



Department of Justice

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DEPARTMENT OF JUSTICE AND SEVERAL STATES WILL SUE TO STOP UNITED AIRLINES FROM ACQUIRING US AIRWAYS

Deal Would Result in Higher Air Fares for Businesses and Millions of Consumers

WASHINGTON, D.C. -- The Department of Justice today concluded that the proposal for United Airlines to acquire US Airways would reduce competition, raise fares, and harm consumers on airline routes throughout the United States. The Department expects to file suit to block the merger and to be joined in its suit by the Attorneys General of several states, including California, Connecticut, Delaware, Iowa, Maine, Maryland, the Commonwealth of Massachusetts, Michigan, Minnesota, New York, the Commonwealth of Pennsylvania, and Vermont.

United Airlines and US Airways initially announced their proposed merger in May 2000. The parties made submissions to the Department and announced some changes in January 2001, and the Department continued its analysis and discussion of the proposed transaction. In May 2001, both United and US Airways requested that the Department delay action on the merger proposal until further notice, pending submission of new proposals. No new proposals were submitted. On July 12, however, the parties notified the Department of their intent to close the transaction with no material structural changes to the proposal and requested a prompt decision, resulting in today's announcement.

United and US Airways are the second and sixth largest U.S. airlines. The acquisition would give United a monopoly or duopoly on nonstop service on over 30 routes, where

consumers spend over \$1.6 billion annually, and substantially limit the competition it faces on numerous other routes representing over \$4 billion in revenues. US Airways is United's most significant competitor on densely-traveled, high revenue routes between their hubs, such as Philadelphia and Denver, as well as for nonstop travel to and from Washington D.C. and Baltimore, and on many routes up and down the East Coast.

"A vigorously competitive airline industry is vital to our economy and effective antitrust enforcement is important to preserving the benefits of competition in a deregulated airline industry. While mergers can further competition, this one does not. If this acquisition were allowed to proceed, millions of consumers -- business, government and families -- would have little choice but to pay higher fares and accept lower quality air service," said Attorney General John Ashcroft.

The Department maintains that the proposed acquisition would violate the antitrust laws by reducing competition in:

- **Hub-to-Hub Nonstop Markets** Passengers spend over \$900 million annually to travel on routes between United's and US Airways' hubs. On seven of these routes, US Airways and United are each other's most significant competitor, and on four of those (Philadelphia-Los Angeles, San Francisco and Denver; and Pittsburgh-Washington, D.C.) US Airways and United are each other's *only* nonstop competitor. On the other seven hub-hub routes, US Airways is currently the only airline offering nonstop service, and United is the most likely airline to enter.
- **Washington, D.C. and Baltimore Nonstop Markets.** United and US Airways offer competing nonstop service between Washington, D.C. and many cities, such as Rochester, NY, and New Orleans, LA. They are also the only two airlines providing nonstop service between Baltimore and Los Angeles and San Francisco. Consumers spend over \$1 billion each year to travel in these markets.

- **East Coast Connect Markets.** Because they operate most hubs that provide connecting service between cities in the eastern United States, United and US Airways are the only two airlines, or two of only three airlines, offering connecting service between northeast cities such as Albany, NY and Burlington, VT, and southeast cities such as Greensboro, NC and Roanoke, VA. The acquisition would solidify their control over the major connecting hubs for east coast traffic -- Pittsburgh, Philadelphia, Washington-Dulles, and Charlotte.
- **International Routes.** US Airways competes with United (through United's marketing alliance with Air Canada and Lufthansa) in a number of international markets. In several of these, including Philadelphia-Toronto and Philadelphia-Frankfurt, the acquisition would eliminate the only nonstop competitor for United's alliance partner.
- **Corporate and Government Business.** Like the other major airlines, United and US Airways bid for high volume contracts with large corporations, negotiating discounts to their airfares in return for a corporation's commitment to concentrate travel on the airline. They compete vigorously against each other, particularly when the corporation requires significant travel on nonstop routes where United and US Airways compete. United and US Airways also compete for the \$1 billion the U.S. government spends on air travel, and were the only two, or two of only three bidders, on many city pairs.
- **Airline Service Concentration.** United's acquisition of US Airways will create or enhance dominance at many cities throughout the United States, including Boston, Washington, and Philadelphia. Competition for the millions of passengers traveling to and from these cities will decrease, resulting in higher fares and reduced service.

Noting that United and US Airways offered proposals to limit the loss of competition from this merger, R. Hewitt Pate, Deputy Assistant Attorney General of the Department's Antitrust Division stated, "In the final analysis, the core of the proposed remedy -- a divestiture of assets at Reagan National airport and a promise by American Airlines to fly five routes on a nonstop basis - - would not adequately replace the competitive pressure that a carrier like US Airways brings to the marketplace.

"The proposal did not assure competition for those adversely affected by the acquisition, such as passengers in east coast connect markets, and instead substituted regulation for competition on some key routes and created competitive harms through United's and American's agreement to jointly fly and price the New York, Washington and Boston shuttle routes."

US Airways operates hub airports in Philadelphia, Pittsburgh and Charlotte. United operates hubs at Los Angeles, San Francisco, Denver, Chicago and Washington Dulles. US Airways is headquartered in Arlington, Virginia with revenues of \$9.2 billion in 2000. United is headquartered in Elk Grove, Illinois with year 2000 revenues of \$19.4 billion.

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