Department of Justice

FOR IMMEDIATE RELEASE
THURSDAY, MAY 13, 1999
WWW.USDOJ.GOV

AT
(202) 616-2777
TDD (202) 514-1888

JUSTICE DEPARTMENT SUES AMERICAN AIRLINES
FOR MONOPOLIZING DALLAS AIRPORT HUB

American Airlines Drives Out Small Airlines Resulting in Higher Fares and Reduced Service for Passengers, Suit says

WASHINGTON, D.C. -- The Department of Justice today filed an antitrust lawsuit against American Airlines Inc. -- the second largest airline in the United States -- for monopolizing and attempting to monopolize airline passenger service to and from Dallas/Ft. Worth International Airport (DFW).

The Department's Antitrust Division charged that American repeatedly sought to drive small, start-up airlines out of DFW by saturating their routes with additional flights and cutting fares. After it drove out a new entrant, American re-established high fares and reduced service. American dominates DFW, the third largest airport in the United States, flying more than 70 percent of all nonstop passengers.

"Competition in the airline industry is critical for the millions of people who depend on air travel in their business and family life," said Attorney General Janet Reno. "Today's action is for consumers--to provide them with greater choice and lower prices for air travel."

In the aftermath of deregulation in 1978, major carriers established hubs to concentrate their traffic. While hubs create certain conveniences for passengers, a hub carrier frequently charges high fares on hub routes in which it faces little or no competition. Low cost carriers

(LCCs) can provide passengers with a competitive alternative to the hub carrier. When an LCC enters a route, it generally offers large fare cuts, sometimes 50 percent or more, and the number of passengers flying increases markedly. In a 1996 study, the Department of Transportation estimated that LCCs were saving consumers $6.3 billion annually.

"Without competition, hub carriers will charge high fares on routes they dominate," said Joel I. Klein, Assistant Attorney General in charge of the Department's Antitrust Division. "Hub carriers cannot be permitted to use predatory tactics to keep new entrants out of their markets."

According to the Department's complaint, American's high fares on some of its DFW spokes attracted entry by a number of LCCs. The complaint focuses on American's responses to Vanguard Airlines, Sun Jet, and Western Pacific in four DFW spoke routes: Wichita, Kansas and Kansas City, Missouri (Vanguard), Long Beach, California (Sun Jet), and Colorado Springs, Colorado (Western Pacific). In each case, fares dropped dramatically and passenger traffic surged when the LCC began operations.

In each case, American used a combination of more flights and lower fares until the LCC was driven from the route or drastically curtailed its operations. The complaint alleges that American's conduct was predatory because the costs of flights it added exceeded the revenues they generated. American expected to recoup those temporary losses, however, by charging higher fares after an LCC ceased operations. According to the Department, American typically reduced service and raised fares back to monopoly levels once the LCCs were forced out of DFW routes. For example, American increased DFW-Wichita rates by more than 50 percent after Vanguard exited. The number of passengers who could afford to fly dropped substantially, and those who did travel had to pay much higher fares.

The Department said that in order to resolve the anticompetitive issues raised, American must be prevented from adding non-compensatory flights in response to new entry at DFW.

The lawsuit was filed in U.S. District Court in Wichita, Kansas. AMR Corporation and its two air carrier subsidiaries American Airlines Inc. and AMR Eagle Holding Corporation, are named as defendants. Each defendant is a Delaware corporation headquartered at DFW Airport in Fort Worth, Texas.

###

99-186