COMMENTS IN RESPONSE TO THE JOINT REQUEST FOR INFORMATION ON COMPETITION IN AIR TRANSPORTION, BY THE DEPARTMENTS OF JUSTICE AND TRANSPORTATION

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January 3, 2025

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I. EXECUTIVE SUMMARY

By all factual and data-driven accounts, the U.S. airline industry is highly competitive. But there are concerns held by assorted audiences and to varying degrees that the U.S. airline industry suffers from a competitive problem that has deprived consumers and, in turn, the broader U.S. economy, of the benefits of a vibrant and competitive industry. Critiques of the U.S. airline industry are grounded in the mistaken belief or assumption that the period of industry consolidation beginning earlier this century has harmed consumers by reducing consumer choice, degrading the quality of service, increasing fees, and raising fares.[2] Industry critics have also incorrectly alleged that a less competitive industry creates worse outcomes for airline employees[3] and has emboldened airlines to engage in certain business practices that reflect exclusionary or deceptive behavior, specifically regarding (i) the growth of ancillary fees; (ii) transparency in the marketing and sale (distribution) of air travel tickets, particularly with regarding to fees; and (iii) airline rewards programs.

The concern that the U.S. airline industry is injuring consumer welfare and the welfare of other airline stakeholders like labor pervades this joint Request for Information from the Departments of Justice and Transportation. This comment seeks to assuage concerns about the state of the U.S. airline industry with data-driven analysis organized around three principal conclusions:

(1) **The U.S. airline industry is intensely competitive *notwithstanding consolidation***. The industry today offers enormous and enduring consumer benefits in the form of greater choice in air travel, increased service and enhanced convenience in travel both domestically and abroad, and lower fares—with greater access to lower fares—than at any other point in history. In fact, there is a plethora of evidence showing that consolidation has *enhanced*

[2] For example, Senator Elizabeth Warren has characterized the industry as being in "competitiveness free fall" as a result of "airline mega-mergers" and has urged the Department of Transportation to address consolidation in the airline industry. *See* Letter from Senator Elizabeth Warren to Secretary Pete Buttigieg, September 15, 2022.

[3] *See* "FACT SHEET: Executive Order on Promoting Competition in the American Economy," *The White House Briefing Room*, July 9, 2021 ("Barriers to competition are also driving down wages for workers. When there are only a few employers in town, workers have less opportunity to bargain for a higher wage and to demand dignity and respect in the workplace."); *see also* Joint Letter from Senators Warren, Sanders, and Luján and Representatives Jones, Porter, Schakowsky, Ocasio-Cortez, and Tlaib to Secretaries Kanter and Buttigieg, March 9, 2022 ("…historically, airline mergers have led to job losses … [t]here is always, always fallout on the labor side. Always.").

competition by creating more expansive networks and enabling growth, thereby increasing the number of city-pairs on which carriers compete.

(2) **The industry's modest profitability over the last 15 years—facilitated by consolidation—has enabled U.S. airlines to reinvest in their labor forces and high-quality American jobs.** Airline employees are a primary beneficiary of a profitable U.S. airline industry, where airlines have invested in their workforces via job creation and increased spending per capita. The high-quality nature of airline jobs is highlighted by significant earnings growth opportunity and extraordinary benefits. Labor is the single largest expense category for any U.S. passenger airline and is a cost pressure that, together with intense competition, has kept and will continue to keep airline profit margins low relative to other industries.

(3) **Concerns over airlines' ancillary fees, distribution practices, and rewards programs are misguided.** Ancillary fees are badly misunderstood and frequently denigrated as "junk fees," as exemplified most recently in the November 2024 Majority Report from the Senate Permanent Subcommittee on Investigations.[4] Contrary to that report's findings, ancillary fees on average *lower* fares, are truly optional, and—given historically low base fares—are a critical source of revenue for airlines to break even (let alone achieve modest profit). Moreover, robust industry competition incentivizes airlines to distribute their products broadly and with full transparency. Airlines' ability to maintain control over their content in indirect channels of distribution is good for consumers, and comparison shopping for air travel today is straightforward and convenient. Separately, airline rewards programs are a popular dimension of service on which airlines vigorously compete, unlocking highly valued—and heavily utilized—travel benefits made even more accessible by credit card partnerships.

The remainder of this comment is organized as follows: Section II summarizes the four primary competing business models in today's U.S. passenger airline industry, with a brief subsection upfront that focuses on the key dimensions separating the business models and highlighting several key datapoints related to competition between the business models, followed by a longer subsection delving into the history and detail of each business model. Next, Section III examines the events leading up to the most recent phase of consolidation in the U.S. airline industry that began in the mid-2000s and the beneficial impact of consolidation on consumers, including increased access to and choice in travel both domestically and internationally at increasingly lower fares and with better overall products and services. Section III also describes how consolidation helped to lay the groundwork for modest profitability periods over the last 15 years, during which

[4] *See* "The Sky's the Limit: the Rise of Junk Fees in American Travel," *Permanent Subcommittee on Investigations Majority Report*, November 26, 2024.

carriers of all types reinvested in and enhanced their products and services. This concept extends to Section IV, which discusses how modest industry profitability, facilitated by consolidation, has enabled U.S. airlines to reinvest billions in their employees and cultivate high-quality jobs. Section V pivots to discuss ancillary fees, airline distribution practices, and rewards programs and explains why there is no basis to refer to ancillary fees as "junk fees," and why both distribution practices and rewards programs aim to enhance the airline's value proposition with consumers in order to compete more effectively. Finally, a brief summary conclusion follows in Section VI.

II. OVERVIEW AND EVOLUTION OF COMPETING BUSINESS MODELS IN THE U.S. PASSENGER AIRLINE INDUSTRY

This Section describes the four primary competing business models in today's U.S. passenger airline industry. Subsection A provides an overview of the four business models, focusing on the key dimensions that separate them. This section also reiterates several key industry datapoints related to competition among these business models as a preface to subsection B below, which provides more detail on the characteristics of each business model and context on when and how each emerged following passage of the Airline Deregulation Act of 1978 (*i.e.*, industry deregulation).

A. Consumers Today Can Choose Between More Types of Competing Airline Business Models Than Ever Before, Notwithstanding Consolidation

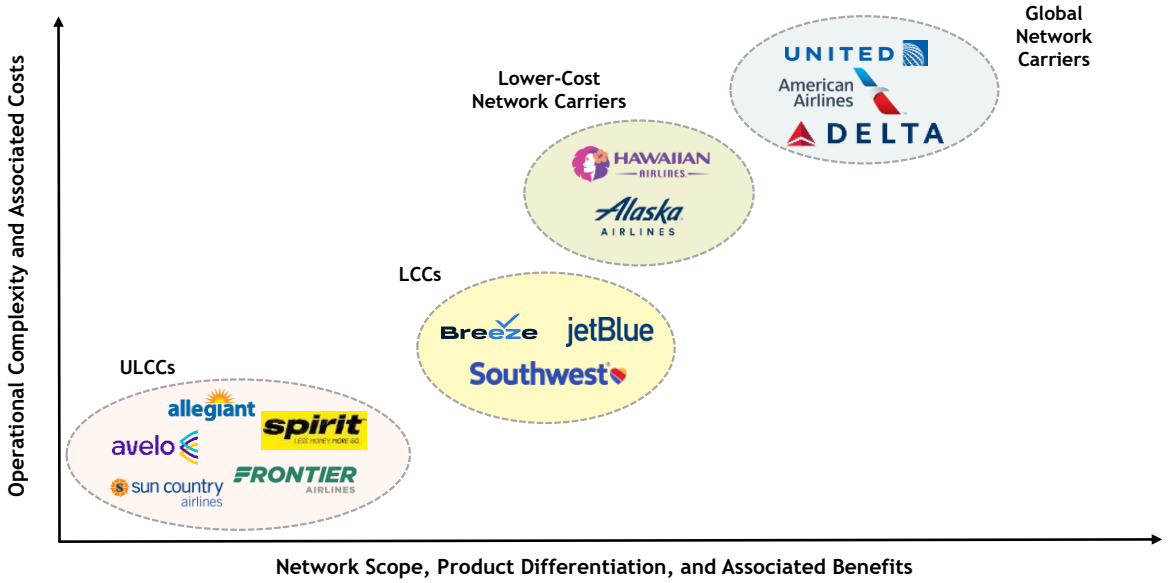
Among the 13 largest "mainline"[5] U.S. passenger airlines operating today, there are four distinct airline business models: (i) Global network carriers ("GNCs"), including American Airlines, Delta Air Lines, and United Airlines; (ii) Lower-cost network carriers, *i.e.*, Alaska Airlines/Hawaiian Airlines; (iii) Low-cost carriers ("LCCs"), including Southwest Airlines, JetBlue Airways and new entrant Breeze Airways;[6] and (iv) Ultra-low-cost carriers ("ULCCs"),

[5] Mainline airlines are carriers that operate and market passenger airline services using large jet aircraft with 80 or more seats that have traditionally been manufactured by Boeing, Airbus, and McDonnell Douglas. Some mainline carriers also contract with regional airlines to operate flights using smaller (*i.e.*, 79-seats or fewer) aircraft, which are typically marketed under the mainline carrier's brand, livery, and two-letter airline marketing code (*e.g.*, "AA," "UA," "DL"). The 13 largest mainline airlines (along with their regional carrier partners operating flights on their behalf) accounted for 99.3% of all scheduled passenger seats in 2024. *Source*: OAG published schedule as of November 7, 2024.

[6] Although new entrant Breeze Airways' Flex Fare category mimics the highly unbundled service offered by ULCCs, the carrier has positioned itself as a more premium leisure-based low cost carrier more akin to JetBlue. *See* "Flight Bundles and Fares," *Breeze Airways*, https://www.flybreeze.com/shopping/en-

including Spirit Airlines, Frontier Airlines, Allegiant Air, and Sun Country Airlines as well as new entrant Avelo Airlines. These business models and the airlines that employ them can be compared along two key sets of dimensions, which are represented in a stylized graphic in Figure 1 below:[7] **network scope and product differentiation** (measured on the horizontal access) and **operational complexity and associated costs** (measure on the vertical axis). In general, as network scope (*i.e.*, the breadth of destinations served domestically and worldwide and the fleet diversity required to service those destinations) and the degree of product differentiation grow—along with the benefits consumers derive from those attributes—so too do the complexity and associated costs of providing service.

FIGURE 1: TAXONOMY OF AIRLINE BUSINESS MODELS



us/flight-bundles, ("Breeze is the first Nice Low Cost Carrier (NLCC). We offer premium upgrades and bundles, each tailored so you get exactly what you want. We aim to provide maximum comfort at price points that you can feel great about… Certain amenities that we offer are comparable to flight classes on other airlines. Our Nicest Bundle, with Breeze Ascent premium legroom, includes seating comparable to a first-class flight on another carrier. The extra legroom offered with the Breeze Nicer Bundle is comparable to mid-tier seating on a flight with other airlines. Our Standard seat available with the Nice Bundle or No Flex Fare is comparable to a standard economy flight.").

[7] Figure 1 is intended to be a *stylized* visualization of how the large U.S. passenger airlines align by business model along these characteristics for discussion purposes. The relative positioning of carriers is not intended to represent in a precise manner their differences in costs, destinations served, etc.

In addition to the 13 carriers shown in Figure 1, there are a number of smaller carriers that operate and market scheduled passenger service exclusively using smaller regional aircraft including Cape Air, Silver Airways, and Contour Airlines.

Before approaching the detail of each business model in Section II.B. and the discussion of consolidation and its impact on consumers in Section III below, there are several key datapoints related to these competing business models to emphasize upfront:

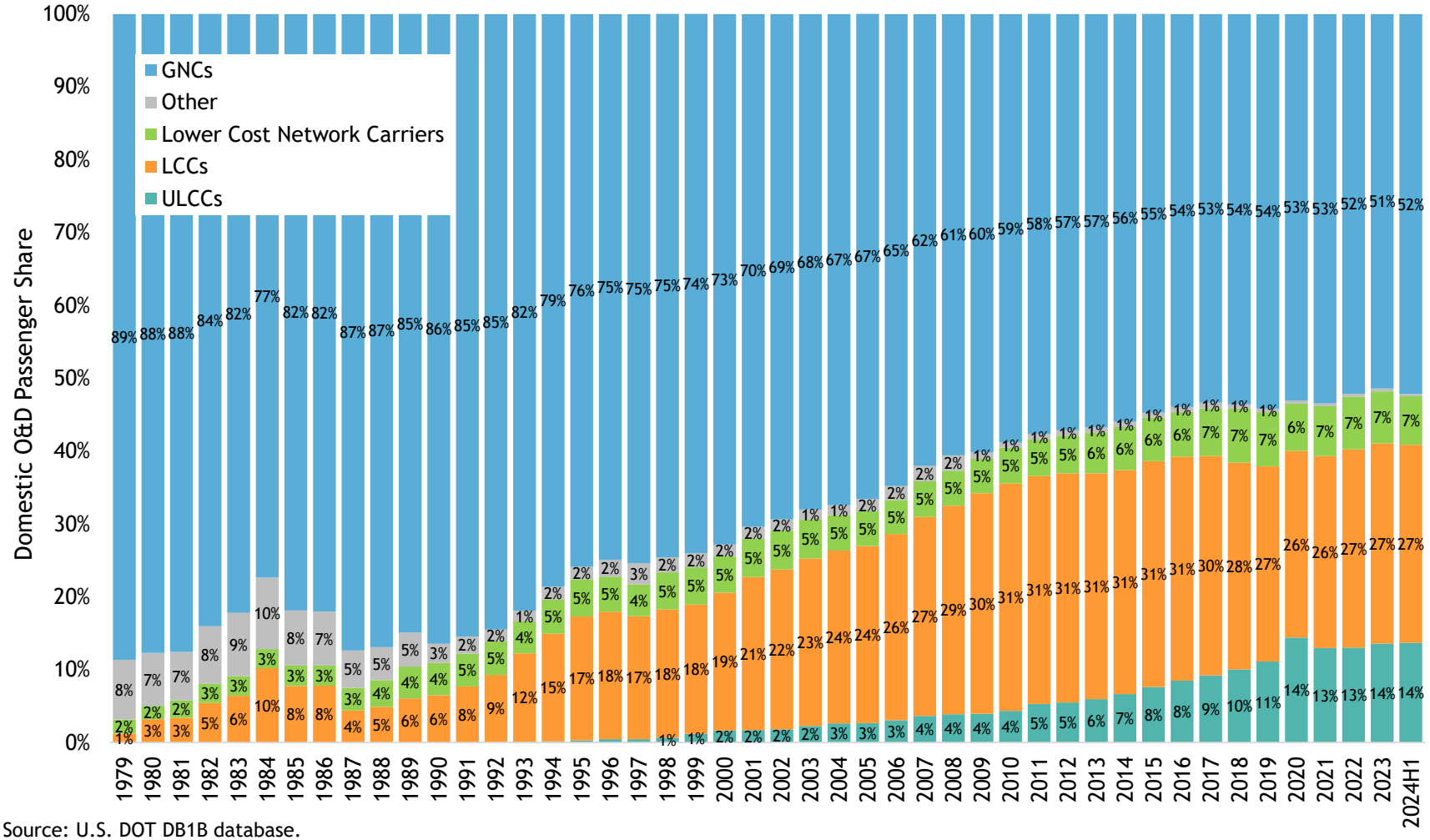
First, over the last three decades, **lower cost carriers[8] have been an engine of growth in the industry and have taken a significant share of passengers away from the GNCs**. As shown in Figure 2 below, GNCs (and their predecessors) held roughly an 85% share of domestic origin and destination ("O&D") passengers in 1990,[9] which has eroded to just over 50% in 2024.[10] In other words, lower cost carriers now carry nearly half of all domestic passengers.

[8] Throughout these comments, we refer to low-cost carriers, ultra-low-cost carriers and lower-cost network carriers collectively as "lower cost carriers."

[9] O&D passengers are counted based on the starting and ending point of their journey, regardless of whether or not they make a connection. For example, a passenger traveling from Boston to San Diego via Dallas-Fort Worth is an O&D passenger between Boston and San Diego, but not Boston and Dallas, or Dallas and San Diego.

[10] *Source*: U.S. DOT DB1B database.

FIGURE 2: SHARE OF DOMESTIC O&D PASSENGERS BY BUSINESS MODEL (1979-2024H1)



Source: U.S. DOT DB1B database.

Notes: GNCs include American, Delta and United as well as predecessor airlines (e.g., US Airways, America West, TWA, Northwest, Continental) and legacy network carriers no longer in existence (e.g., Eastern, Braniff, etc.). ULCCs include Allegiant, Frontier, Spirit, Sun Country, and Avelo. LCCs includes Southwest, Breeze, Reno Air, Midway, Pro Air, Kiwi International, AirTran, Accessair, Independence, Eastwind, National, JetBlue, ValuJet, ATA, Skybus, People Express, Vanguard, Virgin America, Western Pacific, Air South, and Morris Air. Lower Cost Network Carriers includes Alaska, Hawaiian, and Aloha.

Second, more consumers today benefit from the competitive presence of a lower cost carrier than ever before. Today, **90% of all domestic O&D passengers have the option of flying on a lower cost carrier**.[11] Moreover, more than 50% of all domestic O&D passengers have the option of flying on a ULCC, up from 26% just a decade ago.[12] And new lower cost carriers continue to enter the industry (*i.e.*, Breeze and Avelo).

Third, **on average, consumers have more choice in airlines on domestic city-pairs than they did three decades ago**. Together with lower cost carrier growth, the consolidation of complementary airline networks that formed today's GNCs and facilitated their ability to offer competitive connecting service on more city-pairs, expand nonstop service into new markets, and restore growth, has *increased* the average number of competitors on domestic city-pairs over the past three decades, notwithstanding consolidation as follows: 3.2 competitors (1993), 3.3

[11] *Source*: U.S. DOT DB1B database. Figures are based on the percent of passengers traveling on city-pairs where at least one lower cost carrier has at least a 5% share of O&D passengers. This result is not dependent on the 5% share threshold. Indeed, when increasing the threshold to city-pairs where at least one lower cost carrier has at least a 10% share of O&D passengers, lower cost carriers compete for nearly the same proportion (86%) of all domestic O&D passengers. Moreover, approximately half of the 10% of domestic O&D passengers that do *not* currently have access to lower cost carrier options are traveling on routes to/from small communities that can only be economically served using (1) relatively smaller aircraft not used by lower cost carriers, and (2) large hub-and-spoke networks that aggregate traffic flows between these communities and hundreds of destinations.

A city-pair is a standard method of defining a market in the airline industry based on passengers traveling between one city or metropolitan area and another (*e.g.*, Boston–Chicago). *See, e.g.*, "Airline Mergers: Issues Raised by the Proposed Merger of United and Continental Airlines," *Testimony before the Committee on Commerce, Science and Transportation, U.S. Senate, U.S. GAO*, May 27, 2010, at footnote 22 ("It is generally preferable, time permitting, to assess city-pair, rather than airport-pair, changes in competition. Some larger U.S. cities (New York, Chicago, Los Angeles, Washington D.C.) have more than one commercial airport that can compete for passenger traffic"); *see also* Jan Brueckner, Darin Lee, and Ethan Singer, "City-Pairs Versus Airport-Pairs: A Market Definition Methodology for the Airline Industry," *Review of Industrial Organization*, Vol. 44, 2014, 1-25. While many metropolitan areas have only a single airport, the following metropolitan areas in the United States are served by multiple airports: Chicago (MDW, ORD), Cincinnati (CVG, DAY), Cleveland (CAK, CLE), Columbus (CMH, LCK), Dallas (DAL, DFW), Houston (HOU, IAH), Los Angeles (BUR, LAX, LGB), Miami (FLL, MIA), New York (EWR, JFK, LGA), Norfolk (ORF, PHF), Orlando (MCO, SFB), Phoenix (AZA, PHX), San Francisco (OAK, SFO), Seattle (PAE, SEA), Tampa (PIE, TPA), and Washington, D.C. (BWI, DCA, IAD). When referring to cities or city-pairs in these comments we analyze airports in multi-airport cities as a single destination.

[12] *Source*: U.S. DOT DB1B database.

competitors (2000), 3.4 competitors (2007), 3.5 competitors (2019), and 3.5 competitors (2024H1).[13]

These facts, together with the more detailed background below and data-driven discussion about consolidation and its beneficial impact on consumers in Section III, demonstrate that concerns about the anticompetitive effects of industry consolidation are demonstrably misplaced.

B. The Diversity in Airline Business Models Is the Result of More Than Four Decades of Business Model Innovation Following Economic Deregulation in 1978

U.S. travelers have not always enjoyed the variety in airline business models shown in Figure 1 as they do today. On the contrary, until the industry was deregulated in 1978, most consumers could only choose between a number of highly regulated carriers that offered largely indistinguishable service and lacked both the incentive and ability to stimulate demand via entry, service innovation, or price competition.[14] However, this changed with the passage of the Airline Deregulation Act of 1978. This subsection describes how industry deregulation unleashed more than four decades of airline business model innovation and what the defining characteristics of each business model entail.

Global Network Carriers (American, Delta, United)

Today's GNCs are the product of legacy network carriers'[15] need and desire to build ubiquitous global networks, which is a defining characteristic of their business model. At the time of industry deregulation, American, Delta, and United were among 11 legacy network carriers that

[13] *Source*: U.S. DOT DB1B database. A carrier is defined as a competitor on a city-pair if it has at least a 5% share of O&D passengers, and the average number of competitors is weighted across city-pairs by O&D passengers.

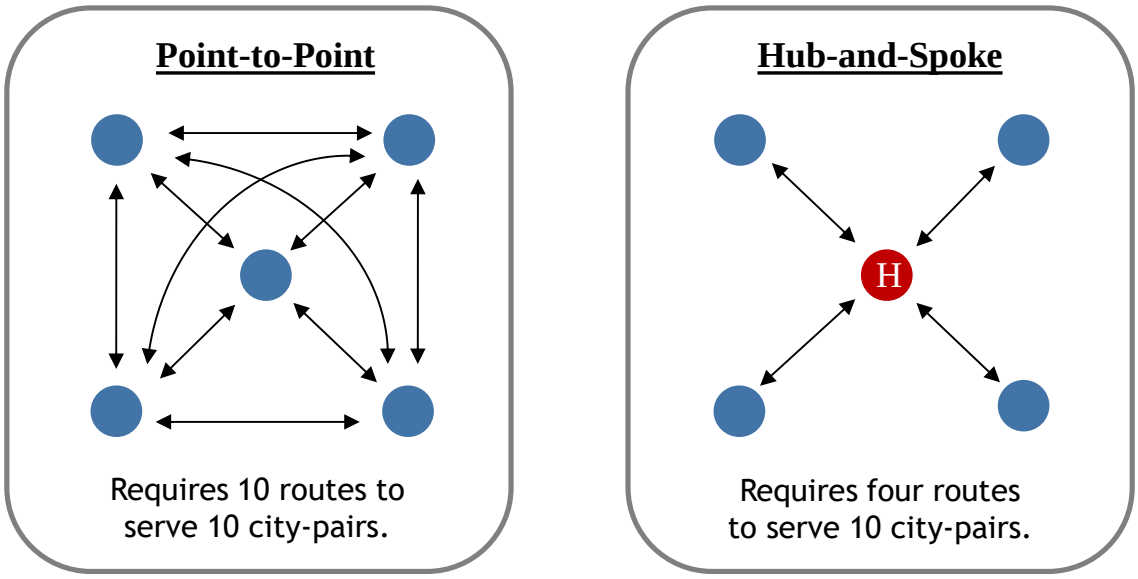
[14] *See* Elizabeth E. Bailey, David R. Graham, and Daniel P. Kaplan, *Deregulating the Airlines*, MIT Press, 1985, pp. 11-12; *see also* Daniel Kasper, *Deregulation and Globalization: Liberalizing International Trade in Air Services*, Cambridge; Ballinger Publishing Co., 1988, pp. 29-33.

[15] The term "legacy network carriers" refers to the 11 pre-deregulation "trunk" carriers that adopted hub-and-spoke networks and attempted to assemble national route networks, which include American, Braniff, Continental, Delta, Eastern, National, Northwest, Pan American, Trans World, United, and Western, as well as the non-trunk airline predecessors of US Airways (*i.e.*, Allegheny, Piedmont and Pacific Southwest). *See, e.g.*, "Air Transport 1979, The Annual Report of the U.S. Scheduled Airlines Industry," *Air Transport Association of America*, https://airlines.org/wp-content/uploads/2014/08/1979.pdf.

operated fragmented networks with no presence in several states.[16] Industry deregulation spurred the expansion of hub-and-spoke networks by the legacy network carriers, increasing competition at the city-pair level by expanding the number of city-pairs that each carrier served.

Hubs increase network efficiencies by allowing carriers to provide service between the same number of city-pairs with far fewer unique routes. This is visualized in the stylized illustration in Figure 3 below.

FIGURE 3: STYLIZED ILLUSTRATION OF HUB-AND-SPOKE NETWORK CONNECTIVITY VS. POINT-TO-POINT NETWORK



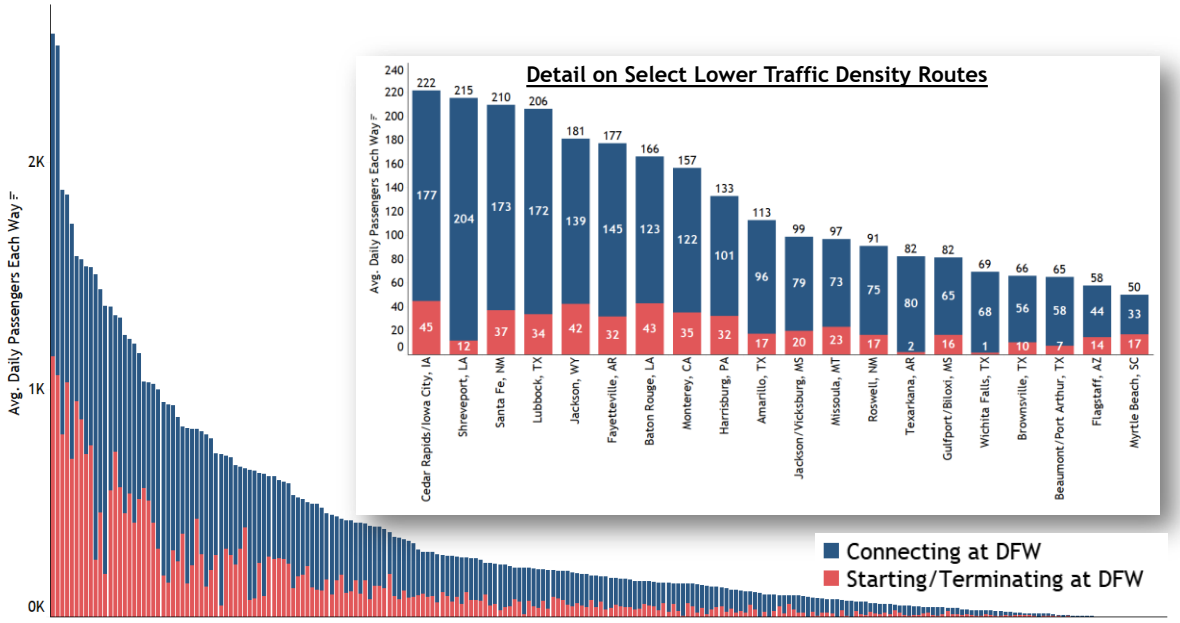
Hub-and-spoke networks foster efficiency by building traffic density throughout the network, making service to more destinations economically viable. Specifically, because each spoke route carries passengers traveling to many destinations on the network *via the hub*, the hub-and-spoke architecture allows airlines to take advantage of larger, more cost-efficient aircraft while adding greater flight frequency than local passenger demand alone could support, a phenomenon known as "economies of traffic density."[17] To illustrate, Figure 4 below demonstrates that at

[16] By way of example, in April 1978 (prior to deregulation), American did not serve any airports in 26 states: Alabama, Alaska, Colorado, Delaware, Florida, Georgia, Hawaii, Idaho, Kansas, Louisiana, Maine, Minnesota, Mississippi, Montana, Nevada, New Hampshire, New Mexico, North Carolina, North Dakota, Oregon, South Carolina, South Dakota, Vermont, Washington, Wisconsin, and Wyoming. *See* American Airlines Domestic and International Timetable effective April 30, 1978.

[17] *See, e.g.*, Jan Brueckner and Pablo Spiller, "Economies of Traffic Density in the Deregulated Airline Industry," *The Journal of Law & Economics*, XXXVII(2), October 1994, 379-415. Moreover, hub-and-

American's largest hub (Dallas/Fort Worth ("DFW")), for example, the average number of local passengers per day on many routes (*e.g.*, Shreveport, Missoula, Roswell, Amarillo) should not warrant even a single daily nonstop flight. But because passengers on these flights can travel to more than 240 domestic and international destinations that American serves from the DFW hub, the routes become viable.[18] In fact, in 2024, American was able to offer five flights per day each way between DFW and Shreveport, LA because 204 of the 215 daily passengers were connecting via DFW.[19]

FIGURE 4: LOCAL VS. CONNECTING ("FLOW") COMPOSITION OF AMERICAN AIRLINES ROUTES SERVED FROM DALLAS/FORT WORTH (DFW) AIRPORT (FYE Q2 2024)



Source: U.S. DOT DB1B Domestic and International databases, FYE Q2 2024.
Notes: Each bar represents a route to/from DFW on American (including American Eagle). Average daily passengers each way computed by dividing the total number of American onboard passengers by 732 (2 x 366).

spoke networks exhibit large positive spillover effects whenever a carrier adds new spoke cities since each additional spoke creates multiple new connecting opportunities through the hub and is a potential new destination for every other city in an airline's network. These new routings generate additional traffic for other routes served from the hub, which in turn, supports additional flights.

[18] *Source*: OAG published schedule as of November 7, 2024.

[19] In contrast, all of the routes that ULCC Spirit Airlines serves from DFW (*e.g.*, Dallas-Las Vegas; Dallas-Philadelphia)—which are far less in number with 29 destinations served with at least 12 flights in 2024—are comprised almost entirely of local passengers who are traveling on higher density routes. For example, between Dallas and New York, 94% of Spirit's passengers are local. *Sources*: U.S. DOT DB1B database, FYE Q2 2024; OAG published schedule, as of November 7, 2024.

These network economies build traffic flows needed to provide connectivity to scores of small U.S. communities that are not served by other U.S. carriers (*see* Figure 19 below in Section III.B). Such network economies have also allowed GNCs to expand their networks, both organically and through alliances or partnerships, to operate *global* hub-and-spoke networks utilizing multiple hubs with the goal of offering consumers "anywhere to everywhere" service.[20] Unlike the carrier that entered the deregulated era with highly fragmented service to only 46 U.S. destinations in 24 states, American today utilizes its hubs in Dallas, Charlotte, Chicago, Los Angeles, Miami, New York, Philadelphia, Phoenix, and Washington D.C. to operate flights to 228 domestic destinations in 49 U.S. states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands and 125 international destinations in 59 countries worldwide.[21]

Complementary to network scope, GNCs offer multiple classes of service on each flight. These service classes traditionally included Economy, Business, and/or First class products. But GNCs have expanded and further differentiated their products on the same flight to suit the needs of an even wider array of consumer preferences in travel. In particular, GNCs have expanded the number of economy class products, including (i) a premium economy product aimed at a more upscale economy class experience that includes wider seating, free checked luggage, and complimentary meal service; (ii) various economy products with extra legroom (*e.g.*, American's Main Cabin Extra, Delta's Comfort+, and United's Economy Plus); and (iii) a basic economy product (a competitive response to the ULCC business model described further below) that unbundles many ancillary services (*e.g.*, advanced seat assignments).

These multiple service classes and expansive hub-and-spoke networks are complex, and consequently, GNCs have a higher cost structure than other airline business models. For example, the heterogeneity in passenger demand across routes necessitates fleets composed of different aircraft sizes "right-sized" for a spectrum of destinations from small communities to long-haul international destinations. In turn, a diversified fleet drives the need for a labor force trained and

[20] As discussed in Section III.B below, U.S. carriers depend on alliances and partnerships with foreign carriers to help consumers reach hundreds of international destinations where nonstop service from the United States is not economically feasible. (*See* Figure 20 showing international destinations of travelers by air to/from the United States and Figure 53 in the Appendix showing the number of international destinations by region served by each U.S. airline.)

[21] *Sources*: OAG published schedule as of November 7, 2024; American Airlines Domestic and International Timetable effective April 30, 1978.

qualified to operate and maintain the different aircraft and an infrastructure to connect a large number of passengers and their checked bags in a short period (*i.e.*, with "banked" flights that cluster arrivals/departures around similar times but result in longer turn times, as well as reduced aircraft and employee utilization).[22] All of this results in a higher cost structure.

Lower-Cost Network Carriers (Alaska and Hawaiian)

Alaska, another pre-industry deregulation carrier, distinguished itself from the GNCs by evolving into a lower-cost, regionally focused network carrier focused on the Pacific Northwest, Alaska, California, and now Hawaii (through its recently approved merger with Hawaiian), via its hubs in Seattle, Portland, Anchorage, Los Angeles, and San Francisco. Specifically, Alaska utilizes certain elements of the GNC business model; *namely*, a somewhat diversified fleet and service to select small communities (*i.e.*, the 76-seat Embraer E175 in addition to its fleet of 737-family mainline aircraft). But instead of focusing on building a ubiquitous global and nationwide network, Alaska has focused its attention on developing strong customer bases regionally, with a simpler and lower cost operation. While Alaska often offers fewer daily frequencies on routes where it competes head-to-head with GNCs,[23] its lower cost structure allows it to undercut GNC fares and thereby expand much more rapidly than the GNCs (*see* Figure 6 below).

Low-Cost Carriers (Southwest, JetBlue, Breeze)

After deregulation, Southwest began a competitive revolution that continues to expand and evolve today. Specifically, without fare regulation, airlines that could operate under and sustain low-cost structures gained a key competitive advantage by profitably undercutting the fares of higher cost legacy network carriers. Pioneered by Southwest, the LCC business model centers on keeping costs—and fares—low, which Southwest accomplished in several ways.

[22] Because hub-and-spoke networks are designed to facilitate connecting traffic, GNCs schedule their flights into large banks. Although flight banks maximize the number of potential connections for passengers, they also require aircraft to spend more idle time on the ground and use proportionally more airport facilities and ground employees than point-to-point route networks.

[23] For example, in 2024, between Seattle and Atlanta, Alaska offered an average of three daily frequencies compared to more than six by Delta; between Portland and Dallas Fort Worth, Alaska offered an average of 1.6 daily frequencies compared to more than five by American. *Source*: OAG published schedule as of November 7, 2024.

First, Southwest focused on serving densely traveled city-pairs using a point-to-point network and a fleet consisting of a single narrow-body aircraft family (the Boeing 737), which, in turn, simplifies aircraft scheduling and maintenance, and reduces the costs of training employees (pilots in particular) on multiple aircraft types. *Second*, by focusing on local traffic, Southwest's point-to-point network allows it to turn their aircraft more quickly and capitalize on higher aircraft utilization and, in turn, lower aircraft ownership costs per passenger. *Third*, Southwest offers only Economy Class seating, only recently deciding to differentiate its product with extra-legroom Economy Class seating,[24] which simplifies in-flight service by avoiding many of the costliest passenger amenities or "frills" offered by the GNCs in its premium cabins (*e.g.*, in-flight meals). *Fourth*, Southwest has also generally avoided the costliest distribution channels (*e.g.*, global distribution systems ("GDSs")[25]) by selling tickets directly to consumers, which circumvents travel-agency and GDS fees and commissions.

Altogether, these strategies to lower costs enabled Southwest to profitably offer lower average fares than the GNCs, which has been a key driver of its rapid expansion over the last three decades. Indeed, at the time of industry deregulation, Southwest was an intrastate Texas carrier with 10 aircraft serving nine destinations in 1977.[26] Just 16 years later, in 1993, Southwest had grown its fleet to 178 aircraft serving 39 destinations in 17 states.[27] That year, the U.S. Department of Transportation had taken notice of the profound changes that Southwest (and other LCCs) were having on the airline industry and coined the term the "Southwest Effect" to describe the phenomenon where traffic increased and fares fell once Southwest launched service on a new route.[28] By 2001, Southwest had grown into the largest U.S. carrier measured by domestic O&D

[24] *See* "Southwest Airlines Launches Enhancements to Transform Customer Experience and Improve Financial Performance," Southwest Airlines, https://www.southwestairlinesinvestorrelations.com/news-and-events/news-releases/2024/07-25-2024-110102603.

[25] Global distribution systems are independent computerized network systems that both (i) aggregate content from airlines for product availability and two third-party clearinghouses, including ATPCO (for fares) and the Official Airline Guide (OAG) for schedules; and (ii) package offers and enable transactions between travel industry service providers (airlines, hotel, car rental companies) and consumers via travel agencies.

[26] *Source:* Southwest Annual Report, 1978.

[27] *Sources:* Southwest Annual Report, 1993; U.S. DOT T-100 database.

[28] *See* "The Airline Deregulation Evolution Continues: The Southwest Effect," *U.S. DOT, Office of Aviation Analysis*, May 1993, p. 3 ("The principal driving force behind dramatic fundamental changes that have

passengers, accounting for nearly one-in-six passengers.[29] Today Southwest's fleet includes approximately 800 aircraft (still all 737 family) serving 107 domestic destinations in 42 U.S. states, the District of Columbia, and Puerto Rico plus 14 international destinations in 10 countries in Latin America and the Caribbean.[30] (*See* Figure 52 in the Appendix comparing Southwest's route map in 1977, 1990, 2000, and 2024.)

The success of Southwest inspired several other LCCs, many of which attempted to emulate the LCC playbook Southwest developed.[31] Other LCCs sought to differentiate themselves from Southwest by innovating further on the traditional LCC business model developed by Southwest. In 2000, former Southwest executive David Neeleman launched NYC-based JetBlue, an airline with a more "upscale" Economy Class experience featuring amenities and routes not traditionally associated with the prototypical LCC, including free seat back DirectTV, premium snacks, and transcontinental service. As JetBlue grew, it elected to fly two distinct fleet types (the 150-seat Airbus A320 and the 100-seat Embraer E-190), which allowed JetBlue to serve thinner routes (*i.e.*, those with relatively less demand like Boston-Buffalo or Boston-Pittsburgh) and dramatically expand its presence in Boston (the carrier's other Northeast focus city). In 2013, JetBlue continued to innovate its premium low-cost business model with the introduction of Mint service on certain long-haul routes, the first lie-flat seat product available on a low cost carrier. In 2021, the carrier launched nonstop service to London and by the summer of 2025 will serve six European destinations (London—Heathrow and Gatwick, Paris, Amsterdam, Dublin, Edinburgh, and Madrid).[32]

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occurred and will occur in the U.S. airline industry over the next few years is the dramatic growth of low-cost Southwest Airlines. … Southwest is having a profound effect on the airline industry. The reason is its aggressive expansion and very low operating costs. … With such a cost disadvantage, other airlines simply cannot compete with Southwest at the low prices it can profitably charge.").

[29] *Source*: U.S. DOT DB1B database.

[30] *Sources*: OAG published schedule, as of November 7, 2024; Southwest Airlines 2024 Q3 10-Q (showing 811 aircraft as of September 30, 2024 and plans for 796 aircraft as of December 31, 2024).

[31] Among the LCCs that entered the U.S. airline industry in the wake of Southwest's success include Spirit Airlines (1992), Morris Air (1993), ValuJet (1993), Frontier Airlines (1994), AirTran (1994), Vanguard (1994), Eastwind Airlines (1995), Pro Air (1997), and AccessAir (1999). As discussed below, Spirit and Frontier have since pivoted to become ULCCs.

[32] *Source*: OAG published schedule as of November 7, 2024. *See also* "JetBlue Boosts Boston Transatlantic Flying by Launching New Service to Madrid and Edinburgh," *JetBlue*, December 10, 2024,

Taking inspiration from his JetBlue model, serial airline entrepreneur David Neeleman launched Breeze in 2021. Breeze markets itself as "The Seriously Nice" airline, with more upscale products at affordable fares and a focus on providing nonstop service to underserved routes between smaller communities at secondary airports, "bypassing hubs for shorter travel times," such as Scranton, PA (AVP) to Orlando, FL (MCO) or White Plains, NY (HPN) to Vero Beach, FL (VRB).[33] As of 2024, Breeze offers 221 nonstop routes (year-round and seasonal) between 65 cities in 30 states and Washington D.C.[34]

Ultra-Low-Cost Carriers (Spirit, Frontier, Allegiant, Sun Country, Avelo)

While JetBlue attempted to differentiate itself from Southwest by offering a more upscale LCC experience, other LCCs that entered the industry in the 1990s took the opposite approach. Starting in the mid-2000s,[35] Spirit—an LCC that first entered the industry in 1992—began to evolve into an *ultra-low cost carrier*. To drive its costs well below those of Southwest, Spirit and other ULCCs use extremely high-density seating (*i.e.*, configuring its aircraft with more seats by reducing the space between rows, known as "seat pitch"),[36] and eliminate virtually all "frills" (*i.e.*, there are no free snacks or beverages). To offer the lowest base fare possible, Spirit and most other ULCCs go to great effort to "unbundle" and until very recently,[37] separately charge for as

https://news.jetblue.com/latest-news/press-release-details/2024/JetBlue-Boosts-Boston-Transatlantic-Flying-by-Launching-New-Service-to-Madrid-and-Edinburgh/default.aspx.

[33] *See* "Our Story," *Breeze Airways*, https://www.flybreeze.com/page/about-us. *Source:* OAG published schedule, as of November 7, 2024.

[34] *Source*: OAG published schedule, as of November 7, 2024.

[35] *See* Spirit Form S-1, *U.S. Securities and Exchange Commission*, September 17, 2010, p. 6, http://d18rn0p25nwr6d.cloudfront.net/CIK-0001498710/dfd53f59-259d-4b03-b80b-57960e85d839.pdf ("In July 2006, we underwent a corporate recapitalization in which investment funds managed by Indigo Partners LLC, or Indigo, acquired a majority stake in us. After this recapitalization, we began implementing our ULCC business model and further expanding our Caribbean and Latin American routes, and we completed the transition to a new executive management team.").

[36] By way of example, Spirit's Airbus A320 aircraft are configured with 182 seats, 32 more (*i.e.*, 21%) than either American's or JetBlue's. *See* "What type of Aircraft Does Spirit Fly?," *Spirit Airlines*, https://customersupport.spirit.com/en-us/category/article/KA-01304; *see also* "Planes," *American Airlines*, https://www.aa.com/i18n/travel-info/experience/planes/planes.jsp; *and* "Meet the A320 Classic," *JetBlue*, https://www.jetblue.com/flying-with-us/our-planes/a320-classic.

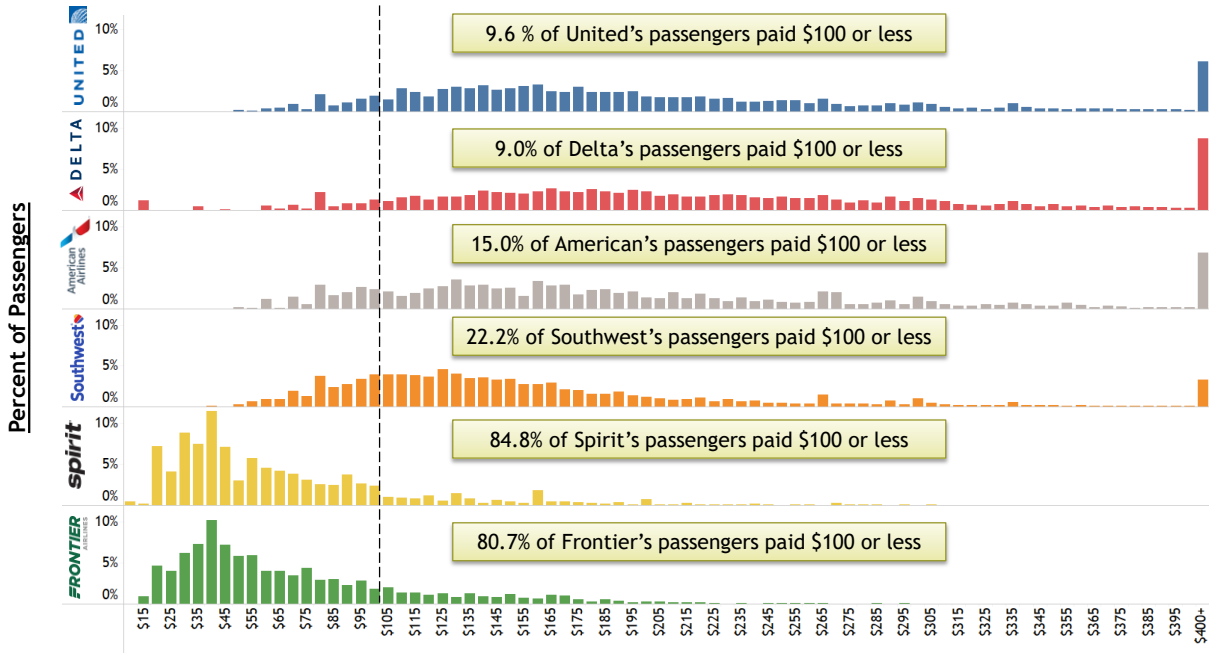
[37] As discussed in greater detail in Section III.D below, as part of the financial challenges ULCCs have faced following the pandemic, some ULCCs, including Spirit, have recently begun to offer bundled fare packages in addition to their signature no-frills unbundled service. For example, starting in late August

many ancillary products and services as possible, including, among other things, all in-flight beverages (including water), carry-on bags, use of airport kiosks to print boarding passes, snacks, and seat assignments.

Spirit's ultra-low-cost structure has enabled it to offer base fares that are, on average, well below not only GNCs' fares, but also those of Southwest and JetBlue. Figure 5, for example, shows the fare distribution for nonstop passengers traveling between Atlanta and Chicago in FYE Q2 2024. Although 22% of Southwest's passengers paid less than $100 to travel between the two cities, nearly 85% of Spirit passengers (and more than 80% of fellow ULCC Frontier's passengers) paid base fares of less than $100, with many passengers paying less than $50.

2024, Spirit began offering passengers four distinct fare classes: (i) Go: Spirit's traditional unbundled product; (ii) Go Savvy: similar to Go, but including seat selection at the time of booking and the choice of either a carry-on *or* checked bag; (iii) Go Comfy: (includes seat selection plus a blocked middle seat, a carry-on *and* a checked bag, priority boarding and snacks/drinks); and (iv) Go Big: a larger seat at the front of the cabin, priority boarding, a carry-on and checked bag, premium snacks and drinks, complimentary Wi-Fi, and priority check-in. *See* "Go Big or Go Comfy: Spirit Airlines to Offer Unmatched Value with New Travel Options and Transformed Guest Experience," *Spirit Airlines*, July 30, 2024, https://ir.spirit.com/news-releases/news-details/2024/Go-Big-or-Go-Comfy-Spirit-Airlines-to-Offer-Unmatched-Value-with-New-Travel-Options-and-Transformed-Guest-Experience/default.aspx. Frontier also began offering consumers the choice of three different bundles (in addition to its Basic unbundled fare) starting in May 2024. *See* "Announcing 'The New Frontier': Transparent Pricing, No Change Fees, and Enhanced Customer Experience," *Frontier Airlines*, May 17, 2024, https://news.flyfrontier.com/announcing-the-new-frontier-transparent-pricing-no-change-fees-and-enhanced-customer-experience/.

FIGURE 5: ILLUSTRATIVE NONSTOP ONE-WAY FARE DISTRIBUTION BETWEEN ATLANTA AND CHICAGO (FYE Q2 2024)



Source: U.S. DOT DB1B database.
Notes: Excludes fares less than $6. Includes passengers on non-stop itineraries between Chicago (ORD and MDW) and Atlanta in FYE Q2 2024.

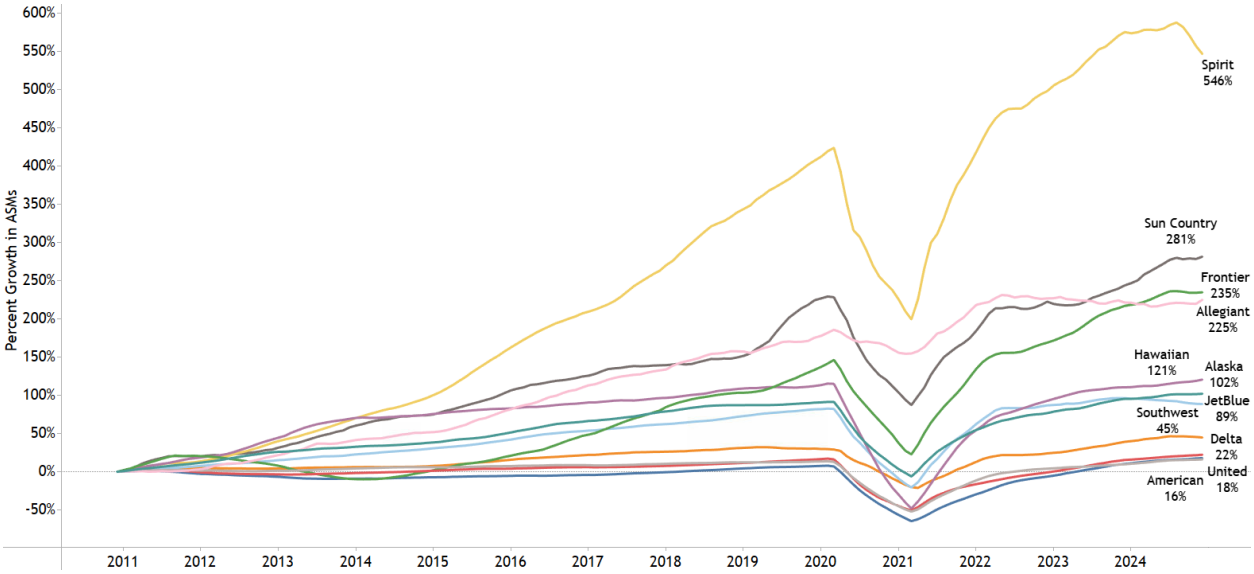
By driving base fares to such levels, Spirit and other ULCCs stimulated demand for air travel among consumers who might otherwise not have traveled by air or at all.[38] To be sure, ULCCs split into two camps in terms of where they stimulate demand: specifically, Spirit and Frontier have focused on stimulating demand on dense, heavily traveled city-pairs, whereas other ULCCs like Allegiant target consumers in small communities, typically taking them to popular leisure destinations such as Orlando.[39] Together, ULCCs were the fastest growing segment of the

[38] It is important to note that because of their highly unbundled business models, Spirit and other ULCCs have traditionally generated nearly as much (if not more) in ancillary revenues per passenger than from fare revenue. For example, in 2023, Spirit generated $53.01 in fare revenue per passenger flight segment compared to $68.57 in non-ticket revenue per passenger flight segment. *See* Spirit Airlines 2023 Form 10-K, p. 59. Thus, while ULCC passengers that elect to choose a seat in advance, check or place a bag in the overhead compartment, and/or purchase beverages and snacks onboard may end up paying as much as they would have had they flown on an LCC or GNC, consumers who are willing to forgo those services (*e.g.*, travel with only a personal item that will fit under the seat in front of them) can often realize large savings by flying on a ULCC.

[39] For example, in 2024, Allegiant served its largest destination (Orlando) from 68 U.S. cities, 59 of which are either "small hub" cities (*e.g.*, Des Moines, Harrisburg, Sioux Falls) or "non-hub" (*e.g.*, Bangor, Elmira, Flint, Moline) airports under the FAA's airport classification system. Allegiant typically connects this small communities with popular leisure destinations with infrequent service (*e.g.*, two or three *weekly* departures). *Source*: OAG published schedule as of November 7, 2024.

industry over the past decade, as shown in Figure 6 below. Moreover, the two low-cost entrants—Breeze and Avelo, excluded from the figure because they launched in 2021—have experienced strong growth over the last several years. For instance, in December of this year, Breeze operated an average 136 departures per day, up from an average of 91 last December, 48 in December of 2022 and 28 in December of 2021 (its launch year).[40]

FIGURE 6: GROWTH IN SYSTEMWIDE AVAILABLE SEAT MILES (ASMS) OF U.S. PASSENGER CARRIERS (2010-2024)



Source: OAG published schedule as of November 7, 2024.
Notes: 12 month moving average. Scheduled ASMs. Carriers include predecessor airlines: Southwest Airlines (AirTran Airways), United (Continental Airlines), Delta Air Lines (Northwest Airlines), American Airlines (US Airways), Alaska Airlines (Virgin America). Data is through December 2024. Percent growth is relative to twelve months ending December 2010.

In turn, this rapid growth cultivated a "juniority benefit" (*i.e.*, proportionally more employees at the bottom on their pay scales[41]), which helped keep labor costs low, which then

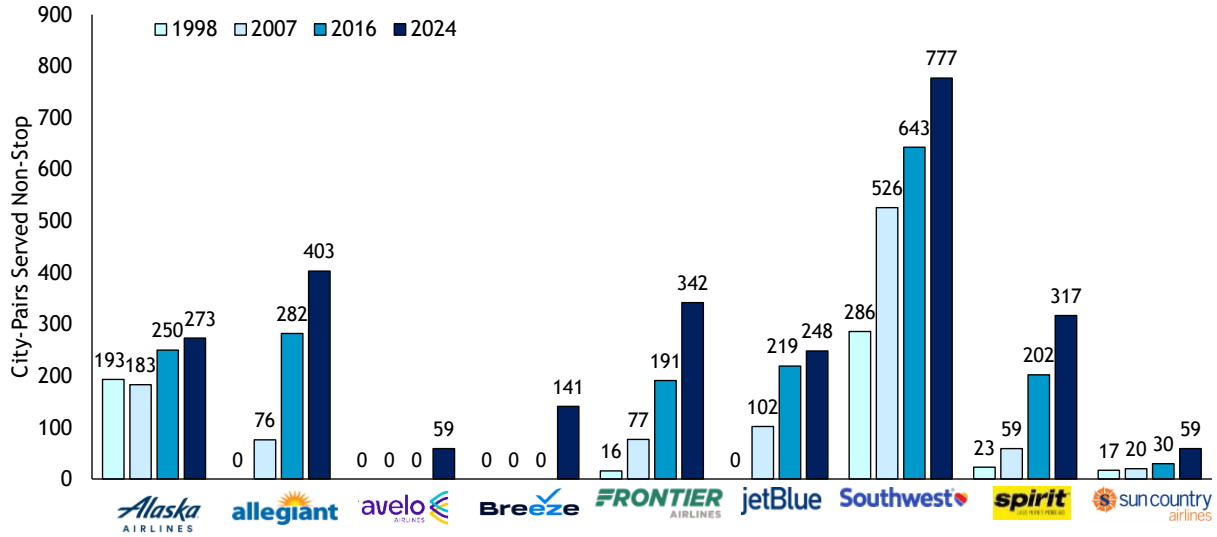
[40] *Source*: OAG published schedule as of November 7, 2024. In December 2024, Avelo averaged 63 departures per day, up from 55 in December 2023, 33 in December 2022 and 18 in December 2021 (also its launch year). *Id.*

Unlike Spirit, which has struggled financially since the pandemic, Breeze has recently become profitable. *See* "Breeze Airways Marks Major Milestone in March, Announcing First Full Month of Operating Profit," *Breeze Airways*, April 9, 2014, https://www.flybreeze.com/news/breeze-airways-marks-major-milestone-in-march-announcing-first-full-month-of.

[41] U.S. passenger airlines' typical compensation practice is to pay their employees based on years of service. By way of example, as of August 2023, entry level First Officers at Allegiant are paid $58/hour, which increases rapidly with each year of service (*e.g.*, $111 by the third year of service). By the time they are promoted to Captains (at year 5, for example), Allegiant pilots earn $193/hour. *See* "Allegiant Pilot's

created a virtuous cycle allowing lower cost carriers to serve increasingly more city-pairs on a nonstop basis, as illustrated in Figure 7. For instance, today Frontier serves 342 city-pairs nonstop—more than four times as many city-pairs that the carrier served in 2007 (77).[42] New entrant lower cost carriers have also rapidly expanded the number of nonstop city-pairs they serve. For example, just four years after its launch, Breeze today serves 141 city-pairs nonstop.[43]

FIGURE 7: NUMBER OF SYSTEMWIDE CITY-PAIRS SERVED NONSTOP BY LOWER COST CARRIERS (1998, 2007, 2016, 2024)



Source: OAG published schedule as of November 7, 2024.
Notes: Count of city-pairs with at least 104 total departures in each year. Carriers include predecessor airlines for merged carriers in all years (i.e., Virgin America for Alaska and AirTran for Southwest).

ULCCs in general have struggled more than other business models to return to profitability after the pandemic, with Spirit airlines filing for Chapter 11 bankruptcy protection on November 18, 2024. The industry's return to profitability post-pandemic is addressed further in Section III.B. below, which juxtaposes and compares the return to profitability by certain carriers (*e.g.*, Delta, United, Alaska) with those that have yet to turn a full year profit (*i.e.*, Spirit and JetBlue).

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Association Teamsters Local 2118, "Contract Comparison," March 2022, at https://downloads.regulations.gov/DOT-OST-2021-0152-0043/attachment_1.pdf.

[42] *Source*: OAG published schedule as of November 7, 2024.

[43] *Source*: OAG published schedule as of November 7, 2024.

The detail of this Section II can be summarized in three exhibits. As explained above, the four business models that U.S. airlines employ today (Global Network Carrier, Lower-Cost Network Carrier, Low-Cost Carrier, and Ultra-Low-Cost Carrier) can be compared along two key sets of dimensions. The first dimension is **network scope and product differentiation**: breadth of destinations served domestically and abroad, the fleet diversity required to serve those destinations, and number of seating classes/fare products offered. Figure 8 illustrates this dimension by comparing representative carriers from each business model across a variety of network and fleet characteristics. For example, American's network scale and fleet composition far outnumber those of the lower cost carriers. And even though low-cost carrier Southwest carried more domestic O&D passengers in 2024 than American (*i.e.*, the illustrative GNC in the figure), the comparative scope of American's network is on display with roughly 17,000 more domestic city-pairs served than Southwest, with far more overall destinations (including 95 more small U.S. communities and 47 more countries) served using seven different aircraft fleet families versus Southwest's single fleet family. In contrast to American, Spirit, for example, has a smaller point-to-point network that is largely focused on domestic and short-haul international travel, with a single aircraft family. Until 2024, Spirit also offered only one seating class. The carrier's recent decision to further differentiate its products represents a significant departure from the traditional ULCC business model, as discussed in more detail in Section III below.

FIGURE 8: COMPARISON OF KEY NETWORK CHARACTERISTICS OF AMERICAN, ALASKA, SOUTHWEST, AND SPIRIT

	American Airlines	Alaska Airlines	Southwest	spirit
Business Model	**GNC**	**Lower Cost Network**	**LCC**	**ULCC**
Network Type	**Hub-and-Spoke**	**Hub-and-Spoke**	**Point-to-Point**	**Point-to-Point**
Percent of O&D Passengers Making Connections (FYE Q2 2024)	40%	16%	26%	7%
Number of Destinations Served Worldwide (July 2024)	344	124	121	82
Number of Small U.S. Communities Served (July 2024)[1]	100	35	5	3
Number of Countries Served (July 2024)	58	7	11	14
Number of O&Ds Served Worldwide (FYE Q2 2024)[2]	57,618	6,726	5,348	2,435
Number of Domestic O&Ds Served (FYE Q2 2024)[3]	21,565	4,789	4,400	1,288
Number of Unique Nonstop City-Pairs (2024)	1,242	311	912	384
Percent of Domestic Passengers Addressable (FYE Q2 2024)[4]	95%	39%	85%	63%
Average Daily Domestic O&D Passengers (FYE Q2 2024)	312,375	93,435	371,417	93,814
Number of Aircraft Families (October 2024)[5]	7	2	1	1
Average Seats per Flight (July 2024)	127	134	159	191
Number of Seating Classes Offered[6]	Up to 5	3	1*	3

Sources: OAG published schedule as of October 3, 2024; U.S. DOT T100 database, 2023; U.S. DB1B database, FYE Q2 2024; U.S. DB1B International database FYE Q2 2024; "Airport Categories," *FAA*, https://www.faa.gov/airports/planning_capacity/categories/; American Airlines 2023 10-K; Alaska Airlines 2023 10-K; Southwest Airlines 2023 10-K; Spirit Airlines 2023 10-K; American Airlines Travel Experience, November 5, 2024, https://www.aa.com/i18n/travel-info/experience/travel-experience.jsp; Alaska Airlines Flight Experience, November 5, 2024, https://www.alaskaair.com/content/travel-info/flight-experience; Southwest Airlines Airfare Types, November 5, 2024, https://www.southwest.com/airfare-types-benefits/; Spirit Airlines, November 5, 2024, https://www.spirit.com/s/info.

[1]A small community is defined as a community served by an airport with less than 0.05% of annual passenger boardings in 2023, i.e., non-hub and non-primary airports as defined by the FAA.

[2]Number of O&D city-pairs worldwide where carrier transported any number of passengers in FYE Q2 2024.

[3]Number of domestic O&D city-pairs where carrier transported any number of passengers in FYE Q2 2024.

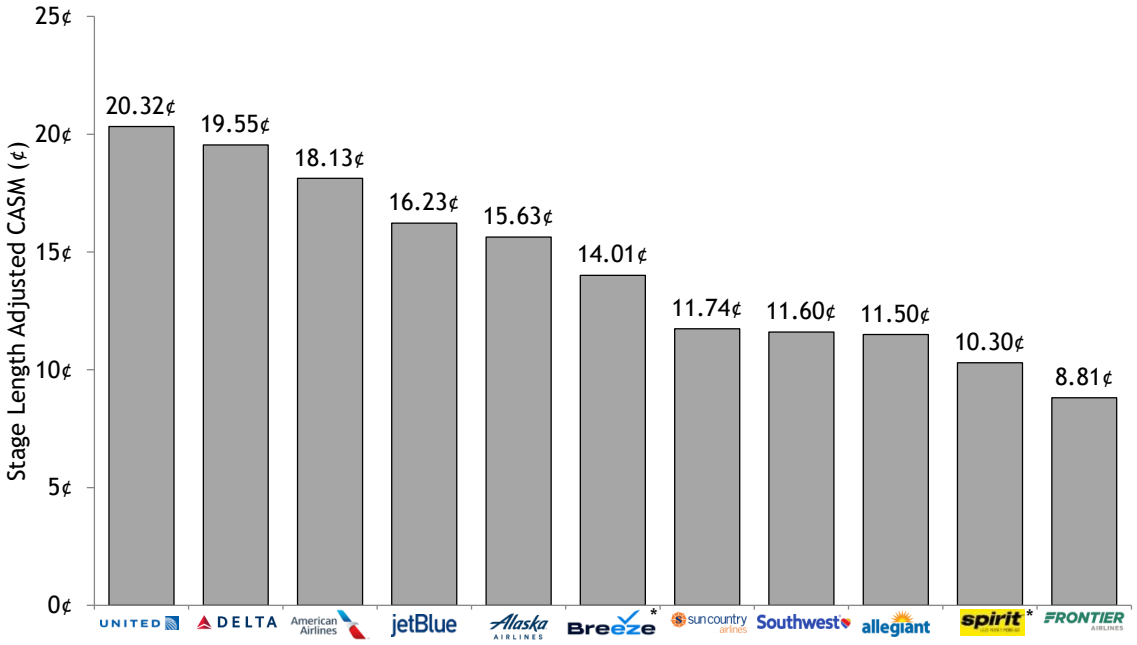
[4]Percent of Domestic O&D Passengers Addressable is the percent of passengers travelling on city-pairs where a carrier serves both endpoints.

[5]Groups aircraft variants of the same family, e.g., Airbus 319/320/321s are treated as one family. Alaska's fleet family count is before its merger with Hawaiian and is 6 including Hawaiian.

[6]American seating classes include First, Business, Premium Economy, Main Cabin Extra and Main Cabin; Alaska includes First, Premium and Main Cabin; Sprit includes Go Big (Big Front Seat), Go Comfy (middle seat blocked) and Go/Go Savvy. *Southwest will add Premium (extra legroom) seating in 2026.

The second dimension is **operational complexity and associated costs**. Generally, the broader and more diverse networks and service options offered by GNCs necessitate greater complexity in operations, including, *e.g.*, more varied fleets needed to serve a more heterogeneous set of routes, typically configured with multiple cabin classes, and complex connecting hubs. The greater the complexity of an operation, the greater the cost to provide such service. Figure 9 illustrates this second dimension, which shows that the cost per available seat mile ("CASM") for GNCs is, on average, 19% higher than that of JetBlue, 67% higher than Southwest, and 83% higher than the average of the ULCCs.

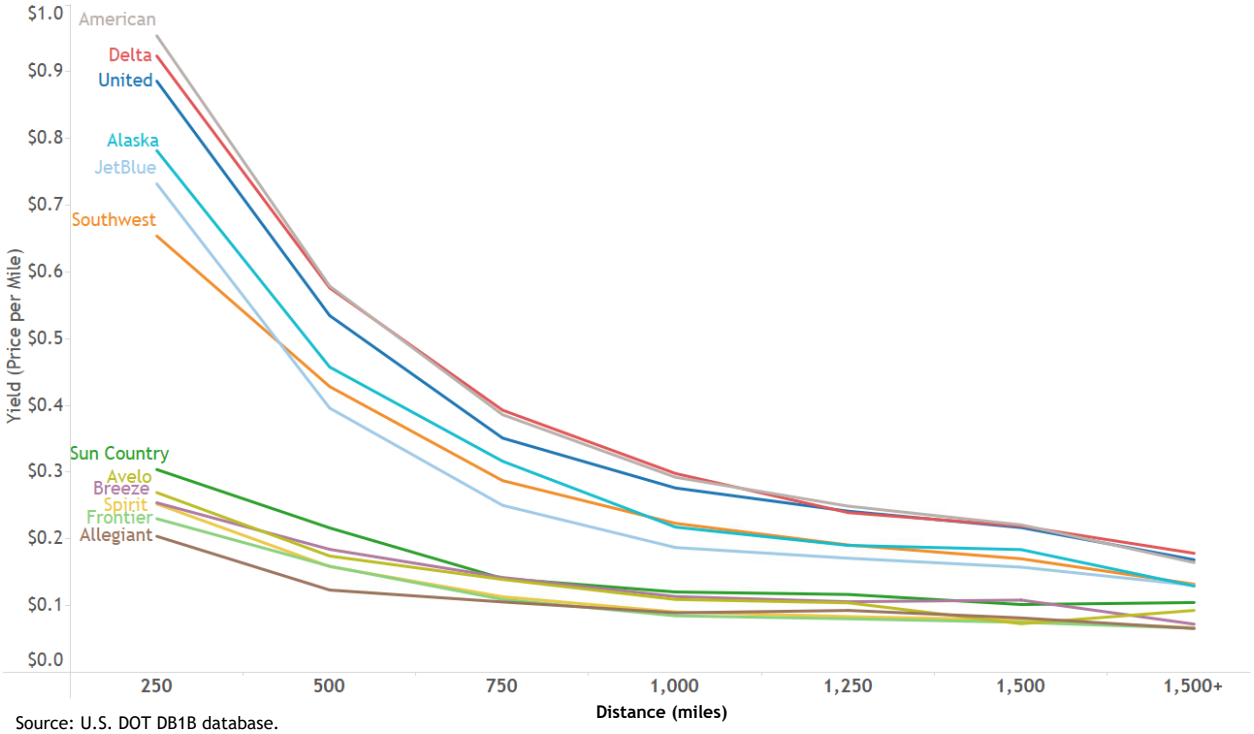
FIGURE 9: STAGE LENGTH ADJUSTED CONSOLIDATED CASM OF U.S. AIRLINES (FYE Q3 2024)



Sources: Airline 2024 Q3 10-Qs and 2023 Q4 Earnings Press Releases; Spirit Airlines 2024 Q2 10-Q, 2023 Q4 10-Q, and 2023 Q3 10-Q; U.S. DOT Form 41 Schedule P-1.2; U.S. DOT T1 database, 2024Q2; OAG published schedule.
Notes: Consolidated (i.e., mainline and regional) operations. CASM calculation includes fuel and profit sharing. Seat stage length adjusted CASM calculated as the product of the carrier's CASM (excluding special items) and the square root of the quotient of the carrier's seat stage length and 1,000 miles. Sun Country excludes cargo. *Spirit and Breeze are FYE Q2 2024.

Where an airline falls on the spectrum of these two dimensions impacts fare structure. Airline business models that involve simpler networks and product offerings result in lower cost structures. In turn, lower cost structures enable carriers to charge fares that are, on average, well below those of the GNCs, making low fares a primary dimension of competition. Figure 10 depicts the domestic price per mile (known as "yield") generated by U.S. carriers for the year ending Q2 2024 by mileage band. This figure shows that lower cost carriers have a lower fare structure than the GNCs across *all* distances.

FIGURE 10: DOMESTIC PRICES PER MILE (I.E., YIELD) OF U.S. AIRLINES (FYE Q2 2024)



Source: U.S. DOT DB1B database.
Notes: Data for FYE Q2 2024. Average Yields based on non-stop distances. Excludes fares less than $6. Excludes interline passengers and O&D passengers with more than three coupons.

Finally, this section began by emphasizing several key datapoints related to the competing airline business models, including that (i) lower cost carriers have been an engine of growth over the last three decades and have taken a significant share of passengers away from the GNCs; (ii) today 90% of all domestic O&D passengers have the option of flying on a lower cost carrier—and more than 50% have the option of flying on a ULCC; and (iii) on average, consumers have more choice in airlines on domestic city-pairs than they did three decades ago. The all too common refrain that four airlines (American, Delta, United, and Southwest) "control 80% of the domestic market" [44] not only passes over these datapoints, but also demonstrates a fundamental misunderstanding of airline competition and business models. Indeed, Figures 8 through 10, together with the detailed discussion of each business model above, demonstrate that it is simply incorrect to group Southwest together with American, Delta, and United and/or declare that the Southwest Effect is dead. Southwest's CASM is *less than half* of the GNCs, and its yield is well

[44] *See, e.g.*, "FACT SHEET: Executive Order on Promoting Competition in the American Economy," *The White House Briefing Room*, July 9, 2021; *see also* Joint Letter from Senators Warren, Sanders, and Lujàn and Representatives Jones, Porter, Schakowsky, Ocasio-Cortez, and Tlaib to Secretaries Kanter and Buttigieg, March 9, 2022.

below those carriers: Southwest's average one-way domestic fare through the first of half 2024 was $178.73—roughly $100 less than American ($268.55), Delta ($272.84), and United ($278.75).[45] This refrain misleadingly conveys that, rather than a prototypical industry maverick, Southwest acts as a GNC with no disciplinary fare effect on American, Delta, or United. But that is simply not true, and there are multiple published empirical studies documenting the "Southwest Effect" on fares.[46]

III. CONSOLIDATION IN THE U.S. AIRLINE INDUSTRY AND ITS BENEFICIAL IMPACTS FOR CONSUMERS

The U.S. airline industry has witnessed significant merger activity in the last 20 years by GNCs and lower cost carriers alike.[47] Although the U.S. Department of Justice ("DOJ") approved several of these mergers without limitation (*e.g.,* US Airways/America West, Delta/Northwest, and Southwest/AirTran) and did not challenge the most recent merger (Alaska/Hawaiian), the agency has either required remedies before others were approved (United/Continental, American/US Airways[48]) or has flatly opposed and thwarted others (JetBlue/Spirit). The DOJ also successfully *unwound* a domestic joint venture between American Airlines and JetBlue known as the Northeast Alliance. Nevertheless, some industry observers have remained steadfast in their belief that industry consolidation has harmed consumers by (i) diminishing competition; (ii) increasing fares; and (iii) deteriorating customer service.[49] **Those concerns are belied by data**,

[45] *Source*: U.S. DOT DB1B database.

[46] *See, e.g.,* Jan Brueckner, Darin Lee and Ethan Singer*,* "Airline Competition and Domestic U.S. Airfares: A Comprehensive Reappraisal," *Economics of Transportation,* Vol. 2 (1), 2013, 1-17 (controlling for both adjacent and potential competition effects and estimated the "Southwest Effect" at 26.8%) and John Kwoka, Kevin Hearle, and Phillippe Alepin, "From the Fringe to the Forefront: Low Cost Carriers and Airline Price Determination," *Review of Industrial Organization*, Vol. 48, 2016, 247-268 (finding Southwest effects of similar magnitude).

[47] Consolidation has been a common feature of the airline industry well before deregulation. For a list of U.S. airline mergers since 1930, *see* "U.S. Airline Mergers and Acquisitions," *Airlines for America*, https://www.airlines.org/dataset/u-s-airline-mergers-and-acquisitions/.

[48] The DOJ required United and Continental to divest takeoff and landing rights (*i.e.*, "slots") at then-slot-controlled Newark Liberty International Airport to Southwest before the carriers could merge. The Justice Department also required extensive airports divestitures and a significant reduction in the scope of a codesharing agreement with Alaska for the US Airways/American merger to proceed.

[49] *See, e.g.,* Complaint, *United States of America, et. al. v. American Airlines Group Inc. and JetBlue Airways Corporation*, Case No. 1:21-cv-11558, (D. Mass. September 21, 2021), https://www.justice.gov/opa/press-release/file/1434621/dl ("…the airline industry in the United States has

as discussed individually and in depth in the sections that follow, prefaced by an initial section that explains why consolidation for network carriers in the 2010s was *necessary* for their survival.

A. A Decade of Eroding Domestic Market Share and Exogenous Shocks Laid the Groundwork for Legacy Network Carrier Consolidation

The history of existential struggle that legacy network carriers faced over the last 30 years has largely disappeared from the conversation about the surviving carriers flying today. Many forget that large network carriers have incurred repeated crises since the 1990s—each exponentially worse than the last—which have all presented unique challenges to the network carrier business model.

To recall to these challenges, one may start in the mid-1990s. At this time, legacy network carriers' fragmented networks generated sufficient revenue to offset their higher costs largely because of the robust economic conditions at the time; namely, the dotcom bubble saw newly minted Internet and other IT and telecommunication sector companies spend enormous amounts of money on premium flying, and jet fuel prices were at historic lows.[50] But there were looming red flags for these carriers during this period that would compound their financial difficulties in the decades ahead. *First*, as described in Section II above, the popularity of lower cost carriers

become increasingly concentrated through mergers, acquisitions, and alliances between competitors. Today, it is dominated by four large airlines: three "legacy" airlines—American, Delta Air Lines, and United Airlines—and Southwest Airlines. American is the largest of these airlines. Together, the four control over 80 percent of domestic air travel."); *see also* Letter from Senator Elizabeth Warren to Secretary Pete Buttigieg, September 15, 2022, ("Airline industry competitiveness is in free fall, and consumers are feeling the consequences. Today, the four largest airlines—American, Southwest, Delta, and United— control 80% of the domestic market, more than at any point in the modern history of commercial aviation. This dominance has been achieved not primarily by offering better, more reliable service to passengers at lower fares but instead through a series of airline mega-mergers that have reduced service quality and increased fares."); *and* Testimony of Diana L. Moss President, American Antitrust Institute, Before the United States Senate Committee on Commerce, Science, & Transportation, March 23, 2023, https://www.commerce.senate.gov/services/files/8619D7F7-66CD-4E59-9138-7FF0B8F09474 ("The trend toward concentration in U.S. airline markets continues. There have been almost 20 mergers involving domestic carriers in the last two decades, six of which have involved mergers of major legacy or low-cost carriers (LCCs) or ultra-low-cost carriers (ULCCs). This period of time has been marked by the sequential elimination of competing airlines, mounting antitrust concerns in passenger air transportation markets, and no meaningful greenfield entry of new carriers. Today, the U.S. passenger airline system is dominated by a tight oligopoly of carriers, with a small fringe of LCCs and ULCCs.").

[50] The extremely low fuel prices (*i.e.*, less than $1/gallon on average in today's dollars between 1994-1999) allowed carriers to reach a cyclical peak in profitability at the tail end of 1990s, notwithstanding load factors that hovered in the low 70s, which were comparatively much lower than load factors in the proceeding decades that climbed above 80%. *Source*: U.S. DOT T1 Database.

began to take off in the 1990s as they rapidly expanded, driving down fares and posing a significant threat to the profitability of the legacy network carrier business model by the turn of the century.[51] *Second*, the labor agreements negotiated in this era both reinforced high cost structures and deprived network carriers from the operating flexibility they would need to maintain economically sustainable cost structures.[52] Indeed, in this period of profitability, pilot labor unions negotiated extremely attractive compensation packages from network carriers and negotiated work rules that were operationally inhibiting (and more expensive) for carriers.[53] Both circumstances would contribute to the legacy network carriers' tenuous financial positions during the following decade.

Between 2000 and 2009, the U.S. airline industry experienced a dismal decade marked by extraordinary successive shocks. The tumult of this decade included the burst of the dotcom bubble, the 9/11 terrorist attacks (which caused a structural change in short-haul travel by air), the SARS epidemic (which depressed transpacific demand), and the Great Recession—each occurring in succession with a pile-on effect. Moreover, jet fuel prices quadrupled over this period, from an average of $0.91 per gallon in 1999 to an average of $4.18 per gallon in 2008 (in 2024 dollars),[54] significantly increasing operating costs. The industry suffered devasting losses of approximately **$80 billion** during this decade, more than wiping out all of the cumulative profits the industry had earned since deregulation, as shown in Figure 11.

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[51] *See, e.g.*, Report of Captain Duane Woerth to the 90th Executive Board of ALPA, September 10-13, 2002 ("[t]en years ago, except for Southwest in Texas, Arizona, and California, low cost carriers were only a nuisance in most of the country; now they are a major force and at least three of them are well financed with strong balance sheets. … [They] now pose a serious threat to network carriers and their futures.").

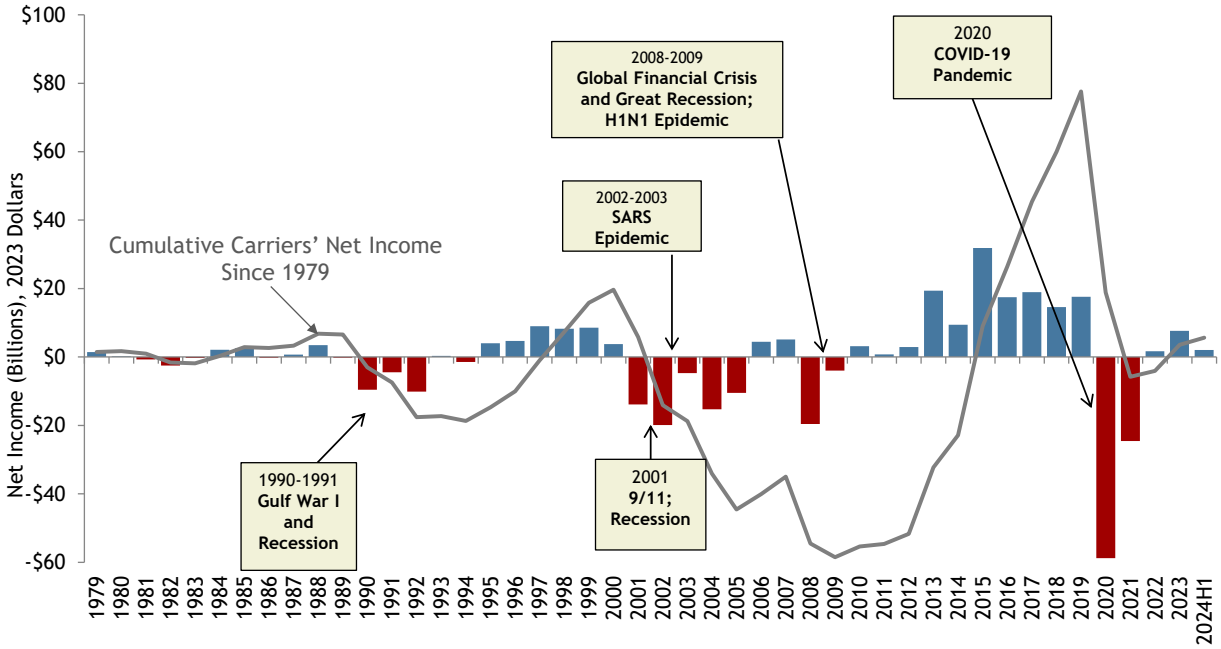
Around the same time, this sentiment was echoed by a Senior Vice President at Continental Airlines, who, in referring to the recent growth of LCCs, noted that there was "a low-fare network in this country that did not exist previously … *We've finally reached the point, perhaps, where [its] penetration may be fatal*." *See* "The Age of 'Wal-Mart' Airlines Crunches the Biggest Carriers," *The Wall Street Journal*, June 18, 2002, https://www.wsj.com/articles/SB1024359037595849640 (emphasis added).

[52] By way of background, the airline industry is highly unionized (*see* Section IV below). Industry collective bargaining agreements generally cover wages and benefits as well as work rules at most large U.S. passenger carriers. Labor costs (wages and benefits) comprise a very large proportion of total airline operating costs (historically around one third). *Source:* U.S. DOT Form 41 database.

[53] For example, so-called "scope clauses" under many carriers' CBAs with pilots put strict restrictions on carriers' ability to utilize then-emerging 50- to 70+ seat regional jet aircraft and their ability to enter into or expand their code-sharing agreements (*i.e.*, a marketing arrangement in which an airline places its designator code on a flight operated by another airline, and sells tickets for that flight).

[54] *Source*: U.S. EIA (Series: U.S. Gulf Coast Kerosene-Type Jet Fuel Sport Price FOB (Dollars per Gallon)).

FIGURE 11: U.S. PASSENGER CARRIER NET INCOME (1979-2024H1)



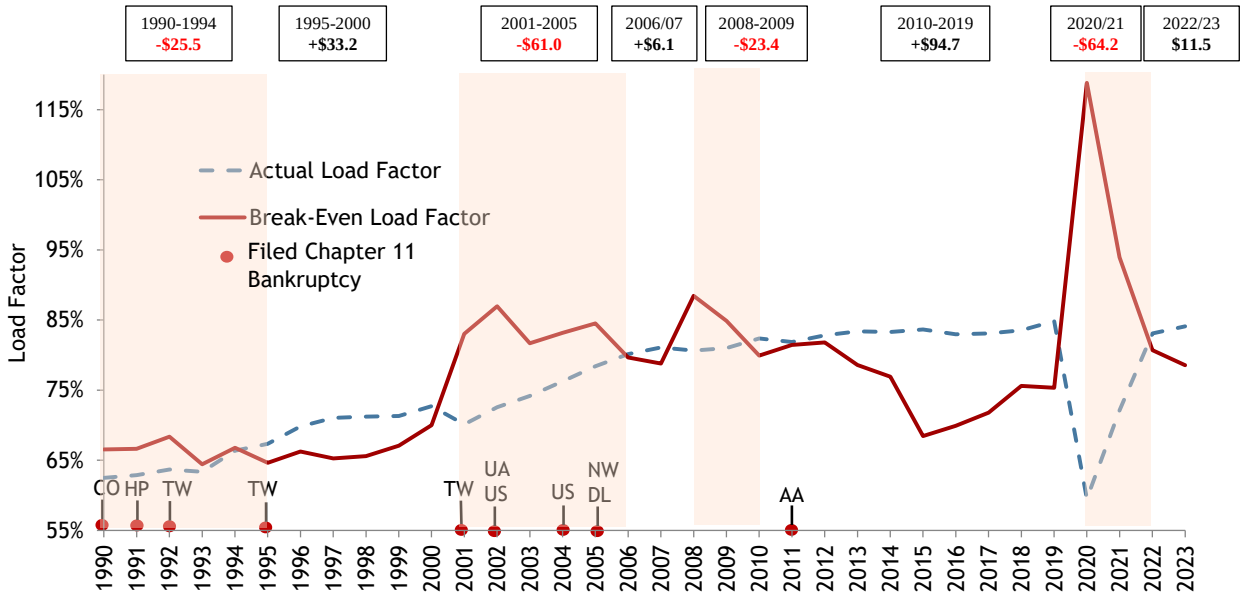
Source: Airlines for America; U.S. BLS; U.S. DOT Form 41; Carriers' press releases and financial statements.
Notes: System wide operations and in 2023 dollars. Excludes bankruptcy and large onetime impairment charges for American, United, Delta, Northwest, US Airways for 2003-2013, and CARES Act payments in 2020 and 2021.

Notably, many of these shocks disproportionately impacted legacy network carriers and the losses were thus borne almost entirely by network carriers, as this was a period of profitable growth for lower cost carriers.[55] For example, although all carriers experienced losses in short-haul traffic after 9/11, legacy carriers were impacted more because they tended to generate more revenue from short-haul business travel than lower cost carriers and bore the brunt of increased reluctance of U.S. travelers to venture overseas.[56] As a result, break-even load factors—*i.e.*, the load factors that carriers need to reach to cover their costs at prevailing airfares—quickly outstripped actual load factors in 2001 and would linger as such throughout much of the decade as shown below in Figure 12, indicating that legacy network carriers had substantial excess capacity relative to demand over this period.

[55] Indeed, between 2001 and 2009, lower cost carriers generated a total of $1.8 billion in net income. *Sources*: U.S. BEA; U.S. DOT Form 41; Carriers' press releases and financial statements.

[56] Similarly, lower cost carriers were immune from the falloff in traffic to/from Asia (and parts of Canada) that were impacted by the 2003 SARS epidemic. And while the Global Financial Crisis had far-reaching impacts on the broad economy, it put the brakes on business travel for a wide swatch of corporations, which had a disproportionate impact on legacy network carriers.

FIGURE 12: BREAK-EVEN V. ACTUAL LOAD FACTORS FOR LEGACY NETWORK CARRIERS (1990-2023)



Sources: U.S. DOT Form 41, Schedule P-1.2; U.S. DOT T1 database; U.S. Bureau of Labor Statistics Consumer Price Index for All Urban Consumers (CPI-U) CUUR0000SA0; Carriers' press releases and financial statements.
Notes: Net Income, Profit or Loss, from consolidated operations are shown in Billions in 2023 dollars. Legacy Network Carriers include all carriers reported in the U.S. DOT Form 41 excluding lower cost carriers and other niche carriers (e.g., USA 3000 Airlines, Champion Air, Carnival Air Lines, Midway Airlines, North American Airlines, Rich International Airways, Markair, and Omni Air International), and any other small carrier that accounts for less than 0.01% of RPMs during the 1990-2023 period, which collectively account for only 0.1% of RPMs. Net income exclude bankruptcy and merger related special charges for American, United, Delta, Northwest and US Airways for 2002-2016, and CARES Act payments in 2020 and 2021.

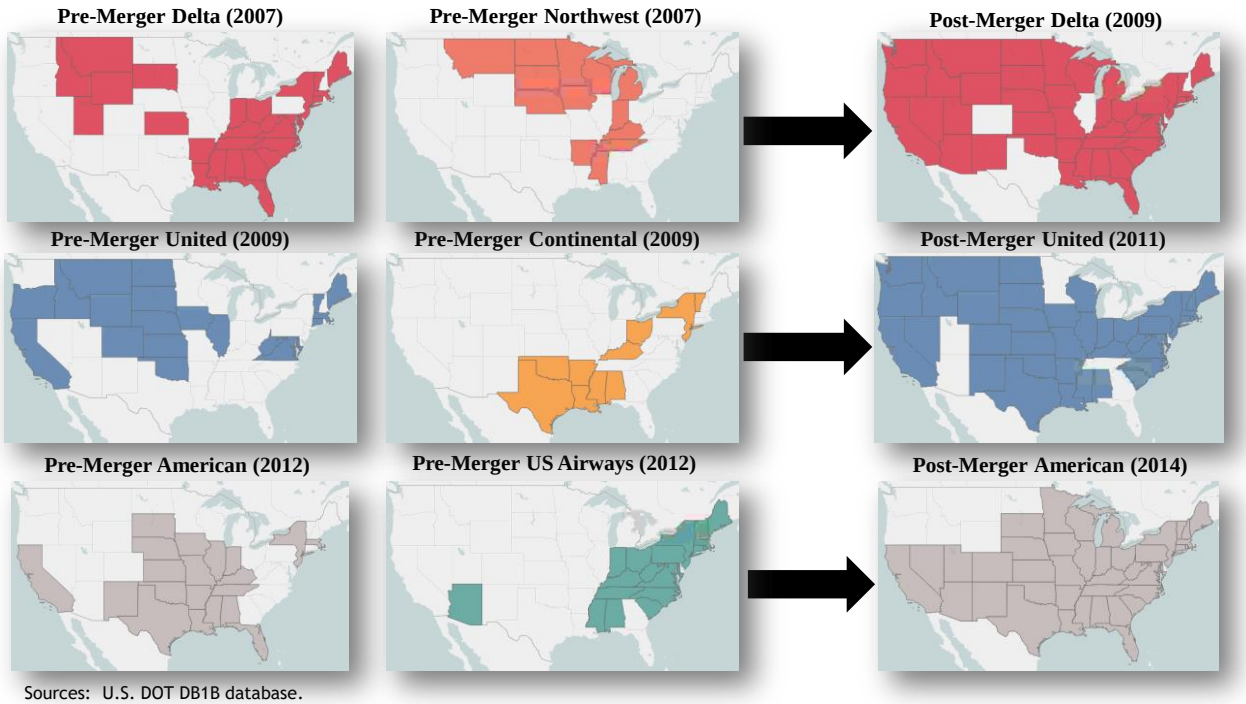
Throughout this period, success, growth and increased competition from lower cost carriers effectively prevented legacy network carriers from raising average fares enough to offset declines in demand and the rising cost of fuel. This, together with industry shocks, forced legacy network carriers into survival mode, aggressively cutting uneconomic capacity (*i.e.*, seats that are typically flown empty or at fares below cost), but ultimately filing for Chapter 11 bankruptcy on the timeline indicated by Figure 12 above. While operating under the protection of Chapter 11, legacy network carriers continued to reduce their costs, including labor costs by way of workforce reductions, reductions in wages, benefits, and pensions, as well as more flexible work rules.[57] While necessary, the workforce reductions and work rule concessions to help carriers become more operationally nimble were substantial and extremely painful for airlines and their employees.[58]

[57] While American was able to avoid filing for Chapter 11 in the years directly following 9/11 and its after-effects by securing consensual cost-savings agreements with its unions, it was ultimately forced into Chapter 11 in 2011 in the wake of the Global Financial Crisis and ensuing "Great Recession."

[58] Between December 2000 and December 2010, legacy network carriers (and their regional carrier partners) shed approximately 160,000 jobs. *Source*: U.S. DOT Form 41 database, schedule P-1.

Even after emerging from bankruptcy, legacy network carriers continued to suffer from the onslaught of lower cost carrier expansion. Indeed, notwithstanding the cost reductions achieved in bankruptcy, the legacy carriers' incomplete networks were unable to systematically generate revenue premiums sufficient to offset their cost disadvantage vis-à-vis their lower cost competitors. Consequently, **consolidation became a necessary competitive response for their long-term survival**. Put simply, the one strategic move that legacy carriers could make to capitalize on their primary competitive advantage (network breadth) was to merge and create larger more ubiquitous networks that could not possibly be achieved through organic growth.[59] Thus, starting with Delta Air Lines and Northwest Airlines in 2008, continuing with United Airlines and Continental Airlines in 2010, and culminating with US Airways and American Airlines in 2013, today's three national networks replaced six fragmented networks, as illustrated below.

FIGURE 13: PRE- AND POST-MERGER STATE MAPS; STATES WHERE LEGACY NETWORK CARRIERS CARRIED AT LEAST 10% OF DOMESTIC O&D PASSENGERS



Sources: U.S. DOT DB1B database.
Notes: New York and New Jersey are grouped. Maryland, Virginia, and the District of Columbia are grouped. Maps show the states in which at least 10% of domestic O&D passengers travel on the respective carrier.

[59] In light of lower cost carrier growth and expansion, organic growth to build six comprehensive legacy networks was not a viable alternative to consolidation; it would have led to massive redundant network overcapacity that would not have been supported by passenger demand, and would have all but certainly put at least some of these carriers back into Chapter 11 or out of business altogether.

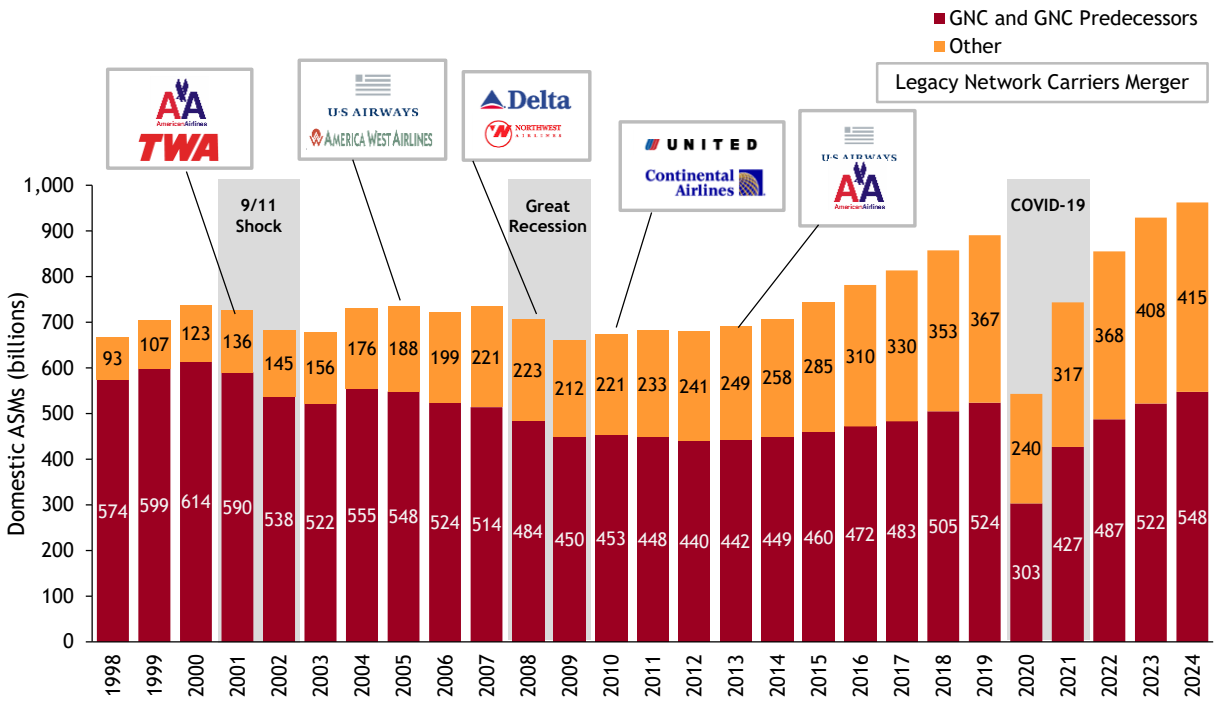
To be sure, industry consolidation did not precipitate network carrier capacity reductions, as some airline merger critics have wrongly alleged.[60] The vast majority of underutilized capacity removed by the network carriers *pre-dated* their respective mergers,[61] as shown in Figure 14 below, and was a byproduct of the airlines' attempt to survive during the dismal decade, given the exogenous shocks and increased competition from lower-cost carriers.[62] Even if it were true that consolidation precipitated network carrier capacity reduction (and it is not), the capacity reductions by network carriers since 2000 has been replaced by lower cost carrier capacity.

[60] *See, e.g.,* Complaint, *United States of America, et. al. v. American Airlines Group Inc. and JetBlue Airways Corporation*, Case No. 1:21-cv-11558, (D. Mass. September 21, 2021), https://www.justice.gov/opa/press-release/file/1434621/dl ("One way that consolidation has produced this result is by allowing the major airlines to reduce "capacity," the industry's term for the number of seats made available to consumers… Each significant legacy airline merger in recent years has been followed by substantial reductions in service… In addition to facilitating these capacity reductions, consolidation has made it easier for American and other legacy carriers to restrict domestic capacity growth. The legacy airlines euphemistically call this effort 'capacity discipline.'").

[61] For example, by the time the Delta/Northwest merger closed on October 28, 2008, the carriers' combined average daily domestic ASMs had already declined 21% from their peak of 516 million in 2000 to 407 million. And while the merged carrier's average daily domestic ASMs bottomed out in 2012 at 370 million, 75% of the peak-to-trough decline in domestic capacity occurred *prior to their merger.* For United/Continental, 76% of their peak-to-trough decline in domestic capacity occurred *prior to their merger,* and American grew its capacity in every year after its merger with US Airways until the COVID-19 pandemic hit in 2020. *Source*: OAG published schedule.

[62] The "de-hubbing" of certain small hubs (*e.g.*, Memphis, Cincinnati, Cleveland) is often cited as evidence of how consolidation caused capacity reductions. However, there is a long history of airlines closing underperforming hubs well before consolidation, including Nashville (American), Raleigh-Durham (American), San Juan (American), San Jose (American), Dallas Fort-Worth (Delta), Denver (Continental), and Pittsburgh (US Airways). Moreover, Memphis, Cincinnati, and Cleveland were the three smallest traffic-generating hub cities in the country, thereby relying disproportionately on smaller, less cost-efficient aircraft. In 2007 for example, Memphis and Cincinnati/Dayton were by far the smallest hub cities in the country in terms of local passenger demand with only 4.5 million and 6.6 domestic O&D passengers (comparable to non-hubs Reno (4.5 million) and Columbus (6.8 million). By way of comparison, other proximate Delta hubs generated far more domestic O&D passenger demand (*e.g.,* Atlanta (26.5 million), Detroit (16.3 million), Minneapolis (16.0 million)). Given the relatively low local demand at Memphis, Cincinnati, and Cleveland, it is unsurprising that additional airports were subsequently de-hubbed irrespective of the Delta/Northwest and United/Continental mergers. *Sources:* OAG published schedule; U.S. DOT DB1B database.

FIGURE 14: DOMESTIC ASMS OF LEGACY NETWORK VERSUS LOWER COST CARRIERS (1998-2024)



Source: OAG published schedule as of December 5, 2024.
Notes: Lines show year of GNC mergers; other mergers include American/Reno (1999), Southwest/AirTran (2011), Alaska/Virgin America (2016), and Alaska/Hawaiian (2024).

B. Notwithstanding Industry Consolidation, Consumers Today Have More Choice in Domestic and International Air Travel Than Ever Before

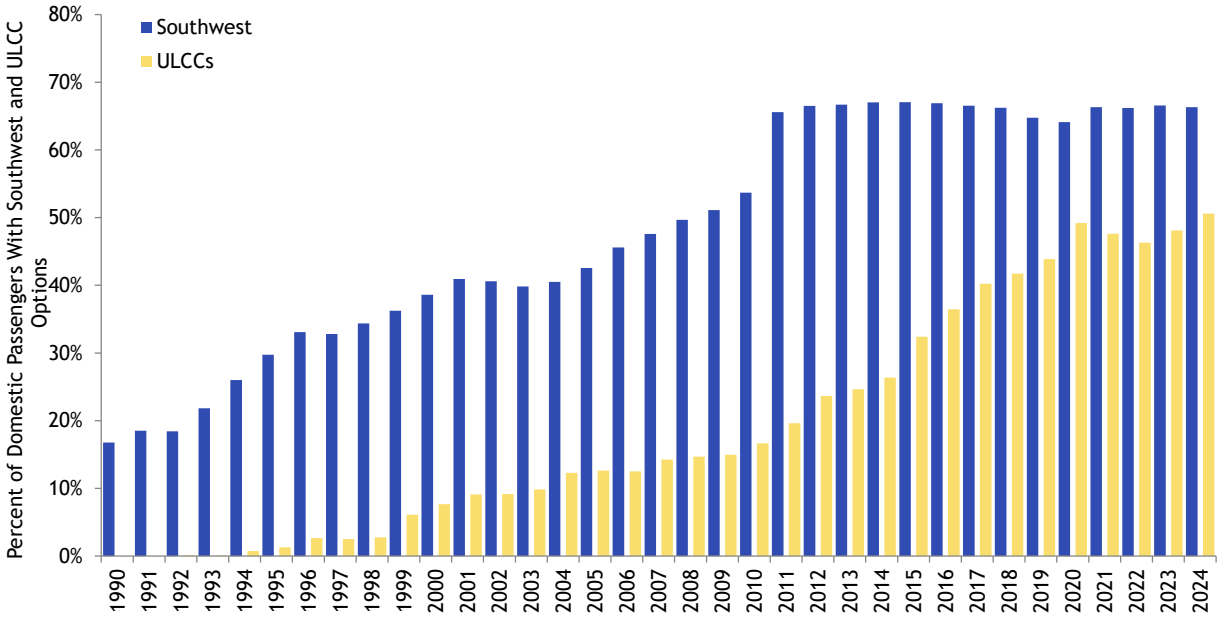
1. Domestic Travel

As noted above in Section II, consumers today can choose between four distinct business models, with lower cost carriers competing for 90% of all domestic O&D passengers where on average there are now *more* competitors on domestic city-pairs (3.5) than there were two decades ago (*see* Section II.A and Figure 2 above). In addition to these statistics, there is far more depth to the choices consumers have today.

To begin with lower cost carriers, there are many rich datapoints that add further dimension to the fact that these carriers compete for 90% of all domestic O&D passengers. Many lower cost carriers (*i.e.*, ULCCs) compete primarily on price. Other lower cost carriers (*e.g.*, Southwest, JetBlue, Alaska, Breeze) compete using an overall value proposition where price plays a prominent role, as well as schedule and product/service quality. Many consumers have demonstrated a willingness to trade off the schedule flexibility and other amenities (*e.g.*, network scope, multi-

cabin service) that GNCs provide in exchange for lower fares. Southwest demonstrated this fact throughout the 1990s and 2000s when it expanded to become the largest U.S. carrier measured by domestic O&D passengers.[63] And as ULCCs, both established and new, continue to proliferate across the country in the same way that Southwest did throughout the 1990s and 2000s (as shown in Figure 15 below), they have grown their collective domestic O&D share to 14% in 2024 and compete for over 50% of domestic O&D passengers.

FIGURE 15: PERCENTAGE OF DOMESTIC O&D PASSENGERS WITH SOUTHWEST AND ULCC OPTIONS (1993-FYE Q2 2024)



Source: U.S. DOT DB1B database.
Notes: Percent of passengers traveling on city-pairs where at least one ULCC or Southwest had at least a 5% share of O&D passengers. ULCCs include Frontier, Spirit, Sun Country, Avelo, and Allegiant in all years. Spirit transitioned to the ULCC model in 2006; Frontier transitioned to the ULCC model in 2014; Sun Country transitioned to the ULCC model in 2017.

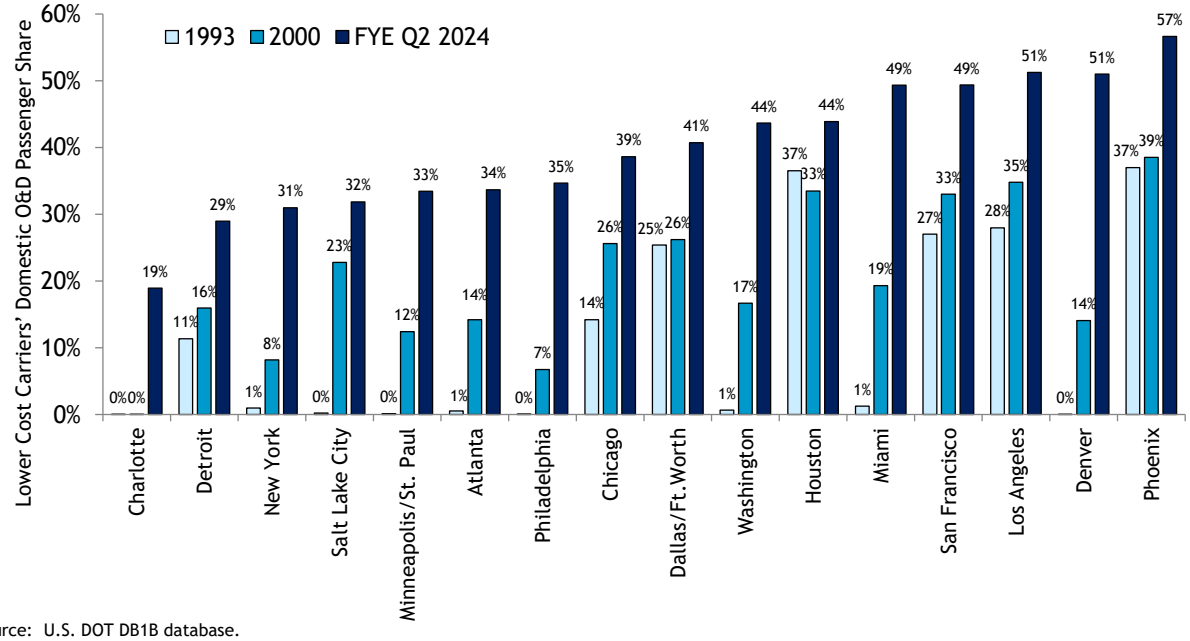
In addition to consumer preference for lower fares, and contrary to certain industry critiques,[64] the lack of entry barriers has enabled lower cost carriers to successfully enter and expand share on routes to/from GNC hub cities even with relatively fewer flight frequencies than

[63] *Source*: U.S. DOT DB1B database.

[64] *See* "The Sky's the Limit: the Rise of Junk Fees in American Travel," *Majority Report from the Senate Permanent Subcommittee on Investigations*, November 26, 2024, p. 18 ("The dominance of legacy carrier operations at certain hubs—so called 'fortress hubs'—evidences the diminishing options available to travelers in key cities such as Atlanta, Dallas, and Chicago.").

GNCs, with lower cost carriers' share of domestic O&D passengers approaching and even exceeding 50% in several cities, as shown in Figure 16 below.[65]

FIGURE 16: GROWTH OF LOWER COST CARRIERS' O&D PASSENGERS AT MAJOR HUB CITIES (1993, 2000, FYE Q2 2024)

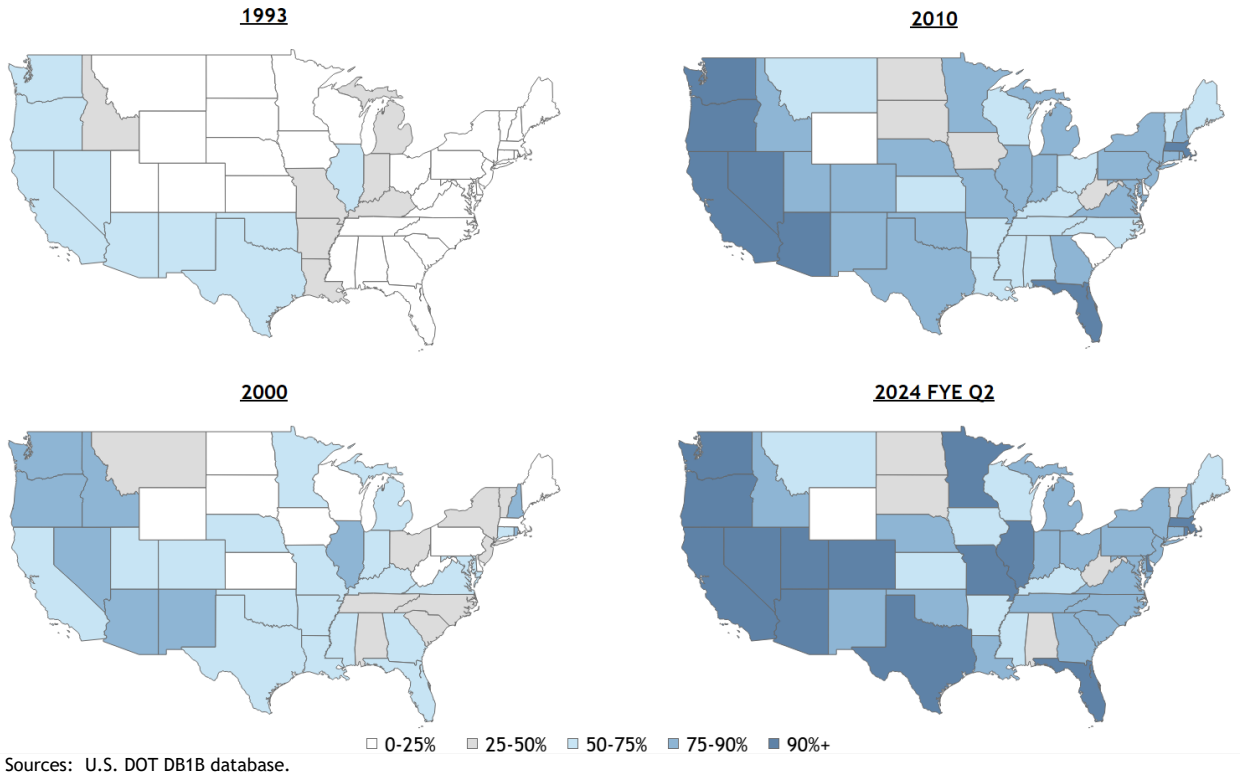


Source: U.S. DOT DB1B database.
Notes: Lower Cost Carriers include AirTran, Alaska, Allegiant, Aloha, ATA, Avelo, Breeze, Frontier, Hawaiian, JetBlue, Kiwi, Midway, National, Pro Air, Reno, Southwest, Spirit, Sun Country, and Vanguard. Airports in major metropolitan areas are grouped: Chicago (ORD, MDW), Washington, D.C. (IAD, DCA, BWI), Dallas (DFW, DAL), Houston (IAH, HOU), Los Angeles (LAX, LGB, BUR), Miami (MIA, FLL), New York (EWR, JFK, LGA), San Francisco (SFO, OAK), Phoenix (PHX, AZA), Detroit (DTW, DET).

To be sure, lower cost carrier access is no longer concentrated in any particular region of the country, as it was in the 1990s. To the contrary, as shown in Figure 17 below, lower cost carriers have penetrated *all* corners of the country.

[65] This trend holds with relatively newer GNC hub cities like Seattle and Boston (new Delta hubs) where lower cost carriers' share of domestic O&D passengers is 66% and 44%, respectively. The same story generally persists when you view this at the hub *airport* level. (*See* Figure 54 in the Appendix showing lower cost carrier penetration at hub airports.) Moreover, the percent of legacy network carrier hub-to-hub routes—purportedly the most difficult for lower cost carriers to penetrate—served by lower cost carriers has increased from 38% in 2000 to 91% in 2024, even with the sharp increase in the number of hub-to-hub routes as a result of legacy network carrier mergers. *See* Figure 55 in the Appendix showing proportion of large network carrier hub-to-hub city-pairs served by lower cost carriers (1998-2025).

FIGURE 17: PERCENTAGE OF DOMESTIC O&D PASSENGERS WITH LOWER COST OPTIONS BY STATE (1993, 2000, 2010, FYE Q2 2024)

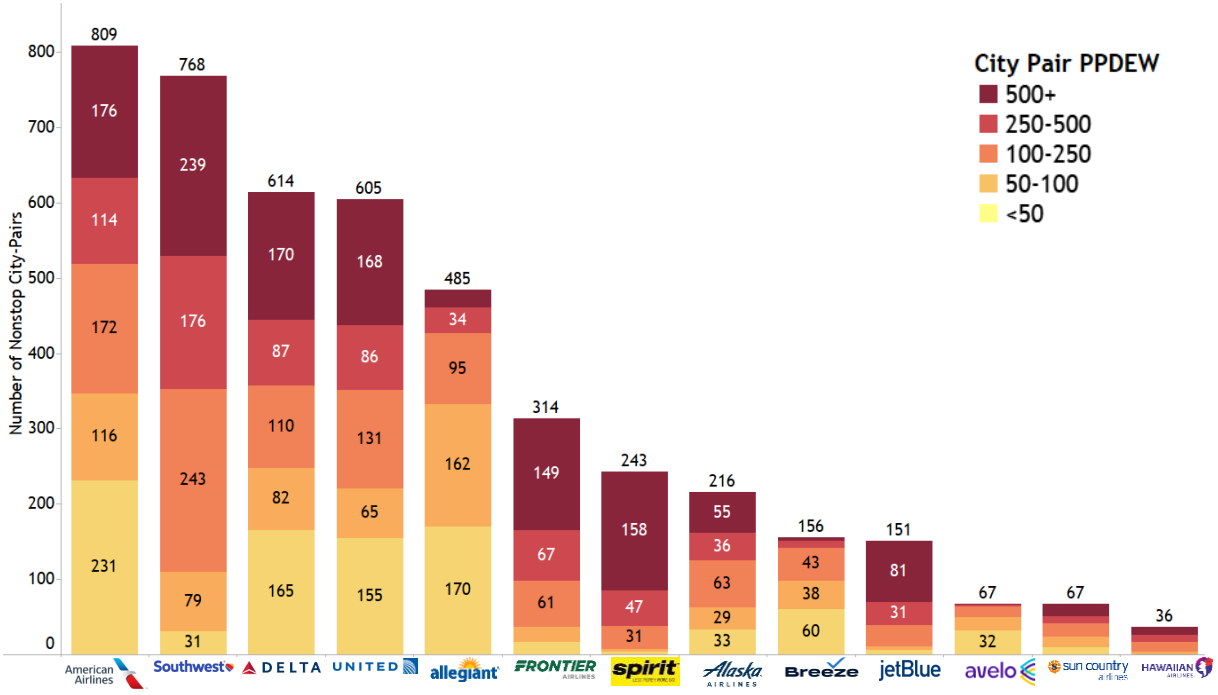


Sources: U.S. DOT DB1B database.
Notes: Domestic Passengers with lower cost options defined as passengers traveling in city-pairs where at least one lower cost carrier has at least a 5% O&D share. New York and New Jersey are grouped. District of Columbia, Virginia, and Maryland are grouped.

Many (though not all) lower cost carriers have been able to expand their presence throughout the country by targeting the most traffic-rich routes. For instance, Figure 18 shows that the vast majority of domestic routes served by most lower cost carriers—including Alaska, Southwest, JetBlue, Spirit, and Frontier—generate at least 100 passengers per day each way ("PPDEW") across all carriers, and most typically over 250 PPDEW. Other lower cost carriers, namely Allegiant and Breeze, have deliberately chosen to *avoid* such markets, focusing instead on taking passengers between small communities and popular leisure destinations such as Orlando or Las Vegas, or targeting passengers traveling between mid-sized cities who otherwise need to make a connection (typically with relatively low frequency service).[66]

[66] Breeze, for example, is the only carrier offering nonstop service between Charleston and Providence, Hartford, New Orleans, Richmond, Syracuse, Louisville, and Manchester, among others. Breeze's frequency in November 2024 on these routes ranged from almost daily (*e.g.*, Providence) to twice/weekly (*e.g.*, Louisville, Manchester, Syracuse). *Source*: OAG published schedule as of November 7, 2024.

FIGURE 18: NUMBER OF DOMESTIC NONSTOP ROUTES BY CITY PAIR PASSENGERS PER DAY EACH WAY (JUNE 2024)



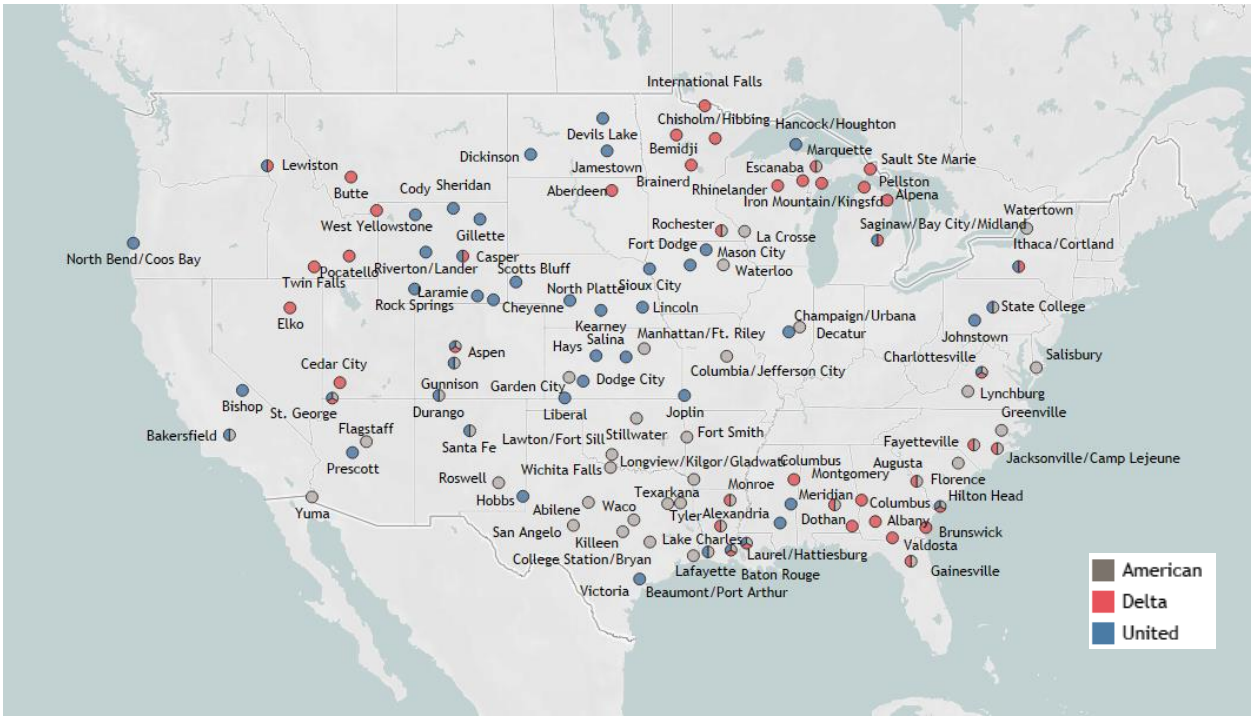
Sources: U.S. DOT DB1B database, FYE Q2 2024; OAG published schedule.
Notes: Domestic city-pairs where the carrier operated at least four roundtrip departures in June 2024. Number of city-pairs by passengers per day each way traveling on any carrier in the city-pair. O&D passengers in FYE 2024-Q2 limited to online passengers travelling on three or fewer coupons.

This same figure demonstrates that each of the GNCs offer nonstop service on over 150 (or 230 in the case of American) domestic routes that generate fewer than 50 PPDEW traveling locally on the city-pair *across all carriers*. These routes to/from small communities—which are served daily, often with multiple frequencies to facilitate connections—are an essential element of the GNC business model, extending access to the air travel system throughout the country. Figure 19 depicts a map of the 107 small communities served today exclusively by the GNCs (and their regional partners).[67] Over the past decade, GNCs' capacity to/from small communities as measured by daily seats has grown 29%.[68]

[67] Notably, the median number of passengers per day traveling between these communities *and all destinations worldwide* is just 181 passengers. *Source*: U.S. DOT T-100 database, FYE July 2024. Adding the small communities served by Alaska to the map in Figure 19 would add an additional 23 small communities, including 16 in Alaska, four small communities in Washington State (Pullman, Walla Walla, Yakima, and Wenatchee), and one in each of California (San Luis Obispo), Idaho (Sun Valley), and Montana (Helena).

[68] *Sources*: U.S. DOT T-100 database; OAG published schedule as of November 7, 2024 comparing July 2024 and July 2015. Overall capacity to/from small communities as measured by daily seats has grown 36% over this period. *Id.*

FIGURE 19: SMALL COMMUNITIES SERVED EXCLUSIVELY BY GNCS (AND THEIR REGIONAL PARTNERS) (2024)



Sources: OAG published schedule as of October 3, 2024.
Notes: Limited to cities with 104 or more departures by American, Delta, or United in 2024. Includes nonprimary and non-hub airports based on FAA's classification in 2023. Excludes Puerto Rico, U.S. Virgin Islands, and U.S. Pacific Trust Territories And Possessions. Excludes cities served by Alaska, Allegiant, Avelo, Breeze, Hawaiian, Frontier, JetBlue, Southwest, Spirit, and Sun Country with eight or more departures in at least one month in 2024.

It is undoubtedly good for consumers to have the option of large network carriers that serve both major urban centers as well as many small communities and deliver travelers from cities both big and small to destinations around the country and the world. Put simply: *big is not bad*. Indeed, network breadth can be an important consideration for all types of consumers regardless of domicile. For example, network breadth is important to large corporate customers that procure travel on a network-wide (rather than specific O&D) basis because larger corporate customers often have employees and clients spread throughout the country and around the world that require the ability to fly from "anywhere to everywhere." Network breadth is also important to individual consumers or smaller firms with employees who travel frequently and desire (i) high frequency service on frequently traveled routes; and/or (ii) the ability to earn/redeem reward travel benefits broadly, to a wide range of destinations (*see* Section V.C. on airline rewards programs); and/or (iii) the ability to earn elite travel status and unlock even more travel benefits (*e.g.*, priority check-in/boarding, lounge access, complimentary checked bags, upgrades, etc.). Network breadth can be important for leisure travelers, particularly those traveling internationally and/or those

desiring a more premium leisure travel experience, for example, with GNCs' premium economy seating on international flights.

2. International Travel

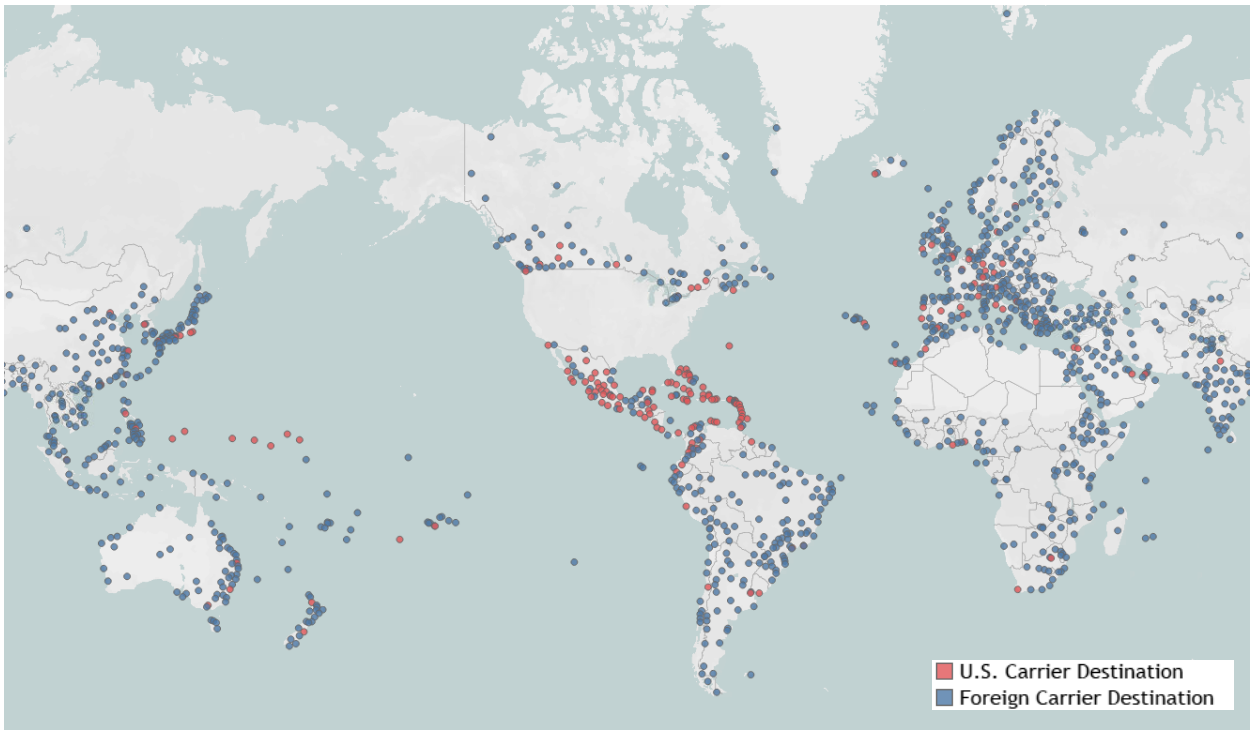
The U.S. airline industry's renaissance that started in the mid-2010s prominently featured improvements in international service. Just as domestic mergers between legacy carriers were driven by their need to offer ubiquitous domestic networks, the development of international alliances that began in the 1990s is driven by these carriers' desire to offer consumers seamless service to destinations around the globe.

The ability for U.S. carriers to take customers to all of the international destinations they want to travel is hindered by the economic and operational limitation that overwhelming majority of U.S.-international city-pairs generate far too little traffic to support nonstop traffic from the United States: no individual airline can economically serve every global destination to which its U.S. passengers want to travel relying solely on its own network services.[69] Of the 1,258 foreign destinations to which U.S. carriers transported passengers during FYE 2024-Q2 (all or part of the way), only 186 are served by U.S. carriers using their own aircraft.[70]

[69] This limitation is reinforced by the fact that most countries (including the United States) have "cabotage" laws and/or foreign ownership restrictions that prevent foreign carriers from either operating or having a controlling interest in a carrier that operates passenger flights within their borders. Further, most, but not all international service on U.S. carriers involves nonstop flights from the United States to the foreign destination, with only a small handful of destinations served under so-called "fifth freedom" traffic rights, that permit—under certain circumstances—U.S. carriers to operate flights between two foreign countries (*e.g.*, Japan and the Philippines).

[70] *Sources*: U.S. DOT DB1B database; OAG published schedule as of October 3, 2024. The median number of daily passengers between the United States and international destinations U.S. carriers do not fly to is only 15 per day, making non-stop service from the United States economically infeasible. In contrast, the median number of daily passengers between the United States and the 186 international destinations U.S. carriers served using their own aircraft in 2024 was 1,276 per day. *Source*: MIDT, FYE July 2024.

FIGURE 20: INTERNATIONAL DESTINATIONS OF TRAVELERS BY AIR TO/FROM THE UNITED STATES (FYE Q2 2024)



Source: U.S. DOT DB1B database, FYE Q2 2024; OAG published schedule as of October 3, 2024.
Notes: Map depicts international destinations of passenger tickets with at least one U.S. carrier flight segment. A destination is designated a U.S. carrier destination if a U.S. carrier served it in 2024.

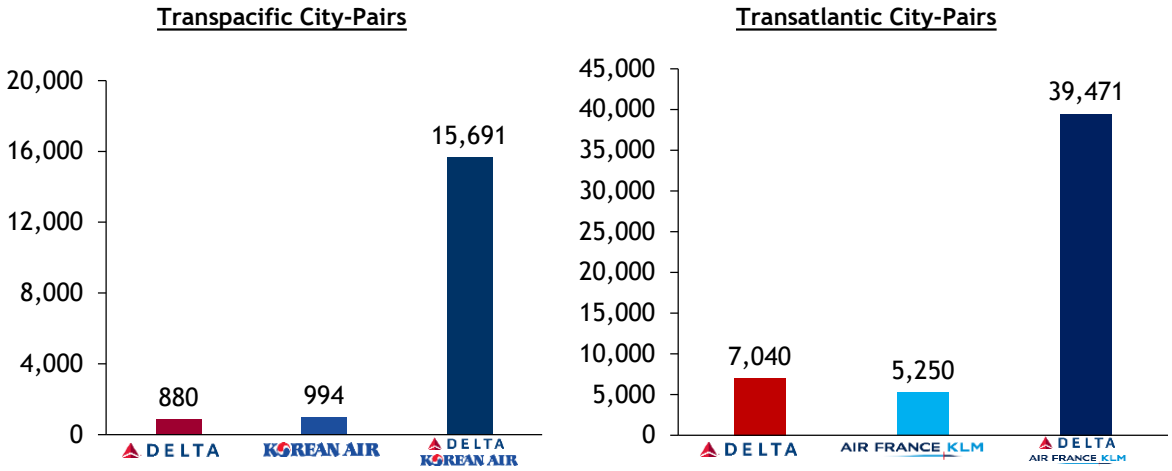
To achieve *global* network ubiquity, GNCs need to partner with foreign airlines to connect complementary networks at both ends of the hub-to-hub conduit routes. Given the vast number of disparate international city-pairs that consumers want to travel on, it is no surprise that efficient and convenient international travel—particularly across a wide array of long-haul markets—depends on hub-and-spoke networks and the ability to aggregate traffic behind and beyond an international "gateway" (*i.e.*, a hub from which international service is offered). For example, as illustrated in Figure 21, by connecting Delta's hub in Atlanta (ATL) with the hubs of its partners Air France in Paris (CDG) and Korean Air in Seoul (ICN), the carriers can connect passengers in tens of thousands of city-pairs.

FIGURE 21: CONNECTIONS USING DELTA'S ATL, AIR FRANCE'S CDG AND KOREAN AIR'S ICN HUBS (2024)

Source: OAG published schedule as of November 7, 2024.
Notes: Maps shows destinations served in 2024. Destinations in North and South America served by Delta from Atlanta (ATL); destinations in Europe, Africa, Middle East and Indian Subcontinent served by Air France from Paris (CDG); destinations in Asia served by Korean Air from Seoul (ICN).

International cooperation can range from less integrated partnerships (*e.g.*, interline, codeshare[71]) to fully integrated, revenue-sharing, "metal-neutral" joint ventures ("JVs") with DOT-granted antitrust immunity[72] that allow two (or more) international carriers to link their networks and make seamless connections on thousands of city-pairs that no single carrier can serve using its own network.[73] For instance, the JV partnerships between Delta and Air France/KLM and Korean Air used in the map above unlock nearly 28,000 transatlantic city-pairs and over 13,800 transpacific city-pairs.[74]

FIGURE 22: TRANSATLANTIC AND TRANSPACIFIC CITY-PAIRS SERVED BY DELTA, AIR FRANCE/KLM, AND KOREAN AIR, INDIVIDUALLY VERSUS BY PARTNERSHIP (2024)



Source: OAG published schedule as of October 3, 2024.
Notes: Destinations served by carriers in 2024. Transatlantic includes destinations in Europe, Middle East and Africa and the Indian Subcontinent; transpacific includes destinations in Asia. Transpacific excludes flights to/from U.S. territories.

[71] Interline agreements only allow customers to transfer between independent carriers on a single ticket. Codeshare agreements are marketing agreements that allow carriers to market and sell tickets on each other's flights.

[72] In fully integrated, revenue-sharing, metal-neutral joint ventures, partner-carriers pool and share revenues across certain flights (typically some or all of the routes between the countries of the two carriers) and, in doing so, become indifferent (*i.e.*, "metal-neutral") as to which partner transports any particular passenger.

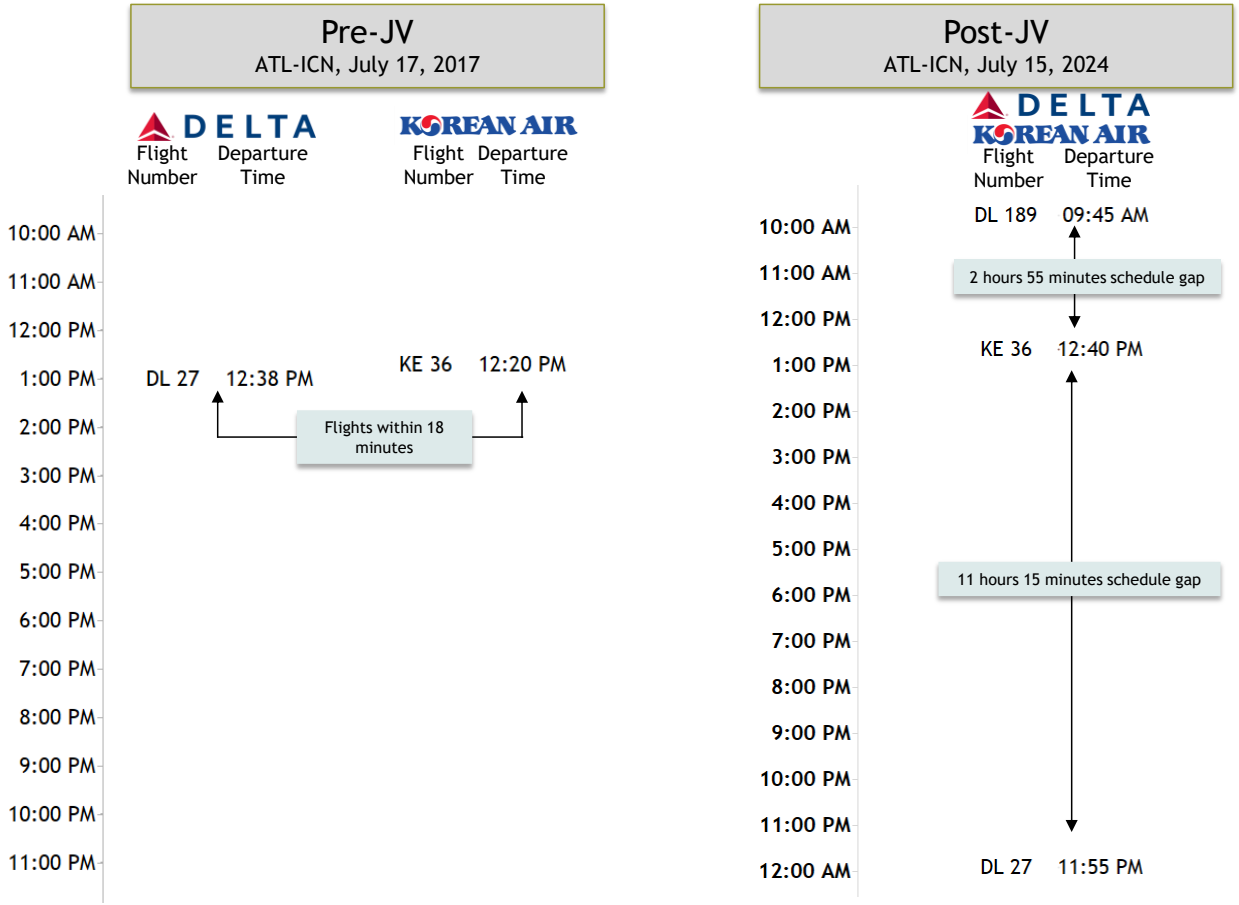
[73] A 1999 U.S. DOT study found that "[m]ultinational alliances have fueled enormous increases in connecting traffic" and that "newly stimulated traffic accounts for a large proportion of alliance growth" with "traffic growth substantially increased after the airlines began fully implementing the alliances after receiving immunity." *See* International Aviation Developments: Global Deregulation Takes Off, U.S. DOT, Office of the Secretary (Dec. 1999), at 2, 8, 10.

[74] Examples of transpacific city-pairs that the Delta/Korean Air partnership unlocks include Cleveland-Hanoi, Miami-Phuket, and Memphis-Denpasar. *Source*: OAG published schedule as of October 3, 2024. Examples of transatlantic city-pairs that the Delta/Air France/KLM partnership unlocks include Phoenix-Dusseldorf, Charlotte-Helsinki, and Albany-Bologna. *Source*: OAG published schedule as of October 3, 2024.

Nearly three decades of economic research firmly establishes that increased integration between international airlines helps to reduce or, in the case of a metal-neutral JV, eliminate the double marginalization pricing inefficiency on the jointly operated tickets that are required for a lot of international travel.[75] JVs also provide consumers non-price benefits, such as schedule improvements like reductions in "wingtip flying" (*i.e.*, departures that are stacked at nearly the same time) and scheduling gaps. A good illustration of this is the comparison in Figure 23 below of Delta and Korean Air's schedules pre- and post- JV on a summer weekday (Monday) schedule on the hub-to-hub route between Atlanta's Hartsfield Jackson Atlanta International Airport and Seoul's Incheon International Airport. Specifically, prior to their JV, each carrier offered one daily flight, each departing midday within 20 minutes of one another. Because Delta and Korean Air competed on this route prior to their JV, a passenger who could not depart at or around noon had to wait until the following day until the next flight. With the implementation of the JV, the number of daily flights increased to three, with varied schedule options, including a morning flight departing at 9:45am, a midday flight departing at 12:40pm, and an evening flight departing at 11:55pm. This created enormous benefits for consumers, particularly for business travelers who now enjoy enormous schedule flexibility to seamlessly return home from a business trip earlier or later than anticipated without having to wait until the following day to travel.

[75] *See* Jan Brueckner, "The Economics of International Codesharing: An Analysis of Airline Alliances," *International Journal of Industrial Organization*, Vol. 19 (10), 2001, 1475-1498; Jan Brueckner, "International Airfares in the Age of Alliances: The Effects of Codesharing and Antitrust Immunity," *Review of Economics and Statistics*, Vol. 85 (1), 2003, 105-118; W. Tom Whalen, "A Panel Data Analysis of Code Sharing, Antitrust Immunity and Open Skies Treaties in International Aviation Markets," *Review of Industrial Organization*, Vol. 30, 2007, 39-61; Robert Willig, Mark Israel, and Bryan Keating, "Competitive effects of airline antitrust immunity," Unpublished paper, Compass Lexecon, 2010; Jan Brueckner, Darin Lee, and Ethan Singer, "Alliances, Codesharing, Antitrust Immunity and International Airfares: Do Previous Patterns Persist?" *Journal of Competition Law and Economics*, Vol. 7 (3), 2011, 573-602; Robert Calzaretta, Yair Eilat, and Mark Israel, "Competitive Effects of International Airline Cooperation", *Journal of Competition Law Economics*, Vol. 13 (3), 2017, 501–548; *and* Jan Brueckner and Ethan Singer, "Pricing by international airline alliances: A retrospective study," *Economics of Transportation*, Vol. 20, 2019, 100-139.

FIGURE 23: ATL-ICN SCHEDULE OPTIONS BEFORE AND AFTER DELTA/KOREAN AIR JV



Source: OAG published schedule for flights from ATL to ICN.

As a result of optimized scheduling and the launching of new nonstop conduit routes (or frequences) *enabled by the JV* and the increase in flow traffic it generates,[76] JVs can provide more itinerary options for both nonstop and connecting passengers. By way of one example, travelers between Tampa and Seoul now have the option of earlier arrival times into Seoul and later departure times from Tampa as a result of Delta and Korean's metal-neutral JV.

[76] By way of just one example, Delta recently announced that it would commence the first ever nonstop service between Salt Lake City and Seoul on June 12, 2025. *See* "Delta Opens a New Gateway to Asia with First-Ever Nonstop Route from Salt Lake City to Seoul," *Delta News Hub*, September 27, 2024, https://news.delta.com/delta-opens-new-gateway-asia-first-ever-nonstop-route-salt-lake-city-seoul. This city-pair, which generated only 15 daily local bookings each way in all of 2019 would not have been possible absent the joint venture between Delta and Korean and seamless connectivity behind/beyond both endpoints of the route that comes with it.

FIGURE 24: ILLUSTRATIVE EXAMPLE OF INCREASE IN BEHIND/BEYOND CONNECTIONS WITH OPTIMIZED SCHEDULE PRE- AND POST-WING-TIP FLYING REDUCTION

Tampa, Florida - Seoul, South Korea

Pre-JV
Flights for Monday, July 17, 2017

Departure Time	Flight Number 1	Connect Airport	Flight Number 2	Arrival Time	Total Time
7:25 AM	DL 2137	ATL	KE 36	4:10 PM	19:05
7:25 AM	DL 2137	ATL	DL 27	4:30 PM	19:25
7:45 AM	DL 1558	LAX	KE 16	3:05 PM	17:40
7:45 AM	DL 1558	LAX	KE 18	5:25 PM	20:00
8:35 AM	DL 969	ATL	KE 36	4:10 PM	17:55
8:35 AM	DL 969	ATL	DL 27	4:30 PM	18:15
9:45 AM	DL 1572	ATL	KE 36	4:10 PM	16:45
9:45 AM	DL 1572	ATL	DL 27	4:30 PM	17:05
11:52 AM	DL 1959	DTW	DL 159	6:25 PM	17:33
7:00 PM	DL 1391	LAX	KE 12	4:35 AM	20:35
7:00 PM	DL 1267	JFK	KE 86	4:10 AM	20:10

Post-JV
Flights for Monday, July 15, 2024

Departure Time	Flight Number 1	Connect Airport	Flight Number 2	Arrival Time	Total Time
5:25 AM	DL 1545	ATL	DL 189	2:25 PM	20:00
6:25 AM	DL 1486	ATL	DL 189	2:25 PM	19:00
7:00 AM	DL 2406	BOS	KE 92	5:25 PM	21:25
7:07 AM	DL 2263	MSP	DL 171	3:20 PM	19:13
7:09 AM	DL 538	LAX	KE 18	5:20 PM	21:11
7:25 AM	DL 2475	JFK	KE 82	5:50 PM	21:25
7:56 AM	DL 1449	ATL	KE 36	4:50 PM	19:54
8:25 AM	DL 2843	DTW	DL 159	5:20 PM	19:55
9:05 AM	DL 1090	SEA	DL 197	4:30 PM	18:25
9:05 AM	DL 1090	SEA	KE 42	4:40 PM	18:35
9:35 AM	DL 2605	ATL	KE 36	4:50 PM	18:15
6:55 PM	DL 1425	ATL	DL 27	4:30 AM	20:35
7:13 PM	DL 749	LAX	KE 12	4:30 AM	20:17
7:59 PM	DL 1594	ATL	DL 27	4:30 AM	19:31
7:59 PM	DL 2093	JFK	KE 86	4:45 AM	19:46
8:59 PM	DL 1457	ATL	DL 27	4:30 AM	18:31

Online Connections
Interline/Codeshare Connections
JV Connections

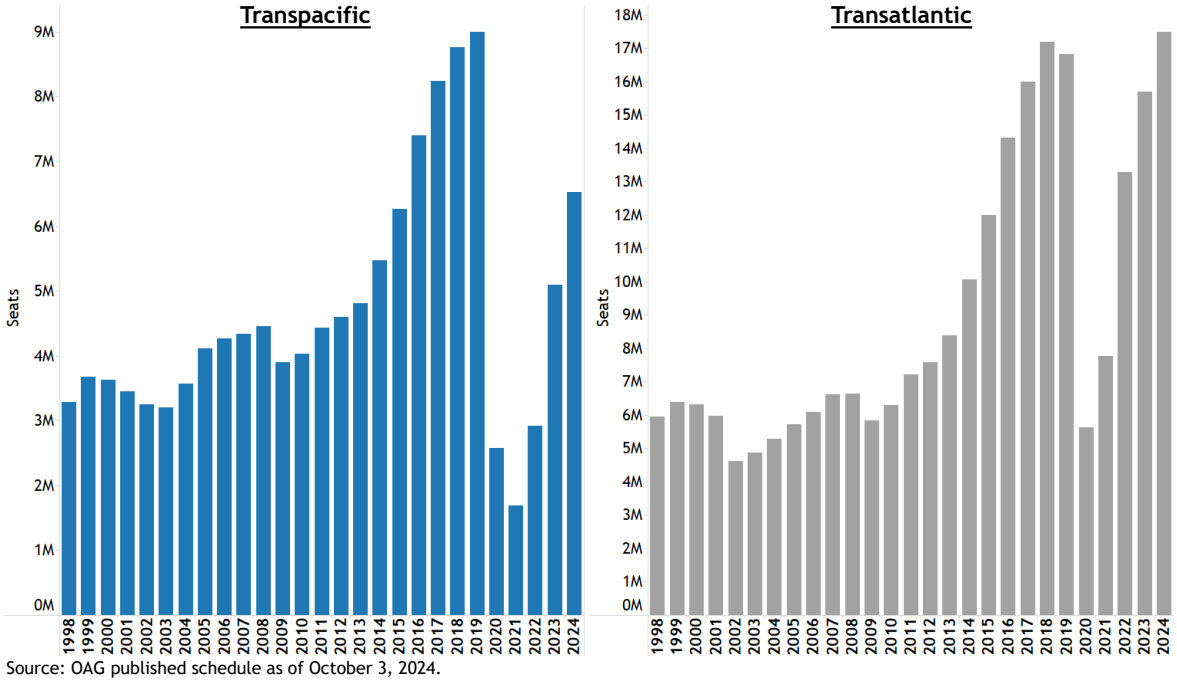
Source: OAG published schedule.
*Connections with a minimum and maximum connection time of 45 minutes and four hours, respectively, and a maximum circuity (relative to great circle distance) of 1.5.

To be sure, contrary to critics of antitrust immunized alliances, GNCs' JVs have not crowded out other competitors in international markets.[77] In fact, *non-immunized* carriers have rapidly grown their capacity (as measured by seats) on Transatlantic and Transpacific routes to/from the United States over the same time period that GNC JV partnerships proliferated.[78]

[77] *See, e.g.*, Diana Moss, "Revisiting Antitrust Immunity for International Airline Alliances," *American Antitrust Institute*, March 28, 2018 ("Many of these [U.S. alliance] gateways have become significantly more concentrated as the result of sweeping U.S. airline consolidation over the past decade, raising concerns about foreclosure of smaller, non-allied carriers and higher fares, less choice in carriers, and lower quality for consumers. Such changes undercut claims that immunity can bring substantial benefits to consumers in nonstop and in the behind-the-gateway and beyond-the-gateway markets served by the alliances.").

[78] Excluding U.S.-China flights, which accounted for roughly 40% of all U.S.-transpacific seats offered by non-immunized carriers in 2019 but are still severely depressed, U.S.-transpacific capacity on non-immunized carriers is *higher* than it was in 2019. *Source*: OAG published schedule as of October 3, 2024.

FIGURE 25: ANNUAL SEATS (MILLIONS) FROM THE UNITED STATES ON NON-JV CARRIERS (2000-2024)



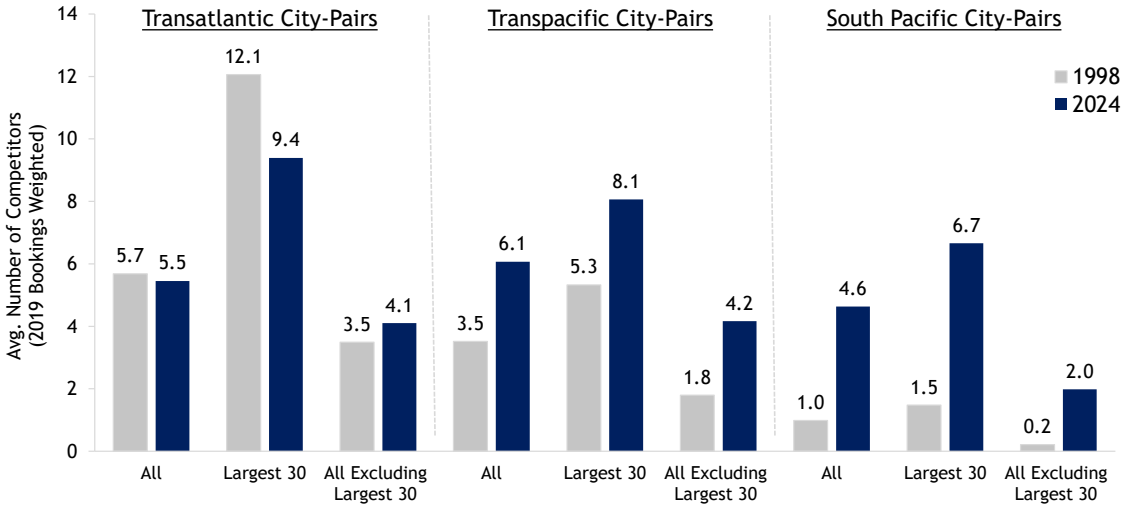
Source: OAG published schedule as of October 3, 2024.
Notes: Transpacific excludes seats from Guam and Hawaii. Excludes seats on American/Delta/United and their transpacific (ANA, JAL, Korean Air, Asiana, Air New Zealand, Qantas, Virgin Australia) and transatlantic (Air France-KLM, Alitalia, British-Iberia, Finnair, Lufthansa Group, Virgin Atlantic, Aer Lingus) JV partners. Transpacific defined as Asia and Australia; transatlantic defined as Europe, Middle East, Indian Subcontinent, and Africa.

Moreover, the combination of (i) joining complementary networks through JV alliances, and (ii) continued growth and U.S. expansion by non-JV U.S. and foreign airlines has—in general— resulted in *more* (not fewer) online/JV options for consumers in the vast majority of international city-pairs. For example, in 2024 there were an average of 6.1 online or JV competitors on U.S.-transpacific city-pairs compared to 3.5 in 1998, notwithstanding the formation of JVs between American/JAL, United/ANA and Delta/Korean.[79] For travel across the Atlantic, outside of the largest 30 city-pairs, the number of online or JV competitors has increased from 3.5 in 1998 to 4.1, notwithstanding the formation or expansion of three JVs: (i) A++ (the transatlantic JV including United, Air Canada, Lufthansa, Austrian, Swiss, Brussels and Eurowings), (ii) the

[79] *Sources*: OAG published schedule, July 15-21, 1998, and July 15-21, 2024; MIDT 2019. For U.S.-South Pacific city-pairs, the results are similar. In 1998, there was an average of only 1.0 competitors per city-pair compared to 4.6 in 2024, notwithstanding the formation of American's JV with Qantas and United's JV with Air New Zealand. Because the overwhelming majority of U.S.-South Pacific city-pairs that consumers travel on require connections beyond and/or behind the gateway, these JVs combined with (1) Delta's and Hawaiian's entry into Australia and New Zealand, and (2) expansion by other Asian and Middle Eastern carriers (*e.g.*, Emirates, Singapore Airlines) have unambiguously led to increased options for travelers.

Delta/Air France-KLM/Virgin Atlantic JV, and (iii) the American/British Airways/Iberia/Finnair/Aer Lingus JV. And where these transatlantic JVs did contribute to a reduction in net competitors (*e.g.*, in the largest 30 transatlantic city-pairs), the average number of competitors still remains extremely high at 9.4.[80]

FIGURE 26: AVERAGE NUMBER OF ONLINE/JV SCHEDULE OPTIONS FOR U.S.-TRANSOCEANIC CITY-PAIRS, 1998 VS. 2024



Source: OAG published schedule, July 15-21, 1998, and July 15-21, 2024; MIDT 2019.
Notes: Competitors with either nonstop or one-stop (online or JV) service in the city-pair (3x weekly each way in July 1998 and July 2024). Connections with a minimum and maximum connection time of 45 minutes and six hours, respectively, and a maximum circuity (relative to great circle distance) of 1.5. Competitor counts are weighted by 2019 MIDT bookings on the city-pair. Transatlantic includes destinations in Europe, United Kingdom, Middle East, Africa, and the Indian Subcontinent. Transpacific includes destinations in Asia (excluding the Indian Subcontinent). South Pacific includes destinations in Australia, New Zealand, and the islands in the south Pacific Ocean (from contiguous United States). Transatlantic JVs in 1998 include United/Lufthansa (excluding carveout routes between Chicago-Frankfurt, Washington-Frankfurt), Delta/Swissair/Sabena/Austrian (excluding carveout routes between Atlanta-Zurich, Atlanta-Brussels, Cincinnati-Zurich, New York-Brussels, New York-Vienna, New York-Geneva, New York-Zurich), and Northwest/KLM. Transatlantic JVs in 2024 include United/Air Canada/Lufthansa/Austrian/Swiss/Brussels/Eurowings, Delta/Air France-KLM/Virgin Atlantic, and American/British-Iberia/Finnair/Aer Lingus. Transpacific JVs in 2024 include United/ANA, Delta/Korean, American/JAL. South Pacific JVs in 2024 include United/Air New Zealand, American/Qantas.

Most recently, Alaska announced planned new nonstop service to Tokyo and Seoul from its hub in Seattle in 2025, which will add a new competitor for many Transpacific city-pairs via Alaska's network.[81]

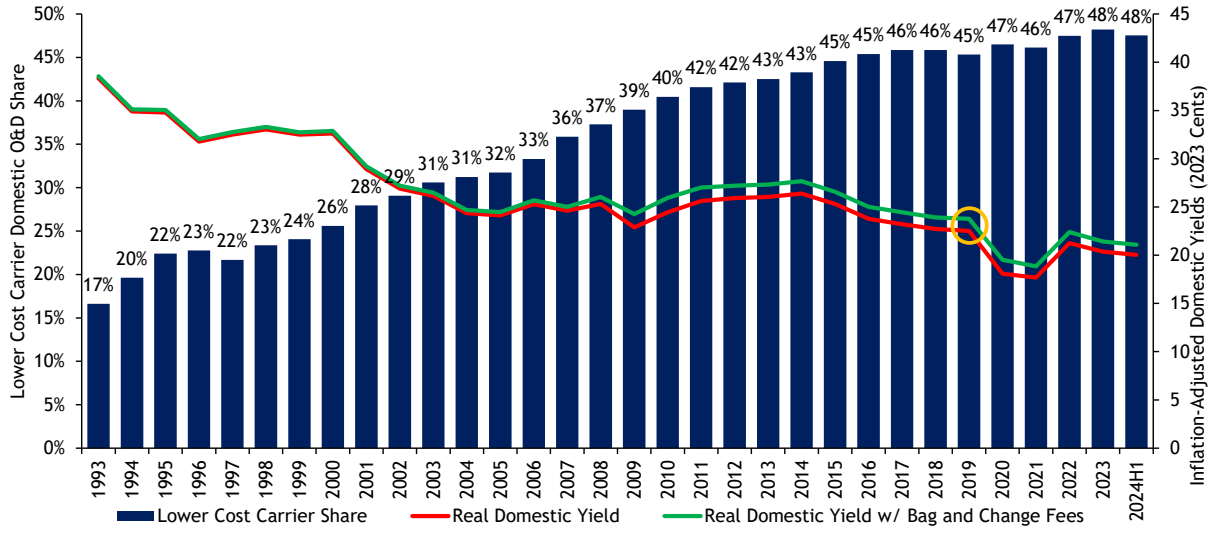
[80] *Sources*: OAG published schedule, July 15-21, 1998, and July 15-21, 2024; MIDT 2019. By way example, between New York—London (by far the largest transatlantic city-pair)—there were 20 competitors in 1998 compared to 11 today. Among the competitors in 1998 that no longer offer service in 2024 include non-stop fifth freedom service on Air India and Kuwait Airways (service that was largely an artifact of an era when aircraft could not economically fly between these carriers' home country and New York without stopping to refuel). In terms of non-stop competitors, there are five distinct competitors serving New York-London in 2024 with daily service (American/British Airways, United, Delta/Virgin Atlantic, JetBlue, and Norse Atlantic).

[81] *See* "Alaska Airlines Plans New Nonstop Flights to Japan, Korea in $1 Billion Postmerger Profit Push," *CNBC*, December 9, 2024, https://www.cnbc.com/2024/12/10/alaska-airlines-nonstop-flights-japan-

C. U.S. Airfares Are at or Near All-Time Lows—and Have Been A Welcome Respite For Consumers Suffering From Rampant Inflation Since the Pandemic

One key indicia of an industry's competitiveness is prices. By virtually any measure of prices, the U.S. airline industry is highly competitive. The robust and dynamic competition between carriers utilizing different business models has resulted in fares for U.S. domestic air travel declining substantially—*e.g.*, by roughly 55% in inflation-adjusted terms since industry deregulation,[82] and by more than 45% since 1993 even after accounting for bag and change fees, as shown in Figure 27 below.

FIGURE 27: INFLATION-ADJUSTED DOMESTIC PRICES PER MILE VS. LOWER COST CARRIER DOMESTIC O&D SHARE (1993-2024H1)



Sources: U.S. DOT DB1B database; U.S. DOT Form 41, schedule P-1.2; U.S. BLS CPI all urban consumers; https://www.bts.gov/newsroom/annual-and-fourth-quarter-2019-air-fare-data.
Notes: Real yield in 2023 cents. Bag fees and change fees are from U.S. DOT Form 41 schedule P-1.2, Passenger Baggage Fees and Reservation Cancelation Fees. Excludes O&D fares less than $6.00 for yield calculation. Lower Cost Carriers include: Accessair, Air South, AirTran, Alaska Airlines, Allegiant, Aloha Airlines, ATA Airlines, Avelo, Breeze Airways, Eastwind Airlines, Frontier, Hawaiian, Independence Air, JetBlue, Kiwi, Midway Airlines, Morris Air, National Airlines, Pro Air, Reno Air, Skybus, Southwest, Spirit, Sun Country, Valujet, Vanguard, Virgin America, Western Pacific Airlines.

In fact, average inflation-adjusted domestic airfares reached their all-time low in 2019 when, notwithstanding a strong U.S. economy, the U.S. DOT's Bureau of Transportation Statistics

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korea.html ("[Alaska] on Tuesday laid out plans for a global expansion that aims to take on larger rivals like Delta Air Lines, which is already facing increased competition for premium customers from United Airlines. Alaska's first step: launching nonstop service between its home hub of Seattle Tacoma International Airport to Tokyo's Narita International Airport in May on Hawaiian's Airbus A330-200s, and between Seattle and Seoul's Incheon International Airport in South Korea next October.").

[82] *Source*: U.S. DOT DB1B database from Airline Data, Inc. Data excludes taxes and government-imposed fees.

reported that "*[t]he 2019 average domestic itinerary air fare of $355 was the lowest inflation-adjusted annual fare since the Bureau of Transportation Statistics began collecting such records in 1995*."[83] Fares in 2020 and 2021 fell even further due largely to COVID-19 pandemic-related factors.[84] Starting in the spring of 2022, a perfect storm of (i) pent-up consumer demand as more U.S. travelers began to return en masse to traveling by air, (ii) an acute pilot shortage resulting in hundreds of grounded aircraft, and (iii) a surge in oil (and hence, jet fuel) prices due to supply constraints and the war in Ukraine, resulted in nominal airfares in May and July 2022 rising sharply on a year-over-year basis.[85] Since that time, however, inflation-adjusted airfares (based on Consumer Price Index ("CPI") data from the U.S. Bureau of Labor Statistics) have been falling and for the year ending November 30, 2024, were 20.0% *below* the then-historically low prices in 2019.

In fact, unlike every other major category of goods and services in the CPI, **overall airfares have gone down since 2019 in <u>nominal</u> terms**, giving consumers' wallets a rare respite from rampant inflation. As shown in Figure 28, while fuel prices (which are airlines' second largest cost after labor) have increased by 28% relative to 2019 (and the overall cost of living has increased by 22%), airfares have *decreased* 2.1%.[86] Put differently, during the worst period of inflation in recent history where consumers are required to pay more—and often much more—for virtually everything, *the price of typical airline ticket has actually fallen*. This confirms that the high degree of industry competitiveness has prevented U.S. airlines from passing along these and other (*e.g.*, labor) cost increases onto consumers.

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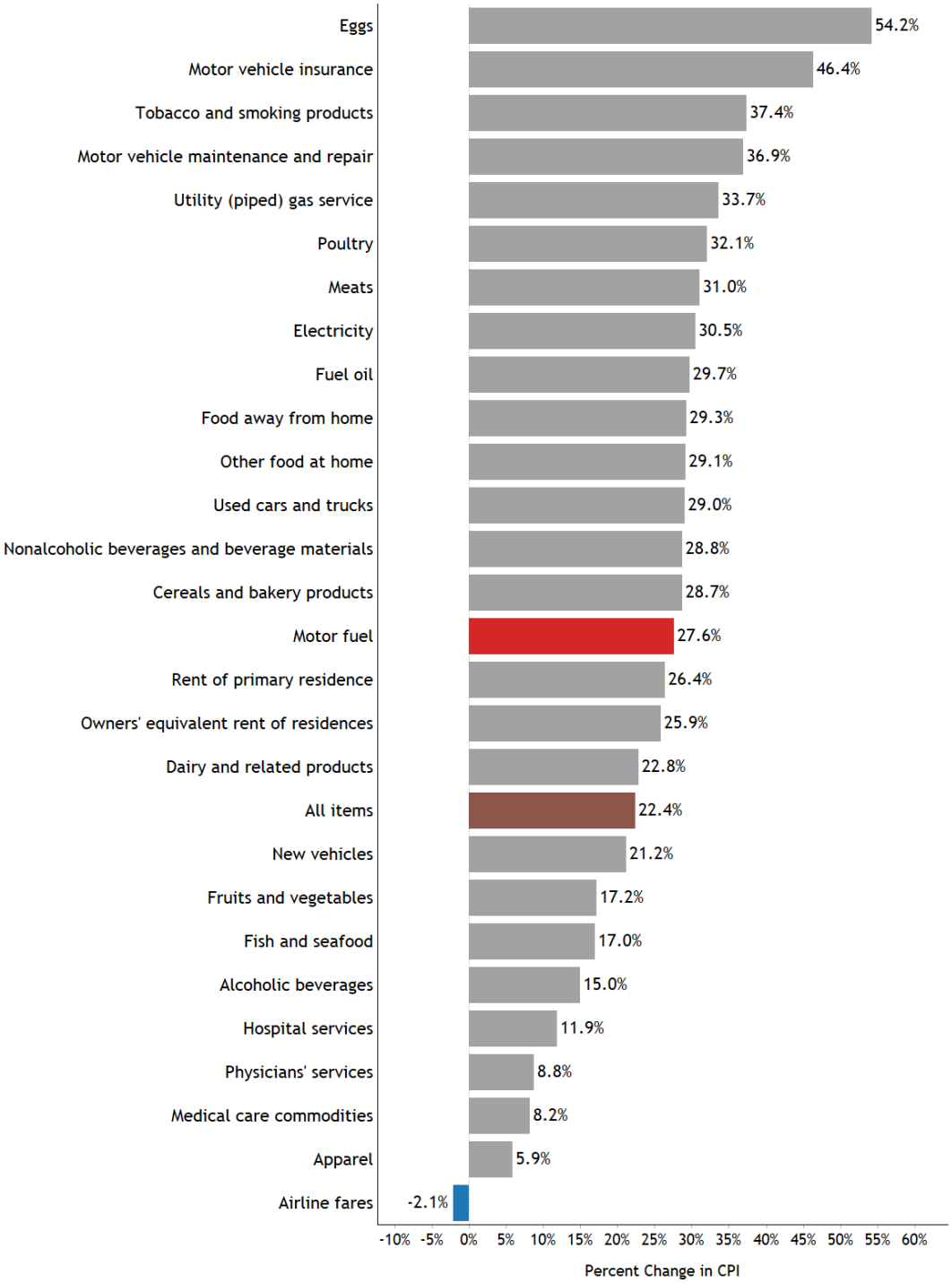
[83] *See* "Annual and Fourth-Quarter 2019 Air Fare Data," *U.S. Bureau of Transportation Statistics*, April 22, 2020, https://www.bts.gov/newsroom/annual-and-fourth-quarter-2019-air-fare-data.

[84] *See* "2021 Annual Average Domestic Air Fares Remain Stable," *U.S. Bureau of Transportation Statistics*, April 12, 2022, https://www.bts.gov/newsroom/2021-annual-average-domestic-air-fares-remain-stable ("The 2021 annual average domestic itinerary air fare of $307, remained relatively stable from the 2020 inflation-adjusted annual fare of $306, *which was the lowest annual average fare since the Bureau of Transportation Statistics began collecting such records in 1995*. The 2021 annual fare was down 17.8% from 2019, the last full pre-pandemic calendar year." (emphasis added)).

[85] *See, e.g.*, "Consumer Price Index – May 2022," *U.S. Bureau of Labor Statistics*, June 10, 2020, https://www.bls.gov/news.release/archives/cpi_06102022.pdf ("The index for new vehicles rose 12.6 percent and the index for used cars and trucks increased 16.1 percent over the year, while the index for airline fares rose 37.8 percent.").

[86] With on brief exception from May-July 2022, real (*i.e.*, inflation-adjusted) airfares have remained below 2019 levels.

FIGURE 28: CHANGE IN MAJOR CATEGORIES OF CONSUMER PRICE INDEX RELATIVE TO 2019 (TME NOVEMBER 2024)



Source: U.S. BLS CPI data.
Notes: CPI data is not seasonally adjusted. Graph shows percent change in Full Year Ending November 2024 versus 2019. Categories shown are the major categories from "Table 1. Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by expenditure category" (with Eggs, Meats, Poultry, and Fish broken out) and represent 74% of the CPI in 2023.

Over the longer term, air travel has remained a bargain compared to many other leisure activities. For example, in nominal terms, airfares (including bag and change fees) for the first two quarters of 2024 have grown 16% relative to 2000, which is *far less* than the comparative rise in nominal price over the same period to dine out (116%), attend a sporting event (116%), go to a movie or concert (97%), or stay in a hotel or other lodging (63%).[87] For further comparison, gas prices have increased 136% and the overall cost of living has increased 81% in nominal terms relative to 2000.[88]

Further, the popularity and growth of ULCCs and the competitive product responses they elicited from GNCs and other lower cost carriers have made air travel accessible to more consumers than ever before, and particularly the most price sensitive consumers.[89] For instance, fares at the bottom end of the fare distribution (*e.g.*, the 10th percentile) have fallen by nearly 47% after adjusting for inflation over just the last decade—falling more than any other part of the fare distribution.[90]

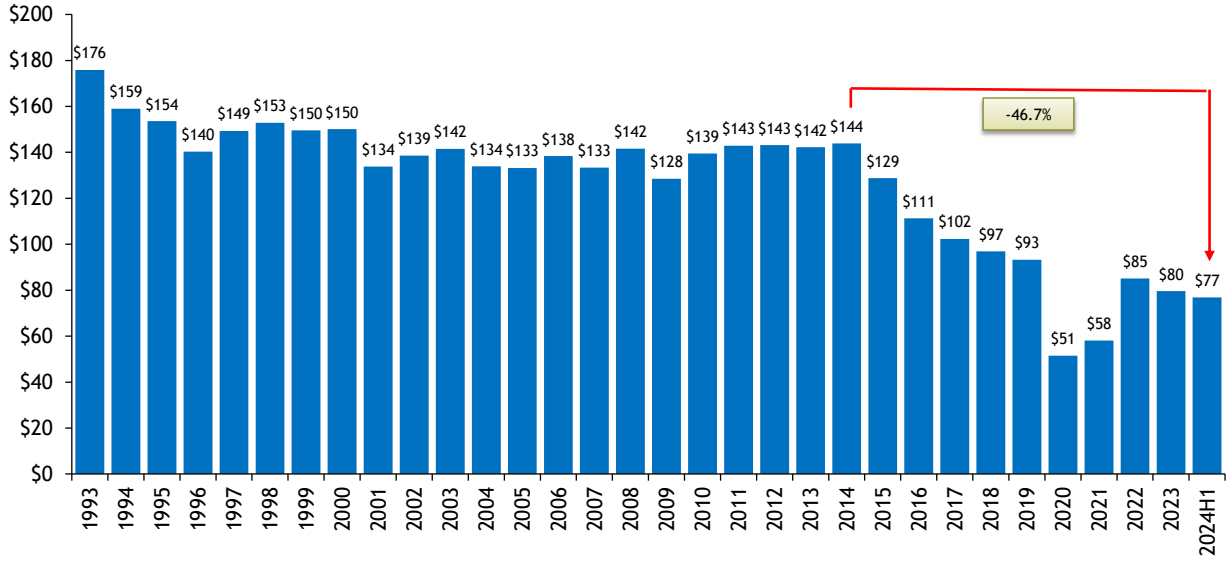
[87] *Sources*: U.S. DOT DB1B database; U.S. DOT Form 41 database; U.S. Bureau of Labor Statistics Consumer Price Index for All Urban Consumers (CPI-U). "Airfare" is the domestic round-trip average fare per mile including bag and change fees; "Lodging" is the BLS Index "Lodging away from home"; "Restaurants" is the BLS Index "Food Away From Home"'; "Movie and Concert Tickets" is the BLS Index "Admission to movies, theaters, and concerts"; "Sporting Events" is the BLS Index "Admission to sporting events."

[88] *Source*: U.S. Bureau of Labor Statistics Consumer Price Index for All Urban Consumers (CPI-U); "All Items" is BLS Index "All Items"; "Gasoline" is the BLS index "Gasoline (all types)."

[89] Lest there be doubt that airfares are more accessible than ever before, in 1977 only 63% of the U.S. adult population had flown commercially in their lifetime. By 1997 that number had increased to 81%. Today that figure is 86%. *See* "Air Travelers in America: Key Findings of a Survey Conducted by Ipsos," *Airlines for America*, March 2024, page 5.

[90] Percentiles are a way to divide a distribution of data (here, domestic airfares for hundreds of millions of airline passengers). In this case, dividing the fare distribution into ten equally spaced intervals, from the highest 10 percent (the 90th percentile) to the lowest 10 percent (the 10th percentile) and comparing to 2000, inflation-adjusted domestic O&D fares through 2024H1 for each tenth percentile of the fare distribution have declined by at least 21.2% with the 10th percentile fares seeing the largest decline (48.8%). *Sources*: U.S. DOT DB1B database; U.S. Bureau of Labor Statistics Consumer Price Index for All Urban Consumers (CPI-U), https://data.bls.gov/timeseries/CUUR0000SA0.

FIGURE 29: INFLATION-ADJUSTED 10TH PERCENTILE DOMESTIC ONE-WAY FARES (1993-2024H1)



Sources: U.S. DOT DB1B database; U.S. Bureau of Labor Statistics Consumer Price Index for All Urban Consumers (CPI-U), https://data.bls.gov/timeseries/CUUR0000SA0;
Notes: Excludes fares less than $6 and interline tickets. Stage length adjusted and CPI adjusted (2023 dollars) to 1,000-mile trip fares; the 10th percentile fare is calculated from the stage-length adjusted fares.

Consistent with this, more than a third (39%) of all domestic passengers in the first two quarters of 2024 paid less (in real terms) to travel on their city-pair than the 10th percentile fare paid (a proxy for a very low fare) on the same city-pair in 2014, which illustrates that far more consumers today have greater access to low fares than ever before.[91]

To be sure, as fares declined since deregulation notwithstanding consolidation, industry output increased until the onset of COVID-19, *i.e.*, the greatest exogenous shock by far the industry had ever experienced. For example, domestic passenger traffic, as measured by revenue passenger

[91] Importantly, access to these very low fares (*i.e.*, fares in 2024 through Q2 that were less than the 10th percentile fare on that city-pair in 2014) are not limited to passengers foregoing traveling on ULCCs. Of the 39% of passengers benefitted from these very low fares, roughly a third traveled on a GNC, a third traveled on a ULCC, and a third traveled on an LCC (*i.e.*, Southwest, JetBlue, Breeze) or a lower cost network carrier (*e.g.*, Alaska). *Source*: U.S. DOT DB1B database. The 10th percentile fare on each city-pair in 2014 is computed as the fare paid by the passenger whose fare was lower than 90% of passengers traveling on that city-pair in the same quarter of 2014 (excluding city pairs/quarters in 2014 with less than 100 passengers).

miles ("RPMs"[92]), grew by 373% between 1978 and 2019, with an annual growth rate (3.9%)[93] that far exceeds the average annual growth rate of the U.S. population over the same period (1.0%).[94]

D. Consolidation Helped Lay the Groundwork for the Industry's Modest Profitability Periods Over the Last 15 Years, During Which Carriers of All Types Were Able to Reinvest in Their Products and Services

Over the last decade and a half, there have been two distinct periods of profitability, split by the COVID-19 pandemic. In the first period, beginning in 2010 and up until the pandemic, the airline industry experienced modest but sustained profitability for all airline business models (*see* Figure 11). While lower cost carriers continued to rapidly expand (*see* Figure 6 above), the GNCs achieved profitability after the dismal decade in large part because of their ability to merge complementary networks and, as described above in Section III.A, build more ubiquitous networks that proved successful at attracting more passengers, including those willing to pay premiums for large network conveniences (*e.g.*, network scope, flight frequencies) to help cover the higher costs associated with providing ubiquitous networks.[95] During this period, GNCs also began to

[92] A revenue passenger mile ("RPM") is a standard airline industry measure of passenger traffic defined as one paying passenger flown one mile.

[93] *Source*: U.S. DOT T1 database. Measured by domestic passengers, output increased by 309%, equivalent to an average annual growth rate of 3.5%. Domestic ASMs over this period also grew nearly over three times faster (3.1%) than population (1.0%) on an average annual basis.

[94] *Sources:* "U.S. Census Bureau: Historical Population Estimates July 1, 1900 to July 1, 1999," *Census Bureau*, April 11, 2000, https://www2.census.gov/programs-surveys/popest/tables/1900-1980/national/totals/popclockest.txt; "Annual Estimates of the Resident Population for the United States, Regions, States, the District of Columbia, and Puerto Rico: April 1, 2010 to July 1, 2019; April 1, 2020; and July 1, 2020," *Census Bureau*, https://www.census.gov/programs-surveys/popest/technical-documentation/research/evaluation-estimates/2020-evaluation-estimates.html. National Population Totals. Compound annual growth for population estimates in July 1978 and July 2019.

[95] Premium passengers (*e.g.,* business or other passengers willing to pay for premium cabin services) in particular are a critical segment to help cover the higher costs associated with providing ubiquitous networks. To be sure, price discrimination is not only necessary, but also allows airlines to charge lower fares to consumers who are willing to trade off some flexibility (*i.e.*, booking well in advance or not making changes once a ticket is issued) in exchange for a lower fare. In contrast, because many business travelers have more demanding travel needs (*e.g.*, require the flexibility to change or cancel travel at any time prior to departure or to make travel plans at the last minute), GNCs will hold out "perishable" seats for such potential travelers, even though they could have been sold to more discretionary travelers at a lower fare. Put differently, once a plane departs, seats left empty that were held for walk-up passengers or by last-minute cancellations are worthless because they generate no revenue. Thus, because business travelers

differentiate their products on the same flight, and in particular expanding the number of Economy Class products (as described above in Section II.B) to suit varying needs of a wider array of consumer preference and attract more consumers to their products.[96]

This decade-long period of industry profitability ended abruptly in 2020. The COVID-19 pandemic—the worst exogenous shock that the industry had ever experienced—wiped out 73% of the cumulative profits GNCs earned during the 2010s (*see* Figure 11 above). In the nearly five years since the onset of the pandemic, some but not all carriers have returned to modest profitability. Those that have returned to profitability (*see* Figure 35 below) have been aided by products that were ideally suited to meet pent-up demand for travel—particularly to international destinations in Europe and (later) Asia, *i.e.*, destinations largely served primarily via the scope of the GNCs networks. Further, investments in premium cabin offerings have been rewarded post-pandemic by a strong appetite by many consumers to splurge on higher-end experiences and comforts when they travel.[97] In an effort to adapt to the demand environment post-pandemic, many lower cost carriers have begun making major changes to their products to include upgraded options. For instance, in 2024 Frontier split from the traditional ULCC fare menu focusing on the lowest base fare upfront and began to offer a menu of several bundle options with no change fees and ascending service upgrades and price.[98] Southwest has also recently announced that it will

impose disproportionately more costs on carriers, GNCs must charge more to these passengers, even for an identical seat.

[96] To be sure, some GNC service features sometimes cast as negative in the post-consolidation era (*e.g.*, Basic Economy) are instead by design a competitive response to LCC and ULCC service. What many people perceive to be service degradation (*e.g.*, unbundling of services like preassigned seats from the base fare) is in fact a GNC response to better compete with ULCC products and lower base fares.

[97] *See, e.g.*, "Delta Expects Higher Profits Thanks to High-End Travel and 'Resilient Economy,'" *CNBC* ("Delta's president, Glen Hauenstein, told reporters that about 15 years ago, about 12% of Delta's domestic first-class seats were paid for and the rest were upgrades for frequent flyers. Now, more than 70% of those seats are purchases, including buy-ups after booking."); *see also*, 2024 Delta Investor Day Slides, November 20, 2024, slide 13 ("Premium Consumer is Thriving") and slide 14 ("Two-thirds of Millennials are willing to spend on luxury travel").

[98] *See* "Bundle and Save," *Frontier Airlines*, https://www.flyfrontier.com/travel/travel-info/bundle-save/. While Frontier has made virtually no profit over the last three years, its adjusted net profit margin is projected to increase in 2025 to 1.8% (*see* Figure 35).

offer a premium fare product with extra legroom for business and leisure travelers starting in 2026.[99]

With the current—though not necessarily permanent—shift in preferences by may consumers toward more comfort/premium offerings, certain lower cost carriers have temporarily missed out on capitalizing on the strong demand for these products.[100] Most notable among these carriers is Spirit. Like Frontier, Spirit has recently made several changes to its in-flight service that pivot from its core ultra-low-cost business model in order to upgrade customer experience, including adding new fare classes that bundle services (*e.g.*, snacks, checked bags, Wi-Fi) and add extra comforts such as more legroom and blocked middle seats.[101] This is in part to capitalize on the evolving demand environment, but also to (i) compete better with GNCs that have upgauged their fleets impacting aircraft used in markets where they compete head-to-head with Spirit (enabling them to add more Basic Economy seats);[102] and (ii) offset the increasing cost of its labor force. Spirit's labor force cost has increased in two respects: *first*, more than any other ULCC, Spirit's labor cost advantage has diminished as its pay scales converge to be more aligned with those of the larger network carriers, resulting in part from a tight labor market and inflationary

[99] *See* "Southwest Airlines Unveils its 'Southwest. Even Better.' Transformational Plan at Investor Day," *Southwest Airlines*, September 26, 2024, https://www.southwestairlinesinvestorrelations.com/news-and-events/news-releases/2024/09-26-2024-120450777.

[100] Other factors impacting the profitability of ULCCs and other lower cost carriers include a sharp increase in labor costs driven up by (among other things) severe pilot shortage coming out of the pandemic (*see* Section IV below) as well as a capacity/demand imbalance in many of the key domestic leisure markets (*e.g.*, Las Vegas, Florida) that are disproportionately important to ULCCs.

[101] For example, Spirit's new "Go Big" fare class offers a "big front seat" with extra legroom, priority check-in and boarding, snacks and drinks, and streaming access to high-speed Wi-Fi. *See* "Spirit Airlines Celebrates Launch of Newly Transformed Guest Experience with 'More Fly' Giveaway," *Spirit Airlines*, August 27, 2024, https://ir.spirit.com/news-releases/news-details/2024/Spirit-Airlines-Celebrates-Launch-of-Newly-Transformed-Guest-Experience-with-More-Fly-Giveaway/default.aspx.

Spirit has also reduced its growth plans, furloughed pilots, and sold part of its fleet. *See* "Spirit Airlines Moves Toward Bankruptcy Filing After Frontier Drops Merger Bid," *Wall Street Journal*, November 12, 2024, https://www.wsj.com/business/airlines/spirit-airlines-moves-toward-bankruptcy-filing-after-frontier-drops-merger-bid-5d492e80.

[102] For instance, in 2019 the average domestic gauges for American, Delta, and United were, respectively, 107, 119, and 102. *Source*: OAG published schedule as of November 7, 2024. In 2024, their average domestic gauges had increased to 120 (American), 134 (Delta), and 122 (United). *Id.*

headwinds.[103] *Second*, the pandemic and its after-effects, together with massive Airbus engine recalls increasing the downtime of Spirit's fleet, has frustrated the carrier's ability to grow over the last several years and thus interrupted the virtuous cycle of growth cultivating a juniority benefit with more employees at the bottom of the pay scales. In an effort to transform itself and regain a competitive foothold, Spirit tried but failed to merge with JetBlue in 2023 (blocked by the Justice Department) and Frontier in 2024 (abandoned by Frontier). With two failed merger attempts and a mounting inability to meet its debt obligations taken on during the pandemic to survive (as all airlines did), Spirit announced significant pilot furloughs in late 2024 and filed for Chapter 11 bankruptcy protection on November 18, 2024.[104]

Spirit is not the only carrier whose strategy to find a foothold after the pandemic was blocked by the Justice Department. JetBlue is another carrier that has struggled post-pandemic. Although JetBlue has traditionally offered a more premium product than other carriers that have struggled post-pandemic like Spirit, its more limited network scope has hindered its ability to compete for current demand, and growing organically out of its largest focus city (New York) is challenged by FAA slot limitations. In the last few years, JetBlue has put forward two plans to strengthen its competitive position, including (i) merging with Spirit and expanding its network;

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[103] For example, Spirit's current top of scale Captain pilot rate on narrowbody aircraft ($312) is 88% of the equivalent rate at American ($354), up from 79% in 2016, whereas Frontier's top of scale captain pilot rate on narrowbody aircraft ($270) is 76% of American's rate. *See* "Spirit," *Airline Pilot Central*, https://www.airlinepilotcentral.com/airlines/major-national-lcc/spirit_airlines; *see also* "Frontier," *Airline Pilot Central*, https://www.airlinepilotcentral.com/airlines/major-national-lcc/frontier_airlines; *and* Collective Bargaining Agreement between American Airlines and the Airline Pilots Association, effective August 2023, Section 3-4.

[104] *See* "Spirit Airlines Moves Toward Bankruptcy Filing After Frontier Drops Merger Bid," *Wall Street Journal*, November 12, 2024, https://www.wsj.com/business/airlines/spirit-airlines-moves-toward-bankruptcy-filing-after-frontier-drops-merger-bid-5d492e80; *see also* "Spirit Airlines Files Form 12b-25," *Spirit Airlines*, November 12, 2024, https://www.prnewswire.com/news-releases/spirit-airlines-files-form-12b-25-302303456.html.

Frontier and Spirit had planned to merge in 2022 when JetBlue swooped in with a competing offer for Spirit, eventually winning Spirit's shareholders over and leading Spirit to pursue a merger with JetBlue instead of Frontier.

In Spirit's filed First Day Pleadings, Spirit's CFO Fred Cromer stated that "through Chapter 11 Cases, Spirit seeks to implement a financial restructuring that positions it for future stability, growth, and success without impacting its vendors or other commercial counterparties without interrupting its ability to serve its guests during the Chapter 11 Cases." *See* Declaration of Fred Cromer in Support of the Chapter 11 Proceedings and First Day Pleadings, *In re: Spirit Airlines, Inc.*, Case No. 24-11988 (Bankr. S.D.N.Y. 2024).

and (ii) entering into the "Northeast Alliance" with American Airlines to strengthen its competitive position in the Northeast, where the carriers as partners, among other things, codeshared, coordinated schedules, shared revenue, and allowed reciprocal loyalty benefits on flights to/from Boston's Logan Airport and to/from New York (JFK, LaGuardia, and Newark) airports. But the Justice Department opposed and thwarted both of JetBlue's plans. Most recently, following the lead of other carriers, JetBlue has announced that it will pivot to focus more on premium comforts (*e.g.*, installing domestic first-class seats on its aircraft and opening its first airport lounges in New York and Boston), while cutting unprofitable routes[105] JetBlue also announced it will further diversify its Transatlantic offerings by adding new nonstop routes from Boston to Madrid and Edinburgh.[106]

For carriers that were profitable in one or both of these periods, a durable business outlook enabled them to risk investing more to upgrade their products and services—capital expenditures that were largely put on hold by the GNCs during the dismal decade when these carriers were in survival mode. Carrier investments in their products and services to previously unforeseen levels, and particularly by the GNCs—*enabled by their profitability*—have yielded enormous benefits to consumers by making air travel more convenient, comfortable, and reliable than ever before. For example, many carriers across business models have made numerous investments to expand and modernize both their mainline and regional aircraft fleets.[107] Prior to the pandemic, U.S. airlines were taking delivery of more new aircraft than at any time since 2001 and are scheduled to upgrade and expand their fleets at faster rates over the next several years.[108]

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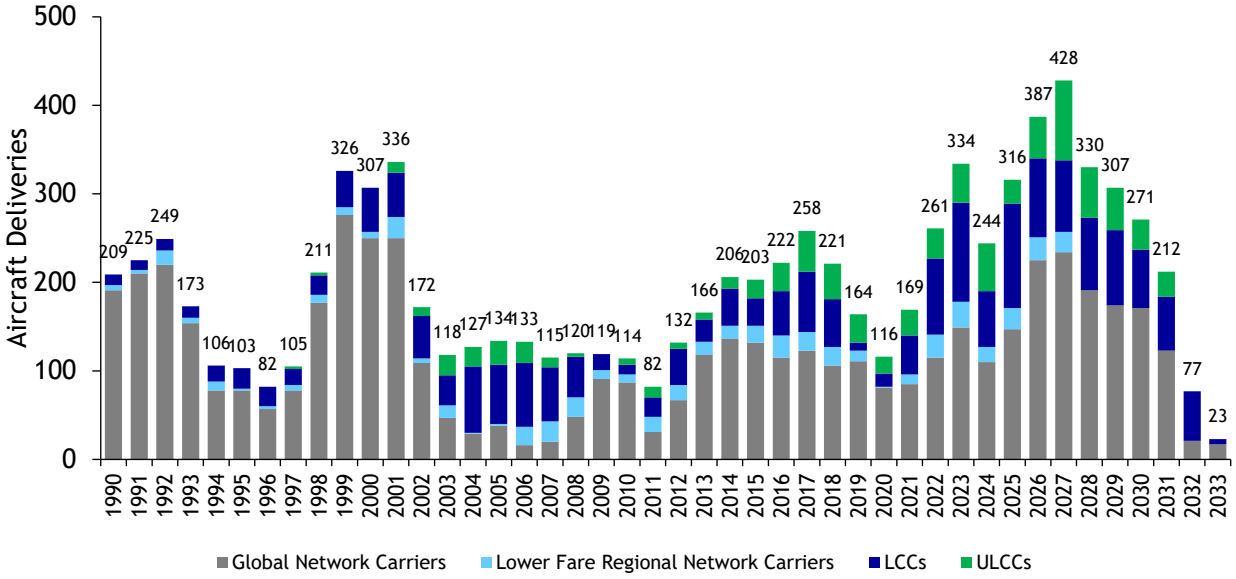
[105] *See, e.g.*, "JetBlue's Turnaround Plan: First-Class Seats and Fewer Routes," *Wall Street Journal*, December 11, 2024, https://www.wsj.com/business/airlines/jet-blue-changes-routes-first-class-seats.

[106] *See* "JetBlue Boosts Boston Transatlantic Flying by Launching New Service to Madrid and Edinburgh," *JetBlue*, December 10, 2024, https://www.news.jetblue.com/latest-news/press-release-details/2024/JetBlue-Boosts-Boston-Transatlantic-Flying-by-Launching-New-Service-to-Madrid-and-Edinburgh/default.aspx.

[107] Investments in more fuel-efficient aircraft, up-gauging (*i.e.*, increasing capacity by adding seats to existing aircraft and/or replacing smaller aircraft with larger ones), and more efficient use of capacity have led to airlines reducing their fuel consumption and associated carbon emissions per RPM by nearly half since 1991. *Source*: T-2 database.

[108] In the decade after 9/11, global network carriers averaged only 52 mainline aircraft deliveries per year. This figure more than doubled in the following decade (2010s) when GNCs started renewing their fleets, averaging 114 new mainline deliveries per year. Looking forward, GNCs are scheduled to take delivery of

FIGURE 30: ACTUAL AND SCHEDULED DELIVERIES OF NEW MAINLINE AIRCRAFT TO U.S. PASSENGER CARRIERS



Sources: Cirium Fleets Analyzer as of December 11, 2024.
Notes: Deliveries from December 2024 forward based on scheduled delivery dates of firm orders as of December 11, 2024. Mainline aircraft. Includes historical and scheduled deliveries of firm orders. Carriers include predecessor carriers. Global network carriers include American, Delta and United; low fare regional network carriers include Alaska and Hawaiian; LCC includes Southwest, JetBlue, and Breeze; ULCC includes Spirit, Allegiant, Frontier, Sun Country, and Avelo. Includes predecessor carriers. To date, Avelo's fleet is comprised only of used aircraft and has no new aircraft on order.

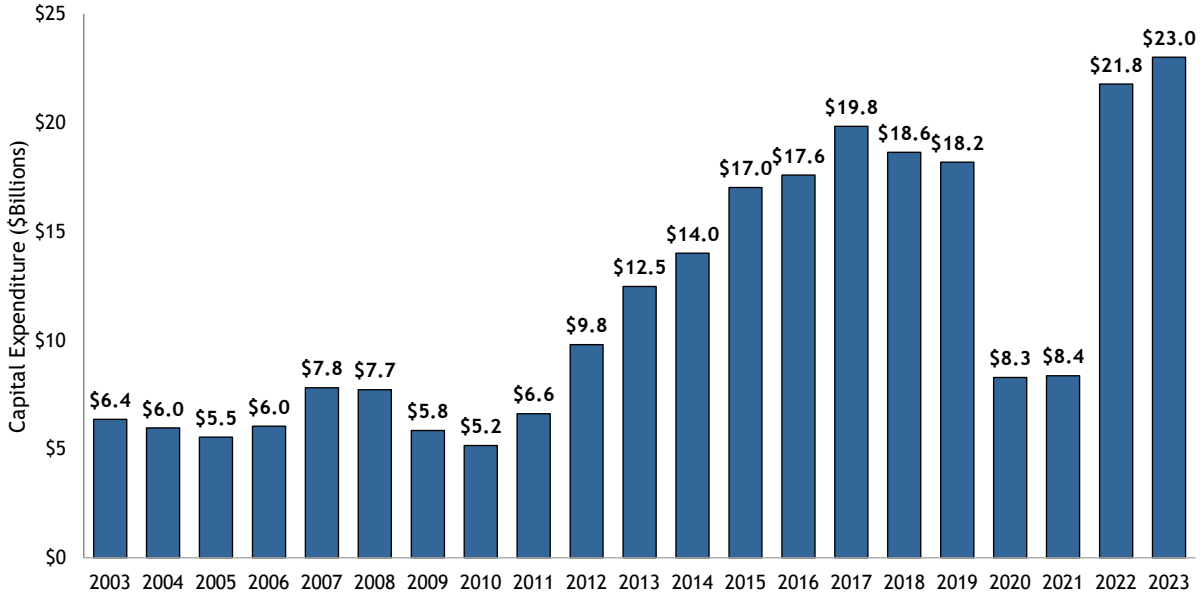
Carriers have also made numerous investments to enhance in-flight service experiences (such as adding high-speed satellite Wi-Fi connectivity and in-flight entertainment with expansive content catalogues, including live streaming),[109] expand and upgrade their airport facilitates from

180 new airline aircraft per year between 2025 and 2031 to continue to renew their fleets and support future growth. *Source*: Cirium fleet analyzer as of December 11, 2024. In addition, GNCs have continued to heavily invest in new regional aircraft including the 76-seat Embraer E-175 and in the case of United and Delta, the spaciously configured CRJ-550 (*i.e.*, a regional jet that normally has 64-70 seats configured with just 50 seats, including First Class, extra legroom Economy, and regular Economy class seating). *See* "American Airlines Places Orders for Airbus, Boeing and Embraer Aircraft," *American Airlines*, March 4, 2024, https://news.aa.com/news/news-details/2024/American-Airlines-places-orders-for-Airbus-Boeing-and-Embraer-aircraft-FLT-03/default.aspx (announcing the order of 90 E175s); *see also* "Bombardier CRJ-550," *Delta Air Lines*, https://www.delta.com/us/en/aircraft/bombardier/crj-550; *and* "Bombardier CRJ-550," *United Airlines*, https://www.united.com/en/us/fly/company/aircraft/bombardier-crj-550.html.

[109] At least two GNCs—Delta and United—have committed to make satellite-based highspeed Wi-Fi free to passengers (matching a perk that JetBlue has offered for many years). *See* "Delta Introduces Fast, Free Onboard Wi-Fi," *Delta News Hub*, January 5, 2023, https://news.delta.com/ces2023/delta-introduces-fast-free-onboard-wi-fi; *see also* "The Inflight Wi-Fi Revolution Now Arriving: United Signs Starlink Deal to Provide Industry-Leading Connectivity in the Sky - For Free," *United Airlines*, September 13, 2024, https://www.prnewswire.com/news-releases/the-inflight-wi-fi-revolution-now-arriving-united-signs-starlink-deal-to-provide-industry-leading-connectivity-in-the-sky--for-free-302247242.html.

terminals to lounges, and better track, manage, and transport checked baggage. In fact, since 2010, large U.S. carriers have more than quadrupled their annual capital expenditures, from $5.2 billion in 2010 to *$23 billion* in 2023:

FIGURE 31: AIRLINE CAPITAL EXPENDITURES (2003-2023)



Sources: A4A analysis of SEC filings of AirTran, America West, American, Alaska, Allegiant, Continental, Delta, Frontier, Hawaiian, JetBlue, Northwest, Southwest, Spirit, Sun Country, United, U.S. Airways, Virgin America.
Notes: Includes, among others, payments made for aircraft and other flight equipment, ground and other property and (e.g., baggage carts, lavatory trucks, deicing vehicles), airport and other facility construction and technology.

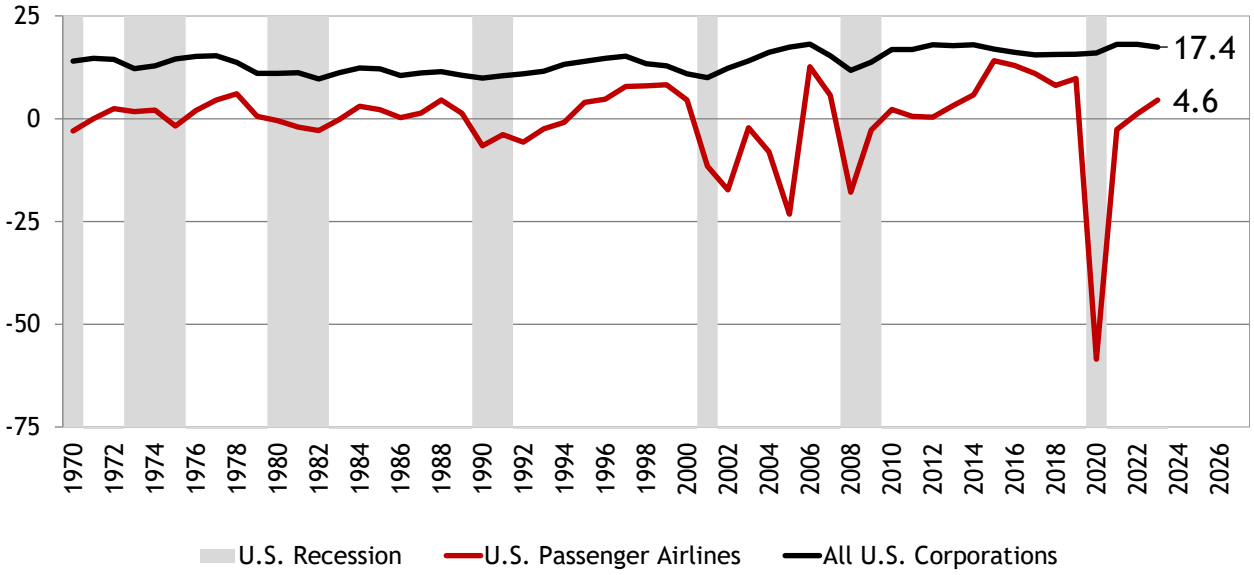
Based on carrier filings and press releases, a sample catalogue of airline capital expenditures over the last decade includes:

- *January 2013*: United launched satellite Wi-Fi connectivity on international widebody aircraft and invests more than $550 million in additional onboard improvements.
- *April 2013*: Southwest opened new terminals at Dallas Love Field airport.
- *January 2014-16*: Delta invested over $770 million to upgrade interiors of 225 aircraft, including providing power at each seat.
- *June 2014*: JetBlue debuted its Mint premium cabins with lie flat seats.
- *December 2014*: American announced over $2 billion in planned customer service improvements, including lie-flat seats, Wi-Fi, and an upgraded design for its lounges.
- *May 2015*: United announced $781 million in airport improvements at LAX and IAH.
- *July 2015*: Delta announced a LaGuardia terminal redevelopment project.
- *December 2016*: United unveiled its Polaris front-cabin service, with lie flat seating.
- *February 2018*: Delta unveiled RFID chips to improve bag tracking, providing customers live push notifications about their bags.
- *June 2019*: American completes installation of satellite WiFi on entire mainline fleet.

- *April 2021*: American and MWAA replace DCA gate 35x with a new 14-gate concourse
- *December 2021*: Delta announced $1.5 billion expansion project at JFK.
- *October 2022*: Alaska places its largest aircraft order in 90-year history, exercising options for 52 Boeing 737 MAX aircraft.
- *December 2022*: United announced the largest widebody order by a U.S. carrier in commercial aviation history for 100 Boeing 787 Dreamliners, with options to purchase 100 more. United also exercised options to purchase 44 Boeing 737 MAX aircraft.
- *March 2024*: American places order for 260 new aircraft and expects to spend an average of ~$3.0B to $3.5B per year on aircraft CAPEX alone between 2025 and 2030.
- *May 2024*: Alaska unveils a $60 million investment plan to upgrade terminals and other facilities across the state of Alaska.
- *May 2024*: American and United approve $8.5 billion Chicago O'Hare airport modernization project.
- *June 2024*: Delta opens Delta One Lounge at New York's JFK airport, followed by LAX in October 2024 and Boston in December 2024.
- *July 2024*: Alaska opens its newest Alaska Lounge at San Francisco International Airport, a $30 million relocation project that aligns with its $3 billion investment to enhance its infrastructure and guest experience at all west coast hubs.
- *September 2024*: Southwest announced plans for a redesigned cabin with premium seating.
- *September 2024*: JetBlue announced plans to open its first-ever airport lounges at New York's JFK in late 2025 and in Boston soon thereafter.
- *December 2024*: United announced plans for more than $500 million expansion and modernization of Washington Dulles (IAD).

Notwithstanding improved profitability over the last 15 years (excluding the pandemic), industry profits are perpetually modest. Indeed, in addition to prices, another key indicia of an industry's competitiveness is its profitability. If, as some industry critics have alleged, the U.S. airline industry suffered from a competitive problem, one would expect to see industry participants earn supra-competitive profits. This is nowhere to be found among U.S. airlines. Rather, intense competition, high costs, and external shocks have always kept airline profit margins well below the U.S. corporate average, as shown in Figure 32 below.

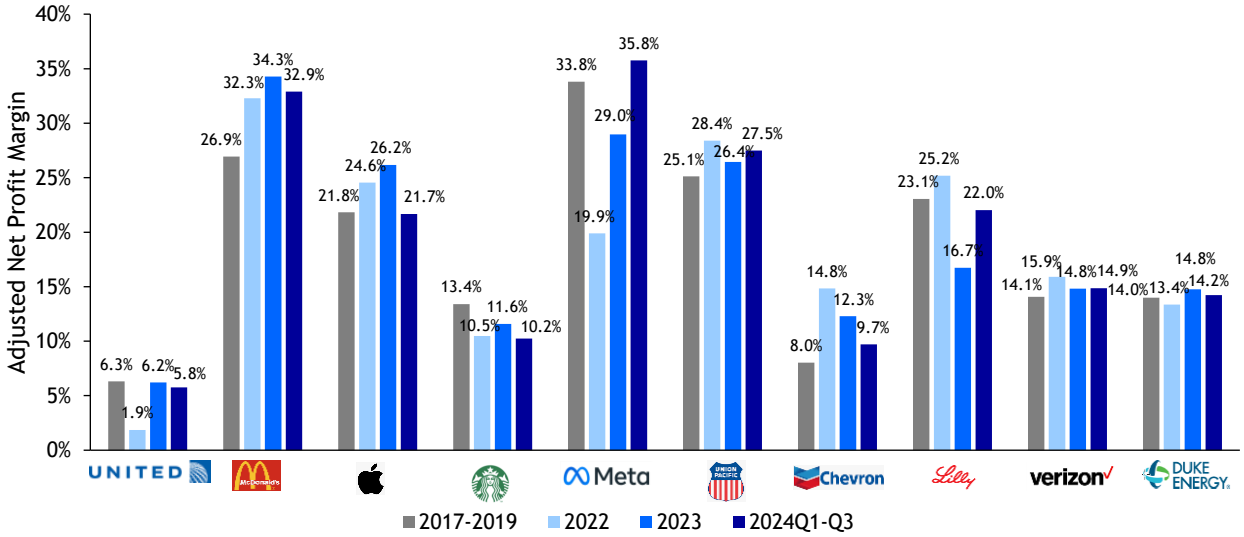
FIGURE 32: PRE-TAX PROFIT MARGIN, U.S. PASSENGER AIRLINES VS. ALL U.S. CORPORATIONS (AVERAGE) (1970-2024)



Source: ATA Annual Reports (1970-1976), A4A Passenger Airline Cost Index (1977-present); Bureau of Economic Analysis
Notes: Years with at least two months in recession highlighted in gray.

Indeed, even *the most profitable* U.S. airlines' margins pale in comparison to other large companies. As shown in Figure 33, for instance, United's (*i.e.*, one of the industry's two most profitable carriers since the pandemic, alongside Delta) recent adjusted net profit margins reached an average of 6.3% in the three years leading up to the pandemic. As United returned to profitability post-pandemic, its adjusted net profit margins reached 6.2% in 2023 and 5.8% in 2024 through its third quarter. In contrast, marquee companies from other industries have pre- and post-pandemic profit margins that are double if not roughly *four to five times greater* than United's (*e.g.*, McDonald's).

FIGURE 33: ADJUSTED NET PROFIT MARGIN, UNITED AIRLINES VS. SELECT LARGE COMPANIES (2017-19, 2022, 2023, 2024 Q1-Q3)



Sources: Company 10-Ks, 10-Qs, and Earnings Press Releases.
Notes: Adjusted Net Profit Margin is adjusted net income over revenue.

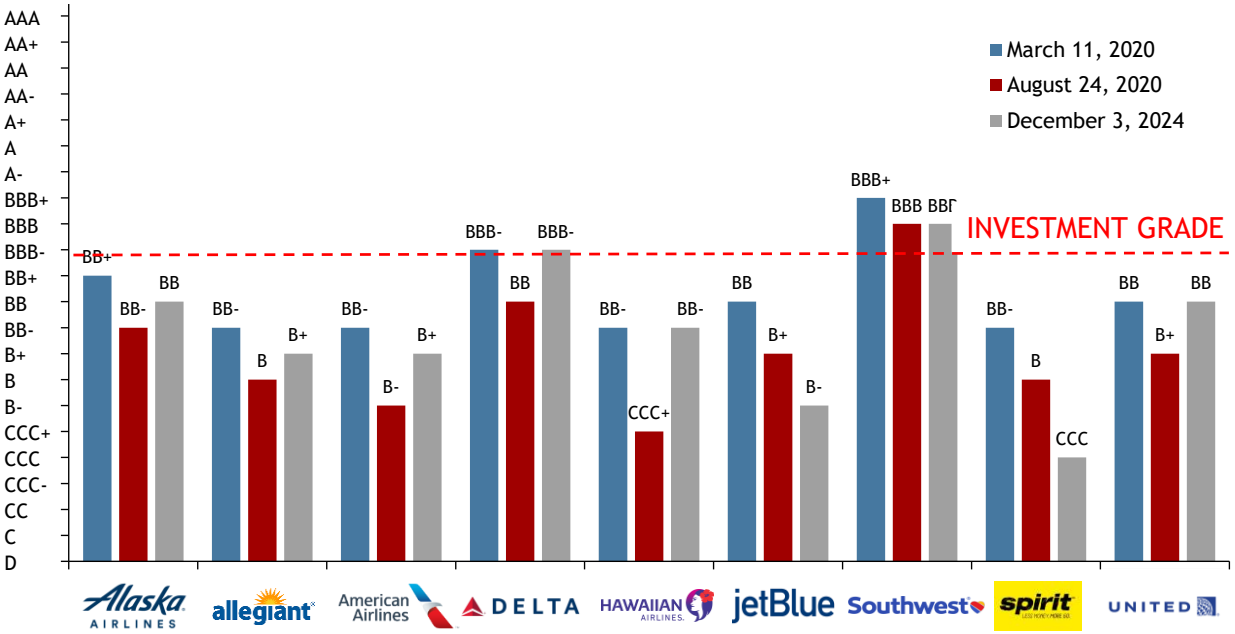
Lest there be doubt that airline profitability is perennially under pressure, Southwest and Delta are the only two carriers that have held an S&P investment grade credit rating since 2020 (albeit low investment grade). During the pandemic, higher debt financing combined with lower and uncertain revenue outlook resulted in the downgrading of all carriers' credit ratings to "junk" status—some as low as CCC+,[110] *e.g.*, Hawaiian, whose current rating (BB-) was an upgrade due to its merger with Alaska Airlines.[111] Today, most airlines' credit ratings indicate a spectrum of ongoing vulnerability to business and economic conditions in meeting their financial commitments, and place airlines among the ranks of other less stable enterprises like Xerox (B+) and U.S. Steel (BB-).[112]

[110] A rating of CCC+ indicates current vulnerability and dependence on favorable business, financial, and economic conditions to meet financial commitments. *See* "About Ratings," *S&P 500*, https://www.spglobal.com/ratings/en/about/understanding-credit-ratings.

[111] *See* "Hawaiian Holdings, Inc. Upgraded to BB-; Outlook Revised to Stable Following Merger with Alaska Air Group," *S&P 500*, Sept. 19, 2024, https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3253563.

[112] *See* "Xerox Holdings Corp. Downgraded To 'B+' From 'BB-' On Transformation Plan Execution Challenges; Outlook Negative," *S&P Global*, Nov 18, 2024, https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3285842; *see also* "United States Steel Corp. Rating Placed On

FIGURE 34: S&P CREDIT RATINGS FOR U.S. CARRIERS (THREE SNAPSHOTS)



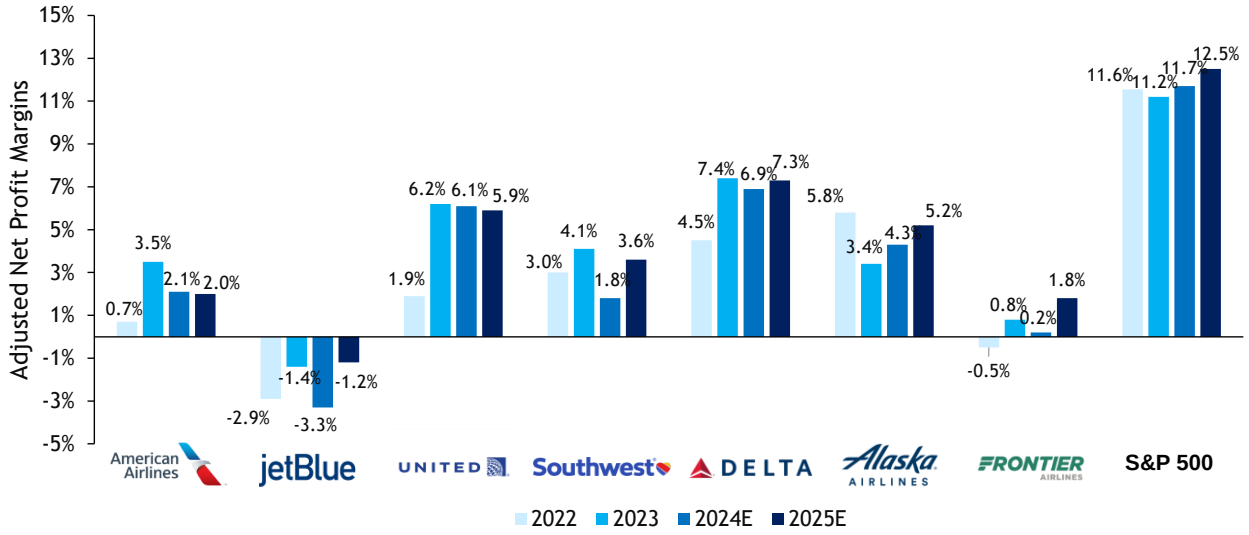
Source: S&P Global Market Intelligence.
Note: S&P Credit Ratings as of each date.

To be sure, notwithstanding the post-pandemic travel rebound, continued cost pressures (*e.g.*, labor costs—*see* Section IV below) and intense competition, are expected to keep airline profit margins low. For example, even the most profitable airlines post-pandemic (*i.e.*, Delta, United, and Alaska) are estimated to have 2024 and 2025 margins that are well below (roughly half of) the 2024/2025 estimates for the S&P 500. In sum, the relentless upward pressure on costs combined with downward pressure on fares due to intense competition have rendered airline profitability, even during good times, as sub-par at best.[113]

CreditWatch Positive On Proposed Acquisition By Nippon Steel Corp." *S&P Global*, December 20, 2023, https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3104844.

[113] As famed investor Warren Buffet put it in a partially tongue-in-cheek reference to the industry in his 2007 Annual Letter to Berkshire Hathaway investors: "*Now let's move to the gruesome. The worst sort of business is one that grows rapidly, requires significant capital to engender the growth, and then earns little or no money. Think airlines. Here a durable competitive advantage has proven elusive ever since the days of the Wright Brothers. Indeed, if a farsighted capitalist had been present at Kitty Hawk, he would have done his successors a huge favor by shooting Orville down. The airline industry's demand for capital ever since that first flight has been insatiable*."

FIGURE 35: U.S. PASSENGER AIRLINES V. S&P 500 ADJUSTED NET PROFIT MARGINS (2022, 2023, 2024E, 2025E)

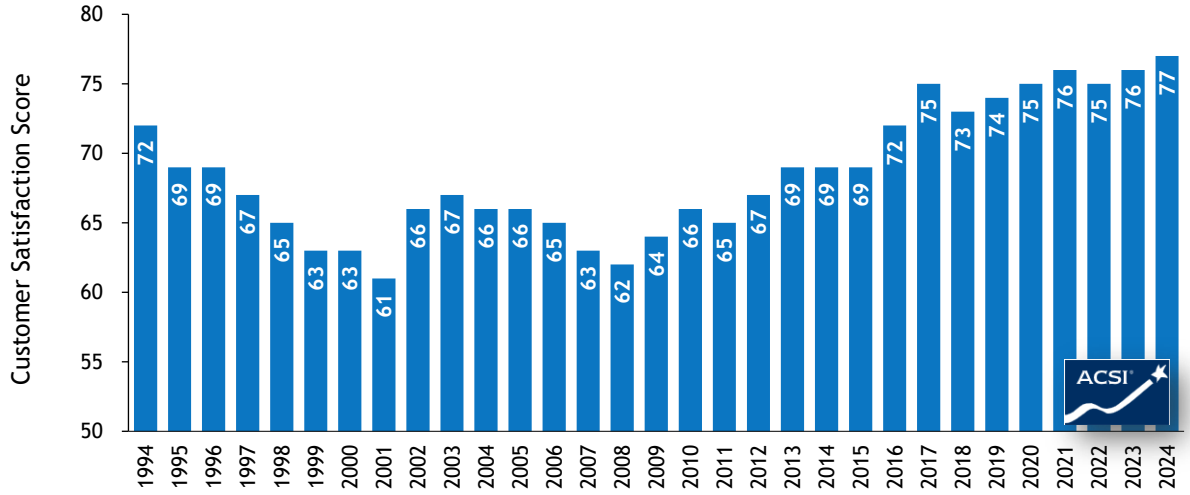


Sources: J.P. Morgan Equity Research, December 10, 2024; "S&P 500 2023 Q1 Earnings Review: A Strong Start to the Year," *Lipper Alpha Insight*, May 8, 2023, https://lipperalpha.refinitiv.com/2023/05/sp-500-2023-q1-earnings-review-a-strong-start-to-the-year/ (2022 Margin); "S&P 500 2023 Q3 Earnings Preview: Earnings Expectation Rise Heading into Earnings Season," *Lipper Alpha Insight*, January 22, 2024, https://lipperalpha.refinitiv.com/2024/01/sp-500-2023-q4-earnings-preview-analysts-aggressively-downgrade-earnings-growth-expectations/ (2023 Margins); "S&P 500 2024 Q3 Earnings Preview: Energy Faces Headwinds as StarMine Flags Potential Misses," Lipper, October 9, 2024, https://lipperalpha.refinitiv.com/2024/10/sp-500-2024-q3-earnings-preview-energy-faces-headwinds-as-starmine-flags-potential-misses/ (2024 and 2025 Margin estimates).
Notes: Airline net profit margins are adjusted to exclude special charges. Lipper S&P 500 figure for 2022 reflects the simple average of the four quarters in 2022. Alaska Air Group margins include Alaska and Hawaiian.

E. Customer Satisfaction with Air Travel Confirms That Consumers Have Benefitted From the Improved Networks and Service Offerings That Consolidation Enabled

Finally, to the extent that there was a competition problem in the U.S. airline industry, one would expect to see poor and/or declining rates of customer satisfaction among air travelers. But the opposite is true. Despite enduring the most disruptive external shock in aviation history (and its after-effects), customer satisfaction with U.S. passenger airlines is at an all-time high based on the American Customer Satisfaction Index (ASCI).

FIGURE 36: AMERICAN CUSTOMER SATISFACTION INDEX, U.S. AIRLINES (1994-2024)



Source: American Customer Satisfaction Index, https://theacsi.org/industries/travel/airlines/.

As ASCI's Director of Research Emeritus put it: "*Airline customer satisfaction has climbed to new heights, reaching scores not seen even before the pandemic disrupted travel. Carriers have bounced back strongly, showing that innovations and service improvements implemented during the last two years have resonated with customers*."[114] ASCI's findings are not unique. Between 2010 and 2019, the J.D. Power North American Airline Satisfaction Study found steadily increasing overall customer satisfaction, climbing 100 points during that period.[115] In its latest comparable study (2023) J.D. Power reported overall customer satisfaction scores in the post-pandemic years of 2022 and 2023 that were roughly twenty points higher than its reported scores in 2019. Likewise, a recent version of another well-known annual study of the U.S. airline industry's performance conducted by researchers at Embry-Riddle Aeronautical University and

[114] *See* "Customer Satisfaction with Airlines Reaches All-Time High, as Travel Industry Rebounds to Prepandemic Levels, ACSI Data Show," *ASCI*, April 23, 2024, https://theacsi.org/news-and-resources/press-releases/2024/04/23/press-release-travel-study-2023-2024/.

[115] *See* J.D. Power North American Airline Satisfaction Studies (2010-2023). JD Power passenger satisfaction with North American airline carriers based on 1000-point scale and performance in eight factors: aircraft; baggage; boarding; check-in; cost and fees; flight crew; in-flight services; and reservation. In 2010, the overall satisfaction score was 673. By 2019, that score had reached 773. In 2023, the overall satisfaction score increased to 791.

Wichita State University concluded that the "*2018 score is the best [Airline Quality Rating] score in the 29-year history of the rating*."[116]

In addition, individual carrier Net Promoter Scores (a commonly used customer loyalty and satisfaction market research metric) have increased during the period of industry consolidation. For example, in its Q4 2018 Earnings Call, Delta emphasized that its Net Promoter Score had "*tripled over the last decade and reached an all-time high in September of over 50%*."[117] United likewise saw its Net Promoter Score increase by more than 30 points in 2020 to achieve "the highest in [its] history by a wide margin" and recorded an even higher score by the end of 2021.[118] More recently, Southwest reported in its Q1 2024 Earnings Call that its Net Promoter Score was up over five points year-over-year, resulting in "some of [its] highest NPS scores ever."[119] Moreover, aggregate metrics collected by the U.S. DOT demonstrate bona fide service improvements. For instance, between 2007 and 2024, the number of involuntary denied boardings

[116] *See* "Airline Quality Rating 2019," Embry-Riddle Aeronautical University, April 8, 2019, https://commons.erau.edu/aqrr/29/. Subsequent Airline Quality Rating studies changed metrics and therefore the scores are not directly comparable to historical scores. *See* "Airline Quality Rating 2020," Embry-Riddle Aeronautical University, May 4, 2020.

[117] *See* Remarks of Ed Bastian, Delta Air Lines CEO, Q4 2018 Earnings Conference Call Transcript, January 15, 2019, https://s2.q4cdn.com/181345880/files/doc_events/Delta-4Q18-Earnings-Call-Transcript.pdf ("We drove improvement in net promoter scores during 2018 in every region of the world. Our domestic net promoter score has tripled over the last decade and reached an all-time high in September of over 50%."); *see also* Delta Air Lines 2023 Proxy Statement, page 3 ("Our Net Promoter Scores [in 2022] exceeded 2019 levels as we continued to bolster our brand.").

[118] *See* Remarks of Scott Kirby, United Airlines CEO, J.P. Morgan 2021 Industrials Conference Transcript, March 15, 2021 ("We've already seen the impact of our work in 2020, with Net Promoter Scores up more than 30 points, the highest in United history by a wide margin."); *see also* Remarks of Brett Hart, United Airlines President, Q4 2021 Earnings Conference Call Transcript, January 20, 2022 ("Despite Omicron's recent impact, we've achieved the highest-ever Net Promoter Score in our history, which is undoubtedly due to the team's service improvements and technological advancements that make flying with us easier than ever.").

[119] *See* Remarks of Ryan Green, Southwest Airlines Executive Vice President & Chief Commercial Officer, and Bob Jordan, Southwest Airlines President and CEO, Q1 2024 Earnings Conference Call Transcript, April 25, 2024 ("Year to date, our Trip Net Promoter Score is up over 5 points year over year. … We have awesome employees. We have real improvement in our operational performance and reliability. We had the best completion factor in five years. We have some of our highest NPS scores ever on and on and on.").

per 100,000 passengers declined by roughly 75%, from 11.2 to 2.9.[120] Between 2007 and 2018, the number of mishandled bags per 1,000 passengers declined by 60%.[121]

To be sure, as with any large company, there are customers who believe they received subpar customer service—and certainly over the last few years as airlines have worked through a pilot labor shortage, a significant shortage of air traffic controllers that, in turn, led to increased congestion and delays, significant weather events, and other events beyond their control (*e.g.*, the CrowdStrike IT outage, delayed deliveries of Boeing/Airbus aircraft, RTX engine recalls). It is true, for example, that Department of Transportation saw an increase in customer complaints to U.S. airlines related to air travel in 2023 (67,661) compared to 2022 (52,558).[122] But it is an exaggeration to say that passenger complaints have "skyrocketed" in recent years.[123] For perspective, U.S. airlines transported 726 million passengers on domestic and international flights in 2023. That means the industry has a passenger complaint rate of 0.009%.[124] Aggregate statistics of bona fide service improvements, combined with the well-respected customer service studies cited above and carriers' individual improvements in NPS scores clearly demonstrate that consumers *on the whole* are highly content with the U.S. airline industry and their satisfaction has only grown over time *notwithstanding* industry consolidation and *even though* the industry has recently weathered the biggest exogenous shock in industry history. Lest there be doubt, the convenience and value proposition of air travel has resulted in the demand for domestic passenger air travel growing much faster than the rate of population growth. For instance, the number of

[120] *Source*: U.S. DOT Air Travel Consumer Reports.

[121] *Source*: U.S. DOT Air Travel Consumer Reports. In 2019, the Department of Transportation changed its measure of mishandled bags from per 1,000 passengers to per 1,000 enplaned bags, a statistic that has remained flat since 2019.

[122] *See* "Air Travel Consumer Report: June-December, Full Year 2023 Airline Consumer Submissions Data," *U.S. Department of Transportation*, July 5, 2024, https://www.transportation.gov/briefing-room/air-travel-consumer-report-june-december-2023-full-year-2023-airline-consumer.

[123] *See* "The Sky's the Limit: the Rise of Junk Fees in American Travel," *Permanent Subcommittee on Investigations Majority Report*, November 26, 2024, pp. 18-19 ("Consolidation has led to a worse passenger experience. ... As the airline industry has consolidated, the average passenger experience has worsened in various ways.").

[124] *Source*: U.S. DOT DB1B database. Passengers are O&D Passengers. Includes all passengers from the DB1B database.

annual U.S. airline passenger miles has grown 30% between 2007 and 2023—nearly three times the rate of population growth over the same time period (11.18%).[125]

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The major takeaway from this Section III is that there are observable market outcomes that confirm that the U.S. airline industry remains competitive *notwithstanding consolidation* and that dynamic competition in the industry has resulted in unprecedented benefits for U.S. consumers. At a high level (but described above in detail), those benefits include:

(1) Air travel is more accessible than it has ever been, with more choice in domestic and international air travel than ever before;

(2) Airfares are at or near all-time lows and have not tracked inflation—a significant indicator of the competitive nature of the industry;

(3) Airlines' profitability, while modest compared with other large companies, has enabled significant reinvestment in products and service, making travel more convenient, comfortable, and reliable.

As a result, customer satisfaction is high and steadily increasing. To be clear, these benefits have been delivered to consumers due in large part to the competitive interplay over several decades between airlines utilizing a variety of business models that compete and compare on dimensions of network scope and product differentiation as well as operational complexity and associated costs. Consolidation has vastly improved one of these business models, but not at the expense of the others. That there are now three comprehensive network carriers in the competitive landscape, as opposed to six fragmented network carriers, does not harm consumers. In fact, academic studies have analyzed the data and found that legacy carrier consolidation has resulted in significant increases in output and capacity on nonstop overlap routes with no significant adverse effect on

[125] *Source*: U.S. DOT DB1B Database; U.S. Census Bureau. By way of further comparison, growth in domestic transportation output between 2007 and 2019 was faster than any other mode of transportation. Specifically, U.S. passenger airline miles grew 28.6% versus highway bus miles (23.9%), Amtrak passenger miles (11.0%), and highway light duty vehicle miles (8.5%). *Sources*: U.S. DOT DB1B database; DOT Federal Railroad Administration; DOT Federal Highway Administration. Bus and vehicle miles are based on reports from the State Highway Agencies that encompass both rural and urban highways. Vehicle miles include passenger cars, light trucks, vans, pickup trucks, and sport utility vehicles. Bus and light duty vehicle data not available after 2022.

fares.[126] The ability to travel by air comfortably and reliably from "anywhere to everywhere" at the lowest inflation-adjusted fares in history cannot be understated: it is a privilege that U.S. consumers enjoy only because of the mergers that formed today's GNCs. At the same time, the rapid growth of lower cost carriers and the competitive responses thereto has democratized air travel.

IV. AIRLINE EMPLOYEES HAVE BEEN A PRIMARY BENEFICIARY OF A PROFITABLE U.S. AIRLINE INDUSTRY

As discussed in the previous section, a healthy and profitable airline industry is beneficial to consumers of all budgets and travel needs, ranging from the occasional leisure traveler to the most seasoned road warrior. However, the beneficial impact of a profitable, competitive, and growing U.S. airline industry extends beyond the consumer. This section explains how modest industry profitability, *facilitated by consolidation*, has enabled U.S. airlines to reinvest in their employees and grow the number of good, highly coveted American jobs—contrary to critics who believe that consolidation has led to worse outcomes for labor.[127] To lend further significance to investments in labor, this section also illustrates the comparative high-quality nature of airline jobs by highlighting the significant earnings growth for several workgroups throughout their careers and extraordinary benefits that airline employees enjoy. The section concludes by examining how increasing labor cost pressures have contributed to keeping airline profitability low relative to firms in other industries in transportation and service sectors.

A. Industry Consolidation Has Been Unambiguously Good for Airline Labor Because it Put Airlines on Firmer Financial Footing to Reinvest in Their Workforces

Following the dismal decade, labor's share of airlines' revenue steadily increased from 21.7 percent in 2011 to 28.8% by 2019 as the industry became profitable again.[128] This is illustrated below in Figure 37, with the caveat that during industry shocks that result in significant

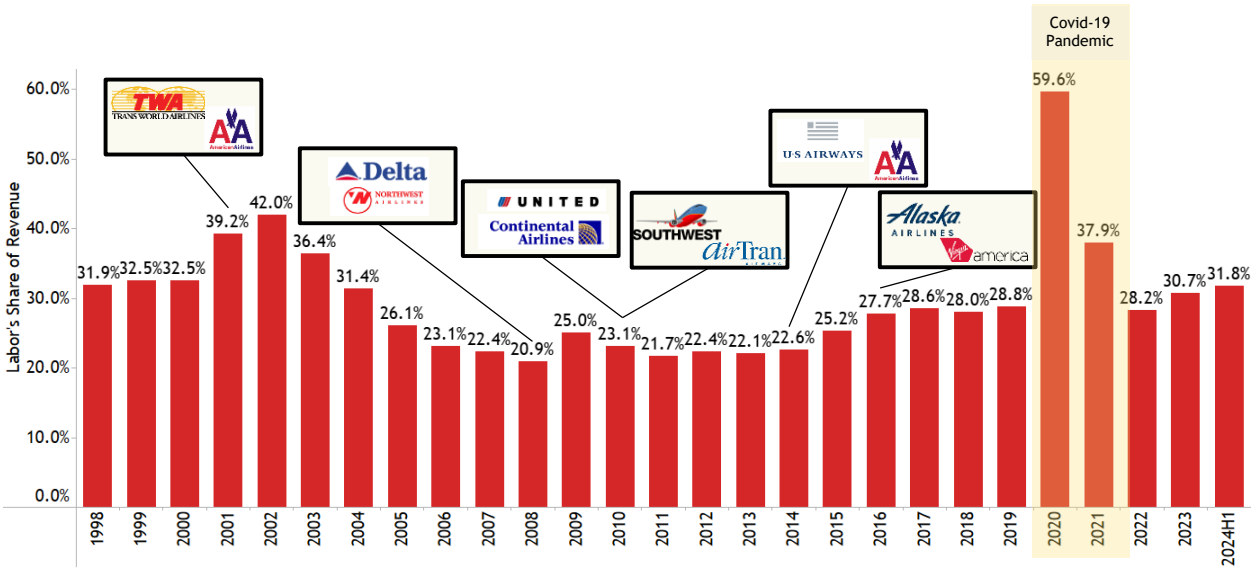
[126] *See, e.g.*, Dennis Carlton, Mark Israel, Ian MacSwain, and Eugene Orlov, "Are Legacy Airline Mergers Pro- or Anti-Competitive? Evidence from Recent U.S. Airline Mergers," *International Journal of Industrial Organization*, Vol. 62, 2019, 58-95; *see also* Dan Luo, "The Price Effects of the Delta/Northwest Airline Merger," *Review of Industrial Organization*, Vol. 44, 2014, 27-48 (*ex post* study analyzing the Delta/Northwest merger and finding that "airfares do not change following the merger on routes that involve the exit of one of the merging airlines post-merger.").

[127] *See* footnote 3 above.

[128] *See* Figure 11 tracking U.S. passenger carrier net income from 1979 through 2024H1.

demand contractions (*e.g.*, 9/11; COVID-19) labor, as a fixed cost in the medium term, consumes a much larger share of airlines' revenue, as carriers need to spend roughly the same amount on labor regardless of whether its flights are operating nearly full or half empty. For this reason, it is most relevant to look at labor's share of revenue during profitable cycles and not compare with its share during unprofitable cycles.[129]

FIGURE 37: LABOR SHARE OF OPERATING REVENUE AT U.S. PASSENGER AIRLINES (1998-2024H1)



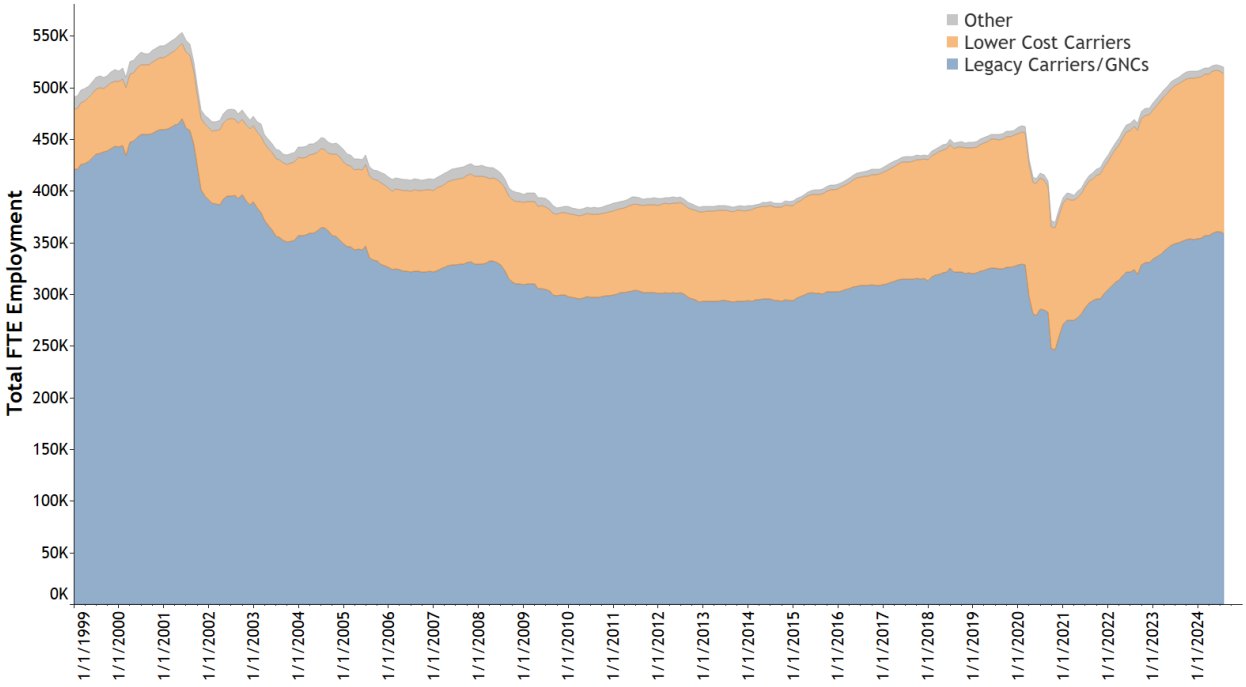
Source: U.S. DOT Form 41 Schedules p-1.2 and p-6; Airline SEC filings and press releases.
Notes: Lines show the year of each merger. Includes all passenger carriers that file with U.S. DOT Form 41. Labor share includes salary and benefits expense and excludes personnel expenses. Revenue is operating revenue.

Two ways airlines have increased investments in their workforces is by job creation and increased spending per capita on labor. The dismal decade—and the multiple Chapter 11 restructurings that came with it—was undoubtedly the worst period for airline employees. Legacy carriers were forced to furlough tens of thousands of workers and cut pay and benefits for the

[129] Notably, in addition to the unparalleled magnitude of the pandemic's shock on the industry, one reason that labor's share of revenue in 2020 is so high relative to other periods of downturn is the financial assistance under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act provided most U.S. airlines with payroll support for the continued employment of airline employees when demand evaporated so that the industry was prepared rebound once the worst of pandemic subsided, which is precisely what the industry did. *See* "Loans to Air Carriers, Eligible Businesses, and National Security Businesses," *U.S. Department of the Treasury*, January 21, 2021, https://home.treasury.gov/policy-issues/coronavirus/assistance-for-industry/loans-to-air-carrierseligible-businesses-and-national-security-businesses; *see also* "Payroll Support Program Extension Payments," *U.S. Department of the Treasury,* May 20, 2021, https://home.treasury.gov/policy-issues/coronavirus/assisting-americanindustry/payroll-support-program-extension-payments.

remaining workers in order to survive. However, after the dismal decade, when the industry as a whole entered a cycle of profitability, over 74,000 airline jobs were added to the industry.[130] Roughly 47,000 of these jobs were created by the rapidly expanding lower cost carriers, but consolidation enabled GNCs and their regional partners to add back roughly 29,000 jobs.[131] During this period of growth in level of employment, annual inflation-adjusted expenditures on employees' wages and benefits also grew from $49 billion in 2010 to $74 billion in 2019.[132]

FIGURE 38: NUMBER OF U.S. PASSENGER AIRLINE EMPLOYEES (FULL-TIME), MONTHLY HEADCOUNT (JANUARY 1999-AUGUST 2024)



Source: U.S. DOT Form 41 P-1 through August 2024.
Notes: Includes commercial passenger carriers only. Legacy Carriers/GNCs include regional partners

As discussed in Section III, the COVID-19 pandemic eviscerated airline demand almost overnight, wiping out roughly three quarters of the cumulative profits earned by GNCs from 2010 to 2019. The Payroll Support Program ("PSP") funding under the U.S. Coronavirus Aid, Relief,

[130] *Source*: U.S. DOT Form 41, Schedule P-1 employment data for scheduled passenger carriers, comparing January 2010 (384,715) to December 2019 (458,799).

[131] *Source:* U.S. DOT Form 41 P-1 employment data for scheduled passenger carriers. Between January 2010 and December 2019, lower cost carriers grew their employment from 80,093 to 126,870 while legacy network carriers grew their employment from 297,963 to 326,793.

[132] *Source:* U.S. DOT Form 41 P-6 salary, wages and benefit data for scheduled passenger carriers, adjusted to 2024 dollars (average from January-October).

and Economic Recovery ("CARES") Act, and its extensions provided U.S. airlines with critical support for the continued employment of many airline employees during the worst months of the pandemic, conditioned on carriers committing not to terminate or involuntarily furlough their employees or reduce their payrates and benefits while receiving PSP. Even so, tens of thousands of airline employees voluntarily exited the industry, both permanently and temporarily, through early retirements and/or leaves of absence, evidenced by the significant drop in employment levels during 2020, reaching as low as 369,000 in November 2020. Remarkably, today the workforce has recovered to levels far above pre-pandemic levels (520,000 in August 2024), led primarily by the hiring of the three GNCs—**adding nearly 90,000 jobs in just four years**.

B. Airline Jobs Are High-Quality American Jobs with Significant Earnings Growth Throughout an Employee's Career and Extraordinary Benefits

To appreciate and lend further context to U.S. passenger airline investment in labor, it is worth exploring how airline jobs compare against other jobs in the economy. As background, U.S. airlines are extremely diverse (*e.g.*, roughly one in two employees at United identifies as a minority[133]); have equitable gender profiles (*e.g.*, at Alaska, women account for about 55% of the workforce[134]); strive to be inclusive of those with disabilities (*e.g.*, Delta has scored 100% for eight years in a row on the Disability Equality Index[135]); and employ a high number of individuals who serve or have served in the military (*e.g.*, one in seven employees at Southwest identify as military members[136]). Moreover, irrespective of carrier business model, the unionization rate at U.S. airlines significantly outpaces other industries, as shown in Figure 39 below. For instance, the average proportion of unionized airline employees is far greater than the average in other industries commonly associated with union representation (*e.g.*, education; public administration; utilities;

[133] *See* "Workforce Data Including Labor Relations and Employee Demographics," *United Airlines*, 2023, https://crreport.united.com/data/workforce.

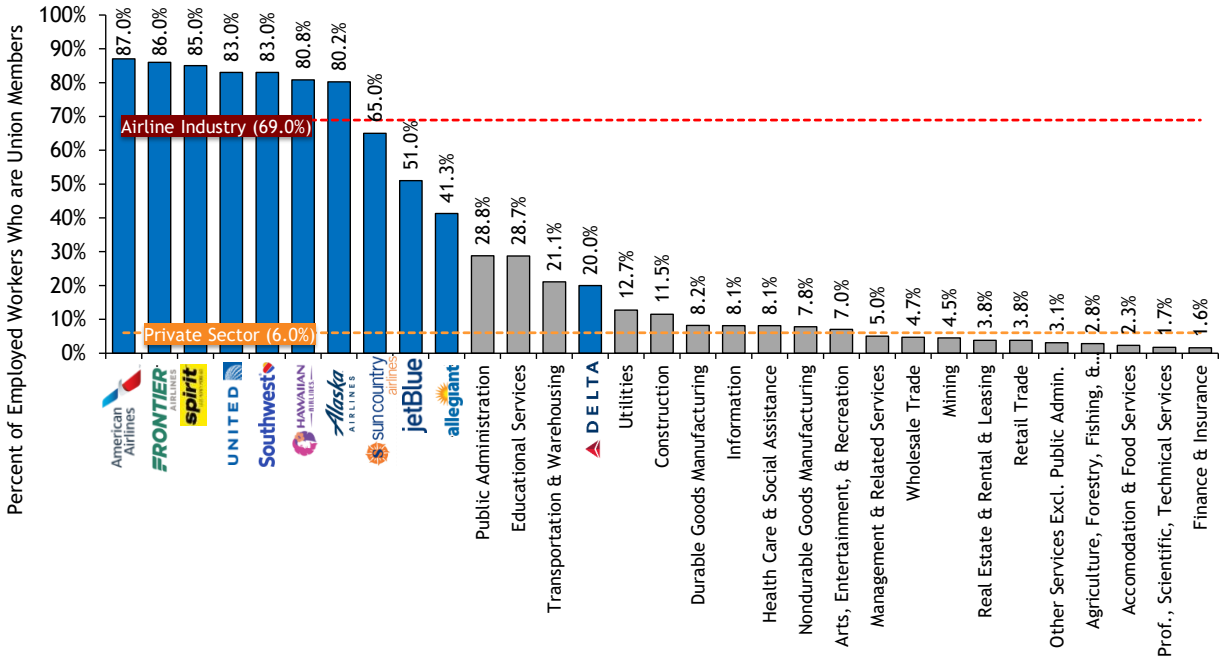
[134] *See* "Belong," *Alaska Airlines*, January 2023, https://www.alaskaair.com/content/about-us/esg/people-communities/belong?srsltid.

[135] *See* "Delta Recognized as Top Employer with Accolades Recognizing Efforts to Build a Thriving Workplace for All," *Delta Air Lines*, 2023, https://news.delta.com/delta-recognized-top-employer-accolades-recognizing-efforts-build-thriving-workplace-all.

[136] *See* "Six Branches. One Heart," *Southwest Airlines*, https://careers.southwestair.com/military

construction). And the airline industry's proportion of unionized team members at U.S. passenger airlines is more than 11 times the U.S. economy's private sector average.

FIGURE 39: PERCENT OF U.S. PASSENGER AIRLINE EMPLOYEES WHO ARE UNION MEMBERS VS. OTHER INDUSTRIES AND SECTORS OF THE ECONOMY (2023)



Source: Airline 2023 SEC 10-Ks; Union Membership and Coverage Database (2023).
Notes: American Airlines includes employees of American Airlines, Envoy, PSA, and Piedmont. Alaska Airlines includes employees of Horizon and McGee Air Services. Delta Air Lines includes employees of Endeavor. United Airlines includes employees of United Ground Express. Union membership is the percent of employed workers who are union members. The economy-wide average including the public and private sector workers is 10.0%.

As a result, many airline employees reap the benefit of collective representation. And even for those airline employees who are not unionized (*e.g.*, Delta's workforce, excluding its pilots and dispatchers), collective bargaining agreements at competitors and the constant prospect of unionization set airline labor market standards for earnings, benefits, and work rules.[137] To level set, the average compensation (inflation-adjusted salaries, wages and benefits) per airline

[137] *See, e.g.*, "Flight Attendant Union Applauds U.S. Senators for Telling Delta Air Lines to Remain Neutral in Union Organizing Campaigns," *Association of Flight Attendants CWA*, May 15, 2024, https://www.afacwa.org/senate_delta_neutrality ("AFA is currently organizing with 28,000 Delta Flight Attendants. The International Association of Machinists (IAM) ramp, cargo, and tower workers, and the Teamsters are supporting technicians and related crafts.").

employee has increased by 34% since 2007 (from roughly $109,000 to $146,000), compared to only 6.3% for private-sector employees economywide (from roughly $80,000 to $85,000).[138]

One key reason why many airline employees spend the bulk of their careers in the industry is that frontline airline employees enjoy compensation rates that increase significantly based on the number of years they remain employed. For instance, the base compensation rate for a mainline flight attendant under American's most recently negotiated flight attendant contract (ratified September 2024) *starts* at $38.76 per hour for new hires and is more than double that for top of scale flight attendants with more than 13 years of service ($88.98 per hour).[139] Under this contract, a newly hired flight attendant will see their hourly wage rate increase **49% to $57.84 per hour over the next four years.** Similarly, a more senior flight attendant with eight years of experience earning $66.12/hour will see his/her wage rate increase by 29.5% over the next four years to $85.61 per hour.[140] This increase is in addition to the nearly 29% this flight attendant received (up from $51.35/hour) when American's newest contract was ratified. Further, a top-of-scale flight attendant that had been earning $68.25 prior to the new contract saw his/her rate increase 30% to $88.98 and will earn $100.40 per hour in 2029 when the current contract becomes amendable.[141]

Substantial, collectively bargained-for wage increases such as those secured by American's flight attendants are not isolated. Rather, they have become the norm since the pandemic. Between 2022 and 2024, most U.S. carriers completed negotiations for their pilot collective bargaining agreements in a so-called pattern bargaining process where an agreement at one carrier acts as a benchmark for another. And in the midst of a tight labor market for pilots following the pandemic, pilots at major U.S. airlines saw significant cumulative compensation increases over the span of their contracts, with Alaska setting the stage in late 2022 with a cumulative compensation increase

[138] *Source*: U.S. DOT Form 41, Schedules P1 and P6; U.S. BLS CPI data; U.S. BLS Employer Costs for Employee Compensation (ECEC). Figures are through 2023 and in 2023 dollars.

[139] Hourly rates from most recently negotiated contract for American flight attendants include boarding pay, estimated by the union to be worth an additional 8.2% on top of the hourly rate of pay. *See* "2024 Tentative Agreement Executive Summary," *APFA*, August 5, 2024, https://www.apfa.org/ta2024/tadocuments/#executivesummary.

[140] *See* "2024 Tentative Agreement Executive Summary," *APFA*, September 2024. American flight attendants' pay assumes boarding pay equal to 8.2% of base rate starting September 2024.

[141] In the U.S. airline industry, collective bargaining agreements have fixed durations, after which point they become "amendable" and are subject to negotiations for renewed terms.

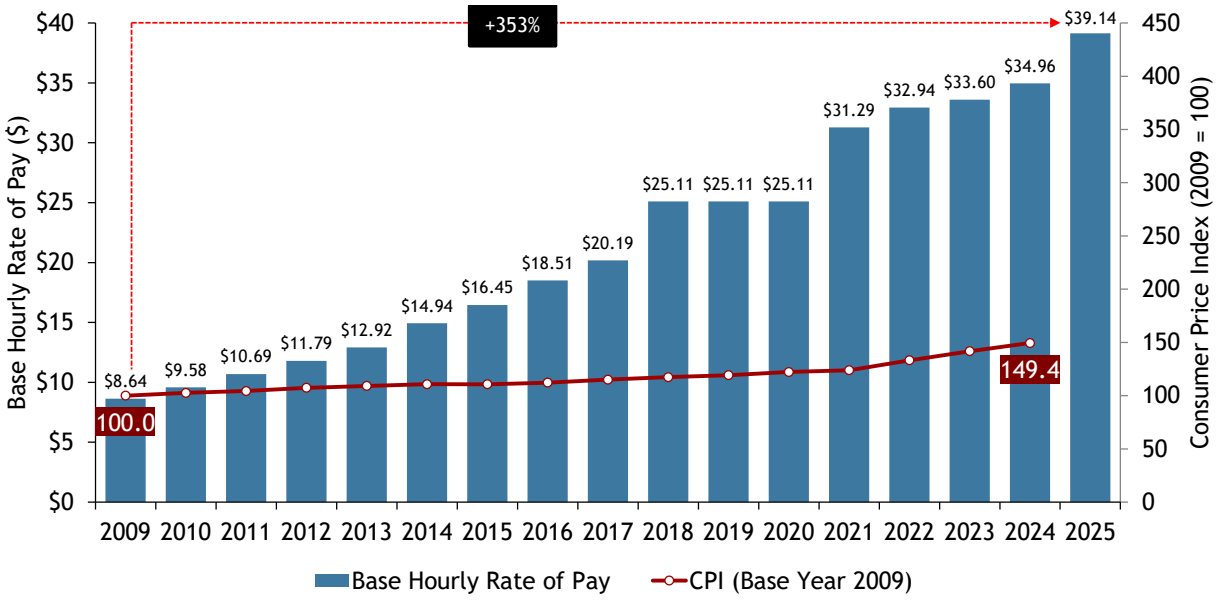
of up to 23% over the course of the contract (recently extended through 2026), followed by Spirit and JetBlue in January 2023 (up to 34% and 21.5%, respectively, each over two years), Delta in March 2023 (up to 34% over four years), American in August 2023 (up to 46% over four years), United in September 2023 (up to 40% over four years), and Southwest in January 2024 (up to 50% over five years).[142] *See* Figure 56 in the Appendix for additional detail on recent industry collective bargaining agreements.

This is not a new phenomenon. In fact, frontline airline employees have *historically* enjoyed compensation rates that have increased significantly based on the number of years they remain employed—including for positions that require relatively limited specialized training (*e.g.*, fleet service or baggage handlers). For instance, Figure 40 below tracks the growth in base hourly rates for an American fleet service agent (*i.e.*, baggage handlers) first hired 15 years ago and compares to inflation over the same period. Specifically, a newly hired fleet service agent at American earned $8.64 per hour in 2009. Under the newly extended collective bargaining agreement between American and the TWU/IAM (the bargaining representative for American's fleet service agents), the base rate for a fleet service agent with 15+ years of experience will be $39.14 per hour in 2025—which represents an **increase of 353% since 2009, far exceeding inflation over the same period**.[143]

[142] *See* "It's Official: Alaska Airlines Pilots Vote YES on New Contract," *Alaska Airlines*, October 17, 2022, https://news.alaskaair.com/alaska-airlines/alaska-airlines-pilots-ratify-new-contract/; *see also* "Spirit Airlines Pilots Approve New Contract, Lifting Pay 34%," *Wall Street Journal*, January 10, 2023, https://www.wsj.com/articles/spirit-airlines-pilots-approve-new-contract-lifting-pay-34-11673379870; *see also* "JetBlue Pilots Approve Contract Extension," *ALPA*, January 30, 2023, https://www.alpa.org/news-and-events/news-room/2023-01-30-jetblue-pilots-approve-contract-extension; *see also* "Delta Pilots Approve New Contract with 34% Raises," *CNBC*, March 1, 2023, https://www.cnbc.com/2023/03/01/delta-pilots-new-contract-big-raises.html; *see also* "American Airlines Pilots Approve Sweetened Labor Deal with Big Raises," *CNBC*, August 21, 2024, https://www.cnbc.com/2023/08/21/american-airlines-pilots-approve-labor-deal-with-big-raises.html; *see also* "United Airlines Pilots Approve New Contract with up to 40% Raises," *CNBC*, September 29, 2023, https://www.cnbc.com/2023/09/29/united-airlines-pilots-approve-contract-with-up-to-40percent-raises.html; *see also* "SWAPA in the News: Southwest Airlines Pilots Earn 50% Pay Raise as Part of New Contract Agreement," *SWAPA*, December 20, 2023, https://www.swapa.org/news/2023/swapa-in-the-news-southwest-airlines-pilots-to-earn-50-pay-raise-as-part-of-new-contract-agreement/.

[143] Over the same period (*i.e.*, 2009 to 2025), the base hourly rate of pay for a flight attendant hired in 2009 will have grown 340% by 2025 under the newly ratified collective bargaining agreement. *See* "2024 Tentative Agreement Executive Summary," *APFA*, September 2024

FIGURE 40: GROWTH IN BASE HOURLY RATE OF PAY, AMERICAN FLEET SERVICE AGENTS (2009-2024)

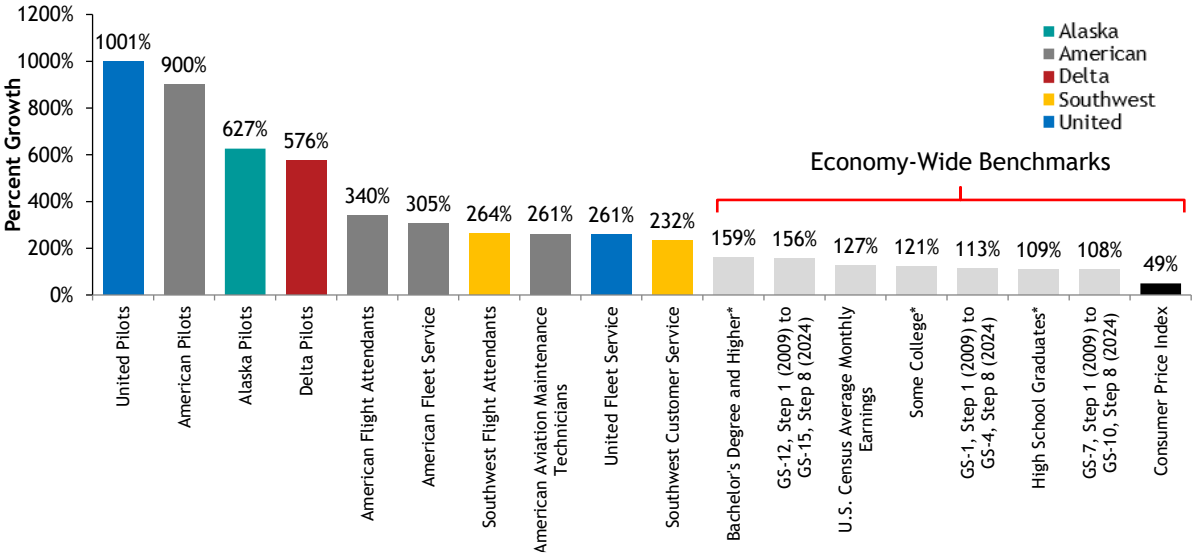


Source: Extension of the agreement between American Airlines, INC. and TWU/IAM Fleet employee association covering fleet service employees of American Airlines, 09/23/2024, Article 16. A; Collective Bargaining Agreement between American Airlines and the TWU-IAM Association, Fleet Services, 3/26/2020, Article 16.A; Collective Bargaining Agreement between American Airlines and the Transport Workers Union of America, AFL-CIO, Fleet Service, 9/12/2012, Article 4.B; Collective Bargaining Agreement between American Airlines and the Transport Workers Union of America, AFL-CIO, Fleet Service & Ground Service, 4/15/2003, Article 4.B; U.S. Bureau of Labor Statistics CPI data.
Notes: Base hourly rate of pay for employees hired in 2009. Base hourly rate of pay and CPI are as of January of each year except 2024, which is as of November.

To be sure, substantial growth in wage rates has not been limited to new hires that benefit from *both* annual "step" increases (*i.e.*, higher wage rates that are earned for the number of years of service with the airline) in addition to "scale" increases (annual shifts up in the entire wage table on the anniversary of the new agreement, for the duration of the negotiated term). Over the same period in Figure 40 (*i.e.*, 2009 to 2025), base hourly rates for an American fleet service agent who was already at the top of scale in 2009 ($21.67 per hour) will increase 81% to $39.14 by 2025, still well in excess of inflation. Nor has growth in earnings been limited to one airline or one class or craft like fleet service agents. Indeed, Figure 41 shows the percent change in nominal earnings for a range of illustrative U.S. airlines employees from different airlines with different skillsets (*e.g.*, pilots, flight attendants, maintenance technicians, customer service) hired in 2009 as of 2024 and compares with economy-wide benchmarks. The illustrative airline employee classes have seen at least 232% growth in nominal earnings (Southwest customer service) and up to 1,001% growth in

nominal earnings (United pilots),[144] compared with, for example, 108%-156% growth in nominal earnings for federal employees on the GS scale or more generally 159% on average for positions requiring a bachelor's degree or graduate education.

FIGURE 41: PERCENT CHANGE IN NOMINAL EARNINGS FOR ILLUSTRATIVE U.S. AIRLINE EMPLOYEES HIRED IN 2009 AS OF 2024 VS. ECONOMY-WIDE BENCHMARKS



Sources: Analysis of Carrier Collective Bargaining Agreements; U.S. Census Quarterly Workforce Indicators; "General Schedule (GS) Payscale Tables," federalpay.org/gs; Bureau of Labor Statistics Current Population Survey; National Longitudinal Survey of Youth 1997 Data; "2024 Tentative Agreement Executive Summary," *APFA*, August 5, 2024, https://www.apfa.org/ta2024/tadocuments/#executivesummary.
Notes: Illustrative U.S. airline figures assume employees hired on September 1, 2009; pilot hired as First Officer of an MD-80 in 2009 and is promoted to a 737 Captain by 2024. American flight attendants' pay assumes boarding pay equal to 8.2% of base rate starting September 2024. U.S. Census Average Monthly Earnings computed as the growth in average earnings for age 25-34 workers in 2009 versus the weighted average earnings of age 35-44 and 45-54 workers in 2023, adjusted by the October 2024 annual growth in BLS's average hourly earnings. *Bureau of Labor Statistics NLSY 1997 education-level earnings is the percent increase in the average income of individuals reporting a total or estimated income in both 2009 and 2020, with the 2020 average multiplied by the percent change in BLS CPS's median weekly earnings for workers 35-44 from 2020 to Q1-Q3 2024.

In addition to their standard wage compensation, many airline employees also enjoy the potential for *additional* earnings from profit sharing, which allow airline employees to participate directly in years when their airline is profitable. For example, between 2015 and 2020,[145]

[144] The recently ratified collective bargaining agreement between American and the TWU/IAM representing fleet service agents and aircraft maintenance technicians ("AMTs") provides for top-of-scale increases of 12% for fleet service agents and 15% for AMTs, effective January 1, 2025. *See* "Tentative Contract Extension Reached with American Airlines," *Transport Workers Union AFL-CIO*, September 20, 2024, https://www.twu.org/tentative-contract-extension-reached-with-american-airlines/ and https://www.twu-iam-association.org/.

[145] Delta's profit sharing payments are typically paid out in the month of February based on the previous year's profits (*i.e.*, the 2020 payment reflects employees' share of Delta's profits from 2019).

Delta paid more than $6.5 billion in profits to its employees.[146] During high performance years, these programs have resulted in substantial payouts relative to profits. For example, based on 2019 profits, Delta shared $1.6 billion in profits (27% of its total pre-tax income) with its employees in early 2020, which translated to a 16.7 percent payout (roughly two months' pay) for eligible employees.[147] That same year, Southwest paid $667 million in profits (23% of total pre-tax income) to its eligible employees, which was about a 12.2% payout (or about six weeks' pay).[148] And as airlines returned to profitability post-pandemic, employees have been rewarded with substantial profit-sharing payouts. For instance, in February 2024, Delta paid $1.4 billion for employee profit-sharing (or 25% of total pre-tax income earned in 2023), equal to 10.4% of annual pay for each employee. Likewise, United dispersed $681 million in profit-sharing payments (or 20% of total pre-tax income) based on its profits from 2023.[149] Moreover, Alaska Airline employees received $200 million in profit-sharing and operational bonuses in 2023, with a performance based plan that has provided 7.7% of annual pay per individual on average over the last 10 years.[150]

In addition to above-average compensation, airline employees enjoy significant healthcare and retirement benefits as well as vacation, sick leave, and travel privileges. For example, the Bureau of Labor Statistics has found that only 32% of private sector employees who work 20 years

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[146] *See* "Following $1.6B Profit Sharing Payout, Delta Unveils 'Thank You' Plane Featuring all 90,000 Employee Names," *Delta Air Lines*, February 14, 2020, https://news.delta.com/following-16b-profit-sharing-payout-delta-unveils-thank-you-plane-featuring-all-90000-employee-0.

[147] *See* "Following $1.6B Profit Sharing Payout, Delta Unveils 'Thank You' Plane Featuring all 90,000 Employee Names," *Delta Air Lines*, February 14, 2020, https://news.delta.com/following-16b-profit-sharing-payout-delta-unveils-thank-you-plane-featuring-all-90000-employee-0; *see also* Delta Airlines 2019 Form 10-K.

[148] *See* "Southwest Airlines Employees Earn $667 Million in 2019 Profitsharing," *Southwest Airlines*, February 6, 2020, https://www.southwestairlinesinvestorrelations.com/news-and-events/news-releases/2020/02-06-2020-115901586; *see also* "Southwest Airlines Reports 47th Consecutive Year of Profitability," *Southwest Airlines*, https://www.southwestairlinesinvestorrelations.com/news-and-events/news-releases/2020/02-06-2020-115901586; *see also* Southwest Airlines 2019 Form 10-K..

[149] *See* "Delta Invests in Employees Across the Globe, Provides Profit-Sharing Equal to 10.4% of Annual Pay," *Delta Air Lines*, February 14, 2024, https://news.delta.com/delta-invests-employees-across-globe-provides-profit-sharing-equal-104-annual-pay; *see also* Delta Airlines 2019 Form 10-K.; *and* "United Airlines Announces Full-Year and Fourth-Quarter 2023 Financial Results," *United Airlines*, January 22, 2024, https://united.mediaroom.com/2024-01-22-United-Airlines-Announces-Full-Year-and-Fourth-Quarter-2023-Financial-Results/.

[150] *See* "Alaska Airlines Invests in its People with $200 Million in Payouts and Enhanced Travel Perks," *Alaska Airlines*, February 2, 2024, https://news.alaskaair.com/company/alaska-airlines-invests-in-its-people-with-200-million-in-payouts-and-enhanced-travel-perks/.

for a company received 24 or more days of vacation per year, and only 19% of employees in the private sector who work 10 or more years for a company receive same.[151] Many airline employees fall into these select categories. As just one example, United flight attendants receive 26 days of annual vacation beginning in their 10th year of employment, which escalates to 33 days at year 17 and 40 days at year 25.[152] As another example, Southwest aircraft mechanics receive 28 days of annual vacation starting in their 10th anniversary of employment, which escalates to 35 days at year 18.[153]

Airlines have also long offered some of the best paid sick leave benefits in the private sector—long before states started enacting paid sick leave regulations and far more generous than state laws prescribe. For instance, in Washington State requires employers allow their employees to accrue one hour of sick leave for every 40 hours worked—*i.e.*, 52 hours per year based on a standard 40 hour workweek—and requires employers to let employees carryover up to 40 hours of leave year-to-year.[154] Other state laws are similar: Colorado, for example, caps accrual and use at 48 hours per year.[155] Compare these with, for example, Alaska's passenger service employees, who earn up to 96 hours of paid leave each calendar year and can carryover unlimited hours year-to-year up to a sick bank limit of *1,650 hours (or about 200 days)*.[156] Or Southwest's aircraft maintenance technicians, who likewise earn up to 96 hours of paid leave per calendar year, but can carryover unlimited hours up to a bank limit of *2,000 hours (or about 250 days)*.[157] To put this in

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[151] *See* "Employee Benefits in the United States," *U.S. Bureau of Labor Statistics*, March 2024, https://www.bls.gov/ebs/publications/employee-benefits-in-the-united-states-march-2024.htm (2010-2024 historical excel dataset).

[152] Collective Bargaining Agreement between United Airlines and the Association of Flight Attendants – CWA, Flight Attendants, effective Aug. 28, 2016, Section 12.A.7.

[153] Collective Bargaining Agreement between Southwest Airlines and the Aircraft Mechanics Fraternal Association, effective Aug. 16, 2023, Article 11.

[154] *See* "Paid Sick Leave Minimum Requirements," *Washington State Department of Labor & Industries*, https://www.lni.wa.gov/workers-rights/leave/paid-sick-leave/paid-sick-leave-minimum-requirements.

[155] *See* Colorado Healthy Families and Workplaces Act § 8-13.3-403(2)(a) ("Each employee earns at least one hour of paid sick leave for every thirty hours worked by the employee; except that an employee is not entitled under this section to earn or use more than forty-eight hours of paid sick leave each year, unless the employee selects a higher limit.").

[156] Collective Bargaining Agreement between Alaska Airlines and the International Association of Machinists and Aerospace Workers, effective Sept. 27, 2019, Article 14.

[157] Collective Bargaining Agreement between Southwest Airlines and the Aircraft Mechanics Fraternal Association, effective Aug. 16, 2023, Article 13.

broader context, a 2020 Pew Research survey found that the median sick bank cap for private sector employees was 20 days versus 120 days for state and local government.[158] In addition to compensation and paid leave benefits, employee travel privileges are what draw many individuals to seek employment with an airline. Specifically, airlines allow employees (including retirees) *and their families* (including parents) to fly space-available standby on their home carrier to any destination that carrier serves for free.[159] Many airlines also offer employees the option to fly friends or others to whom they are not related under "buddy passes." These privileges are put to frequent use by airline employees.[160]

To be sure, while this section has focused on how airline employees have been a direct beneficiary of a profitable U.S. airline industry, it is also true that a prosperous U.S. airline industry that is able to reinvest in its products and services creates an enormous U.S. employment spillover effect within airlines' supply chain. Nowhere is this more evident than with civil aircraft manufacturing sector (*e.g.*, Boeing and Airbus) and the vast supply chain that they depend on within the United States.[161] Beyond new aircraft, investments in upgraded cabins, inflight connectivity, and modernized airport terminals and lounges—all of which depend on airlines' ability to generate sustained profits—support hundreds of thousands of jobs nationwide.

C. Increasing Labor Cost Pressures Will Contribute to Keeping Airline Profitability Low Relative to Firms in Other Industries in Transportation and Service Sectors

Finally, although consolidation has helped to restore more consistent profitability, thereby facilitating airlines' ability to invest in their workforces and create/support high-quality jobs, it is no surprise that airlines' labor costs (both in absolute terms and as a percentage of airline revenue)

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[158] *See* "As Coronavirus Spreads, Which U.S. Workers Have Paid Sick Leave—and Which Don't," *Pew Research Center*, March 12, 2020, https://www.pewresearch.org/short-reads/2020/03/12/as-coronavirus-spreads-which-u-s-workers-have-paid-sick-leave-and-which-dont/.

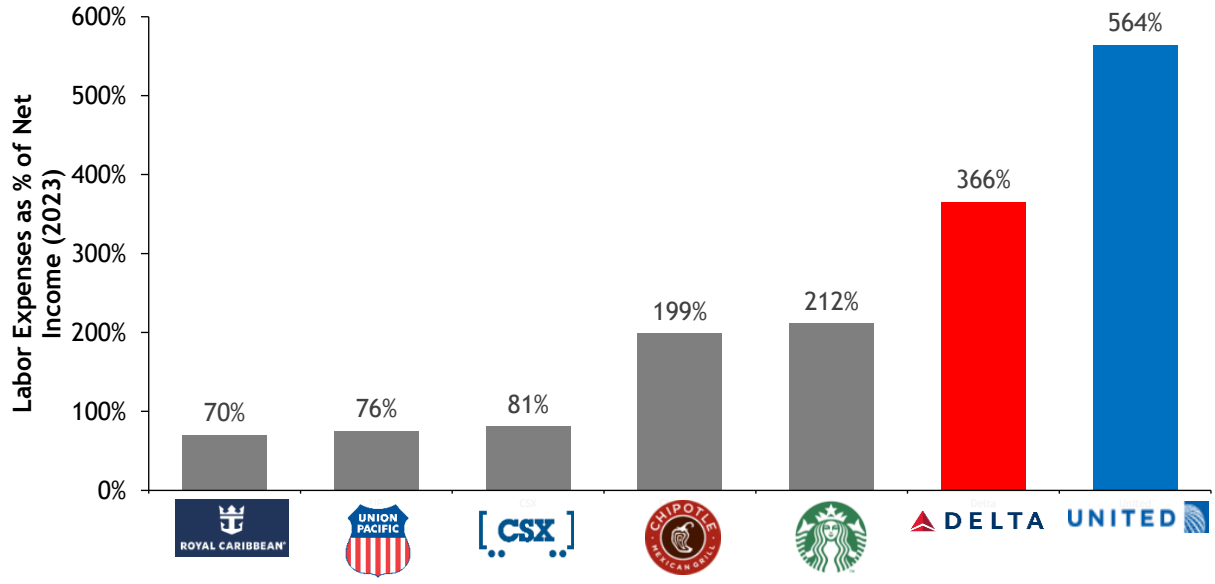
[159] Employees can also fly on a different carrier using their Zonal Employee Discount ("ZED") under a multilateral interline agreement that has 190 party carriers around the globe.

[160] Notably, airlines frequently rank as some of the best places to work. For example, in 2024 Forbes named Delta, JetBlue, Southwest, and United to its list of America's Best Large Employers. *See* "America's Best Large Employers, *Forbes*, February 12, 2024, https://www.forbes.com/lists/worlds-best-employers/.

[161] Even though Airbus is a European company, it has assembly sites for its narrowbody passenger aircraft (*i.e.*, the A319/320/321 and A220) in Mobile Alabama, as well as an engineering site in Wichita, Kansas. Overall, Airbus directly employs 3,200 workers in the United States, and indirectly employs tens of thousands more through its supply chain at companies such as Pratt & Whitney, CFM (a joint venture between GE Aerospace and Safran Group), Sprit AeroSystems and Collins Aerospace, among many others.

have steadily increased—in particular in the post-pandemic era under the slate of new labor agreements across carriers that were reached in the midst of an inflationary environment and a tight labor market, amongst other things. Indeed, annual inflation-adjusted expenditures on employees' wages and benefits grew from $74 billion in 2019 to $81 billion in 2023 and will continue to rise over the next several years under new labor agreements that are collectively worth tens of billions of dollars.[162] For further perspective on these labor cost pressures, Figure 42 below shows labor expenses as a percentage of net profit for the industry's two most profitable passenger airlines in 2023 (Delta and United) versus other illustrative large companies in the transportation and/or consumer discretionary sector of the economy, including Starbucks, Chipotle, CSX, Union Pacific, and Royal Caribbean.

FIGURE 42: LABOR EXPENSES AS A PERCENTAGE OF NET INCOME (2023)



Source: Company 2023 10-Ks.

[162] *Source:* U.S. DOT Form 41 P-6 salary, wages and benefit data for scheduled passenger carriers, adjusted to 2024 dollars (average from January to October). For example, United's and American's new pilot contracts will deliver more than $10 billion and $9 billion respectively in compensation and benefits to their pilot workgroups. *See* "American Airlines Pilots Ratify New Agreement," *American Airlines*, August 21, 2023, https://news.aa.com/news/news-details/2023/American-Airlines-pilots-ratify-new-agreement-CORP-LAB-08/default.aspx; *see also* "United Airlines Pilots Ratified a New Contract That Their Union Says Is Worth More Than $10 Billion," *AP News*, September 29, 2023, https://apnews.com/article/united-airlines-pilots-ratify-contract-afab5d9875b2b207b84fdd4b1eabe6c6.

As shown above, labor costs are proportionately *a much larger cost* relative to net profit at the most profitable passenger airlines—even when compared to other labor intensive companies (*e.g.*, Starbucks, Chipotle) with significant capital expenditures (*e.g.*, real estate). By way of further illustration, for every dollar in net income generated by United in 2023, it spent $5.64 on labor, far more than Starbucks ($2.12), Union Pacific (76 cents) or Royal Caribbean (70 cents).[163]

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This Section IV has demonstrated that a healthy and profitable airline industry is beneficial not only for consumers, but also for airline employees. Industry consolidation has been unambiguously good for airline labor because it put airlines on firmer financial footing to reinvest in their workforces. Airlines have increased investments in their workforces both by job creation and increased salaries and benefits per employee. Tens of thousands of jobs were added to the industry during the decade preceding the pandemic. And while many airline employees voluntarily exited the industry both permanently and temporarily during the pandemic, the workforce today has remarkably recovered to levels *higher* than before the pandemic. Further, labor's share of operating revenue was 31.8% for the first half of 2024—up from 21.7% in 2011 and 28.8% in 2019—with continued upward pressure with the slate of recently settled collective bargaining agreements that combined are worth tens of billions of dollars. These are investments in high-quality, American jobs, with extraordinary benefits and significant earning potential over time—including for positions that require relatively limited specialized training. Accordingly, airlines' labor costs are proportionately a large cost relative to net profit, and will remain a cost pressure that, together with intense competition will contribute to keeping airline profitability low relative to other industries.

[163] Unlike U.S. airlines that rely almost exclusively on U.S. employees, Royal Caribbean primarily relies on foreign labor to crew its vessels.

V. THERE IS NO EVIDENCE THAT U.S. PASSENGER AIRLINES HAVE ENGAGED IN EXCLUSIONARY OR DECEPTIVE PRACTICES REGARDING ANCILLARY FEES, TRANSPARENCY IN DISTRIBUTION, OR AIRLINE REWARDS PROGRAMS

This final section addresses misguided concerns over three specific aspects of U.S. airlines' businesses, including that:

(1) Airlines increasingly charge unnecessary "junk fees" to consumers—as highlighted in the recent Majority Report from the Senate Permanent Subcommittee on Investigations (the "PSI Report");

(2) Airlines fail to provide consumers enough transparency about their products across distribution channels, which, in turn, harms consumers' ability to effectively comparison shop for air travel; and

(3) Airline rewards programs lock in consumers and thereby reduce choice, while simultaneously harming consumers by devaluing earned rewards, instituting dynamic pricing, and adding extra fees.

These highlighted areas are discussed in three sections below. There is simply no basis to refer to ancillary fees as "junk fees," and airlines' air ticket distribution practices and rewards programs are each aimed at enhancing the airline's value proposition with consumers in order to compete more effectively.

A. The Recent PSI Report Draws Erroneous and/or Misleading Conclusions About the Rise of So-Called "Junk Fees"

The November 2024 PSI Report reached sweeping conclusions that the practice of unbundling ancillary goods and services from certain base fares has "not lowered the cost of flying for consumers" while being more and more lucrative for airlines, particularly as competition has allegedly declined due to industry consolidation.[164] The report's conclusions are either factually wrong or lack appropriate context. As explained below, there is simply no basis to refer to bag and other ancillary fees as "junk fees" that have grown as airline competition has allegedly declined.[165] The unbundling of certain airline tickets into a base fare (*i.e.*, transportation from one

[164] *See* "The Sky's the Limit: the Rise of Junk Fees in American Travel," *Majority Report from the Senate Permanent Subcommittee on Investigations*, November 26, 2024, pp. 4-5.

[165] *See* "The Sky's the Limit: the Rise of Junk Fees in American Travel," *Majority Report from the Senate Permanent Subcommittee on Investigations*, November 26, 2024, pp. 16-18. For the reasons stated above in Section III, airline competition has not declined due to the consolidation that has occurred over the last 15 years. Moreover, even the PSI Report correctly acknowledges that unbundling started in the United

airport to another) with ancillary service options allows for more choice and lower fares aimed at making travel more accessible to consumers. Thus, rather than being a symptom of declining competition, unbundling is instead the result of robust competition between carriers utilizing different business models.

First, the PSI report cites a single source—an academic paper co-authored by two of the authors of this present comment submission (Darin Lee and Ethan Singer)—for the proposition that the practice of unbundling has "not lowered the cost of flying for consumers" because it imposes "additional charges to fly with carry-on or checked bags" among other fees.[166] We unequivocally state that the PSI report grossly mischaracterizes the conclusion of our prior work, which found *the exact opposite* by providing empirical evidence that an airline's fares fall when it introduces a bag fee.[167] More specifically, our empirical analysis found that the **average fare charged by an airline declines by about 3% when a bag fee is adopted**.[168] In other words, for the majority of travelers who do not check a bag, the cost of flying is *lower* because they benefit from the lower base fare that came when airlines unbundled the service of checking bags from the base fare but don't check bags. Moreover, many customers who do check bags either purchased a fare class that includes free checked bags (*i.e.*, First Class) or are exempt from bag fees for various reasons, including, for example, loyalty program status, holder of a co-branded credit cards, or military status. For these customers, the cost of flying is also lower because airlines unbundled checked bag fees.[169] Separate analysis has found that *only 20% of passengers check and pay* for

States with Spirit as a ULCC business model feature, which elicited a competitive response from GNCs "to compete with lower cost carriers." *Id.* at pp. 7, 10.

[166] *See* "The Sky's the Limit: the Rise of Junk Fees in American Travel," *Majority Report from the Senate Permanent Subcommittee on Investigations*, November 26, 2024, p. 4.

[167] *See* Jan K. Brueckner, Darin N. Lee, Pierre M. Picard, and Ethan Singer, "Product Unbundling in the Travel Industry: the Economics of Airline Bag Fees," *Journal of Economics & Management Strategy*, Vol. 24 (3), 2015, 457-484.

[168] *See* Jan K. Brueckner, Darin N. Lee, Pierre M. Picard, and Ethan Singer, "Product Unbundling in the Travel Industry: the Economics of Airline Bag Fees," *Journal of Economics & Management Strategy*, Vol. 24 (3), 2015, 457-484, p. 460.

[169] An appendix to the PSI Report indicates that American carried 89.2 million bags in 2018, only 45% of which were paid. *See* "The Sky's the Limit: the Rise of Junk Fees in American Travel," *Majority Report from the Senate Permanent Subcommittee on Investigations*, November 26, 2024, Ex. 1.

their first checked bag.[170] Finally, while the average 3% decline in base fares is less than the amount of the bag fee, our published research also concluded that the subset of passengers who sometimes check bags may "have a total lower outlay (including bag fees) over multiple trips if the aggregate saving in base fare is greater than the total bag fees paid."[171] To highlight that unbundled services used to be included in the price of the ticket (as the first sentence of the PSI Report does[172]) lacks the important context that those bundled fares were, on average, *higher* (*see* Figure 27 above in Section III.C).

Second, the PSI Report correctly states that "'ancillary fees' have become a vital revenue stream for the airlines."[173] To label these fees as "junk fees" or to highlight out of context how much revenue they produce, however, severely mischaracterizes—or simply ignores—the necessity of ancillary fee revenue for airlines to cover their expenses. In fact, without ancillary fee revenue, many airlines would be unable to cover their expenses because of rising costs (*e.g.*, labor—*see* Section IV below) and the decline in base fares, currently at their lowest level in history (*see* Figure 27 above in Section III.C). For example, American's operating expenses for the four quarters ending September 30, 2024, were $51.5 billion.[174] Over this same period, the airline's core operating revenue—which includes ticket revenue, cargo, seat fees, checked bag fees, and other ancillary fees from customers—was $50.5 billion: *not enough to cover its costs*. As discussed below in Section V.C., American and other airlines must rely on loyalty program

[170] *See* Comments of Airlines for America, Notice of Proposed Rulemaking Enhancing Transparency of Airline Ancillary Service Fees, Docket No. DOT-OST-2022-0109-0090, Ex. B at p. 10 ("Based on our survey of the largest U.S. airlines that charge for first and second checked bags, 38 percent of total passengers check one bag but only half of those passengers that check one bag pay for it. In fact, only 20 percent of all passengers check and pay for their first checked bag.").

[171] *See* Jan K. Brueckner, Darin N. Lee, Pierre M. Picard, and Ethan Singer, "Product Unbundling in the Travel Industry: the Economics of Airline Bag Fees," *Journal of Economics & Management Strategy*, Vol. 24 (3), 2015, 457-484, p. 460.

[172] *See* "The Sky's the Limit: the Rise of Junk Fees in American Travel," *Majority Report from the Senate Permanent Subcommittee on Investigations*, November 26, 2024, p. 1 ("Over the last two decades, U.S. airlines have increasingly charged separately for goods and services that were once included in the price of a ticket.").

[173] *Source*: American 10-Qs and earnings press releases. American's labor expenses have increased 83.4% since 2014 even though headcount has increased by just 18.4%. *Id.*

[174] *Source*: American 10-Qs and earnings press releases.

revenue to cover their costs. Without these revenue streams, including the vital revenue from ancillary fees, American and other airlines would not be viable.

Finally, ancillary fees in the U.S. passenger airline industry are optional—unlike many other obligatory fees in other industries (*e.g.*, concert ticket fees). The lowest unbundled fares are priced for passengers seeking only transportation from point A to point B without having to pay for any unwanted services, including, for example, checked or carry-on bag transportation, or seat assignments at time of booking.[175] To state that such fees are "not reasonably avoidable"[176] misunderstands what unbundling achieves. For example, unbundling a carry-on bag fee from the base ticket offers air transportation to two different passenger profiles: (i) a passenger who has no carry-on bag and wants to avoid paying for a service s/he does not need; and (ii) a passenger who has a carry-on bag and wants to incorporate the service into their travel plans and pay for the service accordingly, either via an additional fee or through the selection of a fare product that caters to their travel needs.

For these reasons, there is simply no basis to characterize ancillary fees by the popularized epithet "junk fees."

B. Airlines Are Strongly Incentivized to Market and Distribute Their Products with Full Transparency, and Comparison Shopping for Air Travel Has Never Been Easier

Because consumers have multiple competing carriers vying for their business, each airline's success depends on easy and transparent access to its products and services—including fees. Given the number of airlines to choose from, airlines are strongly incentivized to market and distribute their products to the broadest set of consumers possible that is cost effective in the context of their business models. To this end, most airlines market and sell their products to consumers both *directly* through their own websites and apps and *indirectly* through third-party distributors such as travel agents, travel management companies, and metasearch referral sites

[175] Importantly, the lowest fare category on *all U.S. airlines* (including ULCCs) comes with a bundled personal item (*i.e.*, a bag that will fit underneath the seat in front of them) with no additional charge. Similarly, several airlines including American, JetBlue, Alaska and Southwest include one carry-on bag (plus a personal item) with their lowest fares.

[176] *See, e.g.*, "The Sky's the Limit: the Rise of Junk Fees in American Travel," *Majority Report from the Senate Permanent Subcommittee on Investigations*, November 26, 2024, p. 12.

(*e.g.*, Google Flights). Through these channels, consumers have easy and intuitive access to a wealth of available flight information.

1. Airlines Are Incentivized to Provide Transparent Product Information Through Direct Distribution Channels

Given the vast spectrum of consumer needs and preferences in air travel, airlines are motivated to showcase the unique and increasingly differentiated attributes of each product to ensure that consumers fully understand the value proposition of the tickets they are offering—*e.g.*, what products and services are included with the price of a ticket and what products and services can be purchased for a fee or come bundled with a more expensive ticket. Moreover, since air travel is a repeat-purchase product, airlines want to ensure that consumers who choose to fly them are satisfied that the product they received either matched or exceeded expectations based on how that product was marketed/communicated at the time of purchase.

These incentives have driven airlines to enhance their digital capabilities over the last decade and modernize their marketing/shopping display on their websites and apps to better highlight their products with as much information as possible (without being overwhelming) on intuitive and easy-to-navigate user interfaces. Generally speaking, in direct channels (website, apps), airlines display their available fare products on an initial screen in columns (or "shelves") for a queried flight, ordered by ascending level of amenities and ticket price or, if preferable, miles. The rows populating the shelves display available departure times, with additional information such as nonstop or number of connections, elapsed flight time, flight number, aircraft type, carbon footprint, and various on-board amenities. But that is not all. Many initial screens also include drop down buttons that provide additional information to layer into consideration *as needed*, as shown in the illustrative screen shot from United's website in Figure 43 below. For flexible travelers, many airlines also now include on the initial screen (or one click away) a fare calendar showing the lowest fare available on dates adjacent and near to the flight date queried, as shown on the illustrative screen shot from Breeze's website in the following Figure 44.

FIGURE 43: ILLUSTRATIVE SCREENSHOT OF INITIAL SCREEN ON UNITED.COM FOR QUERIED FLIGHT ORD-FLL (MARCH 14, 2025)

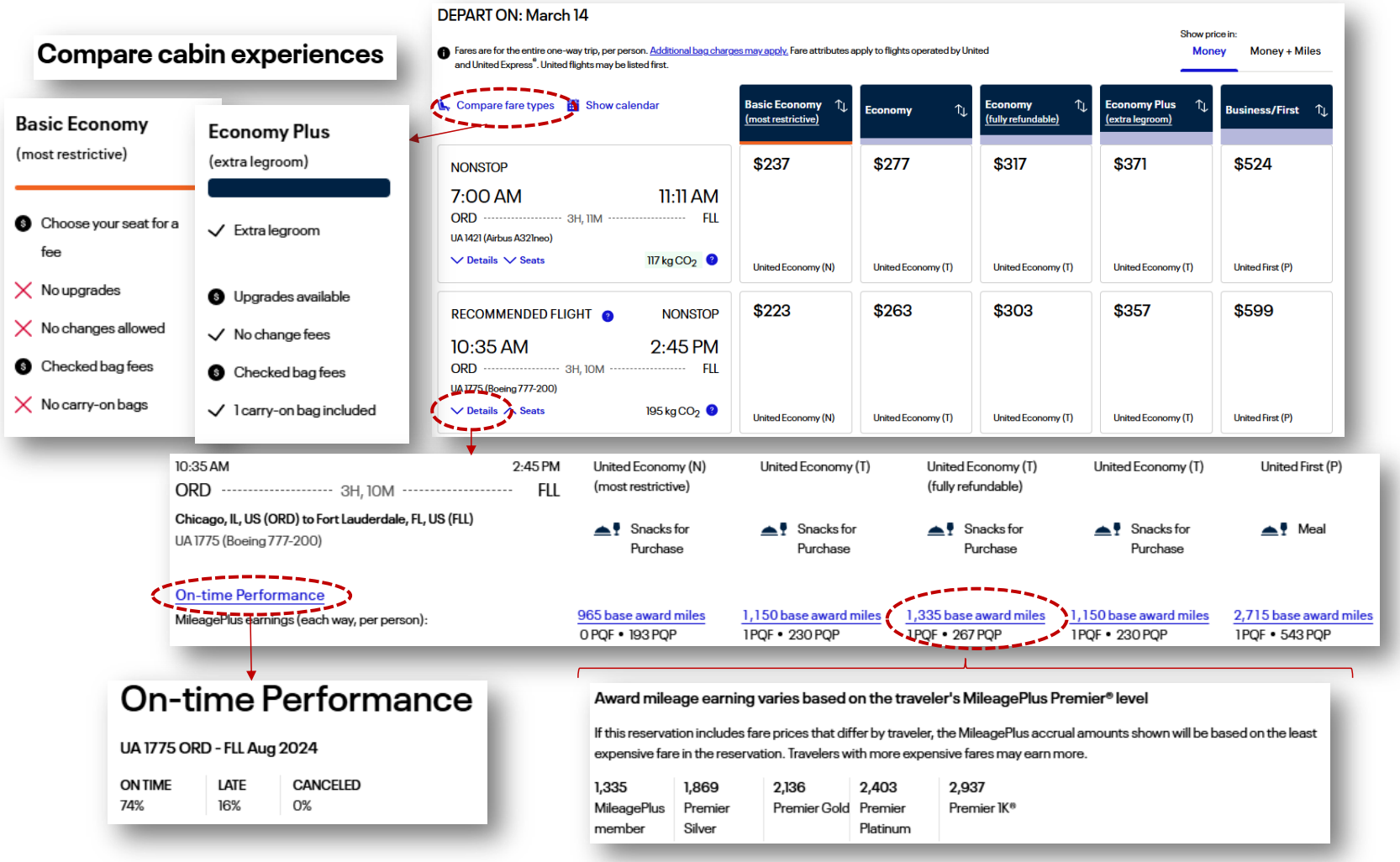
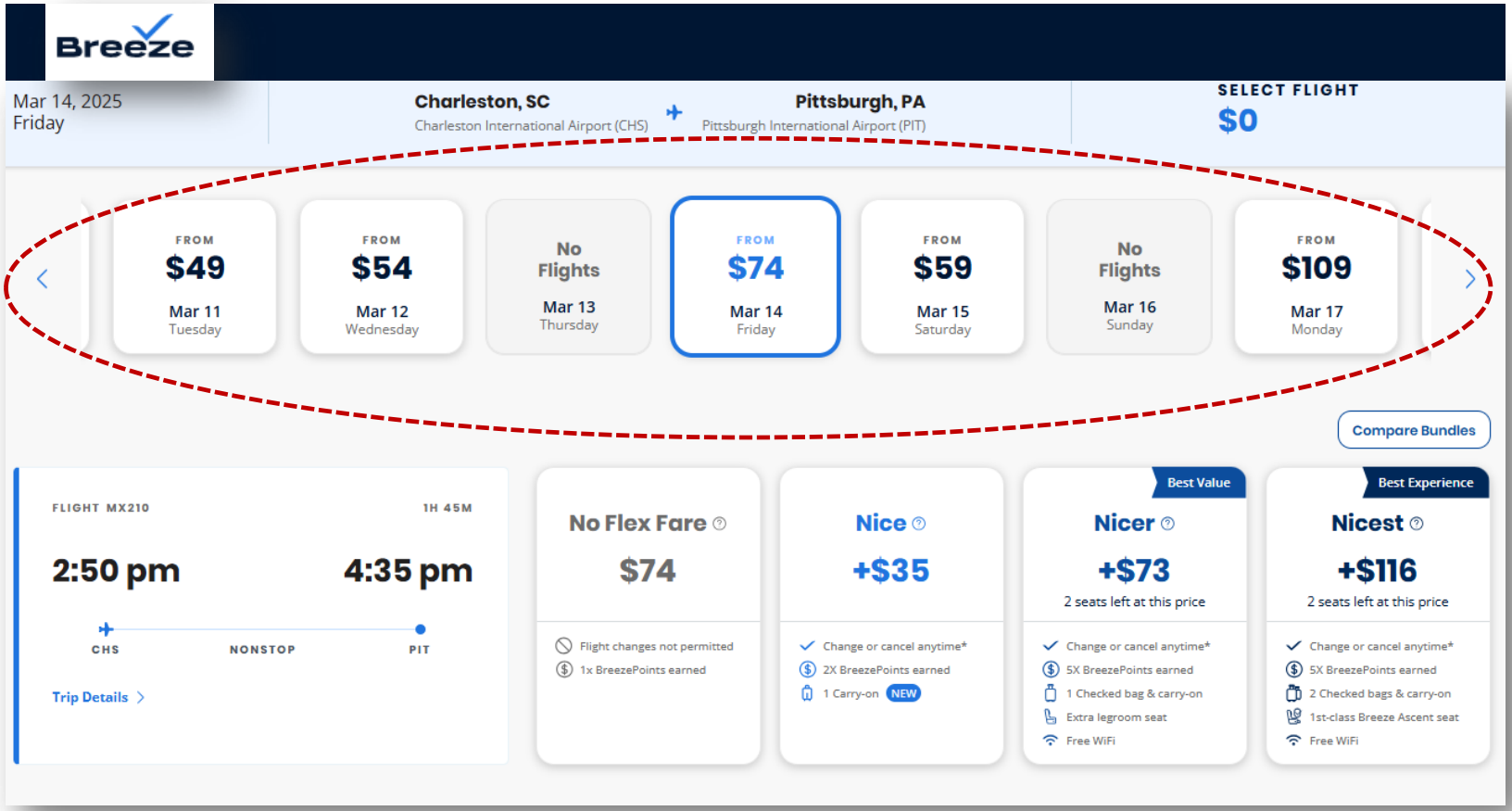


FIGURE 44: ILLUSTRATIVE SCREENSHOT OF INITIAL SCREEN ON BREEZE.COM FOR QUERIED FLIGHT CHS-PIT (MARCH 14, 2025)



There is a plethora of additional information available on secondary screens to home in on products under consideration, such as dynamic or even immersive 3D seating charts and baggage and travel fee calculators. In regard to fees: the DOT issued a rule in early 2024 requiring airlines to include bag, change, and cancelation fees on the initial display screen for a queried flight itinerary, which was subsequently enjoined by a federate appellate court.[177] Cataloguing the Department's efforts on this point, the PSI Report declares that the "proliferation of varying and complex fees makes it more difficult to determine the total cost of travel."[178] But there is a logic to including this information on secondary screens, which is grounded in the fact that there is no singular travel profile. Take checked bag fees, for instance. In order to properly display the associated fee for any given traveler on his/her specific itinerary, the airline must first have additional information, including but not limited to status under an airline loyalty program (which may provide for free checked bags). Given the range of checked bag fee totals depending on how many bags, size and weight of bags, and status, it would be confusing to shoehorn that information onto an initial display screen—and unnecessary for the majority of passengers not paying for a checked a bag. Instead most carriers provide a baggage fee link on the initial screen of a queried flight to help customers more precisely and clearly gauge the cost of checked bags for their specific travel needs.

What is more, once a consumer selects a flight and fare product, many carrier websites and apps will direct consumers to a screen that compares the selected product and services selected to various buy-up options and/or additional bundles that offer a more tailored final product with features distinguishable from the standard fare products. (*See* Appendix Figure 57 for an illustrative screenshot on United.com for bundled buy-up opportunities for the same queried flight shown in Figure 43 above.) These examples highlight both that (i) airline websites are content-rich and intuitively easy to navigate, allowing consumers to layer in additional information for

[177] *See* Final Rule, Enhancing Transparency of Airline Ancillary Service Fees, 89 Fed. Reg. 34620, at 34621 (April 30, 2024) (amending 14 C.F.R. § 399). In July 2024, the Fifth Circuit Court of Appeals temporarily blocked the final rule pending further review, arguing that it likely exceeded DOT's authority. *See* "U.S. Appeals Court Blocks Airline Fee Disclosure Rule," *Reuters*, July 29, 2024, https://www.reuters.com/legal/appeals-court-blocks-us-airline-fee-disclosure-rule-2024-07-30/.

[178] *See* "The Sky's the Limit: the Rise of Junk Fees in American Travel," *Majority Report from the Senate Permanent Subcommittee on Investigations*, November 26, 2024, p. 22.

comparison shopping as they home in on flights and products; and (ii) airlines hold transparency paramount in competing for customer's business.

2. Most Airlines Also Market and Sell Their Products Through Indirect Distribution Channels, and the Ability to Maintain Control Over Their Content in These Channels Is in the Best Interest of the Consumer

In addition to direct distribution channels (website/apps), airlines also depend on third-party distributors to market and sell their flights. And for good reason: as of 2024, roughly half (55%) of consumers who shop for tickets on A4A member airlines that use indirect channels of distribution (*i.e.*, excluding Southwest[179]) like to search and comparison shop in indirect channels.[180] Even though indirect channels are popular with consumers, there are certain consumer disadvantages to booking air travel in these channels.

First, the display is more commoditized and primarily designed around schedule and cheapest price, though consumers can often filter the initial screen to cater to additional preferences (*e.g.*, nonstop, airline, carry-on bag included, etc. – *see* Figure 58 in the Appendix for an illustrative screenshot).

Second, third-party distributor websites are generally not as content-rich as airline websites. For example, these platforms do not have pictures of airline seats, let alone immersive 360 degree seating views, and cannot display the cost of travel by payment method (*i.e.*, pay by credit card versus redemption of points, or a combination). These omissions together with the commoditized display may influence consumer choice and steer consumers to purchase products they otherwise would not prefer or choose with more complete information.[181]

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[179] Southwest primarily markets and distributes their products through direct channels to avoid third-party costs in distribution and maintain control over the customer experience—a strategy that is in line with their low-cost business model and further enhances their ability to offer low fares. In 2024, Southwest began displaying inventory on Google Flights and Kayak.

[180] *See* "Air Travelers in America: Key findings of a Survey Conducted by Ipsos," *Airlines for America/Ipsos*, March 2024.

[181] To be sure, improving and/or modernizing the display of third-party websites to, for example, mimic the digital shelving display of airline websites would be a complicated endeavor and carries enormous risk of distorting competition. Specifically, it is not easy to draw broad comparisons across carriers' products that fit neatly into shelves, and to do so may falsely compare and misleadingly stage certain products of one carrier as more or less desirable than others when they are simply different. In turn, this would drive product

Third, third-party distributors have different incentives than airlines in distribution, which, in turn, do not hold transparency paramount. For example, like most businesses online travel agencies ("OTAs") such as Expedia endeavor to maximize their profits and OTAs' primary source of revenue is higher-commission hotel bookings and car rental reservations—not airline booking fees (which they split with global distribution systems).[182] To maximize the higher commission reservations, OTAs will often attempt to entice consumers to their platforms by focusing on low ticket prices as a gateway to shepherd more higher commission hotel and car reservations. OTAs will also sponsor fare advertisements where advertised fares appear on the screen as part of the sort. Consequently, OTAs measure their success on conversion and volume—not necessarily on product satisfaction for air travel consumers. Many of the same or similar incentives apply to metasearch referral sites (*e.g.*, Google), which make no money from airline bookings directly (though receive a referral fee), but search for ways to drive consumers to their sites where they have other sources of revenues (*e.g.*, advertising).[183] This can and does result in inaccurate displays that mischaracterize airline products and services either directly or through omission. And it is usually the airlines that reap the repercussions when the product and service received falls below expectation based on what was communicated at the time of purchase.

As such, airlines' ability to negotiate with third-party distributors over access to their content and withhold or terminate access altogether if products are not or cannot be accurately represented is *good* for the consumer. By allowing airlines control over their content in these indirect channels, the transparency and accuracy of information is undoubtedly better, allowing consumers to better understand the value of each product and service being offered.

3. Consumer Comparison Shopping for Air Travel Is Straightforward and Convenient

The quality and wealth of information across distribution channels and sophistication of display and information management has made comparison shopping for air travel informative

commoditization and drastically reduce the breadth of consumer choices in product and services available in air travel today.

[182] For example, Expedia Group's revenues in 2023 show that airline bookings accounted for $410 million of its $12.8 billion in revenue. *Source*: Expedia Group Inc. Form 10-K 2023, p. 38.

[183] What is worse, some third-party distributors are simply bad actors that can mismanage bookings and drop reservations, charge fees that airlines do not charge (*e.g.*, service fees), limit refunds to narrower circumstances than airlines would allow, fail to disclose ancillary fees, or sell itineraries with non-interline connections between two carriers.

and accessible. Indeed, carrier websites and mobile apps rank high in customer satisfaction. According to ACSI, for instance, among multiple customer experience benchmarks, the reliability and quality of airline websites and mobile apps and overall ease of making a reservation on these platforms outscore all other customer service benchmarks and are even higher than the general airline score, which is at an all-time high.[184] Further, according to a recent A4A/Ipsos survey, among customers purchasing tickets on A4A member carriers that utilize indirect channels of distribution, 72% of consumers typically prefer purchasing travel online from carrier websites/apps rather than through online travel agencies.[185] This same survey found that airline websites/apps are the most commonly used distribution channel to book personal trips.[186]

Yet, despite the popularity of airline websites/apps, roughly half of consumers still like comparison shopping in indirect channels and roughly 80% of air travel consumers consult more than one airline website/app, travel agency, or company before making a purchase.[187] This is no surprise: air travel consumers like to comparison shop across competing carriers and platforms to find the best value proposition for their individualized needs. And today's consumers are not only looking for pricing transparency, but are also looking to personalize their overall travel experiences and conveniently manage their travel plans with speed and ease. Airline retailing strategies across distribution channels (together with investments in technology) are continuing to evolve, innovate, and elevate how those needs are met. Contrary to the notion that comparison shopping is too difficult or overwhelming in the current retail environment, A4A/Ipsos's survey found that well over half of consumers spend *less than an hour* shopping for air travel before making a purchase,

[184] *See* "Customer Experience Benchmarks Year-Over-Year Industry Trends," *ASCI*, https://theacsi.org/industries/travel/airlines/.

[185] *See* "Air Travelers in America: Key findings of a Survey Conducted by Ipsos," *Airlines for America/Ipsos*, March 2024. The International Air Transport Association's 2024 Global Passenger Survey likewise found that over 50% of consumers prefer to book air travel on carrier websites and mobile apps. *See* "IATA Global Passenger Survey: 2024 Highlights," International Air Transport Association.

[186] *See* "Air Travelers in America: Key findings of a Survey Conducted by Ipsos," *Airlines for America/Ipsos*, March 2024 (74% of respondents indicated that they typically book domestic trips via airline websites or apps and 60% do the same for international trips).

[187] *See* "Air Travelers in America: Key findings of a Survey Conducted by Ipsos," *Airlines for America/Ipsos*, March 2024.

and the vast majority spend 90 minutes or less.[188] Moreover, according to the International Air Transport Association, *the vast majority of consumers worldwide (82%) are satisfied with searching for travel options and other air travel purchase/booking-related touchpoints*.[189]

C. Airline Rewards Programs Are a Dimension of Service That Airlines Vigorously Compete on, Unlocking Highly Utilized Travel Benefits Facilitated by Credit Card Partnerships

Recently, the Department of Transportation has launched a probe into certain airline rewards programs, concerned that they could subject consumers to "potential unfair, deceptive, or anticompetitive practices."[190] These concerns are misplaced. Airline rewards programs are highly valued and highly utilized customer benefits—as U.S. DOT Secretary Pete Buttigieg has explicitly recognized.[191] Reward points, including those earned through use of co-branded credit cards, are frequently redeemed by consumers to defray the cost of air travel and/or enhance the travel experience. The consumer benefits of airline rewards programs extend throughout the travel ecosystem, providing consumers opportunities to redeem for upgrades, lounge access, hotel stays, and vacation packages. Indeed, over the last 25 years, industrywide domestic reward travel from the redemption of reward points has more than doubled from 21.1 million one-way passengers in 1998 to 55.1 million in 2023, far outpacing (*i.e.*, by roughly four times) the growth in purchased tickets, as shown in Figure 45 below.[192] To put this proliferation of reward travel into context, in

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[188] *See* "Air Travelers in America: Key findings of a Survey Conducted by Ipsos," *Airlines for America/Ipsos*, March 2024 (finding that 57% of consumers spend an hour or less comparison shopping before making a purchase and nearly 80% spend no more than 90 minutes.)

[189] *See* "IATA Global Passenger Survey: 2024 Highlights," International Air Transport Association.

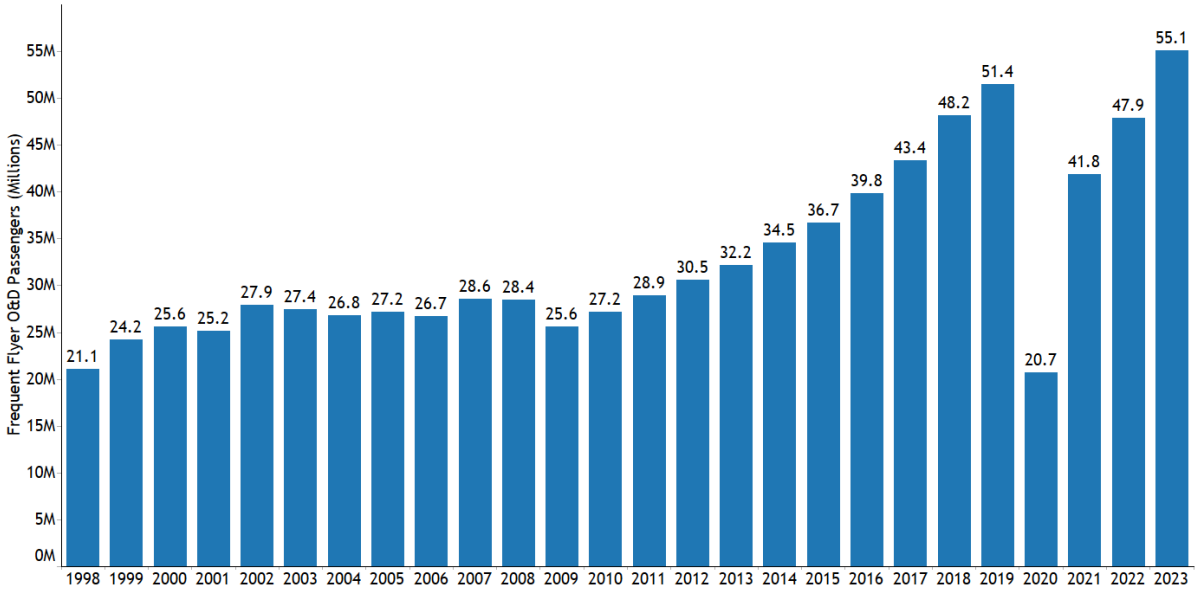
[190] *See* "USDOT Seeks to Protect Consumers' Airline Rewards in Probe of Four Largest U.S. Airlines' Reward Practices," *U.S. Department of Transportation*, https://www.transportation.gov/briefing-room/usdot-seeks-protect-consumers-airline-rewards-probe-four-largest-us-airlines-rewards.

[191] *See* "USDOT Seeks to Protect Consumers' Airline Rewards in Probe of Four Largest U.S. Airlines' Reward Practices," *U.S. Department of Transportation*, https://www.transportation.gov/briefing-room/usdot-seeks-protect-consumers-airline-rewards-probe-four-largest-us-airlines-rewards ("Points systems like frequent flyer miles and credit card rewards have become such a meaningful part of our economy that many Americans view their rewards points balances as part of their savings… These programs bring real value to consumers, with families often counting on airline rewards to fund a vacation or to pay for a trip to visit loved ones.").

[192] *Source*: U.S. DOT DB1B database. Since 1998, the number of purchased tickets has grown from 377 million in 1998 to 543 million in 2023, a 44%growth, compared to 162% growth in passengers redeeming rewards points. *Id.*

2023, roughly 9.3% of domestic passengers traveled by redeeming reward points (up from 5.4% in 1998) and these reward tickets took passengers to/from cities all around the country, stimulating local economies nationwide.[193]

FIGURE 45: NUMBER OF DOMESTIC O&D PASSENGERS REDEEMING REWARDS POINTS (1998-2023)

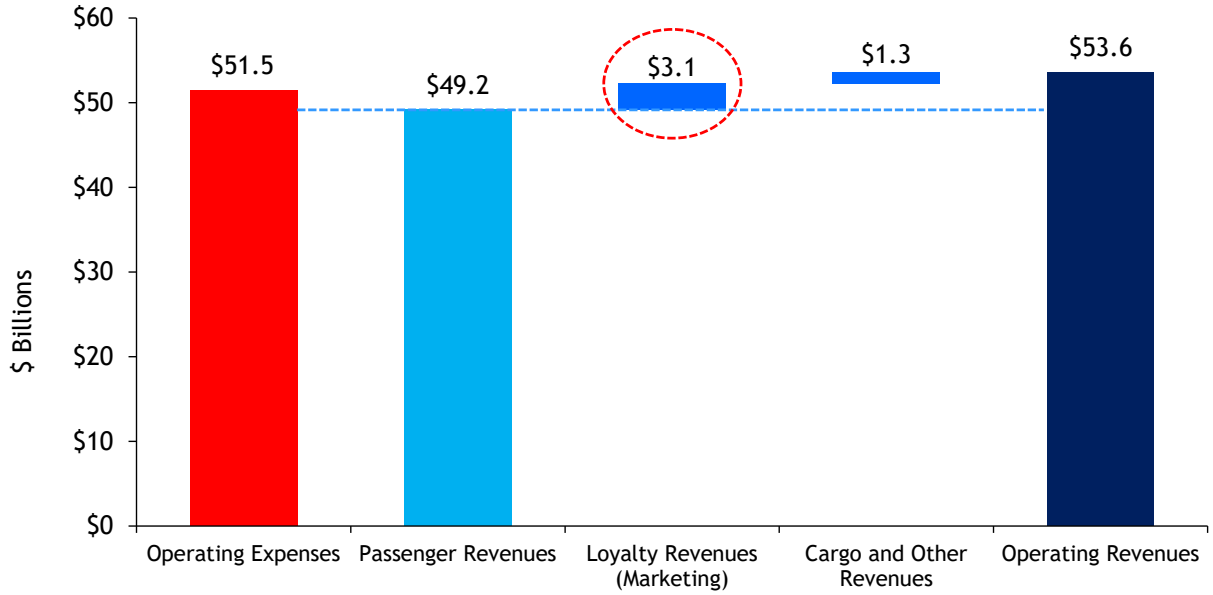


Sources: U.S. DOT DB1B.
Notes: Tickets purchased via the redemption of frequent flyer points are identified as tickets with roundtrip itinerary fares less than or equal to $11.20 (and $5.60 for one-way tickets), excluding bulk fares and fares where the dollar credibility indicator is equal to zero. The roundtrip itinerary fare threshold is $15.03 for the U.S. Virgin Islands and the U.S. Pacific Trust Territories and $18.20 for trips between Saipan and Guam. Passengers are counted separately for leg of their journey. Includes passengers with tickets on GNCs (and predecessor airlines), legacy network carriers no longer in existence, ULCCs, LCCs, and Lower Cost Network).

Importantly, airlines *need* loyalty program revenue. This revenue is principally generated through sale of miles to banks (*e.g.*, Citi, JPMorgan Chase, Barclays) and other credit card issuers (*e.g.*, American Express) in order for airlines to cover their operating costs. Without the revenues from rewards programs, airlines would have to raise fares and/or reduce flying to be economically viable. For instance, Figure 46 shows at a high level that American's passenger revenues are less than its operating expenses, and that it would not be profitable *but for* its loyalty program revenue.

[193] *Source*: U.S. DOT DB1B database.

FIGURE 46: AMERICAN AIRLINES REVENUES VS. COSTS (FYE Q3 2024)



Source: American Airlines SEC filings.
Notes: Consolidated operations.

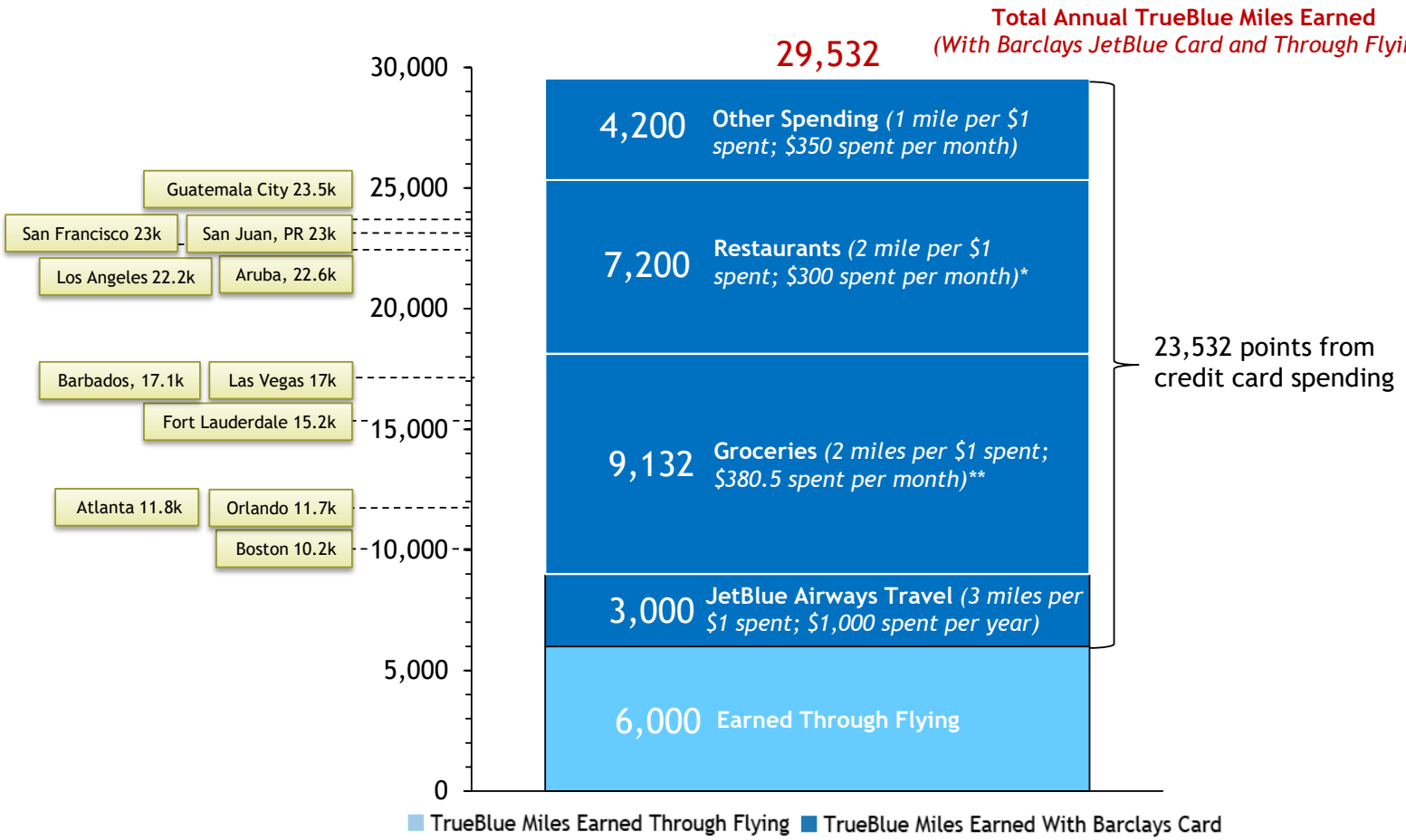
These credit partnerships are a "win-win" for airlines *and* consumers. Credit card partnerships have opened up additional opportunity for air travelers to participate in and reap the benefits of rewards programs—particularly for the large subset of consumers who are infrequent flyers and do not accumulate enough airline miles over a short period of time to redeem them for a free flight.

This is best illustrated by example: a consumer who spends $1,000 per year on tickets flying JetBlue, booking directly through JetBlue, would earn 6,000 TrueBlue points per year—*i.e., not enough to redeem for a free roundtrip ticket.*[194] However, by using a no annual-fee Barclays JetBlue credit card to pay for his/her groceries and/or spend at restaurants (2 miles earned per $1 spent) and other everyday needs like gasoline (1 mile per $1 spent),[195] a consumer can earn enough additional TrueBlue miles to qualify for a free roundtrip to numerous destinations the same year, as visualized by Figure 47 below.

[194] *See* "Earning Points & Award Travel," *JetBlue Airways*, https://www.jetblue.com/trueblue/earning-points.

[195] *See* "JetBlue Card," *Barclays*, https://cards.barclaycardus.com/banking/cards/jetblue-card/.

FIGURE 47: COMPARISON OF ROUNDTRIP AWARD TRAVEL OPPORTUNITIES WITH AND WITHOUT BARCLAYS JETBLUE CREDIT CARD (ILLUSTRATIVE ACCRUAL AND ESTIMATED SPEND) (NOVEMBER 2024)



*https://www.ers.usda.gov/amber-waves/2024/october/u-s-consumers-increased-spending-on-food-away-from-home-in-2023-driving-overall-food-spending-growth/. **Official USDA Food Plan for 19-50 year-old male, moderate cost plan for September 2024. Notes: Award travel on JetBlue based on search conducted on November 7, 2024, for non-stop roundtrip Blue Basic tickets on jetblue.com departing New York City (JFK) January 21 and returning January 28, 2025. Customer is responsible for taxes and required fees of $11.20 for each domestic roundtrip award ticket (including Puerto Rico), $50.51 in fees for Guatemala City, $82.41 in fees for Aruba, and $118.61 in fees for Barbados.

Critics of airline rewards programs have argued that they reduce competition by creating incentives for consumers to concentrate their travel on a single airline so that they can more quickly accrue points that can be used for reward travel or to qualify for elite status. But airline rewards programs are just one of many dimensions on which airlines vigorously compete for customers and they are just one avenue to foster loyalty. Further, the expansion of reward point accrual via credit card spending diminishes the need for consumers to focus their flying a single carrier. Indeed, reward miles earned by spending on credit cards like the Capital One Venture X, Chase Sapphire Preferred, and American Express Platinum, can be redeemed on virtually any airline with no blackout dates or restrictions, and some allow points to transfer at a 1:1 ratio among multiple airlines.[196] Further, even on co-branded credit cards consumer spending habits may quickly or frequently achieve reward travel/redemption goals (*e.g.*, one free roundtrip vacation per year) such that it has no impact on considering travel options on other airlines.

In addition, concerns have been raised over four specific issues as they related to airline rewards programs, including devaluation, dynamic pricing, fees, and reduced choice in programs as a result of consolidation. Addressing each in turn:

Devaluation. The Department of Transportation ("DOT") has raised concerns that "[a]irlines may apply changes retroactively to rewards that customers already earned in ways that reduce or eliminate accrued value" such as "mov[ing] the goal post by increasing the number of points needed for redemption or status upgrades."[197] This concern (related to the dynamic pricing concern discussed below) fixates on hypothetical ways in which airlines could make their reward points less valuable, while failing to acknowledge the myriad ways that airlines have succeeded in making their reward points *more valuable*. This includes, but is not limited to, (i) expanding the number of ways points can be earned and redeemed; and (ii) improving in the quality of in-flight and on-the-ground service, which, in turn, enhances the value of a reward ticket (*e.g.*, providing free in-flight satellite Wi-Fi to passengers, improvements to airport lounges, etc.). Perhaps most

[196] *See* "Venture X," *Capital One*, https://www.capitalone.com/credit-cards/lp/venture-x/; *see also* "Sapphire," *Chase*, https://creditcards.chase.com/a1/24Q4/sapphire/; *and* "American Express Travel: Pay with Points," American Express, https://www.americanexpress.com/en-us/travel/faq/pay-with-points/.

[197] *See* "USDOT Seeks to Protect Consumers' Airline Rewards in Probe of Four Largest U.S. Airlines' Reward Practices," *U.S. Department of Transportation*, https://www.transportation.gov/briefing-room/usdot-seeks-protect-consumers-airline-rewards-probe-four-largest-us-airlines-rewards.

importantly, the DOT's concern ignores altogether the increase in value of A4A members carriers' reward points as a result of their expanded networks, with new destinations being added year after year that members can visit using their points (*see* Section III.B above).

Dynamic Pricing. The DOT has also expressed concern that "[p]roblems created by opaque [reward] pricing are compounded by dynamic pricing where the number of points needed for redemption change frequently and unpredictably."[198] This concern stems from the fact that several A4A member carriers have, over time, attempted to expand access and availability to reward travel by switching from fixed reward levels that were subject to strict capacity controls and black-out dates (*e.g.*, 25,000 for a domestic Economy Class roundtrip ticket) to reward levels that factor in real time seat availability on all flights. Now that reward redemption is more dynamic, *every open seat on a flight is available to be purchased using points* (*i.e.*, there are no more despised black-out dates). In other words, some seats may have higher redemption thresholds than what consumers may have previously seen, but those seats would have previously been blacked-out and unavailable to obtain using fixed award prices (*i.e.*, the available 25,000 point tickets on the flight were already sold out).

To be sure, dynamic pricing embraces a spectrum of redemption thresholds, and low-redemption awards on A4A member carriers are plentiful, as illustrated by the calendars in Figure 48 and Figure 49 below. As shown in these exhibits, there are many roundtrip tickets available for redemption with *far less* than 25,000 points (*i.e.*, the threshold under older frequent flyer programs that would most likely enable a roundtrip economy flight within the United States). Airlines make it very easy for customers to find bargain reward tickets that have come with dynamic reward pricing, including travel calendars for specific queried flights (Figure 49) as well as exploratory filters showing passengers where they can fly within a miles budget and specified cabin class (Figure 48).

[198] *See* "USDOT Seeks to Protect Consumers' Airline Rewards in Probe of Four Largest U.S. Airlines' Reward Practices," *U.S. Department of Transportation*, https://www.transportation.gov/briefing-room/usdot-seeks-protect-consumers-airline-rewards-probe-four-largest-us-airlines-rewards.

FIGURE 48: ILLUSTRATIVE REWARD MILE REDEMPTION OPTIONS WITH DEPARTING AIRPORT, BUDGET, AND CABIN FILTERS, UNITED (ONE-WAY) AND AMERICAN (ROUND TRIP)

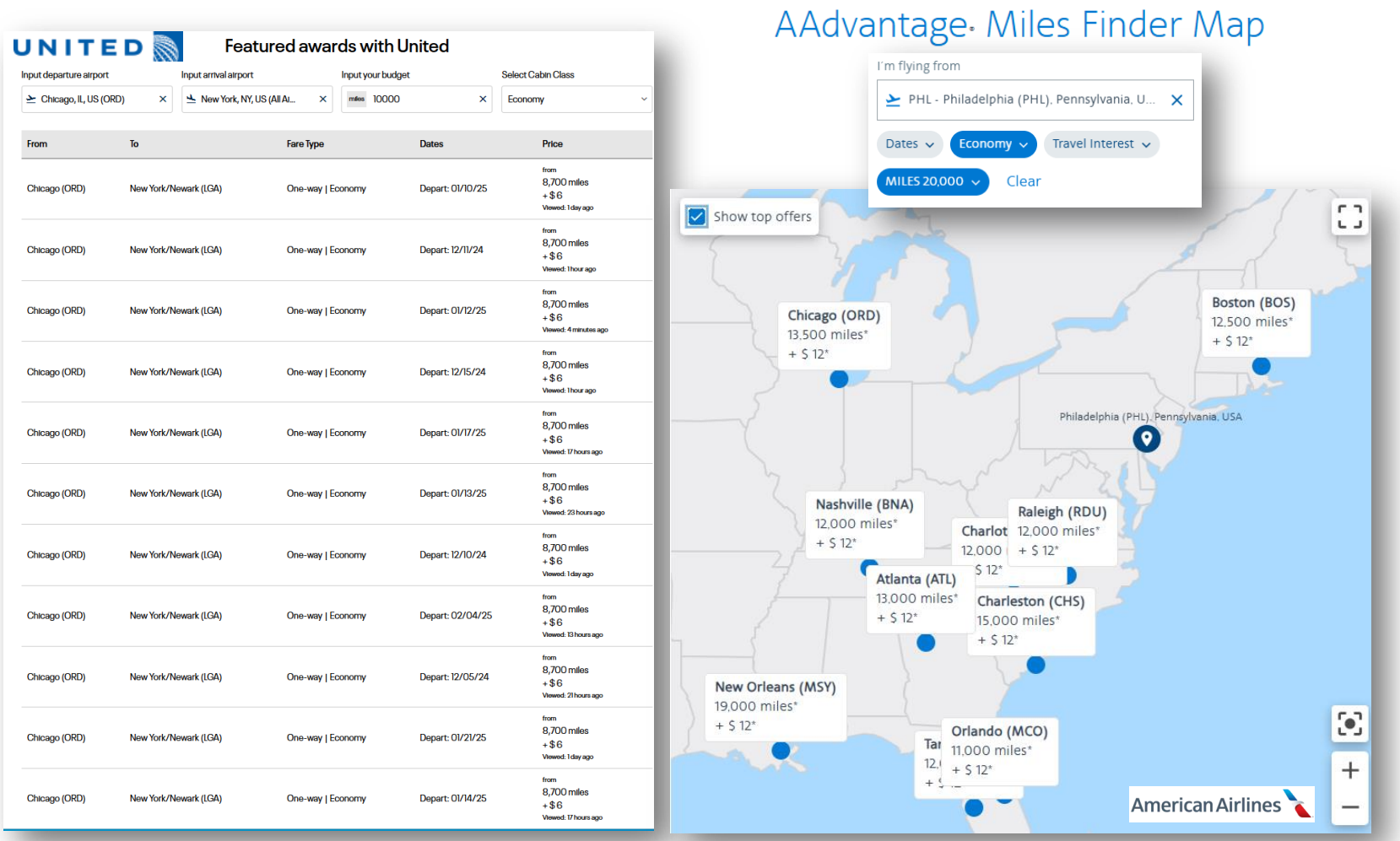
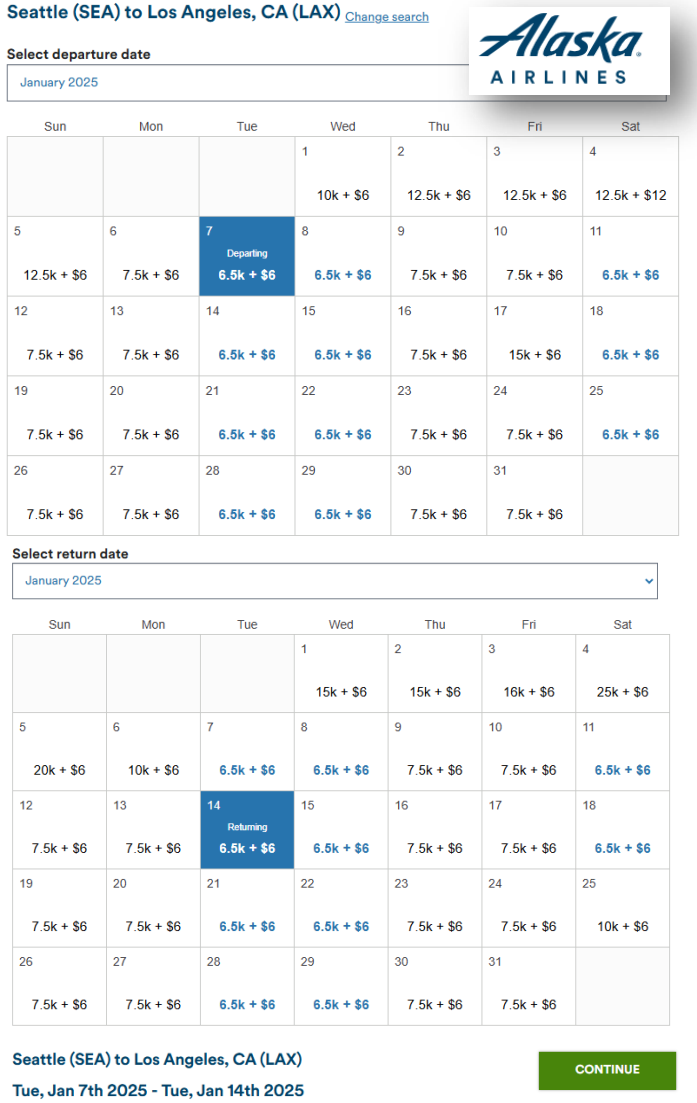


FIGURE 49: ILLUSTRATIVE REWARD MILE REDEMPTION OPTIONS, SOUTHWEST (HOU-FLL, JANUARY 2025) AND ALASKA (SEA-LAX, JANUARY 2025)



Extra Fees. Without providing any specifics, the DOT has also voiced concern that "[a]irlines often add extra fees for passengers to maintain, redeem, or transfer points they have earned."[199] While it is true that domestic reward tickets are subject to a $5.60 one-way fee, this reflects a *government-imposed* September 11th security fee and is not an airline-imposed fee. Today, not a single A4A member airline charges an additional fee to redeem their points for domestic reward travel.[200] Moreover, most reward tickets at all A4A member carriers can be canceled up to the day of travel with the mileage re-deposited into the consumer's mileage account with no fee, which represents an enormous value to consumers whose plans unexpectedly change and optionality to consumers who know that their plans *may* change.

Reduction in Competition and Choice Due to Consolidation. Finally, DOT has also stated that "mergers can eliminate or reduce competition and choice for rewards consumers, particularly as an airline's dominance increases in a particular region" and that "the integration of two rewards programs can present problems if customers in one or both programs lose value, rewards, or status in the transition."[201] Rather, the opposite is true: mergers have unambiguously increased redemption opportunities for consumers by (i) allowing members to pool their points from the merged carriers programs, thereby enabling many program members who may not have had enough points in either carrier's program to redeem for travel to reach that threshold; and (ii) dramatically expanding the number of destinations and itinerary options to redeem reward travel on.[202] In fact, contrary to the notion that consumers are dissatisfied with rewards programs

[199] *See* "USDOT Seeks to Protect Consumers' Airline Rewards in Probe of Four Largest U.S. Airlines' Reward Practices," *U.S. Department of Transportation*, https://www.transportation.gov/briefing-room/usdot-seeks-protect-consumers-airline-rewards-probe-four-largest-us-airlines-rewards.

[200] International tickets, as well as tickets on partner carriers may be subject to additional fees (*i.e.*, foreign government-imposed taxes or duties, airport passenger service charges, etc.). However, U.S. carriers do not retain those fees.

[201] *See* "USDOT Seeks to Protect Consumers' Airline Rewards in Probe of Four Largest U.S. Airlines' Reward Practices," *U.S. Department of Transportation*, https://www.transportation.gov/briefing-room/usdot-seeks-protect-consumers-airline-rewards-probe-four-largest-us-airlines-rewards.

[202] By way of one simple example, prior to merging with American, US Airways Dividend Miles members could not redeem their points for flights on US Airways to anywhere in Asia or the South Pacific (as the carrier did not fly to those regions). After merging with American, Dividend Miles members gained access to Tokyo, Beijing, Sydney, and a host of other international and domestic destinations served by American, but not US Airways. By the same token, American's AAdvantage members gained access to several destination in Europe that US Airways served, but American did not, including Athens, Lisbon, Munich, and Venice. *Source*: OAG published schedule.

and/or find rewards hard to redeem, the ACSI finds that satisfaction with airline rewards programs reached an all-time high in 2024, which is in line with ASCI's overall finding that consumers are highly satisfied with U.S. passenger airlines in general.[203]

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This Section V focused on three aspects of U.S. airline business models that are wrongly considered by some to be areas where airlines engage in exclusionary or deceptive behavior: (i) charging of ancillary fees; (ii) air ticket distribution; and (iii) rewards programs. Simply put, the unbundling of ancillary *optional* goods and services has, on average, lowered base fares for consumers. Further, airline distribution practices and rewards programs are each aimed at enhancing the airline's value proposition with consumers in order to compete more effectively. To lose sight of the immense consumer benefits discussed in Section III because of the misconceptions addressed in this Section V is to lose the bigger picture of the consumer value of air transportation in this country.

VI. CONCLUSION

Enhanced regulatory scrutiny can be an appropriate and worthwhile action by lawmakers when an industry exhibits evidence of abuse of market power that harms consumers or other stakeholders. Lack of robust competition robs consumers and the broader U.S. economy of product and service innovation, results in fewer choices, and makes essential products less accessible to consumers because of higher prices, with industry participants reaping the gains of entry barriers and restricted competition in the form of outsized profits. In the case of the U.S. airline industry, however, no such evidence exists. Entrenched misperceptions about the impact of consolidation on competition in the U.S. airline industry are rooted in deep misunderstandings. These misperceptions overshadow (and in some cases ignore) the tumultuous evolution of the industry since its deregulation in 1978, the industry's renaissance over the last 15 years, and its arduous recovery from the worst exogenous shock in aviation history (*i.e.*, the COVID-19 pandemic). More importantly, the often repeated myths about lack of robust competition badly damage the reputation of the industry, and often cause the industry to be a target for heightened

[203] *See* "Customer Experience Benchmarks Year-Over-Year Trends," *ASCI*, https://theacsi.org/industries/travel/airlines/.

scrutiny in Washington notwithstanding the myriad datapoints demonstrating the competitiveness of the industry and consumer satisfaction. This comment has sought to course correct these perceptions with data-driven analyses that showcase the following takeaways:

The U.S. airline industry is intensely competitive notwithstanding the consolidation that has occurred over the last 15 years. If there existed a competition problem in the U.S. airline industry, one would expect to see barriers to entry, fewer airlines on any given city-pair, higher fares, a lack of investment and product innovation, high profit margins, and declining customer satisfaction rates. But none of those indicia are present in the U.S. airline industry. Indeed, whether you are an overnight business traveler or a getaway leisure traveler, traveling alone or with companions or a family, searching for last-minute travel or planning a once-in-a-lifetime trip, vacationing on a shoestring budget or privileged to splurge for comfort travel, air travel options today are unquestioningly better for the spectrum of airline passengers in the United States. Compared with 20 years ago, on average there is more choice in airlines to fly on any give city-pair, more destinations to visit, more conveniences in travel—from smoother booking to enhanced services at the airport and in-flight to seamless international connections—and all at lower fares than ever before. The unbundling of fees from base fares—badly misunderstood as "junk fees"—has not only made air travel more accessible to the most price-sensitive passengers and has empowered consumers to purchase tickets that are priced only for the services they want or need, but has, on average, lowered fares. And while travel may sometimes be trying, exhausting, delayed, or even canceled for reasons within or outside of an airline's control, the overwhelming majority of passengers have recognized the renaissance in air travel over the last 15 years with reported all-time highs in customer satisfaction in reputable consumer surveys and surging levels of travel demand.

Facilitated by consolidation, the industry's profitability cycles (albeit modest) over the last two decades have allowed U.S. airlines to reinvest significantly in their workforces. Airline jobs are coveted for good reason: among diverse and highly unionized workforces, airline employees ranging from pilots to ramp agents and more enjoy significant earnings growth over their careers as well as extraordinary benefits such as some of the best paid sick leave benefits in the private sector. U.S. airlines' commitment to their workforces saw labor's share of revenue grow 10 percentage points between 2011 (21.7%) and 2024H1 (31.8%). Further, the number of

airline employees grew by tens of thousands in the decade preceding the pandemic and, despite contracting during the pandemic, has remarkably surpassed pre-pandemic levels by adding 90,000 jobs in just four years, led by GNC hiring. The reinvestment in labor over the last 15 years coincides with airlines' modest profitability, which for many was possible only through consolidation after the dismal decade of serial exogenous shocks. With increased investment, it is no surprise that airlines' labor costs (both in absolute terms and as a percentage of airline revenue) have steadily increased—in particular in the post-pandemic era under the slate of new labor agreements across carriers that were reached not only in the midst of an inflationary environment and a tight labor market, but also the desire by U.S. airlines to create enduring career paths for their team members. Labor cost pressures, together with robust competition, will contribute to keeping airline profitability low relative to other industries.

Concerns that certain aspects of U.S. airlines' business models are exclusionary or deceptive are misguided. There is simply no basis to refer to ancillary fees as "junk fees"—not only are they truly optional fees (unlike in other industries), but the unbundling of ancillary goods and services from base fares has, on average, lowered fares and helped to democratize air travel. Ancillary revenue is also a critical source of revenue for U.S. airlines to simply cover their operating costs, let alone make a modest profit.

In regard to air ticket distribution, airlines' incentives are strongly aligned with consumers' best interests. In fact, because competition is robust and air tickets are often repeat purchases, airlines are fully incentivized to market and distribute their products with full transparency—including as it relates to fees—so that consumers are satisfied with their purchase and will fly the airline again. These incentives have driven airlines to enhance their digital capabilities and modernize the shopping experience in direct channels (*i.e.*, websites/mobile apps) and market their products in indirect channels (*i.e.*, with third party distributors such as online travel agencies and metasearch referral sites) in order to reach the broadest set of consumers possible. In direct channels, airlines have focused on simplifying the shopping experience, organizing flight and fare information in a way that is useful and intuitive, and facilitates comparison shopping. The ability for airlines to maintain control over content in indirect channels helps to ensure transparency of products on third-party platforms, where incentives may not fully align with the best interest of an

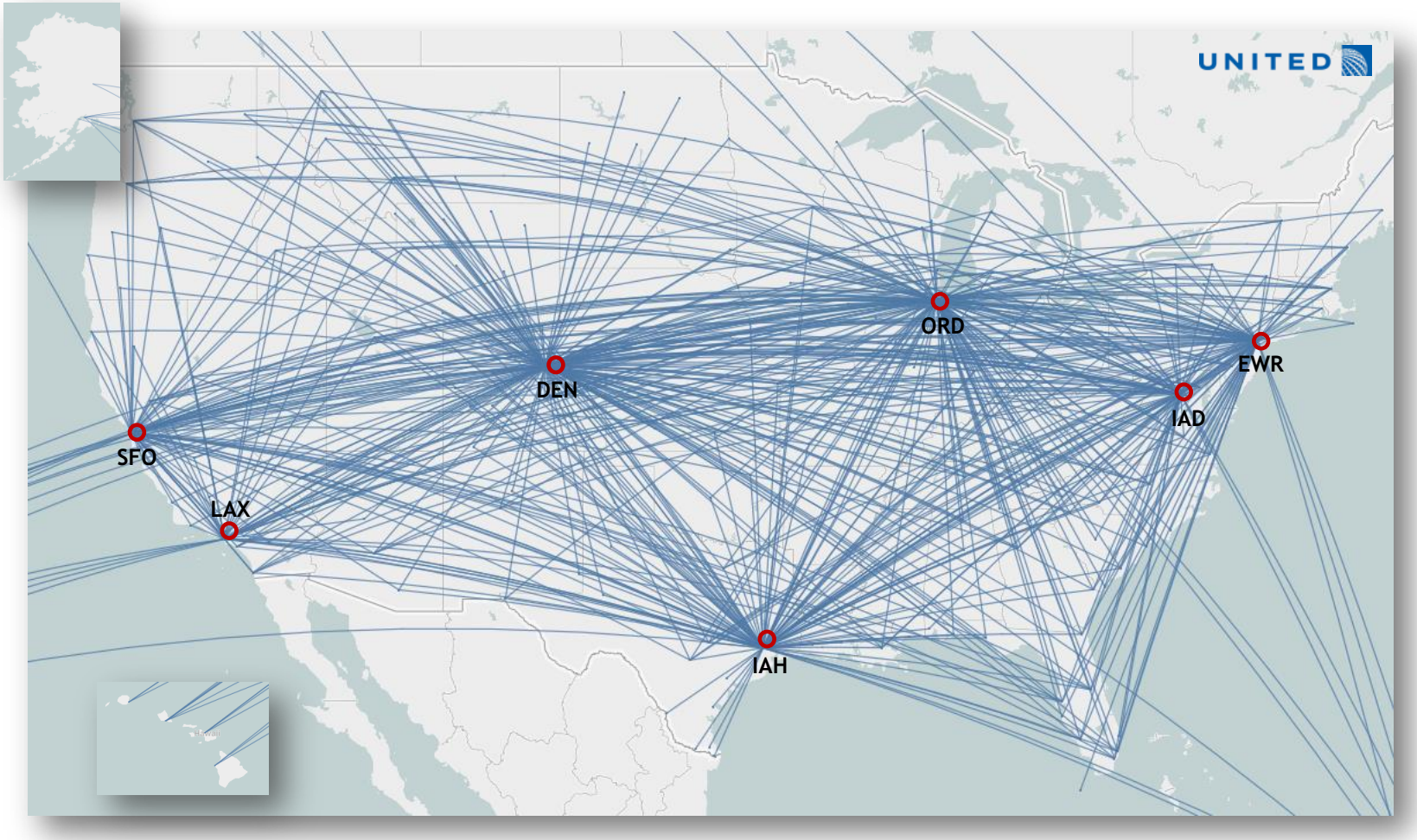
air travel consumer. As a result, the vast majority of consumers worldwide are satisfied with searching for travel options and other air travel purchase/booking related touchpoints.

Airline rewards programs are a critical way that airlines differentiate their products and compete for business. Rewards programs are highly utilized, with rewards points frequently redeemed by consumers to defray the cost of travel and/or enhance the travel experience. Credit card partnerships have made accumulation of rewards points far easier for consumers, and airlines have *broadened* redemption opportunities for customers. Today there are many roundtrip tickets available for redemption for far less than 25,000 points (*i.e.*, the threshold under older frequent flyer programs that would most likely enable a roundtrip economy domestic flight within the United States). Moreover, most U.S. airlines no longer have black-out dates for rewards travel, which used to limit and frustrate the redemption of rewards points. Consolidation has enhanced the value of rewards programs by creating better networks for rewards travel. And because loyalty programs have become an essential source of revenue that enable many airlines to cover their operating costs, these programs help to drive down fares for all travelers alike.

Consistent with these principal takeaways, this comment offers data-based insight that airlines, consumers, regulators, lawmakers, labor unions, and other interested entities can collectively use to support, sustain, and promote the post-pandemic resurgence in and revitalization of air travel.

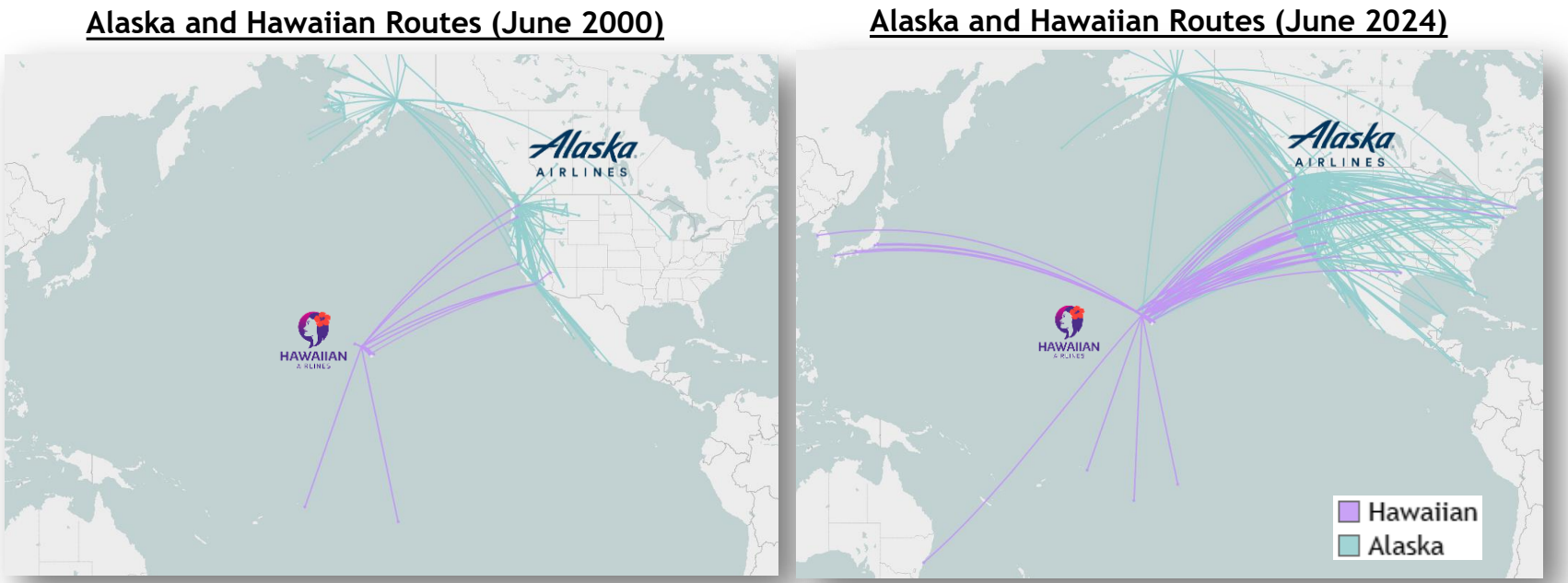
APPENDIX OF ADDITIONAL EXHIBITS

FIGURE 50: DOMESTIC ROUTE MAP OF UNITED AIRLINES (JUNE 2024)



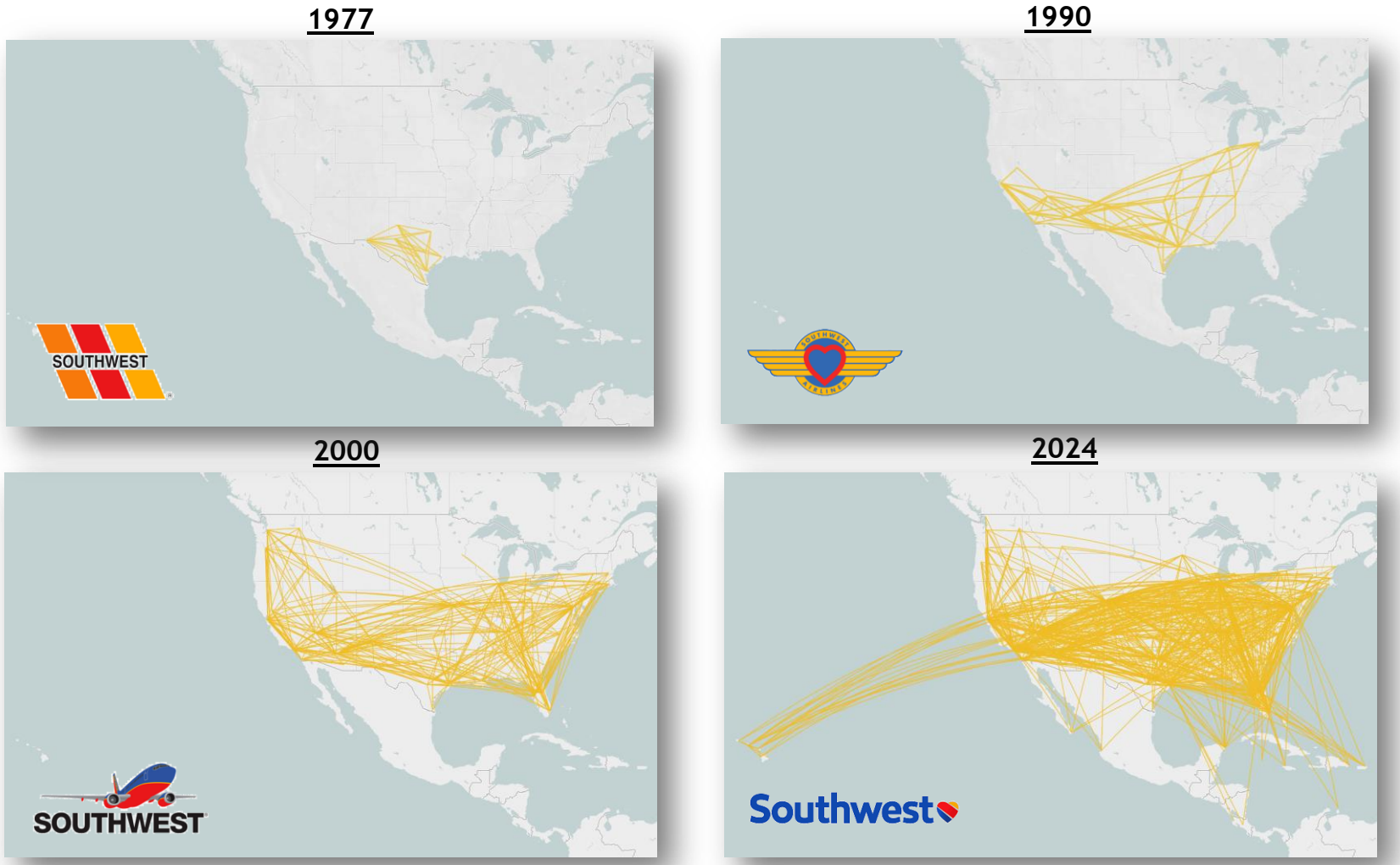
Source: OAG published schedule, June 2024. Red circles denote United Airlines hubs.

FIGURE 51: ROUTE MAPS OF ALASKA AIRLINES AND HAWAIIAN AIRLINES (JUNE 2000 VS. JUNE 2024)



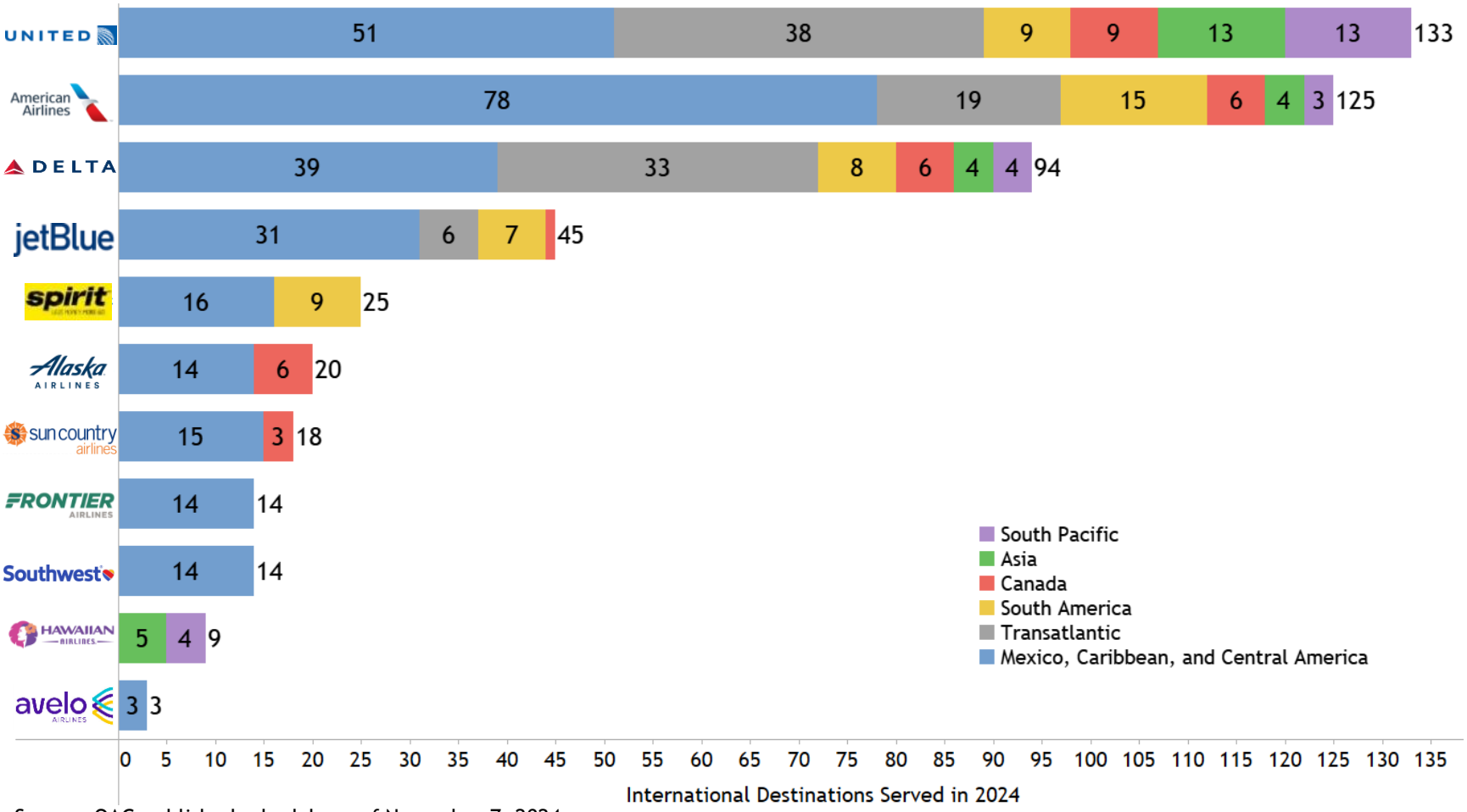
Source: OAG published schedule, June 2000 and June 2024.

FIGURE 52: SOUTHWEST AIRLINES ROUTE MAP (1977, 1990, 2000, 2024)



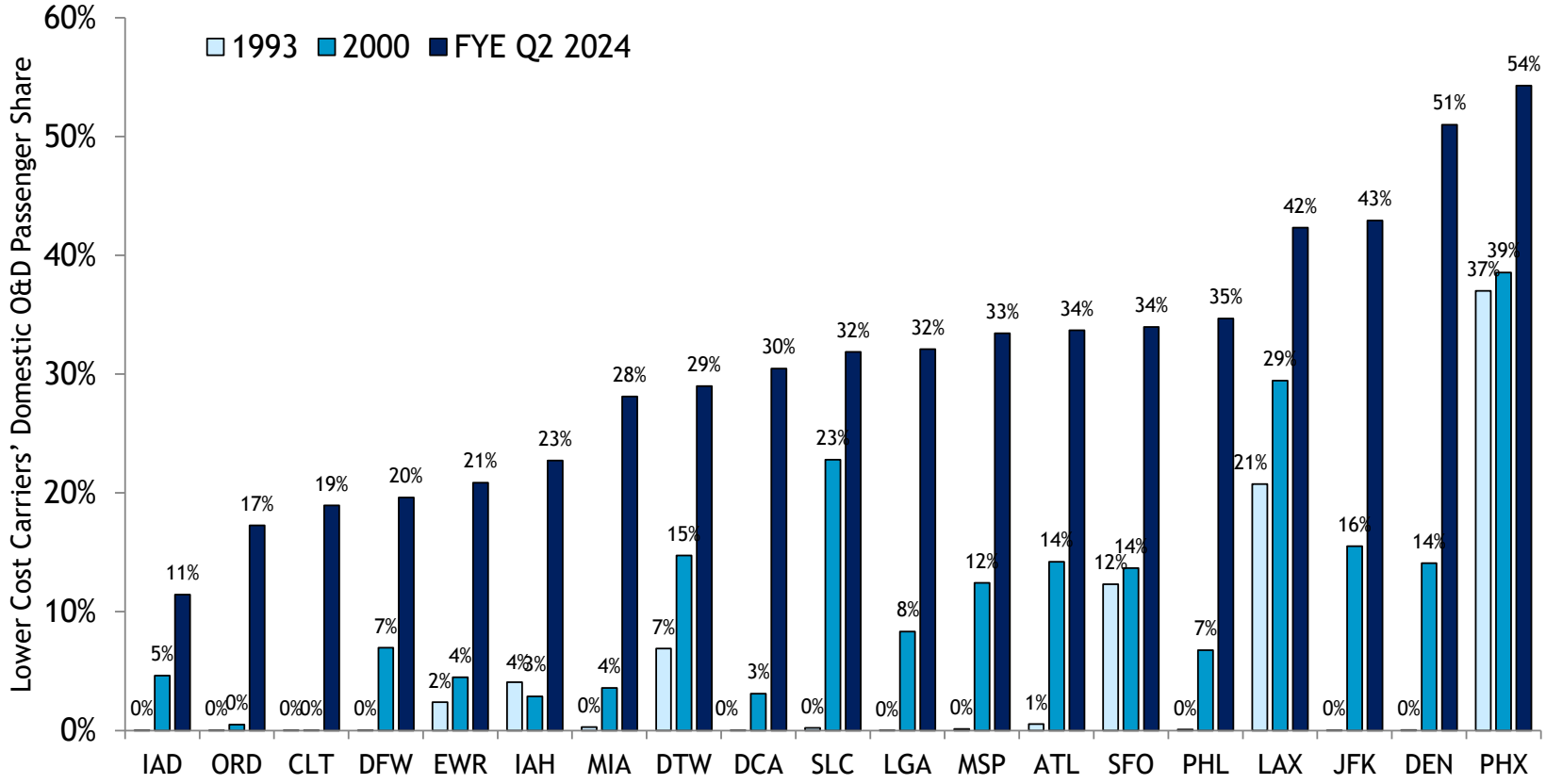
Source: Southwest Annual Report, 1978; U.S. DOT T100 database, 1990; OAG published schedule, 2000 and 2024. Limited to routes with 104 or more departures in 1990, 2000, 2024.

FIGURE 53: INTERNATIONAL DESTINATIONS SERVED BY U.S. CARRIERS, BY REGION (2024)



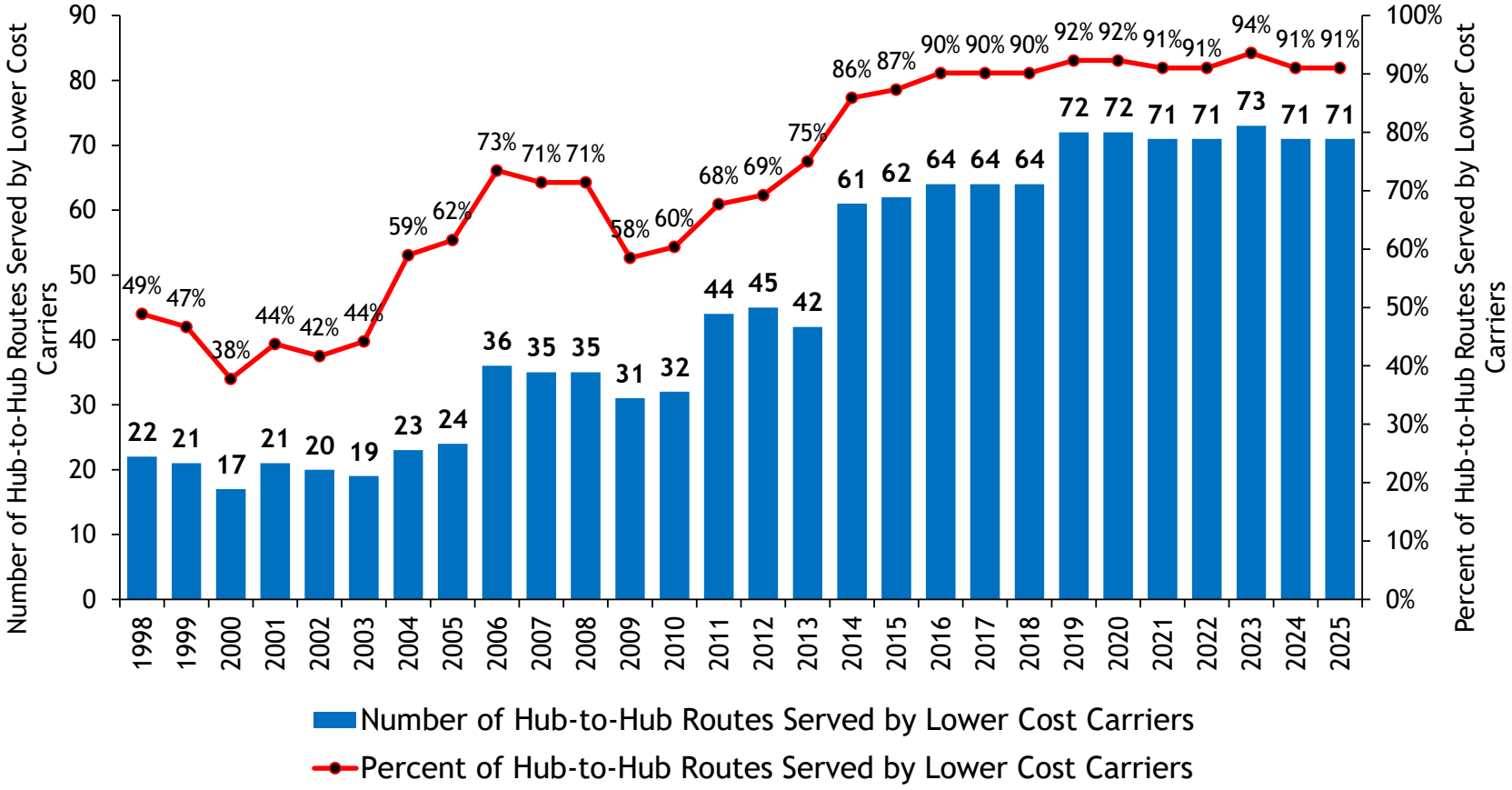
Source: OAG published schedule as of November 7, 2024.
Notes: Transatlantic includes Europe, Middle East, Africa, and Indian Subcontinent. Allegiant and Breeze do not serve any international destinations in 2024.

FIGURE 54: LOWER COST CARRIER O&D PASSENGER SHARE AT MAJOR HUB AIRPORTS (1993, 2000, FYE Q2 2024)



Source: U.S. DOT DB1B database.
Notes: Lower Cost Carriers include AirTran, Alaska, Allegiant, Aloha, ATA, Avelo, Breeze, Frontier, Hawaiian, JetBlue, Kiwi, Midway, National, Pro Air, Reno, Southwest, Spirit, Sun Country, and Vanguard.

FIGURE 55: PROPORTION OF LARGE NETWORK CARRIER HUB-TO-HUB CITY-PAIRS SERVED BY LOWER COST CARRIERS (1998-2025)



Sources: OAG published schedule as of October 3, 2024; American Airlines 1998-2021 10-K; America West 1998-2004 10-K; Continental Airlines 1998-1999, 2001-2004, 2006-2009 10-K; Delta Air Lines 1998-2021 10-K; Northwest Airlines 1998-2008 10-K; TWA 1998-1999 10-K; United Airlines 1998-2021 10-K; US Airways 1998-2013 10-K.

Notes: A hub-to-hub route is between two hubs of a single carrier. Includes domestic hub-to-hub routes for American, US Airways (combined with American beginning 2014), America West (combined with US Airways beginning 2006), TWA (combined with American beginning 2002), United, Continental (combined with United beginning in 2011), Delta, and Northwest (combined with Delta beginning 2009). Excludes San Juan for American.

FIGURE 56: RECENT COLLECTIVE BARGAINING AGREEMENT HIGHLIGHTS

Carrier	Workgroup(s) and Employees Covered	Date of Settlement	Duration	Wage Increases
American	Maintenance & Related, Fleet Services	October 2024	2025-2027	Immediate top of scale wage increase of 12%- 15% and top of scale wage increase of 18%-26% over contract life
American	Flight Attendants	September 2024	2024-2029	Immediate wage increase of 18%-20.5%; pay scale increases of 41%-44% over contract life (includes boarding pay)
Southwest	Flight Attendants	April 2024	2024-2028	Immediate wage increase of up to 22.3% and cumulative pay scale increase of up to 36% over contract life
Allegiant	Flight Attendants	April 2024	2024-2029	Immediate wage increase of 20%-41.2% and avg pay scale increase of 41% over contract life
Southwest	Pilots	January 2024	2024-2029	Immediate average wage increase of 29.15% and average compensation increases of nearly 50% over contract life
United	Pilots	September 2023	2023-2027	Average total compensation increase of up to 40.2% over contract life
American	Pilots	August 2023	2023-2027	Immediate average wage increase of 21% and avg total compensation increase (including 401(k) contributions) of more than 46% over contract life
Delta	Pilots	March 2023	2023-2026	Immediate wage increase of 18% and avg wage increase of up to 34% over contract life

Sources: Company CBAs; Company and Union Press Releases.

FIGURE 57: ILLUSTRATIVE SCREENSHOT OF A SECONDARY SCREEN ON UNITED.COM FOR QUERIED FLIGHT ORD-FLL (MARCH 14, 2025) SHOWING AVAILABILITY OF BUNDLED BUY-UP OFFERS

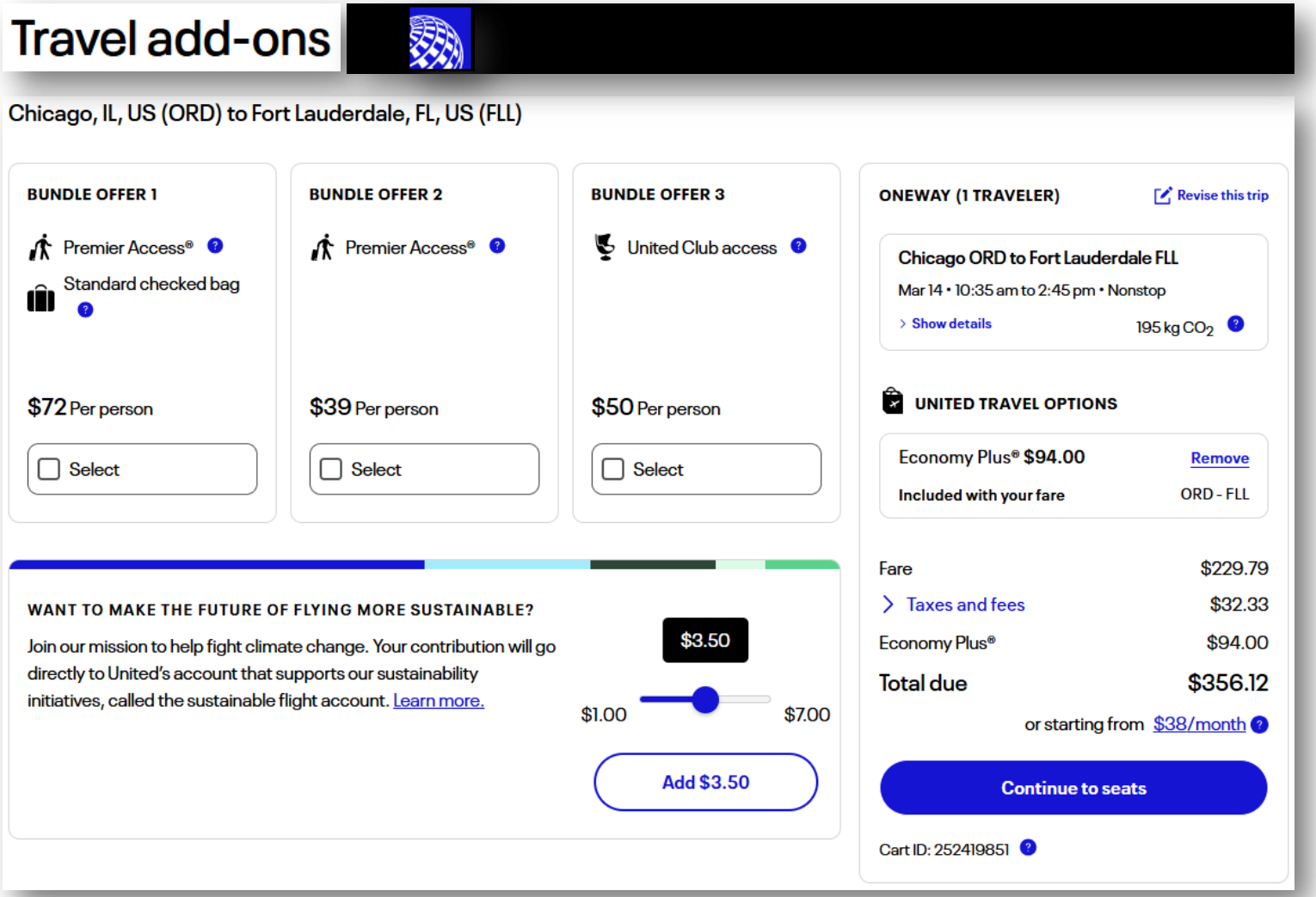
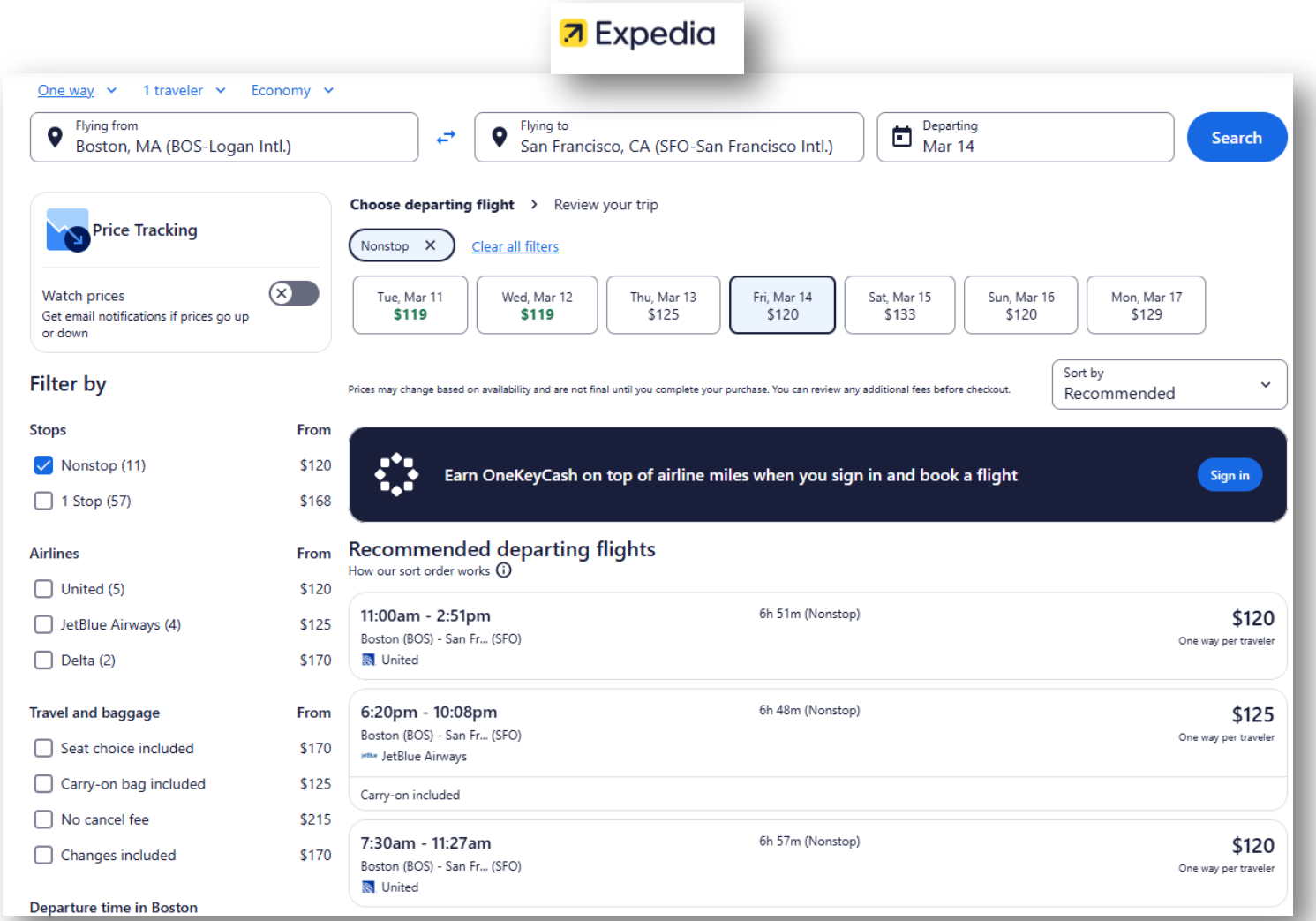


FIGURE 58: ILLUSTRATIVE SCREENSHOT OF AN INITIAL SCREEN ON EXPEDIA.COM FOR QUERIED FLIGHT BOS-SFO (MARCH 14, 2025)



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Eric Amel is a Vice President with Compass Lexecon. He has worked on numerous aviation cases including conducting extensive analysis for regulatory clearance in airline mergers, alliance antitrust immunity filings, analysis for independent expert reports in numerous labor disputes for U.S. airlines, analysis of government slot proposals, and analysis for expert reports in numerous airline bankruptcies. Prior to his current position, Dr. Amel was the Chief Economist at Delta Air Lines and prior to that he was the Chief Economist at Continental Airlines. He also held a position at Federal Express. Dr. Amel was also an Assistant Professor of Finance at Arizona State University College of Business and has also been a Lecturer in Business Economics (MBA) at Boston University School of Management. Dr. Amel received his Ph.D. in Economics from Washington University where he specialized in Finance, Industrial Organization, and Public Finance. He also holds an M.A. in Economics from Washington University and a B.A. in Economics and Government from Oberlin College.