics referring to departures in this testimony are based on the number of scheduled nonstop flights from each airport.

deregulation, no single action will solve those problems. Instead, potential solutions will require a careful balancing of federal involvement and regional, local, and private sector initiatives. For instance, the National Research Council of the National Academy of Sciences, in its recently released report on the effects of deregulation on airline competition in the United States, made a number of recommendations and suggestions on how airline competition could be preserved and promoted.[14] When describing the difficulties of some communities in retaining quality air service, the study suggested, as we have reported in the past, that regional jets may be a potential solution. The more frequent use of regional jets in place of turboprop aircraft could provide benefits to both air carriers and communities typically served by turboprop aircraft. These jets generally seat between 35 and 70 passengers and are more popular than turboprop aircraft because of their added speed and comfort. In addition, air carriers may be able to benefit from lower seat-mile costs when serving small and medium-sized communities.

Mr. Chairman, this concludes our prepared statement. We would be glad to respond to any questions.

Contact and Acknowledgement

For future contacts regarding this testimony, please contact Mr. John H. Anderson, Jr. at (202) 512-2834. Individuals making key contributions to this testimony included Mr. Steven Martin and Ms. Sonja Bensen.

[14]Entry and Competition in the U.S. Airline Industry: Issues and Opportunities, Special Report 255, Transportation Research Board, National Research Council (July 1999). This report, at the request of the Congress, updated the Council's 1991 study of airline deregulation.

For Airports Serving New York Communities, Percent Change in Average Airfares Per Passenger Mile, by Size of Community and by Length of Trip, 1990-1998

		Percent change in average airfares		
Community	**Length of trip**	**1990-98**	**1990-93**	**1994-98**
Small-community airport				
Binghamton	Short	–20.1	–14.0	2.2
	Medium	–19.1	–8.6	–4.1
	Long	–4.7	–11.1	13.8
	Overall	–10.7	–8.7	2.3
Elmira/Corning	Short	–10.2	7.3	–9.5
	Medium	–11.1	4.8	–10.4
	Long	–2.1	–11.1	4.1
	Overall	–3.0	4.2	–5.6
Medium-sized-community airports				
Newburgh	Short	–6.9	9.9	4.3
	Medium	–13.7	11.5	–9.1
	Long	–14.9	–1.7	–4.4
	Overall	–12.4	5.8	–4.1
Medium-large-community airports				
Albany	Short	–9.7	–6.2	18.7
	Medium	–6.4	10.7	–5.2
	Long	–6.8	–3.7	0.5
	Overall	–3.2	4.0	4.7
Buffalo	Short	–9.3	–9.1	31.5
	Medium	–12.3	11.6	–13.9
	Long	–9.5	–3.4	–7.0
	Overall	–8.0	–1.1	9.3
Rochester	Short	–12.8	–1.5	17.6
	Medium	–5.9	8.2	–4.4
	Long	–5.4	–5.1	5.9
	Overall	–7.5	1.7	7.6
Syracuse	Short	–15.9	–7.2	0.6
	Medium	–20.0	–5.5	–14.6
	Long	–17.0	–11.7	–6.4
	Overall	–14.4	–5.3	–6.4
Large-community airports				
Islip	Short	–12.4	–8.9	18.8
	Medium	–13.3	1.5	0.5
	Long	–4.4	0.4	–1.0
	Overall	–11.4	–0.3	3.0
Kennedy	Short	–33.5	–15.5	–2.3
	Medium	–19.0	–0.8	–6.6
	Long	–14.6	–5.9	–5.2
	Overall	–16.4	–5.4	–5.2
Newark (NJ)	Short	–29.8	–25.7	25.9
	Medium	–18.1	–3.5	–3.8
	Long	–8.2	–4.6	2.8
	Overall	–18.0	–11.0	7.4

(continued)

		Percent change in average airfares		
Community	**Length of trip**	**1990-98**	**1990-93**	**1994-98**
LaGuardia	Short	–10.2	–11.6	25.5
	Medium	–8.3	6.1	–3.5
	Long	5.0	2.6	7.0
	Overall	–7.6	–1.8	7.7
White Plains	Short	–14.9	–15.6	4.9
	Medium	2.4	–2.6	19.0
	Long	5.9	–6.2	14.1
	Overall	–1.8	–6.7	10.5

Source: GAO's analysis of data from Data Base Products, Inc.

Related GAO Products

Airline Deregulation: Changes in Airfares, Service Quality, and Barriers to Entry (GAO/RCED-99-92, Mar. 4, 1999).

Aviation Competition: Effects on Consumers From Domestic Airline Alliances Vary (GAO/RCED-99-37, Jan. 15, 1999).

Aviation Competition: Proposed Domestic Airline Alliances Raise Serious Issues (GAO/T-RCED-98-215, June 4, 1998).

Domestic Aviation: Service Problems and Limited Competition Continue in Some Markets (GAO/T-RCED-98-176, Apr. 23, 1998).

Aviation Competition: International Aviation Alliances and the Influence of Airline Marketing Practices (GAO/T-RCED-98-131, Mar. 19. 1998).

Airline Competition: Barriers to Entry Continue in Some Domestic Markets (GAO/T-RCED-98-112, Mar. 5, 1998).

Domestic Aviation: Barriers Continue to Limit Competition (GAO/T-RCED-98-32, Oct. 28, 1997).

Airline Deregulation: Addressing the Air Service Problems of Some Communities (GAO/T-RCED-97-187, June 25, 1997).

International Aviation: Competition Issues in the U.S.-U.K. Market (GAO/T-RCED-97-103, June 4, 1997).

Domestic Aviation: Barriers to Entry Continue to Limit Benefits of Airline Deregulation (GAO/T-RCED-97-120, May 13, 1997).

Airline Deregulation: Barriers to Entry Continue to Limit Competition in Several Key Domestic Markets (GAO/RCED-97-4, Oct. 18, 1996).

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Airline Competition: Higher Fares and Less Competition Continue at Concentrated Airports (GAO/RCED-93-171, July 15, 1993).

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Airline Competition: Higher Fares and Reduced Competition at Concentrated Airports (GAO/RCED-90-102, July 11, 1990).

Airline Deregulation: Barriers to Competition in the Airline Industry (GAO/T-RCED-89-65, Sept. 20, 1989).

Airline Competition: Fare and Service Changes at St. Louis Since the TWA-Ozark Merger (GAO/RCED-88-217BR, Sept. 21, 1988).

Competition in the Airline Computerized Reservation Systems (GAO/T-RCED-88-62, Sept. 14, 1988).

Airline Competition: Impact of Computerized Reservation Systems (GAO/RCED-86-74, May 9, 1986).

Airline Takeoff and Landing Slots: Department of Transportation's Slot Allocation Rule (GAO/RCED-86-92, Jan. 31, 1986).

Deregulation: Increased Competition Is Making Airlines More Efficient and Responsive to Consumers (GAO/RCED-86-26, Nov. 6, 1985).

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