

1 COMMONWEALTH OF PENNSYLVANIA
2 HOUSE OF REPRESENTATIVES
3 TRANSPORTATION COMMITTEE

4 In re: Merger of US Airways and United Airlines

5
6 Verbatim record of hearing held at
7 the Hyatt Regency, Pittsburgh
8 International Airport, Pittsburgh,
9 Pennsylvania, on Wednesday,

10 September 13, 2000

11 9:30 A.M.

12 MEMBERS OF THE COMMITTEE

13 Hon. Richard A. Geist, Chairman

14 Hon. Russ Fairchild, Aviation Chairman

15 Hon. Dick L. Hess

16 Hon. John Maher

17 Hon. Joseph Markosek

18 Hon. Susan Laughlin

19 Hon. Thomas Petrone

20 Hon. John Pippy

21 Hon. Jesse Stairs

22 Hon. Samuel Smith

23 Hon. Jere Strittmatter

24 Hon. Leanna Washington

25 ALSO PRESENT:

Eric Bugaile, Majority Executive Director

Paul Parsells, Minority Executive Director

Reported by:

Nancy J. Grega, RPR

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I N D E X (Continued)

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1 CHAIRMAN GEIST: Good morning everyone.
2 We're running a little late this morning. I think
3 US Air was late getting the Attorney General from
4 Harrisburg over here. He's on his way over now.

5 Before I make any remarks then open this up,
6 I'd like the House Members and other staff who are
7 sitting in to introduce themselves and I'm going to
8 make some remarks and then turn it over to Russ
9 Fairchild who is the aviation expert on our Committee.
10 We'll start at my far right with Eric Bugaile.

11 REPRESENTATIVE PETRONE: Representative
12 Petrone from Pittsburgh, Allegheny and I thought I'd
13 drive to Cleveland fly anyway.

14 REPRESENTATIVE STRITTMATTER: Representative
15 Jere Strittmatter from Lancaster County.

16 REPRESENTATIVE SMITH: Sam Smith from
17 Jefferson County.

18 REPRESENTATIVE PIPPY: John Pippy,
19 Allegheny County and I represent this Airport region.

20 REPRESENTATIVE FAIRCHILD: Russ Fairchild,
21 Union and Snyder Counties.

22 REPRESENTATIVE HESS: Dick Hess, Bedford,
23 Fulton and Huntingdon County.

24 REPRESENTATIVE LAUGHLIN: Susan Laughlin,
25 Beaver and Allegheny Counties.

1 REPRESENTATIVE WASHINGTON: Leanna
2 Washington, Philadelphia County.

3 MR. PARSELLS: Paul Parsells, Director of
4 the House Transportation Committee for the Democratic
5 side.

6 CHAIRMAN GEIST: Thank you all. Our Committee
7 is very concerned about taking a look at this merger
8 through the eyes of 203 House Members and the whole
9 broad scope of the State of Pennsylvania and the
10 effects it's going to have on the state. Living in
11 Altoona, I've had the pleasure or displeasure of
12 going through a huge railroad merger between Conrail,
13 CSX and Norfolk Southern and I know some of the
14 outcomes are good and some are bad and we have just
15 gone through the merger of Keystone Bank and M&T
16 in Altoona and I watched 350 jobs being ripped out
17 of my city because of that merger. So, I guess maybe
18 I'm just a little bit more sensitive right now to big
19 mergers than I should be. We are going to hear the
20 facts and by the time we get done with this process,
21 with the help of Russ and John Pippy and others, we
22 want to make sure that we file our support and/or
23 questions before the merger finally takes place. I'm
24 not going to go on and on and run my mouth. I'd like
25 at this time to offer the microphone to John Pippy

1 before we turn it over to Representative Fairchild.

2 REPRESENTATIVE PIPPY: Thank you, Mr.
3 Chairman. Welcome everyone. I'd like to welcome you
4 to the 44th District and the new Hyatt Hotel. It's
5 been a long time coming. It's very nice. We are
6 very proud of the Pittsburgh International Airport
7 and the role that US Airways play in Western
8 Pennsylvania. One of the concerns, however, has
9 been and will continue to be how this merger would
10 affect the communities, not only surrounding the
11 Airport which I represent but if you look at the
12 delegation here, how it will affect all of the
13 Commonwealth of Pennsylvania: The rural airports,
14 the community airports, et cetera and not to mention
15 the 11,000 jobs in this region. So, we look forward
16 to the testimony and hearing from everyone. There
17 will be questions with our concerns but ultimately
18 our goal is what is in the best interest of the
19 Commonwealth of Pennsylvania as a whole and obviously
20 each of us represents different interests of
21 maintenance and training and all of those issues will
22 come up. Thank you, Mr. Chairman for first bringing
23 the Committee out. I'd also like to thank the Sub-
24 committee Chairman, Russ Fairchild, for agreeing to
25 hold this hearing. Mr. Fairchild has been very

1 involved in aviation over the years. He's someone we
2 look to as to understanding the impact aviation has
3 on our community and he has provided great leadership
4 to us.

5 CHAIRMAN GEIST: Russell, it's all yours.

6 SUBCOMMITTEE CHAIRMAN FAIRCHILD: Thank you,
7 Mr. Chairman. The Attorney General has not arrived
8 yet. So, I'll pat some people on the back. I'd like
9 to sincerely thank Chairman Geist who, unlike some
10 committee people, t r y to do it all. Chairman Geist
11 probably runs the most active committee in Harrisburg,
12 Transportation. He has to wear a lot of hats. He is
13 not only the representative in Harrisburg who champions
14 the railroad industry, maybe some of you don't know
15 he's also probably the largest bicycling fan and
16 supporter in Pennsylvania and probably the largest in
17 the United States. Thank you, Chairman Geist, for
18 giving us the latitude to be here today. We
19 appreciate your efforts.

20 My background is simply I got appointed when
21 I first came into the General Assembly on the
22 Transportation Committee and as a Subcommittee
23 Chairman, mainly because I had a private pilot's
24 license and also I serve on an Airport Authority Board.
25 Since then, I have become more and more embroiled in

1 different aviation issues and presently serve also
2 as a chairman of a select committee looking at
3 alternatives for the Philadelphia International
4 Airport and Leanna Washington serves as my Democratic
5 Co-chair on that committee. We try to address these
6 issues in a very bipartisan manner, taking a look at
7 all sides of the issues and after the fact, finding,
8 hopefully, recommendations applicable.

9 In the US Airways and United merger, there
10 are issues here that I think not only affect
11 Pittsburgh and Philadelphia. Those issues, of course,
12 are jobs, payroll, amount of investment that is made
13 in an area and we certainly, every member of the
14 House of Representatives must be aware of those
15 consequences. I also look at it from a less provincial
16 arena in that I look at something of this magnitude
17 and say, how is it going to benefit all of
18 Pennsylvania. Many of us in the General Assembly
19 represent areas not close to Pittsburgh, not close to
20 Philadelphia. However, all of us can say that we do
21 indeed travel to these hubs to make connections when
22 we take to the airways. So, I think probably some of
23 the questions today are going to be geared toward
24 those types of arenas. In other words, how is it
25 going to benefit the consumer of Pennsylvania? How

1 is it going to benefit the flyer of Pennsylvania as
2 far as the merger and the hub arrangements? With
3 that said, I see the Attorney General, I believe, has
4 arrived. While he gets ready to go, we had a couple
5 more members arrive, John Maher. John, welcome.
6 John also serves on the select committee with me. Any
7 other members that have arrived?

8 (No response.)

9 SUBCOMMITTEE CHAIRMAN FAIRCHILD: Thank you.
10 Attorney General, when you are ready. Our first
11 testifier will be the Attorney General of Pennsylvania,
12 the Honorable Mike Fisher. I believe Mike probably
13 knows this area pretty well.

14 ATTORNEY GENERAL FISHER: Thank you,
15 Representative Fairchild and Representative Geist,
16 both of you Chairman of the Subcommittee and the
17 Committee respectively, and to all of the members of
18 the Transportation Committee. First of all, I want
19 to thank you for the opportunity to allow me to
20 address the acquisition of US Airways by United
21 Airlines. Joining me here today on the podium is
22 Jim Donahoe, who is the Chief of our Antitrust Section
23 in the Office of Attorney General. I am keenly aware
24 of the interest this merger has generated in
25 Pennsylvania, especially here in the Pittsburgh area

1 which serves as the de facto headquarters for much
2 of US Airways operation. I will talk today about the
3 process we use in our office to review mergers and
4 the actions which we can take.

5 I want to commend the Committee for holding
6 this hearing because, in fact, there are various
7 stated specific issues that have arisen and will
8 continue to arise out of this merger.

9 Let me state at the outset that we are in
10 the middle of a merger investigation which we are
11 conducting jointly with the United States Department
12 of Justice and 25 other states. And we are, together
13 with New York, the leading state in the investigation.
14 As Pennsylvania, of course, there is no state in the
15 nation which will be impacted any more by this merger
16 than our Commonwealth. Under the Department of
17 Justice's Federal/State merger protocol, which
18 governs multi-state merger investigations, we are
19 required to keep all the information we've received
20 from the parties confidential unless we would sue
21 to block the merger. Even then, the information can
22 only be used in a context of a law enforcement
23 proceeding. Therefore, I am not in a position today
24 to discuss the information that we have provided so
25 far. I also want to add that in making comments today,

1 I'm not speaking for the United States Department of
2 Justice or, in fact, any other state but I would also
3 like to add that neither Pennsylvania nor any other
4 state is bound to come to the same conclusion as the
5 Department of Justice and we could decide to go in
6 our own direction at the conclusion of this investi-
7 gation.

8 Merger reviews are very intensive projects.
9 We often have to cram three years worth of work into
10 three months. Typically, we want the views of all
11 those affected by the merger, such as customers,
12 suppliers and competitors. It's not uncommon when we
13 reach the end of a merger review to have interviewed
14 hundreds of people. While I cannot discuss who we
15 have talked to already, I can report that we are
16 well into the evaluation process.

17 In addition to the interview process, merger
18 reviews involve attempting to learn the industry of
19 the merging parties better than they know it them-
20 selves. We have begun that process as well. We look
21 at market share and present data; how hard or easy
22 it is to enter a market; and, we look at how the
23 companies behave when faced with varying degrees of
24 competition.

25 When we have concluded our review, we

1 determine whether the merger would have an adverse
2 impact on competition. In simple terms, we try to
3 answer the question, will the merging parties be
4 able to raise prices? If there is a competitive
5 problem, my office has the authority, under the
6 Federal Antitrust Laws, to sue to block the merger.
7 About 13 years ago we took such a step here in
8 Pittsburgh when the parent company of Kaufmann's
9 Department Store was acquiring the parent of Horne's.
10 Also in 1989, we objected in Bankruptcy Court to
11 Eastern Airlines sale of its hub in Philadelphia to
12 US Air.

13 In any merger case there are three possible
14 outcomes. These are general outcomes. One is that
15 the merger does not present any competitive problems.
16 That is unlikely here as many competitive problems
17 have already been identified, such as travel between
18 Pittsburgh and Chicago, as well as travel between
19 Philadelphia and West Coast cities such as - well,
20 travel between Philadelphia and West Coast cities
21 such as Los Angeles and San Francisco. In fact, the
22 categorization of this acquisition as a merger
23 between an East Coast airline flying north-south
24 routes and an East-West airline really has largely
25 evaporated as the examination and the explanation has

1 taken place as United and US Air are significant active
2 competitors of each other. For example, let's take
3 the Pittsburgh-Chicago route. Last year United carried
4 38.5 percent of the passengers on that route and
5 US Airways carried 15.5 percent. If they merge,
6 they're going to carry 95.4 percent of the passengers
7 on that route. Currently, the two airlines charge \$198
8 for a 21-day advance fare which is good anytime, even
9 without a Saturday night stay. In comparison, a 21-
10 day advance fare good anytime on the Harrisburg-
11 Pittsburgh route where US Airways has a monopoly, cost
12 \$412. That route is half the distance, for more than
13 twice the price of the Pittsburgh-Chicago route.

14 A second possible outcome is that the parties
15 will agree with the various government enforcement
16 agencies on a consent decree. These decrees commonly
17 address competitive issues. Examples of these would
18 include divestiture of overlapping routes and hubs
19 and/or prohibitions against anti-competitive conduct.
20 In general, an example of this in airline cases would
21 be prohibiting merging airlines from using their power
22 under an airport lease to stop the addition of gates.
23 A refusal to allow the addition of new gates would
24 preclude the entry of new carriers to the airport.
25 Consent decrees do not normally regulate the day to day

1 business operations such as where a hub will be
2 located or whether maintenance or reservations will be
3 conducted in certain locations. United's commitment
4 to build a maintenance hub in Pittsburgh is a positive
5 step for Pittsburgh, but it really doesn't address how
6 any competition lost by the merger would be replaced.

7 Nevertheless, we will attempt to have any of
8 the various economic commitments reduced to writing
9 and placed in a consent decree if that's the path we
10 end up choosing.

11 The third possible outcome is that the
12 merger will not go forward and the United States will
13 continue to have six major airlines competing for
14 business.

15 Finally, much of the attention concerning
16 this merger has focused on hub cities like Philadelphia,
17 Pittsburgh and Chicago, and impact on large cities like
18 New York, Boston and Washington, D.C. I think it's
19 important to the members of this panel who represent
20 constitutencies all across Pennsylvania that we will
21 also be looking at impact on small cities like
22 Harrisburg, Scranton and State College and Lancaster,
23 as well as the impact of the merger on the 11
24 remaining Pennsylvania airports with scheduled air
25 service. To us, the impact on consumers traveling

1 from Allentown to Kansas City is just as important as
2 the impact of consumers traveling from Philadelphia to
3 San Francisco. We will invest the resources needed
4 to analyze all the markets that could be impacted by
5 this merger. It is important to remember that the
6 proposed merger will affect domestic and international
7 travelers coming to Pennsylvania as much as it will
8 affect Pennsylvania consumers traveling throughout
9 the country and internationally.

10 After all, the antitrust laws prohibit
11 mergers where in any line of commerce or in any
12 activity affecting commerce in any section of the
13 country, the effect of such acquisition may be sub-
14 stantially to lessen competition, or tend to create
15 a monopoly.

16 That in a single sentence is what the anti-
17 trust process is all about. Mr. Chairman, we thank
18 you once again for the opportunity to appear here
19 this morning. We commend you for reaching out and
20 holding this hearing to gather the necessary infor-
21 mation on behalf of your state House colleagues and
22 Mr. Donahoe and I will be glad not only to answer any
23 questions you have this morning but you should feel
24 free to contact us at any part of the process. We
25 will be glad to upgrade you to the degree possible that

1 we can on the processing steps that we are commencing
2 taking. With that, I'll be able to answer any
3 questions.

4 SUBCOMMITTEE CHAIRMAN FAIRCHILD: Thank you,
5 Attorney General. I have two short questions. One is
6 I understand that in these proceedings there is no
7 ~~timeframe~~ as far as completing the investigative work
8 and making recommendations or coming to findings.
9 Could you give us some kind of projected timeframe on
10 when the Pennsylvania and the U.S. Department of
11 Justice will be making their results known?

12 ATTORNEY GENERAL FISHER: Mr. Chairman,
13 you're accurate. Generally speaking, there is no time-
14 frame. We are cognizant, however, of the importance
15 of this merger not only to the proposed merging
16 parties but the people of Pennsylvania. We have done
17 everything as we can, as has the Justice Department,
18 within our resources to accelerate the process. One
19 of the advantages that the states, working with the
20 Department of Justice, is there is some duplication
21 but I would say it's still our best estimate that we
22 would be in some position to know which of the
23 directions we are taking near the end of this year.

24 SUBCOMMITTEE CHAIRMAN FAIRCHILD: Thank you.
25 The other question I have is more of a broad based

1 policy question. In the airline industry it's no
2 secret that all of the big guys are looking at mergers
3 at this particular point. My question, and I under-
4 stand every U.S. carrier would be evaluated the same,
5 but given the scenario that perhaps KLM or some of
6 the other large world carriers, British Airways,
7 could enter into an agreement which would put our
8 industry in jeopardy, who reviews those grievances?

9 ATTORNEY GENERAL FISHER: Well, the same
10 process, the same process would apply in the review,
11 I mean if there is an impact. The mere fact that a
12 foreign corporation may acquire a U.S. company would
13 not divest in the Justice Department or our state,
14 if we had an interest in doing that. So, this same
15 process would apply. There are some other federal
16 laws in place that would govern.

17 SUBCOMMITTEE CHAIRMAN FAIRCHILD: What about
18 the two foreign companies?

19 ATTORNEY GENERAL FISHER: The two foreign
20 companies, if you're talking about the two foreign
21 companies, if there is an impact in the United States,
22 we can play a role but the likelihood of that
23 happening, unless there is significant domestic travel.

24 SUBCOMMITTEE CHAIRMAN FAIRCHILD: Questions?

25 CHAIRMAN GEIST: Mike, in the Norfolk
Southern-CSX merger, this committee made suggestions

1 in the agreement to Washington. They were put into
2 the final agreement, at least some of those, as
3 commitments. They have only met two so far. They are
4 not batting well. Will this process take place in
5 this merger the same way and will the State of
6 Pennsylvania have the opportunity to get written
7 promises? I'm very very concerned about losing more
8 flights out of Altoona.

9 ATTORNEY GENERAL FISHER: Representative
10 Geist, that is one -- of course, I want to emphasize
11 that that is the second scenario, the fact that if
12 there is a consent decree worked out. That is the
13 second scenario. One of the major advantages, as I
14 see it, to our office not only being at the table but
15 being one of the leading states in reviewing this
16 merger is that if, in fact, the merger is to go
17 through, and I emphasize that we are not at that
18 point but if, in fact, the merger is to go through,
19 those issues that are important to Pennsylvania from
20 an air traveling standpoint, from the competition
21 standpoint to access the various smaller airports,
22 some of the economic terms, not all of them, but some
23 of the economic terms, we will work very hard to make
24 sure that the commitments are reduced to writing
25 and put in black and white and then it then became a

1 consent decree, if that consent decree gets filed in
2 a court and if, in fact, the provisions of that consent
3 decree are violated, either us or the United States
4 Department of Justice has easy access to go back in
5 court to seek the enforcement of a particular provision.
6 So, that's the advantage of us being at the table.

7 CHAIRMAN GEIST: I wanted you to say it.
8 Thank you.

9 AVIATION CHAIRMAN FAIRCHILD: Representative
10 Petrone, but before you start, Representative Markosek
11 has joined us. Welcome. Go ahead.

12 REPRESENTATIVE PETRONE: Good morning, Mr.
13 Attorney General. We are all familiar with how we got
14 where we are. Most of us remember that US Air, the
15 long history. I'm not even sure a merger of Lake
16 Central and Mohawk Airlines, which became Allegheny,
17 and Allegheny, I'm not even sure if they purchased or
18 merged with Piedmont, which was a major acquisition for
19 the East Coast in controlling routes. So, we are
20 faced with -- we in Pittsburgh are looking for the
21 protection of our home base which is US Air and
22 certainly the jobs and the employee benefits that they
23 represent. I know you probably can't comment on
24 that but we're looking to see how this certainly will
25 be affected because the benefits for at least Western

1 Pennsylvania and certainly three counties of employees
2 with US Airlines, it's a critical situation. So, are
3 you familiar with any history of prior jointures of
4 those airlines and how they were affected that we could
5 look at how this would be affected?

6 ATTORNEY GENERAL FISHER: Well, we are
7 somewhat familiar both from a vantage point of being
8 a traveler living in this region but also from this
9 review process. Mr. Nagin, who is here on behalf of
10 the airlines, I'm sure, can give you some more
11 specifics than I can. One thing to remember is back
12 during the time, at least when US Air merged with
13 Piedmont, there were at least double the number of
14 airlines competing in this country but as the pool of
15 airlines shrinks, you're getting closer, at least
16 numerically from the market share standpoint which,
17 under the Antitrust Laws, is what we are concerned
18 about. So, the fewer airlines that you have in the
19 marketplace, the less likelihood there is that people
20 who are trying to travel by air are going to be able
21 to get competitive prices. The additional factor is
22 that the larger the player you become, there is
23 nothing in our marketplace that prevents new entrance.
24 The mere fact of size of the dominant players becomes
25 a factor and the ability of new entrants to come in

1 and actually compete for travel. So, that's why I
2 said that if we get to the point where we're talking
3 about conditions in this merger, then we would have to
4 look very clearly to try because it's going -- this
5 will be the dominant airline on the East Coast. There
6 is no question about that. We will have to look very
7 carefully at ways to assure that new entrants get in
8 the building to be able to get gates, either here or
9 in Philadelphia and the problem today is not so much
10 gates here in Pittsburgh, it's the fact that they
11 can't land on the East Coast. There are no gates in
12 Philadelphia for a new entrant who wanted to have take-
13 off rights here. There are very few places. These are
14 the issues you have to look at when size gets so --
15 the numbers get so small and size gets so large.

16 REPRESENTATIVE PETRONE: Thank you.

17 AVIATION CHAIRMAN FAIRCHILD: We are going to
18 try to keep on schedule, John.

19 REPRESENTATIVE PIPPY: General, given you
20 can't discuss the process you are doing right now,
21 what will be the distribution, for lack of a better
22 term, of whatever decisions, whatever scenario --
23 obviously, you will make a public statement but any
24 records or any information that can't be made public,
25 who does that get sent to and particularly will the

1 House Transportation Committee get a copy?

2 ATTORNEY GENERAL FISHER: There would be --
3 let's assume that at the conclusion of our investi-
4 gation, at the conclusion of the Justice Department's
5 investigation, that we both concluded that there was
6 no problem here and that the merger was to go through,
7 in that likelihood, there would be no report. There
8 would be no information released because there would
9 be no litigation. To the contrary, let's suppose that
10 initially either Pennsylvania, another state or in
11 combination with the Justice Department or the Justice
12 Department itself chose to file suit to block the
13 merger, obviously the information that was developed
14 in the course of the investigation would be made
15 public as part of that enforcement proceeding. So, it
16 would be made public. In addition, some of the
17 information, if it was in the middle of a consent
18 decree, would be made public. To the extent that we
19 would be able to testify about whether someone else
20 told us, we are constrained with the agreement we have
21 with the Department of Justice.

22 AVIATION CHAIRMAN FAIRCHILD: Questions?
23 Representative Maher?

24 REPRESENTATIVE MAHER: Attorney General
25 Fisher, I want to complement you on the approach you
are taking. It would have been all too easy to announce

1 a position and then undertake the research filtered
2 in that direction but the ramifications of this
3 proposed merger are so complex and important to
4 Western Pennsylvania and across the state, I'm very
5 appreciative that you are investing the effort to get
6 in an understand the airline industry. When you
7 speak about the ability of new entrants and concerns
8 about the future prospects of new entrants, beyond the
9 ability to access gates, something that we have
10 observed in years past have been that when a new
11 carrier, a discount carrier, arrives on the scene,
12 suddenly air fares that are across the state that
13 would rival the price to a ticket to London come down
14 and they come down remarkably for a period that just
15 happens to coincide with the extention of the discount
16 carrier and in my eyes, as a layman, that strikes me
17 as predatory to pricing policies which diminishes
18 competition but here you have a situation where it
19 actually serves to diminish competition. Is it
20 possible to address that concern as part of the
21 consent decree, part and parcel with the merger?

22 ATTORNEY GENERAL FISHER: We have discussed
23 that some preliminarily. I have discussed that with
24 Mr. Donahue. We have discussed it with a number of
25 the other state attorneys general. I think that is

1 a real concern to the concept and the utilization to
2 me that looks like predatory pricing but those are
3 some of the issues that we would like to look at.
4 It's conceivable, however, that it may take some
5 federal legislation to specifically ban that kind of
6 price fluctuation as the laws are today. I'm not sure
7 that the state -- I'm not sure that the state
8 government could effectively pass that kind of law
9 and have the law upheld. It's an issue that we are
10 looking at and we are in discussion as to how to
11 accomplish that, if that is the point we get to.

12 REPRESENTATIVE MAHER: Thank you.

13 AVIATION CHAIRMAN FAIRCHILD: Thank you,
14 Attorney General.

15 ATTORNEY GENERAL FISHER: Thank you very
16 much, Mr. Chairman. We stand ready to assist you and
17 answer any questions you may have during the course of
18 this process.

19 AVIATION CHAIRMAN FAIRCHILD: The next
20 testifier will be Elizabeth Sarge Voras who is no
21 stranger to aviation in any sense of the word. Liz
22 basically is one of those people who we all rely on
23 for our information coming from the administrative
24 branch of government and she is the Deputy Secretary
25 for Aviation with the Pennsylvania Department of

1 Transportation. I understand in the rear they are
2 having some hard time hearing. If you can't hear,
3 If you can't hear, raise your hand and I'll instruct
4 ourselves or the speaker to speak a little more into
5 the mike. Can you hear me okay? Liz, welcome and
6 when you are ready.

7 DEPUTY SECRETARY VORAS: Anybody who knows
8 me knows that my mouth is large enough. I wouldn't
9 have to yell and scream that much plus I grew up with
10 eight brothers and sisters. So, if I wasn't vocal,
11 I didn't eat.

12 Good morning, Mr. Chairman, Mr. Subcommittee
13 Chairman, and Members of the Committee. Thank you
14 for the opportunity to appear before you this morning
15 to provide some information on our system of airports
16 in Pennsylvania and the concerns surrounding the pro-
17 posed merger of United Airlines and US Airways. The
18 Commonwealth's air transportation system is complex
19 and diverse. Our airports range in size from the
20 small privately owned, public-use facilities with a
21 single based aircraft to the large hub airports of
22 Philadelphia and Pittsburgh. The focus of my comments
23 will be on the 16 airports in the Commonwealth that
24 provide scheduled passenger service as depicted here
25 on this display board. I apologize that you can't see

1 that but as you can see, we do have 16 scheduled
2 service airports here in Pennsylvania. Diversity
3 exists even among these 16 airports. And enplane-
4 ments in 1998 varied from less than 10,000 at Franklin
5 Venango Regional Airport to nearly 11.5 million at
6 Philadelphia International. But even with the
7 difference in enplanements, each airport remains
8 critical to each region. Our system of airports is an
9 economic engine, generating over 12 billion dollars
10 annually in the Commonwealth of Pennsylvania.

11 In 1998 the two large hub airports in
12 Pennsylvania accounted for 92 percent of enplaned
13 passengers in Pennsylvania. We are one of the few
14 states to have more than one connecting hub airports,
15 Philadelphia and Pittsburgh, both operated by US
16 Airways. In other states that have more than one
17 connecting hub airport, the hubs are operated by
18 different airlines. For example, Ohio has Cleveland
19 and Cincinnati operated by Continental and Delta
20 respectively; Texas has Dallas-Fort Worth with
21 American and Houston with Continental; Tennessee has
22 Memphis operated by Northwest and Nashville by
23 Southwest.

24 In October of 1999 US Airways and US Airways
25 Express together accounted for 72 percent of available

1 aircraft receiving capacity in Pennsylvania, with a
2 somewhat greater share of capacity at the large hub
3 and non-hub airports and a considerably lower share at
4 the small hub airports. The larger share of US Airways
5 seating capacity at Pennsylvania's non-hub airports,
6 representing largely our smaller communities in
7 Pennsylvania, reflects, for nine of the twelve non-
8 hub airports, service only by US Airways. US Airways'
9 services to these communities is related to their
10 proximity to its two large hub airports in
11 Pennsylvania.

12 This large presence of US Airways in
13 Pennsylvania is both good news and bad news. First,
14 the good news:

15 US Airways, through its hubbing, reservations,
16 and maintenance operations in the state employs over
17 17,000 Pennsylvanians.

18 US Airways provides a higher level of
19 service at its connecting hubs than would otherwise be
20 economically justified from local demand, thereby
21 offering superior service levels to Pennsylvanians.

22 Small communities that would probably
23 otherwise not have commercial service are served by
24 US Airways Express due to their proximity to the two
25 Pennsylvania hubs.

1 Therefore, US Airways today provides
2 Pennsylvania with a critical link to the nation's
3 air transportation system.

4 US Airways contributes about 70 to 75 percent
5 of the aviation fuel tax revenues used to support the
6 Commonwealth Airport Development Grant Program. In a
7 way, this could also be viewed as bad news in that we
8 rely predominately on this airlines' fuel tax revenues
9 for the development of Pennsylvania's airports
10 currently.

11 On the other hand, the bad news is that:

12 US Airways have the highest average unit
13 cost of the nine major U. S. airlines, reflecting its
14 lower aircraft utilization rates which is flight hours
15 per aircraft, its mix of aircraft, and its short
16 average trip lengths. These factors together provide
17 basis for charging higher air fares. If you remember
18 when US Airways was created, that was the mainstay of
19 the market that they wanted to be in.

20 The short-haul nature of Pennsylvania's
21 passenger markets, particularly to small, less
22 populated communities in the Commonwealth and the
23 surrounding states, contributes though to this
24 relatively higher air fares in Pennsylvania. US
25 Airways' short average trip length overall reflects

1 this service.

2 US Airways market concentration in
3 Pennsylvania has delayed the development of the
4 additional service by other airlines, particularly
5 low-fare airlines. The presence of airline competition
6 typically puts downward pressure on air fares.

7 Since many of the details for this merger
8 have yet to be decided and many questions remain
9 unanswered, the outcome of the proposed merger is
10 uncertain. However, because of the significant
11 presence of US Airways in Pennsylvania, it is critical
12 that the possible impacts the proposed merger on the
13 Commonwealth be closely examined. In particular, the
14 administration has the following concerns:

15 As I stated earlier, the Commonwealth relies
16 upon the tax generated by jet fuel sales to support
17 its Aviation Development Program, which provides about
18 7.5 million dollars annually to improve and maintain
19 our system of airports. Our concern here is whether
20 United would continue US Airways' practice of utilizing
21 Pennsylvania's airports to fuel its fleet.

22 Air fares in Pennsylvania, as was just dis-
23 cussed, remain problematic. Airline passengers migrate
24 out of state currently to take advantage of lower air
25 fares in bordering states where competition has forced

1 prices down. We will want to know what is United's
2 plan, if the merger is approved, to enhance the
3 competitive nature of airline service in Pennsylvania,
4 thus insuring that Pennsylvanians can go anywhere they
5 want to go at a rate they can afford to pay.

6 As part of their proposed merger, United
7 revealed that they would sell part of the US Airways
8 operation at Washington's Reagan National Airport to
9 their new airline, DC Air. Which assets will this
10 involve and how will this impact future service in
11 Pennsylvania?

12 United did agree to freeze domestic point-
13 to-point structured air fares on its routes for a
14 two-year period following completion of the merger
15 except to reflect increases in fuel costs and the
16 Consumer Price Index. Our concerns here would be,
17 what are United's plans for rates in Pennsylvania
18 following this two-year period? Are there other
19 methods to be used to increase costs to the users,
20 such as reducing the number of economy fare seats
21 available? What are their plans for rates on inter-
22 national flights? We would also want to know what
23 United sees as the future for air freight/air cargo
24 at our hub airports of Philadelphia, Pittsburgh,
25 Harrisburg and Allentown.

1 Also, what does United foresee happening with
2 the current marketing agreement between US Airways
3 and American Airlines and United's mileage sharing
4 deal with Delta Airlines?

5 It is unclear whether United would need
6 US Airways' pilot training base at Pittsburgh.
7 United's training base at Denver is one of the largest
8 and most modern in the industry. Would United con-
9 tinue to use the pilot training facility at Pittsburgh
10 or rely solely on their facility at Denver?

11 Both airlines currently have a presence at
12 our large and small hub airports. These airports
13 have a negotiated agreement for payments through rates
14 and charges with the airlines to recover debt service
15 for capital improvements. That's how most capital
16 improvements at airports are funded. United Airlines
17 has publicly committed that they will honor all US
18 Airways lease commitments at Pittsburgh International
19 Airport and Philadelphia International Airport upon
20 merger approval.

21 You should be aware that these concerns have
22 been put forth to the Chairman of both US Airways
23 and United Airlines, and we have received a written
24 confirmation to the commitments that United has
25 publicly made to our state.

 As discussed, the merger would impact air

1 service, jobs, tax revenues and passenger traffic
2 levels in Pennsylvania. Historically, consumers have
3 not benefited from airline mergers and mergers have
4 even resulted in the downsizing of other hubs. While
5 United has promised a 160 million dollar investment at
6 Pittsburgh for maintenance facilities, the decision
7 on whether or not to support the merger of United and
8 US Airways depends greatly on the answers to the
9 remaining questions. Even though promises have been
10 made for the two hub airports in the Commonwealth,
11 there have been no assurances of maintaining connect-
12 ions to our smaller commercial service airports to
13 connect our rural communities with the two hubs nor
14 any assurances leading to the reduction of fares
15 within the Commonwealth.

16 There are many aspects of this merger that
17 must be considered and questions that are yet to be
18 answered. Our attention must be focused on the
19 impact of the Commonwealth's entire aviation system,
20 the citizens it serves, and the 17 thousand US Airways
21 employees that live in Pennsylvania. Pennsylvania's
22 airports mean more than just dollars and cents to the
23 Commonwealth. Our system of airports contribute
24 significantly to the quality of life in Pennsylvania.
25 Our airports support innumerable health, welfare, and

1 safety-related activities throughout the Commonwealth.
2 Thank you once again for the opportunity to address
3 you here today concerning this matter of significant
4 importance.

5 AVIATION CHAIRMAN FAIRCHILD: Thank you.
6 Chairman Geist?

7 CHAIRMAN GEIST: Thank you very much, Liz.
8 I have a couple of questions from your point of view.
9 I'll probably ask the same questions of US Air. We
10 had a wonderful tour of the airport yesterday. It
11 was just grand. We found out that they are only at
12 65 percent capacity in landings and takeoffs. We also
13 found that 30 percent of the people who travel, come
14 here by commuter. After the parking situation
15 yesterday, I can understand why. Through your eyes,
16 why hasn't the airline industry marketed more
17 commuter flights to increase capacity out of the hub
18 airports? For areas like us, it's easier for us to
19 go to Baltimore driving than it is to drive to
20 Pittsburgh and it really mystified me that this is a
21 hub airport. Through your eyes, why hasn't that
22 happened?

23 DEPUTY SECRETARY VORAS: I would first state
24 that it's a good thing that the congestion levels at
25 Pittsburgh International are what they are. It's a

1 very positive thing for the future of this airport in
2 any merger situation with any airline because it shows
3 there is a lot of capacity here for increased growth.
4 I think that Pittsburgh International has been used,
5 for the most part, as a thru-put type of airport. The
6 origin and destination right here in the Pittsburgh
7 market -- I mean, I know I have said this before with
8 regard to the other merger that took place in the
9 Commonwealth in the last couple of years. The market
10 in the end is 'what it is'. I don't know
11 that it's so much a virtue of US Airways not doing
12 particular marketing, a marketing job, as it is the
13 nature of the market that is here in the Pittsburgh
14 area. I would venture to say that if the market was
15 here and the people were here, it would be marketed
16 that way. What you have to look for in this situation
17 as relates to air fares is the load factors and how
18 fully loaded the planes are. I often hear about, oh,
19 the air fare from Harrisburg to Pittsburgh, it's so
20 high and yet every single time you are on one of those
21 planes from Harrisburg to Pittsburgh, the planes are
22 booked solid. So, in the end, I believe this is
23 America and the market will bear what the market will
24 bear. I believe if the market is here, the planes
25 will be loaded and they are loaded. It's a very

1 intricate balance that is worked out and I don't
2 begin to even know 10 percent of how they do what they
3 do when they are determining their air fares. It's
4 very complicated but I do know that there is a scienti-
5 fic approach that they use and they adjust it probably
6 even more so than daily to make sure they are recoup-
7 ing their revenues.

8 CHAIRMAN GEIST: When we have the commission
9 hearings, and for the past 21 years I have had the
10 pleasure of going around and listening throughout the
11 state, almost at every one of those we have had
12 people say we need more commuter air service; we need
13 more flights; we need flights east; we need flights
14 west. We as a state need to make sure that our
15 citizens have that service. If it's not provided by
16 the major airports, then it should be, through the
17 eyes of some, a service that we pay for out of kerosene
18 fuel taxes on a subsidy basis. We're not going to get
19 into that because the last time we did a major increase
20 in Pennsylvania, the only people who didn't pay their
21 fair share was the airline industry. So, once again,
22 can we have an aviation plan that calls for service
23 in rural communities rather than just the two major
24 cities in Pennsylvania?

25 DEPUTY SECRETARY VORAS: I want to answer

1 that by saying something that I've heard the Secretary
2 say on many occasions. We in Pennsylvania enjoy a
3 level of service, commercial service, to our communi-
4 ties that you rarely find in any other state in the
5 entire country. It's something that I always want to
6 bring up because I like to appreciate what we do have
7 as opposed to what we don't have. There are a lot of
8 Pennsylvanians that can get somewhere commercially
9 because of the airport system we have. That developed
10 over many years; US Airways commitment to serve those
11 facilities in the manner in which they do evolved over
12 many years but there is a price that we pay when you
13 have that many airports, commercial service airports
14 in Pennsylvania, and I don't just mean from a US
15 Airways' perspective but from our perspective. That's
16 why we are doing a system plan right now. We are in
17 the process of spending close to two million dollars
18 with FAA's help to do a true system plan in
19 Pennsylvania so we can, for the next 15 to 20 years,
20 project out what are the aviation needs here. Is 16
21 even the right number? I'm not saying anything to you
22 today that many people who have heard me talk, includ-
23 ing the airports themselves, including the folks at
24 Altoona. Is 16 the right number? Maybe it's not.
25 Maybe that number should be 14. Maybe that number

1 should be 12. In the end you don't want to set your-
2 self up for failure of your entire system by having a
3 system that perhaps is too large and then none of us
4 can keep up with the capital improvement needs. Right
5 now, and I know Russ is aware of this and some of
6 the other members are aware of this, we have
7 commercial service airports in Pennsylvania that are,
8 for the first time, coming to the Commonwealth. You
9 heard me explain how rates and charges work and it's a
10 pay-as-you-go. It's like the Turnpike Commission.
11 If the road makes sense, you build it as a toll road.
12 If it doesn't, you don't. It's a philosophy I
13 espouse. In our commercial service system right now
14 we have airports that are coming to the Commonwealth
15 for millions and millions of dollars in general fund
16 dollars that I don't currently have to give them and
17 those of you who are paying attention to this that it's
18 looming on the horizon, whether it will be addressed
19 by this administration remains to be seen, if the
20 industry gets its act together quick enough, for
21 improvements that heretofore would have been paid for
22 through the airlines but the airlines can't be asked
23 to pay for something that doesn't give them a return
24 on that investment. They are the private sector.
25 That's the way they operate. If we were all in

1 business, we would want the same business deal. It's
2 a phenomenon that is occurring right now in
3 Pennsylvania with the commercial service airports
4 that shows me that looming on the horizon are some
5 big questions about how large should the system be;
6 how improvements, big ticket items, terminal buildings,
7 runway extensions, things that historically had made
8 sense for the airlines to participate in because they
9 could see the return on investment, they are saying,
10 hey guys, you know, we are paying as much as we can
11 here, i.e., that's what makes your air fares what
12 they are. Your air fares in many respects are related
13 to what the airport charges those airlines to be there
14 and they are at a point of no return. So, they are
15 coming to us for major dollars and it's something
16 that we have to grapple with. It's a very delicate
17 balance. I believe we enjoy a level of service that
18 most states do not enjoy currently. Some communities,
19 and I know Representative Hess is probably aware of
20 this, yourself, you are aware of this. The Johnstown
21 Airport tried in the last three years to entice a
22 carrier, a smaller carrier, lower fare carrier, to
23 come to their community. In exchange for that, the
24 carrier wasn't willing to just do it on a wink and a
25 nod. They wanted and needed to have commitment from

1 that community for pre-purchase tickets for a certain
2 amount of time and the community was unable to generate
3 that business because the air carrier invests a lot
4 of money when they decide to serve a new community.
5 So, that did not come to fruition but it mostly was
6 because the market wasn't there. I'm a firm believer
7 that when the market isn't there, then there is some
8 other phenomenon going on here. It's called supply
9 and demand. It's real basic in economics. There is
10 something there that causes that to happen. There is
11 something at the federal level called essential air
12 service. I know Russ is aware of this. The federal
13 government actually physically, the FAA did to help
14 communities who perhaps need a little nudge to develop
15 a service or develop a demand and that is supposed to
16 go away after a certain number of years. We talked
17 about doing that in Pennsylvania. We have one airport,
18 Venango, that has been in that program for quite some
19 time. Venango's numbers are going down, not going up,
20 even with the amount of money that is being used to
21 subsidize that airline operation there. So, I believe
22 in the market. I believe that in the end the market
23 will bear what it will bear but it's something that
24 we will talk long and hard with United about once the
25 merger becomes -- I think they themselves, and I know

1 Sharon Taylor is here and I'm sure someone is here
2 from United. A lot of these things they are still
3 figuring out how it's all going to work. I don't know
4 that they actually have all of the answers to all of
5 the questions yet. As long as we are here and around,
6 we will be pressing them for those answers. Let me
7 assure you that we will do everything we can to be
8 sure that most importantly the employees, the 17,000
9 employees, will be protected; that our commercial air
10 service will be maintained and that the presence that
11 US Airways has in Pennsylvania will continue under a
12 new flagship.

13 AVIATION CHAIRMAN FAIRCHILD: Thank you,
14 Elizabeth. I appreciate your testimony. I think you
15 raise very good questions. I assume that the
16 questions that were raised in your testimony have been
17 submitted to the players, asking for a response?

18 DEPUTY SECRETARY VORAS: Yes. They were
19 verbally by the Governor on two occasions and the
20 Secretary, Secretary Mallory, submitted them to the
21 Chairman. United, we got a response from, Chairman
22 Goodwin, in the last couple of days. It's more or less
23 along the lines of what he has already publicly
24 stated as his commitments to Pennsylvania, not so much
25 the detailed responses that we are looking for.

1 AVIATION CHAIRMAN FAIRCHILD: Would it be
2 possible to have a copy of that forwarded?

3 DEPUTY SECRETARY VORAS: Yes, absolutely.

4 AVIATION CHAIRMAN FAIRCHILD: Thank you.

5 REPRESENTATIVE SMITH: One quick, question.
6 In spite of your long answer to the previous question,
7 I just wanted to put on the record that for many of
8 us that come from some of the more rural areas, I
9 don't know that I really saw in your testimony that
10 the commitment to maintain service at these outlying
11 airports was part of what you are looking for and, as
12 I say, in spite of your answer, I just kind of wanted
13 to put that on the record. That's one of the major
14 interests to those of us who come from some of the
15 more rural areas. We certainly respect the health of
16 the airline in the Pittsburgh market area and that it
17 has a major impact on us. So, we want this to be
18 healthy in terms of the overall impact of the
19 particular merger. But the long term service in the
20 rural areas is very important to us. I just kind of
21 wanted to put that on the record. Thank you, Mr.
22 Chairman.

23 AVIATION CHAIRMAN FAIRCHILD: Thank you. The
24 next testifiers will be Lawrence Nagin, Executive
25 Vice President and General Counsel for US Airways and

1 Dan Walsh, Vice President for North America East
2 Region for United Airlines. While they are getting
3 ready to testify, I would like to mention that if you
4 would like your parking charge validated, see Lu-
5 cinda in the back of the room. Just stand up a second,
6 Lucinda. I think that's a courtesy because of the
7 construction they are doing that maybe lets you park
8 out in Cleveland, as someone described. Gentleman,
9 when you are ready.

10 MR. NAGIN: Mr. Chairman, if I had known you
11 were going to validate parking, I would have driven
12 from Washington rather than flown today but we are
13 delighted to be here. Thank you, Mr. Chairman and
14 Chairman Geist for holding these very important
15 hearings and it's clear, your attentiveness and that
16 of your entire subcommittee and committee. I think
17 the testimony that we have heard thus far from Attorney
18 General Fisher and from Secretary Voras underscores
19 the interest and focus on a very professional level by
20 two very important officials of the Commonwealth of
21 Pennsylvania. Their testimony was extremely accurate
22 and very fair and having attended so many of these
23 hearings on this transaction in various jurisdictions,
24 it's very important to hear that type of focus and
25 intention and you have the appreciation of the entire

1 US Airways family.

2 Mr. Chairman, US Airways has a long history.
3 Representative Petrone asked about the history of
4 US Airways. Indeed, we are an amalgam of several local
5 small companies from Allegheny to Mohawk to Empire
6 to Piedmont which was purchased by US Air, Allegheny,
7 which then changed the name of US Air-Lake Central
8 and there are probably ten others that I haven't
9 mentioned. So, we are an amalgam of all of these
10 small carriers. We are the last of a breed, if you
11 will, Mr. Chairman, of pre-deregulation carriers. We
12 came into being before deregulation was enacted in
13 1980 and of that group of pre-deregulation carriers,
14 they sort of sort out into two major groups, if you
15 will: The mega carriers, American, Delta, United,
16 Northwest; and then sort of the nimble new entrants,
17 the Southwest of the world, the Air Trans, the Jet
18 Streams and then there is a group in the middle where
19 US Airways finds themselves. We're neither mega
20 carrier nor a nimble new entrant. In that group in
21 the middle were the likes of Braniff, Pan Am and
22 Eastern, all of whom have gone out of business. And
23 then there are two other carriers, TWA and Continental,
24 who have gone through bankruptcy court protection
25 not one time but two times and then there is US

1 Airways. We are sort of the last of this group that
2 does not have a huge broad network over which to
3 expend our costs and as Secretary Voras so correctly
4 stated, we are basically a local service carrier
5 wearing the clothes of a big carrier. We have high
6 costs, highly unionized, which we must support. It's
7 no one's fault. We are a creation of what was going
8 on in our industry before deregulation. In those
9 days the Civil Aeronautics Board ruled the roost.
10 So, if your costs went up by new labor contracts, you
11 marched down to Washington to the CAB, demonstrated,
12 and they rubber stamped your request and your fares
13 were raised. This is how we kept the pace in the
14 industry. No one's fault. It's what it was. No one
15 was good; no one was bad. So, we are saddled with
16 the cost structure of those regulated days in a de-
17 regulated atmosphere that calls for great nimbleness.
18 I was fortunate enough in 1960 to come into this
19 company. When we came in, there were very tough days
20 for US Air and all of you know far too well the sadness
21 of what happened here in the Commonwealth of
22 Pennsylvania and this community and the Commonwealth
23 was extremely loyal to the company and to our 17,000
24 employees who are citizens of the Commonwealth and the
25 one thing that really struck us was a sense of community

1 here in Pennsylvania as a result of that and we
2 respect and appreciate that loyalty and, I think, over
3 the years US Airways has responded. We have expanded
4 greatly, ordered new aircraft. Pittsburgh has three
5 international flights a day to Europe by US Airways.
6 That's unprecedented. Philadelphia is a major inter-
7 national gateway for US Airways and indeed service
8 was maintained and proved to all of the communities
9 we serve in Pennsylvania. But the fact of the matter
10 is US Airways is being squeezed by the mega carriers
11 and we had to expand and indeed it's that expansion
12 concept that led to the merger.

13 The genesis, if you will, was last fall when
14 Steve Wolfe, our Chairman, met with Jim Goodwin, the
15 Chairman and CEO of United Airlines and that discussion
16 was, they were talking about US Airways joining Star
17 Alliance, which is a very very successful worldwide
18 alliance. Jim Goodwin said to Steve Wolfe, we are
19 really interested in getting US Airways but really,
20 Steve, we want to think about buying your company and
21 we'll get back to you. That was an eye opener and
22 the Christmas holidays came and the millennium came and
23 lo and behold late February, or March, Goodwin called
24 Steve and negotiations started to occur and an announce-
25 ment was made in May.

1 Now, our Board of Directors had three very
2 important considerations in mind when they entered
3 into this transaction and those are the three con-
4 stituencies of US Airways. No. 1, our employees.
5 We have 40,000 employees, some 17,000 here in the
6 Commonwealth. Would this be a slash or would this be
7 a merger of growth and opportunity. That was address-
8 ed by United by saying not only are we contractually
9 obligated to a two-year job guarantee for everybody
10 but on the date of the announcement, Jim Goodwin
11 went beyond that and said that it's a permanent
12 promise of a job because we are going to have growth.
13 We are going to have expansion. We are looking at
14 the seniority, ages of the various employee groups.
15 We need these folks. We are going to have significant-
16 ly more airplanes. We have to fly them. We have the
17 airports. So, we are providing a job permanently.

18 Second, the consideration was what about our
19 shareholders and a very very fair price was reached
20 with respect to \$60 a share.

21 The third issue was the communities we serve,
22 an issue of great importance in Pennsylvania as the
23 testimony of General Fisher and Secretary Voras
24 indicated. With regard to that, Jim Goodwin said
25 that we are going to guarantee service. With regard

1 to the questions that Representative Smith raised,
2 Jim Goodwin has promised that service will stay and
3 he was a very able representative of United who can
4 address that.

5 Importantly, when Steve Wolfe joined the
6 company, I had the pleasure of being with him when
7 the Governor paid a visit in Washington. The Governor
8 said, Steve, you know, I know you are going to do
9 great things but we need international development
10 and in particular he talked about Pittsburgh. We need
11 a route to Asia from Pittsburgh and Steve, who had
12 met the Governor, said, Governor, really very
13 respectfully, we have a lot of work to do and that's
14 a stretch. We don't have an airplane to get there.
15 He went through all the proper things and sort of
16 politely told the Governor but really telling him,
17 we don't have the breadth and the scope. Well, this
18 transaction brings Asia to the doorstep of not only
19 Pittsburgh but all of the communities we serve in the
20 Commonwealth and I want to underscore that service
21 level of what US Air is providing and what United has
22 agreed to maintain service to these communities.
23 Not to be nice to Representative Smith and your
24 constituents, as wonderful as they are, but it works
25 for the airlines. It is not a charitable institution.

1 It works for the airline and provides an essential
2 product.

3 Let's go down the cities that we serve here
4 in the Commonwealth: Allentown-Bethlehem, Altoona,
5 Chairman Geist, Altoona, Wilkes Barre-Scranton,
6 Bradford, DuBois, and I hope I'm pronouncing that
7 correctly, Erie, Franklin-Oil City, Williamsport,
8 Johnstown, Lancaster, Harrisburg, York, Philadelphia,
9 Pittsburgh, Reading and State College. I appreciated
10 Secretary Voras' statement that states cannot believe
11 the service that the Commonwealth has but that's not
12 because the people are gouged on high fares. People
13 are flying because the service is there and the
14 provision is they can go to either hub on either end
15 of the state and go to an array of cities they would
16 not otherwise have with a single carrier ability to
17 do. So, folks in DuBois can go to Pittsburgh or
18 Philadelphia and they can go anywhere on the US Airways
19 system.

20 Now, with United Airlines, they are going to
21 be able to go anywhere in the world. United is the
22 largest carrier in the world with service to all of
23 the continents. It is a terrific opportunity for
24 economic expansion but at the same time we recognize
25 that the business person who wants to go from

1 Harrisburg to Pittsburgh does not want to feel that
2 they are gouged and indeed for people who are able to
3 plan with an advanced purchase, 21-day or 14-day
4 advanced purchase, there are prices that are very very
5 competitive. On the same token the person who decides
6 the day before they want to travel that they want to
7 get on a plane and go to Pittsburgh or Philadelphia
8 for a business meeting, indeed it is more expensive.
9 No one is saying it's a bargain. But that's the price
10 a business person has to pay and it's a price that a
11 business has to allocate for leaving that seat vacant
12 and perhaps never sold for a last minute traveler and,
13 yes, it's important, the advanced purchase of a flight
14 to Paris but that is the nature of the beast.

15 On the other hand, the vast majority of
16 people who are flying, let's say from Harrisburg to
17 Pittsburgh, are going beyond Pittsburgh to some 500
18 other destinations on 500 other flights on the US
19 Airways system. Not all of them are in the local
20 traffic. It's a complex process but certainly we at
21 US Airways are sensitive with regard to the pricing.
22 And we have the commitment of Jim Goodwin and United
23 Airlines.

24 General Fisher talked about the spinoff of
25 the new airline out of Washington and what impact that

1 would have on Pennsylvania. The positive is that
2 DC Air would be a newly created airline out of
3 Washington, D.C. will serve two cities in
4 Pennsylvania. It will serve both Pittsburgh and
5 Philadelphia. So, you will have a choice of not
6 only United but also DC Air, which is a separate
7 independent airline run by Bob Johnson, a very very
8 successful business person. He is Chairman of that
9 airline and a member of our Board. We are very proud
10 of that fact and we appreciate the opportunity this
11 merger will give to be able to launch Mr. Johnson and
12 DC Air as a competitive force in the industry.

13 All in all, we think that the constituencies
14 that we serve will be well served by this merger. The
15 fact that US Airways is the last midsized carrier,
16 the fact that there are new entrants that provide
17 service, the fact that Pittsburgh Airport, which is a
18 superbly run airport under the leadership of Ken
19 George has the ability to accommodate new entrants
20 there with a surplus of gates which, Chairman Geist,
21 really works for the Airport. They have the growth
22 ability.

23 With respect to Philadelphia, there is a
24 major expansion of ten additional gates being built
25 and a 50-gate commuter or terminal being built, state

1 of the art. The state has provided support for it.
2 That will provide additional expansion in terms of
3 competitive forces. We think all of this bodes
4 extremely well for the Commonwealth. We are very
5 proud of this merger. We are hopeful that in your
6 consideration and deliberations that you will come to
7 a conclusion that this works for you. There are
8 issues here. Certainly, General Fisher has been a
9 superb law enforcement officer, looking at this
10 transaction, and I'm sure he's going to be very
11 active and aggressive in protecting issues as he
12 describes them for the citizens of the Commonwealth
13 and we look forward to seeing a very successful
14 merger and it doesn't come under the list of horrors
15 so that the next time somebody else comes down the
16 pike, it's something for you to consider. We think
17 it works for the reasons I have discussed. I am
18 delighted to respond to your questions or anything
19 else. I enjoyed tremendously working with the
20 Commonwealth and appreciate your interest and concern
21 in holding this important hearing.

22 AVIATION CHAIRMAN FAIRCHILD: We are going to
23 hold our questions until Mr. Walsh testifies, after he
24 testifies.

25 MR. WALSH: Thank you and good morning. I'd

1 like to begin by echoing Mr. Nagin's remarks as to
2 the diligence and the air and spirit of openness that
3 has prevailed at this hearing this morning, certainly
4 by you, Mr. Chairman, and Mr. Subcommittee Chairman.
5 We feel very privileged and honored to be here today
6 and the opportunity to discuss this in such an open
7 atmosphere is greatly enjoyed. I'd also like to
8 thank Attorney General Fisher and Secretary Voras
9 for her remarks. They did frame many of the key
10 issues that are at play during this process.

11 With that, let me formally say good morning
12 to Mr. Chairman and members of the Transportation
13 Committee. My name is Dan Walsh. I ~~serve~~ ~~as~~ the
14 Vice President-North America East Region for United
15 Airlines.

16 On behalf of United Airlines' more than
17 100,000 employees worldwide, I appreciate your in-
18 vitation to discuss our planned acquisition of US
19 Airways. This acquisition will make air travel more
20 convenient for consumers by greatly expanding single-
21 carrier, hassle-free service on thousands of routes.

22 We will literally bring the world to gateways
23 across America, with a world-class set of services:
24 Single check-in, seamless booking, the industry's
25 best airport lounges and a frequent flyer program that

1 offers more options to travel to more places through-
2 out the world.

3 But today, I would like to spend a few
4 moments discussing the particular benefits of the
5 acquisition of the City of Pittsburgh and the
6 Commonwealth of Pennsylvania. We believe the combined
7 airline will deliver economic growth and new travel
8 opportunities to consumers throughout the state.

9 Pennsylvania will play a critical role in
10 United's overall service plan once the acquisition is
11 approved.

12 But you don't have to take my word for it.
13 A letter of support signed by seventeen Pennsylvania
14 congressmen to U.S. Transportation Secretary Rodney
15 Slater and Attorney General Janet Reno states:

16 "United has committed to continue
17 service to every community currently
18 served by either United or US Airways
19 following the merger. Because it is
20 so important for Pennsylvania's small
21 and medium-sized communities to have
22 access to air service, United's promise
23 that no communities will be dropped
24 from the expanded network is critical.

25 I appreciate those kind words from

1 the Pennsylvania Congressional Delegation. Let me
2 take a moment to expand upon them and the commitments
3 United has made to Pennsylvania:

4 We will maintain hubs at both Pittsburgh
5 and Philadelphia.

6 We will honor a pledge not to furlough any
7 existing United or US Airways employees.

8 We will honor all US Airways' lease commit-
9 ments at Pittsburgh and Philadelphia International
10 Airports.

11 We will expand a major maintenance facility
12 in Pittsburgh, where US Airways already employs
13 nearly 5,000 maintenance employees.

14 We will renovate and upgrade four existing
15 Pittsburgh hangers.

16 And we will retain the US Airways' reservation
17 facility in Pittsburgh.

18 In short, the Commonwealth of Pennsylvania
19 will be a big winner from the acquisition.

20 In addition, competition will be enhanced
21 as Mr. Nagin referred to a few moments ago. This,
22 of course, is by the creation of a new airline, DC Air,
23 that will offer service from the nation's capital
24 through Reagan National Airport to many cities around
25 the northeast, including Philadelphia and Pittsburgh.

1 In summary, this transaction will result
2 in improved inner service for Pennsylvania. It will
3 ensure that both Pittsburgh and Philadelphia remain
4 and grow as important passenger hubs. It will ensure
5 thousands of jobs. It will ensure business access
6 to the kind of high quality airline service that is
7 essential to compete in today's global economy.
8 It will provide seamless, convenient travel to
9 Pennsylvania residents, offering the convenience of
10 flying on one airline, whether across the country or
11 around the world; and it will ensure healthy com-
12 petition in the skies.

13 When United began service from this city
14 almost a half of century ago, in 1956, we ran an ad
15 introducing ourselves to the community. We said then,
16 and I quote, "We recognize the privilege of serving
17 the Greater Pittsburgh area carries with it the
18 responsibility not only of providing good air service,
19 but of being good corporate citizens of the community.
20 We intend to demonstrate our appreciation by ful-
21 filling both of these responsibilities to the best
22 of our ability."

23 I reaffirm that pledge today, and I firmly
24 believe that the combination of United and US Airways
25 will be good for Pittsburgh and good for the citizens

1 of Pennsylvania.

2 Again, thank you for inviting me to be
3 here today to discuss how this acquisition will
4 benefit Pennsylvania. I'll be happy to discuss any
5 items on your mind or answer any questions the
6 Committee may have.

7 AVIATION CHAIRMAN FAIRCHILD: Thank you very
8 much. Chairman Geist?

9 CHAIRMAN GEIST: Thank you, gentlemen, very
10 much. We in Pennsylvania got much of the same together-
11 ness, cheerleading, spin, promises and statements from
12 Norfolk-Southern when they took over Conrail. They
13 were going to have so much more efficiency. They were
14 going to create so many more jobs. They were going to
15 take a million trucks off the road and yet we, as
16 state representatives, have complaints from manufactur-
17 ers, shippers and others and just recently DuPont
18 finally took Norfolk-Southern to court because of their
19 losses. Why is it that these mega mergers, whether
20 it's Union Pacific or whether it's Norfolk-Southern,
21 why is it that they have so much trouble fulfilling all
22 of the spin they put out beforehand? Now, we were
23 danced and danced big time, by Norfolk-Southern and
24 when you sit here and say you have all of these
25 congressmen doing back flips, that makes me think this

1 is the same deal we got with Norfolk-Southern,
2 everything but the band playing. What's different?

3 MR. WALSH: Well, I can't -- I truthfully,
4 Mr. Chairman, I cannot respond on behalf of any other
5 company's attempted merger or promises previously made
6 to the Commonwealth. I'm not capable of responding
7 to that, whether they were rock solid or whether they
8 fulfilled, I cannot speak to that. I can speak to
9 United's track record. United has, in fact, digested
10 a number of acquisitions along the way to our current
11 size, the world's largest airline. Today we operate
12 in that world of operations that do span the globe. We
13 got there by acquiring very large components of other
14 carriers. Whether or not that satisfies the definition
15 of a mega merger, I'm not certain, but I can say to
16 you that we are talking about thousands of employees,
17 people, and hundreds of airplanes that we have integrat-
18 ed in the United Airlines fleet. We have done so
19 successfully. We have honored all of our commitments
20 in doing so. We have not done this once but three
21 times.

22 MR. NAGIN: Mr. Chairman, if I might try to
23 respond. I had the privilege along with Steve Wolfe
24 to be employed at United Airlines for a number of
25 years. Jim Goodwin and his fine staff are genuine

1 people. They are the genuine article. When Jim
2 Goodwin says something and his folks say something,
3 it's something you can say, and I'm not comparing
4 the Commonwealth to any other state, but it's a little
5 bit like a Hoosier handshake; take it to the bank,
6 No. 1. No. 2, this merger is not about spin and spiff
7 and sandpipes. It's not about efficiency. It's not
8 about reducing cost. It's an end to end merger. What
9 it is is the name will be changed on the outside of
10 the aircraft. It becomes United Airlines but the
11 most important part of it is you are going to be
12 having the benefits of the United Airlines system
13 attached to US Airways system. So, when Governor
14 Ridge talks about he wants service and how important
15 it is to southwestern Pennsylvania, we understand that.
16 You are going to get that. When United announced,
17 they talked about the accessibility of Asia to
18 Pittsburgh. It's unheralded. It wouldn't have
19 happened without this merger. That means to all of
20 the communities that I listed, they get the same
21 benefits. This is not about how many freight cars one
22 can retire. This is not on how many jobs can be
23 eliminated. This is not about how many back office
24 jobs can be cut and burned and taken out. This is not
25 about shipping jobs offshore. All of the good folks

1 are going to have jobs and they are going to have
2 jobs with a thriving company. Now, compare and
3 contrast that with the company that I described, and
4 we are very proud of US Airways. We are very proud of
5 the support we have here but we had to ask ourselves
6 where are we going to be in the future and thus you
7 have to ask yourself where you are going to be in the
8 future. I don't think Bud Shuster is a pushover about
9 the issues of selling and spiff and soundbytes on other
10 mergers. I think he knows very well what happened and
11 didn't happen on those mergers. I can't say what
12 happened or didn't happen. If anything, the approach
13 that has been taken in the Commonwealth with respect
14 to this merger is absolutely bipartisan. It isn't a
15 pro business elected representatives or it isn't pro
16 labor representatives. It's a very bipartisan approach
17 that looked at this, that spent a lot of time on it.
18 That's why a hearing like this is important. At the
19 end of the day, you shouldn't take my word or you
20 shouldn't take United's word or Jim Goodwin's word.
21 It will have to be measured not by what we say but
22 what we have done. No one is going to try to sell
23 you anything. That's where General Fisher comes into
24 play and the United States Department of Justice and
25 how the written commitment to the Governor from

1 Jim Goodwin comes into play and the ability that you
2 all have to press the flesh and look everyone in the
3 eye and get a feel for the players, the more comfortable
4 you should get. At the end, it's your decision and
5 your view. We are hopeful you will agree with us
6 that it works. At the end of the day you will have
7 to testify what happens, not by what I say here and
8 United says.

9 AVIATION CHAIRMAN FAIRCHILD: Thank you.
10 Mr. Walsh, you testified to the fact that Eastern,
11 Pan American, Braniff, those other airlines are no
12 longer in existence and I think we don't have to go
13 into detail on what happened to them. My question to
14 you is can US Air survive without this merger?

15 MR. NAGIN: We are not a failing company as
16 defined under the case law or the department.

17 AVIATION CHAIRMAN FAIRCHILD: I realize that.

18 MR. NAGIN: We are not. So, we're not in
19 the question of are we going to go to the bankruptcy
20 court but one has to ask themselves, what happened to
21 other companies in a similar position.

22 AVIATION CHAIRMAN FAIRCHILD: That's why I
23 did.

24 MR. NAGIN: We can't tell you. I don't think
25 anyone can say with any certainty that the market or

1 the economy is going to be where it is today five years
2 from now. I have no way of knowing that. I think
3 logic says boats rise and boats don't rise. They fall
4 and you have to be strong. You have to be competitive.
5 You have to have a broad network and product lines
6 that support you when others are not doing well. We
7 are the largest carrier in the eastern third of the
8 United States. Yes, we do compete with United to
9 Chicago and with other carriers that fly into
10 Pittsburgh but United only has approximately two
11 percent of the intra east coast service. We are in
12 the high 30's someplace in terms of that total thing.
13 We can protect ourselves with a broad based network
14 and that has to impact something when the negative
15 times come and the question is how strong we are at
16 that time, what our cost structure is like, how we
17 support ourselves, how the network supports itself,
18 but are we ready for bankruptcy, absolutely not. The
19 issue is why would we not do this out of a position of a
20 somewhat relative strength or relative lack of
21 strength today as opposed to when it's too late and I
22 understand, Mr. Chairman, your view with respect to
23 that and we don't have to retread what happened in
24 Eastern or Pan Am or Braniff but my recollection is,
25 and I was in the industry at that time. Everyone was

1 wringing their hands. Well, it's too late; why didn't
2 we know; why didn't we do this; why didn't we do that.
3 Hopefully, everyone will have all of those experiences
4 in mind and certainly US Airways has those experiences
5 in mind as we approach United Airlines.

6 AVIATION CHAIRMAN FAIRCHILD: Thank you. To
7 sum up, you're doing this mainly because you have
8 taken a look at the long range picture, where you
9 started at, and the bottom line is there are going to
10 have to be some drastic moves taken and this is your
11 direction. Fine.

12 The other question I have is, and I under-
13 stand it, and this would be directed to Mr. Walsh, your
14 Chicago hub is probably very busy. I understand there
15 are a lot of delays that might happen out of there.
16 With Pittsburgh having under used capacity, if this
17 merger goes forward, is there a good chance that some
18 of those flights and that capacity would be directed
19 either through Pittsburgh or Philadelphia?

20 MR. WALSH: Yes. Thank you for that
21 question. It's absolutely true that Chicago O'Hare
22 is a very dense operation today. In fact, it has
23 operated for many years with a slot control operation
24 which limits the frequency of departures and arrivals.
25 Further, it is, from time to time, affected by ATC

1 congestion in the center part of the U.S., as well as
2 by weather. We would clearly see Pittsburgh because of
3 its geographical location, a bit west of the coastline,
4 as an opportunity to, in fact, carry some of the
5 capacity which would be today carried over Chicago.
6 This is a tremendous opportunity. In fact, I would
7 characterize it in the context that it gives us
8 flexibility. It gives us alternatives, something we
9 don't have today, something we are very locked into
10 in the Chicago operation and we have supported the
11 Chicago growth of O'Hare and we have supported O'Hare
12 as a good citizen and we will continue to do so.
13 However, also as our good citizenship, there is an
14 opportunity for us to maintain service to citizens
15 of the U.S. without increasing density over Chicago
16 skies, which this provides us that opportunity.

17 I would also say that we have announced even
18 at the outset of the merger announcement some increases
19 in flying. This is pretty much the west coast. It's
20 to San Jose, Portland. Already, we are thinking
21 opportunities in the context of expansion and growth
22 using Pittsburgh as the vehicle.

23 AVIATION CHAIRMAN FAIRCHILD: Thank you. I'm
24 glad to hear that answer. I think just as you talk
25 about the future in planning, that that bodes well for

1 Pennsylvania because of perhaps our long range
2 planning of the capacity to help those who need the
3 space. Certainly, some of our airports, as you know,
4 has become problem areas.

5 MR. WALSH: Representative Fairchild, if I
6 might just add one comment. There is also, as we
7 look at the other hubs in this process as well,
8 Philadelphia stands as an equally enriched opportunity
9 for us to increase service over it and we have also
10 announced increases in service over there. Clearly,
11 its location closer to the coast provides for a
12 north-south access but even our increases there have
13 gone on an east-west basis as well. So, there is
14 tremendous good news here for the state as well as
15 for the two hubs or the two cities involved.

16 AVIATION CHAIRMAN FAIRCHILD: Just a quick
17 yes or no. The maintenance facility for the air bus
18 at Philadelphia and Pittsburgh, they are going to be
19 maintained?

20 MR. WALSH: What we have committed to is to
21 renovate four hangers and to build an additional new
22 hanger. It's an investment of \$160 million.

23 MR. NAGIN: One added thing there, for
24 Philadelphia, we are in the midst of building a wide
25 body hanger in Philadelphia, a new wide body A330,

1 and that is going to be in Philadelphia. The
2 construction is well underway there to compliment the
3 international expansion that is going on.

4 AVIATION CHAIRMAN FAIRCHILD: Representative
5 Petrone?

6 REPRESENTATIVE PETRONE: Mr. Nagin, I
7 appreciate your candor and commitment to Pittsburgh
8 and Allegheny County and our region and our state.
9 I'm just curious about your views on this, what we
10 are pursuing. Certainly, you must be aware that we
11 are trying to advance a new prototype of travel called
12 Maglev. We are talking about the connecting routes
13 of all of these hub airlines and moving people through
14 the state and eastern region quickly. How do you view
15 us trying to attract this, to build it in Pittsburgh,
16 and talk about things like going from Pittsburgh to
17 Erie in a half hour; Pittsburgh to Philadelphia in an
18 hour and a half? What effect is it going to have on
19 you? Certainly, you must be considering these
20 eventualities?

21 MR. NAGIN: I think it has a positive effect,
22 Representative Petrone. In fact, we had the opportuni-
23 ty when we operated our service from London to
24 Pittsburgh that Secretary Slater participated in the
25 ribbon cutting and Secretary Slater made specific

1 reference, and Representative Pippy was there. He
2 made specific reference to Maglev and the importance
3 of that to this community. In the end of the end,
4 any transportation infrastructure benefits the others.
5 So, if Maglev was there transporting people efficiently
6 and effectively and economically, there is a S curve
7 growth but there is a growth factor that affects all
8 of the sectors, transportation, and you find in Europe
9 where inter-city transportation is extremely effective
10 on the continent, rail, especially now in light of the
11 fuel crisis going on there. So, you have all of the
12 wonderful inter-city trains going on there and at the
13 same time, aviation has prospered. I think they work
14 well together. Chairman Geist made reference with
15 respect to what is going on in the -- subcommittee
16 Chair Fairchild, in Pittsburgh, and how many people
17 come from Pittsburgh to the airport and how many are
18 thru put with respect to Secretary Voras. Well, if
19 you have an efficient way to get from city center to
20 the airport, it works and I know you have people from
21 the business alliance here. You ask any future
22 business seeking to locate anywhere and the first
23 thing they are going to ask about is the transportation.
24 You have an airport -- they want a hub. They want to
25 have good surface transportation. These things are

1 terrific. We are very supportive and I think if we
2 had an opportunity as a company to participate in
3 Maglev discussions, we would. I think those things
4 work.

5 REPRESENTATIVE PETRONE: Thank you. I believe
6 that and we just opened a new busway which will
7 hopefully improve the effectiveness of travel to the
8 airport. Thank you very much.

9 AVIATION CHAIRMAN FAIRCHILD: Representative
10 Pippy?

11 REPRESENTATIVE PIPPY: Thank you, Mr.
12 Chairman. Mr. Walsh. The question I have is similar
13 to what Secretary Voras mentioned earlier and that is
14 the training aspect. I happened -- just by chance I
15 was in Denver. I happened to be in Denver when the
16 announcement was made and was watching it; heard about
17 how wonderful the training facility you have in Denver
18 is for pilots. Obviously, US Airways has a facility
19 here in Pittsburgh. Given the growth, will that also
20 include training? Can we expect to keep similar levels
21 of training or how do you see the training? We haven't
22 heard much about that and I will say I do appreciate
23 your commitment with the maintenance but this is a
24 question those out there would like to have more
25 information on it.

1 MR. WALSH: Yes, I understand. Thank you,
2 Representative Pippy. The capacity that we will need
3 to do training will increase. We will have a greater
4 demand to have greater capacity. You are absolutely
5 correct, that the facility in Denver is world class.
6 It's without question seen as one of the finest
7 facilities of its kind anywhere in the world. We will
8 have 400 more airplanes. We will have 40,000 more
9 employees in the company. We will have the requisite
10 number of pilots in the company that come with that
11 population. The demand for training will be great
12 and to have it all concentrated in one place is
13 probably, probably, not the conclusion we would want.
14 At this juncture, we can't say how much capacity we
15 will need. The facility we know exists here is a
16 fine one and we are quite interested in examining
17 that and understanding its potential role in our
18 overall needs. At this juncture we cannot say exactly
19 the outcome of that. However, it is a part of the
20 transition plan which is already examining actions of
21 this kind and others. The most important thing, I
22 think, to say is put it in a context of our needs post-
23 merger. Our needs will be to have more training
24 capacity than what already exists here, which is a
25 very fine facility. We are looking at it very closely.

1 REPRESENTATIVE PIPPY: What you are telling
2 me is we're still looking at it and at some point will
3 there be, will we know before the merger where you
4 are?

5 MR. WALSH: I'm not certain that you will, to
6 be perfectly frank. I'm not certain we will be able
7 to judge that answer between now and the closure of
8 the merger.

9 REPRESENTATIVE PIPPY: Okay. The second
10 question that relates to that, you said you will honor
11 all US Air lease commitments at Pittsburgh and
12 Philadelphia. Will that also include the training
13 facility we have in Moon Township right beside the
14 airport? You do have leases or US Airways has a
15 lease with buildings, and the reason I bring that up,
16 it's a local issue but it's an issue that literally
17 affects this community and literally over a half a
18 million dollars in leases alone and compounded with
19 a multiplier factor of people coming in. That's why
20 we have that interest.

21 MR. WALSH: I cannot speak specifically to
22 that lease. The specific and known commitments have
23 to do with the airport leases that exist at the two
24 hubs. It's entirely possible that we will need those,
25 that property, whether it's in its current use form or

1 not but at this present time I can't say whether that
2 specific property will be needed.

3 REPRESENTATIVE PIPPY: I do appreciate your
4 frankness.

5 MR. NAGIN: United has said publicly before
6 that they would honor all leases and all contractual
7 obligations. So, there is no intent to walk away from
8 contractual obligations, financial obligations. So,
9 all of those go from US Airways to United under the
10 terms of the merger.

11 REPRESENTATIVE PIPPY: Thank you, gentlemen.

12 AVIATION CHAIRMAN FAIRCHILD: Could you follow-
13 up perhaps with the specifics? I know you are not
14 aware of them now but could you perhaps follow-up with
15 Representative Pippy on the specifics? Representative
16 Maher?

17 REPRESENTATIVE MAHER: Thank you, Mr.
18 Chairman. I'm very pleased to hear and have reiterated
19 a variety of commitments that Jim Goodwin has made, but
20 if there is any CEO in the nation, we know that CEO's
21 come and go and their cast of key players come and go
22 with them. I would be happy to take the gentleman's
23 word on that. On the other hand, by nature, I'm a
24 CPA and that's the old trust to verify approach. I
25 would like to understand if United is prepared to cast
in concrete these commitments such as voluntarily

1 entering into a consent decree, whether or not one
2 might be necessary under the circumstances, so there
3 is some mechanism to ensure that the commitments made
4 by one gentleman and a variety of his representatives
5 in a variety of forms in a variety of phrases can be
6 cast in a doable form that is enforceable?

7 MR. WALSH: Thank you, Mr. Chairman. I
8 understand the question. I'd like to begin at a
9 different place. The very first place to begin --
10 you're right, CEO's do come and go. I'd like Mr.
11 Nagin to comment but while CEO's come and go, the
12 company survives during that and even endures during
13 that period and the company becomes known for its
14 reputation and for its standing and its honor. I sit
15 here before the committee today and I can represent
16 to you that United Airlines has for time immemorial
17 has operated in the most honorable and forthright
18 manner regardless who has been at the helm of our
19 company. That's the way we do business. It's on the
20 high road. We do business only that way.

21 Now, to your specific questions, we have a
22 number of things already in writing as to the things
23 I have testified to today. The Department of Justice
24 today is in the process, as we heard this morning from
25 Attorney General Fisher, and that process along with

1 the work that the state's Attorney Generals are
2 doing in cooperation and independent of that which
3 the Department of Justice is doing and it's entirely
4 possible that from that effort will come a requirement
5 to put into writing certain requirements. Until we
6 know the answer to that question, it's not possible
7 for me to answer whether we would put it into a
8 different doable form.

9 REPRESENTATIVE MAHER: I'm sorry, my question
10 is not whether you might be required to do it but
11 whether United would volunteer to put these commit-
12 ments into a doable enforcement form?

13 MR. WALSH: I don't think we would volunteer
14 as yet because we have as yet to work through the
15 Department of Justice and with the states and until
16 that process is completed, we have not discussed a
17 voluntary request.

18 REPRESENTATIVE MAHER: If I might follow-up,
19 these sorts of commitments doesn't sound much like a
20 commitment absent a willingness to commit them to a
21 form that is enforceable. Thank you, Mr. Chairman.

22 AVIATION CHAIRMAN FAIRCHILD: Thank you.
23 Representative Laughlin?

24 REPRESENTATIVE LAUGHLIN: Yes. Mr. Nagin,
25 you had said that if this merger does not go through,

1 US Airways will not go into bankruptcy and the reason
2 you want to do this is to be the best airline possible
3 and I understand that but, Mr. Walsh, I want to ask you
4 the same question. If this merger doesn't go through,
5 is there a chance that United may go into bankruptcy
6 or maybe even merge with another airline?

7 MR. NAGIN: Well, with respect to US Airways,
8 Representative Laughlin, no, we're not on the steps of
9 bankruptcy and we are not ready to shut our doors or
10 anything like that but one must ask one's self if the
11 merger doesn't go through, where does US Airways go
12 and what does it mean to the communities and our
13 employees and the important benefits that we do bring
14 to the traveling public and if you look at the past as
15 being a prologue, one has to consider that we're the
16 last of these carriers who have not gone through
17 bankruptcy or not gone out of business or downsized or
18 disappeared from our lexicon that people fly on. I'm
19 not saying that. We are in a relative position of
20 strength where we want to do something proactive
21 that works and because this works for the communities
22 we serve and all of the communities I listed in the
23 Commonwealth and our employees, our shareholders, we
24 think it's in everyone's best interest. United,
25 they're not going out of business. If this field is

1 precluded, so too would be precluded the public
2 benefits they would bring as a result of this merger
3 to communities such as the communities here in the
4 Commonwealth. They are going to bring the world to
5 the Commonwealth and vice versa and provide the level
6 of service that we have been providing as US Airways
7 within the Commonwealth and no other merger can
8 achieve that result. No other merger can achieve
9 these public benefits. That's why we think it works.
10 Representative Maher, I think you asked about if we
11 might be reducing things to writing. As a lawyer,
12 the last thing I would want to do is craft something
13 that would be here from here to whenever until they
14 figure out the words. That's the tricky part. I'm not
15 saying get it in writing. Maybe at the end of the day
16 that is what happens, but we believe the most impor-
17 tant issue is moralsuasion and moralsuasion occurs
18 in hearings like this and publicity about these things
19 and reducing these things to writing, reducing these
20 matters to writing if that is indeed at the end of the
21 day what the Commonwealth is concerned about, those
22 are issues that have to be dealt with. No one is
23 refusing to sign it because they are afraid to draft
24 it or anything like that. I think United wants to see
25 what the totality is and then they will address it. I

1 think that is the testimony. No one is shying away
2 from a commitment at the end of the day if you feel you
3 need a commitment in writing. Certainly, Jim Goodwin
4 has given several commitments in writing to the
5 Governor and to the County Executive here and they are
6 on record contracturally with many of those things
7 and the transaction with regard to job guarantees,
8 they are very public documents filed with the
9 Securities and Exchange Commission. So, no one is
10 looking to waffle or run away from any of these issues
11 at all.

12 AVIATION CHAIRMAN FAIRCHILD: Representative
13 Strittmatter?

14 REPRESENTATIVE STRITTMATTER: Thank you, Mr.
15 Nagin. Thank you, Mr. Walsh. I want to thank both
16 of you for helping the Commonwealth. I'll let you
17 finish.

18 MR. WALSH: Representative Laughlin, would
19 you like me to comment on United's behalf?

20 REPRESENTATIVE LAUGHLIN: Yes.

21 MR. WALSH: Whether the transaction that is
22 before us today, the acquisition of US Airways by
23 United occurs or not, United's financial health is very
24 sound. We will be sound even after the transaction and
25 I may take just a moment to comment on our ownership

1 structure which is rather unique. We are more than
2 50 percent owned by our employees and I might add that
3 the majority of those owners, fifty-three and a half
4 or so percent of our company, are unionized employees
5 and this gets to many of the questions you have asked
6 today about the decisions rendered, about employment,
7 the decisions rendered, the forthrightness about
8 honoring commitments. Our employees have representat-
9 ion on the board, more than one, at the leadership
10 level of the IAM and of the ALPA and they are, in
11 fact, owners of our company. I think this reflects
12 that our interests and our commitments we take very
13 seriously. Furthermore, from a pure financial balance
14 sheet, we are very very strong. So, regardless of
15 whether or not we acquire US Airways, United Airlines
16 is a very strong carrier and it has achieved that
17 through the building of a network over many years. In
18 fact, when Mr. Nagin and Mr. Wolfe were at United,
19 United saw some of its very greatest years of expan-
20 sion during times when we grew our network to the
21 size it is today.

22 REPRESENTATIVE LAUGHLIN: I guess I just want
23 to ask you one other question. If this merger does
24 go through, I understand we have what, 65 percent
25 capacity here. Will it become 100 percent then?

1 MR. WALSH: My goodness, now that is a
2 question I'm not probably capable of answering off
3 the cuff. I'll say this. At the heart of this
4 transaction is growth. Mr. Nagin referred to it
5 before. What is not at the heart of this transaction
6 is cost cutting. What is at the heart of this
7 transaction is opportunity and growth. Already you
8 see some of that on the record for Pittsburgh and
9 for the Commonwealth in general and Philadelphia as
10 well. So, I think we would be pushing closer to the
11 number you'd like, perhaps not at the speed you would
12 like.

13 REPRESENTATIVE LAUGHLIN: I hope we have
14 enough parking spaces for that.

15 MR. WALSH: I would decline to comment on
16 that.

17 AVIATION CHAIRMAN FAIRCHILD: Thank you very
18 much. I'm sorry.

19 REPRESENTATIVE STRITTMATTER: I deferred. I
20 never got to speak.

21 AVIATION CHAIRMAN FAIRCHILD: You may
22 proceed.

23 REPRESENTATIVE STRITTMATTER: I'd like to
24 thank both of you, Mr. Nagin and Mr. Walsh, for
25 helping the Commonwealth. I believe your testimony

1 today has been forthright. In the interest of time,
2 I'm from Lancaster County. That is one of the economic
3 drivers that can fill your 65 percent. No parking
4 spots needed if you can fly us from Lancaster to
5 Pittsburgh and get your capacity up. We have a pent-
6 up demand. So, I would like to offer the invitation,
7 if I may, to meet with you with our airport in
8 Lancaster as well as our sister airport in Harrisburg,
9 Allentown and Reading. That's where you will get a
10 great deal of growth and we would like to help grow
11 you and also have our counties prosper at the same
12 time. Thank you very much.

13 MR. WALSH: We will follow-up on that
14 invitation.

15 AVIATION CHAIRMAN FAIRCHILD: Thank you,
16 gentlemen. For the information of the members, even
17 though we got started about 15 minutes late, we are
18 now about an hour behind schedule. With that said,
19 the next testifier is Dan Donatella who is Chairman of
20 the Board of the Beaver County Commissioners. Dan,
21 when you are ready, you may begin. Thank you for
22 being here.

23 MR. DONATELLA: Thank you. Good morning
24 Mr. Chairman and members of the committee. I too,
25 like those who testified before me, want to thank this

1 committee for giving us the opportunity to come here
2 to present our thoughts and, in effect, make a state-
3 ment to you to investigate this matter. I certainly
4 want to say hello to our representative, Susan
5 Laughlin, from Beaver County. Beaver County is, of
6 course, very concerned, Mr. Chairman, about the merger
7 because I should tell you that we join Allegheny
8 County and frankly the airport serves as our largest
9 employer. We have over 3500 people from Beaver County
10 that work here for US Airways. Obviously, we are
11 quite concerned. We have all experienced in the
12 valley the devastation of the steel industry in '82.
13 We have all witnessed other mergers and normally when
14 you talk merger, you talk job loss.

15 More than a year and a half ago as a
16 County Commissioner I was summoned to a meeting with
17 the County Commissioners at the time, Cramner, Dunn
18 and Dawida, when US Airways was making a decision
19 about expanding the facility at Pittsburgh Inter-
20 national Airport. Needless to say, we were all very
21 excited about that because we were told that was a
22 \$604 million project that would enhance the training
23 facility, the administration of US Airways and a new
24 maintenance facility to house the air bus. We were
25 told that this was necessary by US Airways to do this

1 because they were going to acquire the air bus fleet
2 and they said Pittsburgh International was completely
3 inadequate. So, the decision by Steven Wolfe and
4 US Airways was, in fact, to invest in the \$604 million
5 dollar project. One of the things that was brought
6 out, however, was that US Airways had not decided that
7 Pittsburgh International was the place where that
8 expansion would take place. Obviously, we were in
9 competition with Charlotte, we were told. Mr. Wolfe
10 indicated that to make the project successful that
11 they would require about \$240 million of public
12 funding. Since Beaver County has 3500 people that
13 work here, obviously we were one of the bigger
14 players at the table because Washington County, I
15 believe, only has about 400 people and Butler and
16 the other counties about 200. We were asked to put
17 in the pot some \$10 million from our County of 186,000
18 people where 1 mill of tax is 1.8 million dollars.
19 That was a significant piece of money but when we all
20 sat around the table pondering how we were going to
21 come up with the \$240 million with the threat of them
22 leaving and going to Charlotte, I can tell you that
23 from the Governor on down, every public official that
24 I talked to earnestly sat down and tried to work out
25 a financial package, even down to taxing, financing

1 with Moon and Findlay Township to make it work. We
2 were all committed to making it work to entice US Air
3 to stay here at Pittsburgh International because there
4 were 12,700 jobs associated with this project. I can
5 say that when we had concluded the tax package, that
6 we felt that we could meet the \$240 million, at that
7 time the commissioners changed hands and Chief Executive
8 Roddey came on board and again, negotiations with them.
9 The merger was announced. Frankly, I was startled
10 because of the fact that in good faith for over a
11 year we were working diligently to come up with a tax
12 package to preserve these much needed jobs in Western
13 Pennsylvania. My first reaction was, I didn't under-
14 stand why that was taking place because there had been
15 no inkling of information to us, the County Commission-
16 ers, that were meeting with all of the people in an
17 attempt to come up with the funding. So, I was quite
18 surprised by that. I could tell you that each year --
19 Representative Pippy asked the question and rightfully
20 so -- about the training facility here because I have
21 done a lot of research in that year and a half. I
22 am a pilot myself. I have been in aviation 38 years.
23 I'm very close to the aviation community and I was
24 Director of our airport for over ten years. So, I do
25 talk to a lot of airline people.

1 It's a big concern about the merger. Frankly,
2 I'm told now we went from a \$604 million dollar
3 project to one now where they will spend \$130 million
4 on an air bus with \$30 million in renovations. We
5 are even competing for that and listening to Chief
6 Executive Roddey, that we were negotiating the best
7 deal we could in order to sustain what jobs we could
8 preserve.

9 You should know that with the merging of
10 the airlines, I know that the Attorney General and
11 the Justice Department in Washington concern themselves
12 primarily with antitrust issues and rightfully so, to
13 protect the consumer. However, on the local level we
14 are concerned about the jobs and the economics.

15 Let me try to put it in perspective very
16 briefly because, Mr. Chairman, I do want to read in a
17 moment or two my statement for the record. I wanted
18 to preface that reading with these remarks so you
19 understand where I'm coming from. With the con-
20 struction of the new maintenance facility, the new
21 maintenance facility which was negotiated, Chairman
22 Roddey said he did get a commitment from them to
23 construct it here because of the fact that there are
24 jobs associated with the maintenance facility. However,
25 if you ask me the question as far as the economics are

1 concerned, there is no question about it, the expansion
2 sion of US Airways for our region would have been the
3 best thing because there would be nobody losing their
4 job, 12,700. We would be undertaking a \$604 million
5 expansion program. I am told the entire airport was a
6 \$700 million project. All those construction jobs and
7 the fact that we would have expanded with them being
8 here, but that being said, we have to deal with
9 reality and apparently the United Airlines as well as
10 US Airways is dedicated to bringing this merger to a
11 conclusion.

12 I'm here today to sound an alarm on an
13 economic basis and what this means not only to Beaver
14 County but to our region. I am confident that when
15 this merger takes place that you should be aware that
16 it is going to mean a loss of jobs. For instance,
17 the training facility out in Denver right now, I can
18 tell you I have talked to many of the hotels in this
19 region. There are over 16,000 people that come to
20 this airport for training on an annual basis. Think
21 about the ripple effect and the domino effect. There
22 are going to be many hotels in the area with empty
23 rooms when the 16,000 leave to go to Denver for
24 training. We'll lose over 200 jobs, over a hundred
25 thousand dollars for dispatchers. That will no doubt

1 go to Chicago. This is my belief. So, we should
2 know that with the merger, in addition to the anti-
3 trust concerns, that it's going to mean a loss of
4 jobs for not only Beaver County but for this region.

5 With that in mind, I would like to read a
6 brief statement into the record officially. I too
7 would be happy to answer any questions.

8 As I stated, Mr. Chairman, I'am Dan
9 Donatella, Chairman of the Beaver County Board of
10 Commissioners. It is indeed an honor and a privilege
11 for me to present testimony on this occasion to the
12 distinguished panel with regard to the proposed
13 acquisition of US Airways by United Airlines.

14 As a commercial, multi-engine rated pilot
15 with many years of association with the airline
16 industry and more than 30 years of service, those
17 appointed and elected to County government, I am not
18 unmindful of its impact on our economy and the
19 importance to our citizens of the good-paying, good-
20 benefitted jobs that the airline industry provides,
21 including US Airways and United.

22 A couple of years ago it was announced about
23 all the changes contemplated in the makeup of US
24 Airways fleet of aircraft, and it became obvious that
25 the maintenance facilities at its Pittsburgh hub would

1 be completely inadequate to meet US Airways' needs.

2 Recognizing that Pittsburgh would be in
3 competition with other major US Airways' hubs for
4 these facilities and the thousands of jobs they
5 provide, Beaver County joined hands with Allegheny
6 and other surrounding counties urging US Airways to
7 construct these new facilities at its Pittsburgh
8 International maintenance space.

9 The Beaver County Board of Commissioners,
10 because of this concern, not only adopted supporting
11 resolutions, but contributed financial support to
12 Allegheny County for the conduct of a feasibility
13 study which would demonstrate how the new maintenance
14 hangars and other reservations and training facilities
15 could be consolidated in a US Airways campus on the
16 Pittsburgh International Airport.

17 We, along with our senators, congressmen,
18 legislators and many other elected public officials
19 and leaders of the business community, banded together
20 to develop a method to provide some \$240 million of
21 public monies towards this project and also urged
22 state participation to help with the funding of this
23 project which was estimated to cost in excess of \$600
24 million and would employ as many as 13,000 people.

25 Some referred to this as corporate welfare.

1 Call it what you wish, it's a fact of life today. Our
2 region is in competition with others throughout the
3 country and this is clearly the price of admission.

4 In the case of US Airways it was a sound
5 investment in job preservation. All the while, the
6 Airline was apparently in negotiation for its sale to
7 United.

8 When the merger was announced, our strategy
9 had to change. It was painfully clear that some of
10 operations targeted for the US Airways campus would
11 go elsewhere. The problem now was to salvage as
12 many jobs as possible and through the good services
13 of Allegheny County Executive, Jim Roddey, and
14 others were able to extract a commitment from United
15 to build a new wide body maintenance hangar at Pitt
16 at a cost of approximately \$130 million, upgrade the
17 existing hangars for an additional \$30 million and
18 with modification, use the engine test cell
19 currently in place.

20 The commitment would keep over 3,000 Beaver
21 County citizens employed at the Airport and many more
22 throughout the region.

23 Consolidation is taking place in almost every
24 industry. The airlines will be no exception and while
25 we would have much preferred to have US Airways and

1 its \$600 million complex in Pittsburgh, we are faced
2 with economic realities of life and must make the
3 best deal we can for our citizens.

4 It has been alleged that the merger will
5 reduce competition and lead to higher fares. As many
6 of you know, air fares between Pittsburgh and other
7 destination cities are some of the highest in the
8 country. It is difficult to believe that this merger
9 could have a further adverse impact on air fares
10 from and to Pittsburgh.

11 There are those that believe this merger
12 will trigger others and, while that may be so, they
13 should be considered on a case by case basis, each on
14 its own merits.

15 Given my preference, I would have hoped that
16 US Airways would remain a viable independent air
17 carrier and that the development once envisioned for
18 Pittsburgh would become a reality. My judgment tells
19 me that it won't happen, that US Airways will not
20 survive as an independent and that if it isn't courted
21 by United, it will be someone else.

22 Although we know this merger, if successful,
23 will undoubtedly cost our region several thousand jobs
24 in the end, it is clear that we must work together to
25 try and save at least a piece of the pie. That's why

1 the Pittsburgh maintenance facility is and remains
2 important to us.

3 I must trust the recommendations of Mr.
4 Roddey and other officials that have been deeply
5 involved with the discussions concerning this issue.
6 Based on the information provided and the commitments
7 made by United to Mr. Roddey and others, I would urge
8 your favorable recommendation of this merger. That
9 being said, Mr. Chairman, we are at a point in time
10 right now where we do believe that if we listen to
11 what we have heard here this morning from both United
12 and US Airways, that if we don't allow them to merge,
13 there could be some problems down the road, I don't
14 think we are in a position to doubt that. I
15 would hope that we could preserve some of these jobs
16 and for that we are grateful about the maintenance
17 facility. So, for the record, I do want to make it be
18 known that there are going to be some job losses.
19 These are high paid jobs. We are going to lose out.
20 With that being on the table, there is not much we can
21 do about what the two airlines want to do. But in the
22 spirit of cooperation and working not only with this
23 committee and Attorney General Fisher and Janet Reno
24 and the Justice Department, our local level is simply
25 the County Commissioners. Our concern really is on

1 job preservation and economics. When they do consider
2 this, the antitrust point of view, they don't concern
3 themselves with the economics of it. So, I do want to
4 thank this committee for taking the opportunity and
5 for allowing me to at least enter something on the
6 record on how we feel from the surrounding county
7 and I would be pleased to answer any questions you
8 may have.

9 AVIATION CHAIRMAN FAIRCHILD: Thank you for
10 your thoughtful testimony. I understand that you
11 are kind of between a rock and a hard spot. You can
12 tell that you put a lot of thought, not only in your
13 personal comments but the testimony. Thank you very
14 much. Are there any questions?

15 REPRESENTATIVE LAUGHLIN: Thank you very much,
16 Dan. I really appreciate your coming here and giving
17 your testimony. I understand we have one-fourth of
18 the employees working here at US Airways and I under-
19 stand your concern about the maintenance facilities
20 and I can see where we are going to be losing a lot of
21 jobs. I hope we might be able to get that answer
22 today by Mr. Nagin or can you comment on his concerns
23 about what he says about the maintenance facility?

24 MR. NAGIN: I'd defer to United because they
25 will be the succeeding company. I will defer to

1 Mr. Walsh.

2 AVIATION CHAIRMAN FAIRCHILD: If we could,
3 we are not going to get into a dialogue but I will
4 give the courtesy of a short direct response to the
5 question. Do you understand the question? If not, we
6 will restate it?

7 MR. WALSH: I'm very sorry, could the question
8 be repeated?

9 REPRESENTATIVE LAUGHLIN: Commissioner
10 Donatella was concerned about the loss of jobs if
11 the maintenance facility is not being built as was
12 stated months ago with the \$240 million that we
13 were trying to put together and I think the state has
14 come through with a hundred million dollars and I'm
15 sure that the 240 was acquired by different sources.
16 So, he's concerned that the maintenance facility is
17 not going to be built and it's going to be elsewhere
18 and there is going to be a great loss of jobs. Like
19 he said, we have 3500 employees working here from
20 Beaver County. So, he's just concerned that they may
21 all lose their jobs. So, I'd like to have a little
22 explanation on that.

23 MR. WALSH: Well, one thing I cannot respond
24 to is the forecast for jobs or the circumstances under
25 which the jobs were forecasted to be certain under a

1 plan that US Airways was contemplating before the
2 merger. I can strictly respond in the context of our
3 plans should the acquisition of US Airways occur.
4 There will be no job loss whatsoever.

5 REPRESENTATIVE LAUGHLIN: Is that going to be
6 in the contract? Is that going to be in writing?

7 MR. WALSH: Well, I believe it's already in
8 the contract that outlines the transaction that is
9 before the Department of Justice and has been filed
10 with the SEC. Those commitments are in writing and,
11 in fact, they are and Mr. Goodwin and our corporation
12 has subscribed to the fact that there will be no job
13 losses for either company. In a context of that
14 plan, I can say to you today that there will be no
15 furloughs.

16 REPRESENTATIVE LAUGHLIN: Is there a good
17 possibility that there is going to be hiring of more
18 people?

19 MR. WALSH: The best answer to that is in
20 our hearts, our plan is to grow this, see this
21 acquisition as a source of growth and opportunity.
22 Your question earlier, Representative Laughlin, is
23 there opportunity, there is capacity still at
24 Pittsburgh and could we see someday here in Pittsburgh
25 additional service. I think the answer to that

1 question is yes. That is our intention. That is our
2 hope. In fact, there could be job growth commensurate
3 with that.

4 REPRESENTATIVE LAUGHLIN: Thank you.

5 MR. DONATELLA: Not to dispute what the
6 gentleman said, I do believe they mean what they say,
7 that there will be nobody losing their job. The
8 question is, will you be transferred to Denver to hold
9 that job? Will you be transferred to Chicago to hold
10 that job or is the commitment going to be made that
11 there will be no loss at Pittsburgh International?
12 That's the issue. Again, Mr. Chairman, thank you very
13 much. There are no further questions, I appreciate
14 very much for having the opportunity to express myself
15 publicly on the issue. I thank you and the rest of
16 the committee for having me here.

17 AVIATION CHAIRMAN FAIRCHILD: Thank you, sir.
18 We are going to deviate a bit from the way we generally
19 do things. We are going to ask, and I understand it's
20 been agreed to by the participants. We are going to
21 ask three people to come up to the table and you'll
22 still have the same amount of time for your testimony
23 but then when we get into the question and answer
24 period, perhaps we'll have a little better overall.
25 So, with that said, would Mr. Cliff Shannon, Executive

1 Director for the SMC Business Council please come
2 forward; Robert Imperata, Executive Vice President of
3 the Greater Pittsburgh Convention & Visitors
4 Bureau; and Tony Fratto, Vice President, Government
5 Affairs, Pittsburgh Regional Alliance. Mr. Shannon,
6 please lead off.

7 MR. SHANNON: Thank you, Mr. Chairman. SMC
8 Business Council, formerly the Smaller Manufacturer's
9 Association, is a regional small business association.
10 Headquartered in Pittsburgh, SMC counts 5,300
11 Pennsylvania companies among its members, ranging from
12 sole proprietorship to enterprises that employ 500
13 people. I want to thank you for the opportunity to
14 present our views today, particularly as we represent
15 a discreet number of tens of thousands of actual
16 passengers out of Pittsburgh International Airport.

17 The quality and quantity of air travel
18 service from Pittsburgh International Airport is of
19 direct and vital importance to the region's business
20 owners. Internet or no, the competitive demands of a
21 global economy place an increasing premium on the
22 availability of direct flights and connections around
23 the country and around the world.

24 SMC's Chairman, for instance, is a self-
25 employed consultant who spends a large fraction of

1 his working life flying around the United States,
2 seeking investors and customers for rapid-growth dot
3 dash com companies. The SMC member who will succeed
4 him as Chairman of our Association next year must
5 travel several times a year to it's firm's subsidiary
6 operations, which are located as far away as
7 Australia. When SMC members gather to exchange ideas
8 and socialize, conversations invariably touch on
9 recent trips to Europe, Eastern and Western Europe,
10 Canada, Asia, and more.

11 Against that background, the proposed merger
12 of US Airways and United Airlines is of considerably
13 more than passing interest. It appears today that
14 the jointure has a number of important, positive
15 attributes that should, we hope, earn its support
16 from Pennsylvania small businesses.

17 First, there is Pittsburgh International
18 Airport's status as a major hub airport. This status
19 enables local business travelers to reach a variety
20 of destinations more quickly and conveniently. Air
21 travel access is a crucial service for literally
22 thousands of smaller Western Pennsylvania businesses.
23 As matters stand today, however, it is unclear that
24 US Airways can make it as a stand-alone airline for
25 many more years. Lacking hub operations here by a

1 major airline, flight options would be severely
2 curtailed, and tens of thousands of smaller businesses
3 would be negatively affected immediately. It would
4 happen the same day.

5 Furthermore, Allegheny County's investment
6 of more than \$800 million in building the most modern
7 and efficient airport in the United States, if not the
8 world, would be jeopardized if US Airways or another
9 major carrier were not to carry on hub operations.
10 Not only would taxpayers be faced with a huge burden
11 of repaying the bonds that were sold to build
12 Pittsburgh International Airport, but the great hopes
13 of sustained economic development along the airport
14 corridor would be dashed, perhaps permanently.

15 Maintaining Pittsburgh International Airport
16 as a major hub is the key to **attracting** new businesses,
17 investments, and jobs, and to growing existing
18 businesses in Southwestern Pennsylvania. Not only has
19 United asserted its intention to maintain hub
20 operations here, the initial merger announcement was
21 accompanied by United Airlines expressing its intentions
22 to add more flights and destinations from Pittsburgh
23 International Airport.

24 I should add, too, Mr. Chairman, that the
25 little discussion that accompanied the question about

1 more service out of Pittsburgh strikes me and any
2 other small business person as a natural. UAL's
3 problems in Chicago with flight delay scheduling
4 problems are well documented. Pittsburgh and our
5 airport are located at the geographic intersection of
6 United's hundreds of east-west routes and US Airways'
7 well-developed network along the eastern seaboard.
8 We have the terminal and runway space right now to
9 accommodate more traffic, and unlike virtually every
10 other major airport in the country, Pittsburgh
11 International Airport could be expanded quickly and
12 easily. It is pretty easy to believe that the pro-
13 posed merger offers the real possibility of Pittsburgh
14 International Airport becoming an even more valuable
15 resource for the merged airline and our region.

16 Before jumping ahead, there is a more
17 immediate concern regarding plans for a new aircraft
18 maintenance hangar at Pittsburgh International.
19 Obviously, that project and the 5,000 high-paying
20 maintenance jobs that depend on it are of paramount
21 importance to the region. If the new maintenance
22 facilities aren't constructed, there is a risk of
23 losing most or all of the jobs, there will be
24 permanent effects on hub operations here in the
25 future, and the economic climate here will be negatively

1 affected. Put simply, the maintenance facility
2 modernization either accompanies the merger or the
3 merger is not in our region's best interest.

4 Clearly, we would all like to see a return
5 to the ambitious development plan originally announced
6 by US Airways. However, UAL's recently asserted
7 commitment to proceed with a \$160 million in
8 maintenance modernization, even as it has been pre-
9 occupied with defending the merger in Washington,
10 D.C., conducting sensitive labor negotiations, and
11 coping with summer schedule disruptions, should be
12 considered a very positive signal for the importance
13 UAL attaches to maintaining a major maintenance
14 facility here.

15 There are a lot of very large numbers that
16 attend the proposed merger, between 11,000 and 12,000
17 US Airways' jobs in the region that amount to an
18 annual expenditure of \$1 billion by US Airways, the
19 nearly \$1 billion investment in Pittsburgh Inter-
20 national Airport, the forecast of thousands of new
21 jobs to be created along the airport corridors in
22 years to come, particularly on the 10,000 publicly-
23 owned acres that surround the airport, these are all
24 awfully impressive figures for business owners
25 throughout the region.

1 There is, however, another set of large
2 numbers that have a negative connotation for area
3 businesses, numbers that almost certainly won't be
4 improved by the proposed merger. I'm referring to
5 the very high air fare structure that US Airways
6 imposes on its Pittsburgh International operations.
7 Adjectives like **stratospheric** leap to business
8 traveler's lips when they think of air travel cost
9 out of PIA. It's no surprise that the Ohio Turnpike
10 hosts a steady stream of Western Pennsylvanians who
11 make the two hour drive to Cleveland in order to save
12 \$200, \$300, \$400, or even more on domestic flights.

13 Realistically, the proposed merger won't
14 change the dynamics that sustain air fares here.
15 Until or unless additional competition is established
16 at Pittsburgh International, fares will remain high.
17 That's why the other issues I've touched on are so
18 vital to small businesses' support for this merger.
19 The high cost of flying from Pittsburgh are offset
20 today by the number of destinations one can reach
21 quickly and conveniently. It doesn't seem quite as
22 expensive to board a US Airways flight at Pittsburgh
23 International if you know that the airline is plowing
24 hundreds of millions of dollars back into the regional
25 economy.

1 No change is without challenges and problems
2 and risks and change is a process and we are at a very
3 scary point in that process. We need to do a lot of
4 work before the process is over. But in this case, in
5 light of the commitments that have been made thus far
6 by the leadership of the two airlines that are propos-
7 ing to merge, the balance of merit seem to fall
8 squarely on the side of supporting this merger. We'll
9 all be monitoring developments closely in the weeks
10 to come. But the joining of US Airways and UAL now
11 seems to be the best hope for maintaining both the
12 direct economic contributions US Airways makes to the
13 region's economy today and the competitive advantage
14 our businesses enjoy through its major hub operations.
15 Thank you, Mr. Chairman.

16 AVIATION CHAIRMAN FAIRCHILD: Mr. Imperata?

17 MR. IMPERATA: Thank you, Mr. Chairman,
18 members of the committee. Good morning, good
19 afternoon. I am Robert Imperata, Executive Vice
20 President of the Greater Pittsburgh Convention and
21 Visitors Bureau. I want to thank the committee for
22 giving us the opportunity to appear before you today
23 and express some views that are related to the proposed
24 US Airways/United Airlines merger and its potential
25 impact on the travel and tourism industry in our

1 region.

2 In Allegheny County alone, travel and tourism
3 generates an economic impact of \$2.17 billion.

4 In the Pittsburgh region, which includes
5 Allegheny, Butler, Beaver, Armstrong, Lawrence and
6 Washington Counties, the travel and tourism industry
7 generates nearly \$2.8 billion. In our neighboring
8 region, Laurel Highlands, the impact was \$1.4 billion
9 in 1998. That brings the impact to more than \$4
10 billion in our region. These figures are taken from
11 a study commissioned by the State of Pennsylvania
12 through an organization known as D.K. Shifflet.

13 That translates to dollars spent on hotels,
14 taxicabs, restaurants, services and retail stores. It
15 also translates to spending at our museums and
16 cultural attractions, audiences for our performing
17 arts groups, visitors at our zoos, festivals and
18 amusement parks, and nearly 40,000 jobs for the
19 residents of Southwestern Pennsylvania.

20 Clearly, leisure and business travel plays a
21 key role in the health and vitality of our economy
22 but in order for the travel and tourism industry to
23 prosper, we all need to maintain a world-class
24 airport.

25 A world-class airport, paired with convenient,
frequent and competitively priced air transportation,

1 I might add.

2 The first attribute is in place. Pittsburgh
3 International Airport, under the leadership of Kent
4 George, recently was rated best airport in the United
5 States and third in the world by Conde Nast Traveler.
6 It's the gateway through which hundreds of thousands
7 of visitors from around the world make their way into
8 the region.

9 We now have new direct flight service to
10 London, which when paired with direct international
11 connections to Germany, France and Canada, has given
12 this region tremendous new opportunities for marketing
13 the region to the international business and leisure
14 traveler.

15 And we have a tremendous visitor product
16 that is attracting worldwide attention. The rich,
17 unique town and country experience awaits travelers
18 who fly into Pittsburgh, and then fan out into areas
19 such as Laurel Highlands and our surrounding counties.
20 The Pittsburgh region's cultural amenities, together
21 with the soft adventure and outdoor activities of
22 Southwestern Pennsylvania, lure visitors from around
23 the globe, with great potential for expansion and
24 growth.

25 The Greater Pittsburgh Convention and

1 Visitors Bureau, along with government and community
2 leaders, has spent many years and dollars shaking off
3 the region's outdated image and building international
4 consumer and industry awareness of Pittsburgh,
5 Allegheny County and the entire region as a world-class
6 destination.

7 In the business arena, Pittsburgh will soon
8 be home to a \$328 million David L. Lawrence Center
9 that will nearly triple our current exhibit space.
10 The new center gives the Greater Pittsburgh Convention
11 and Visitors Bureau the opportunity to pursue larger,
12 more prestigious, national and international confer-
13 ences and trade shows that would not have previously
14 considered Pittsburgh as a site for their event. As
15 you know, this state has been very supportive
16 financially and otherwise in the development of this
17 new convention center.

18 In anticipation of the new convention center's
19 opening, a number of hotels are under construction in
20 Downtown Pittsburgh and along the airport corridor.

21 We are spending millions of dollars to bring
22 Pittsburgh's travel and tourism attributes up to a
23 new level of destination excellence. The region is
24 gearing up for a surge in new business, and we are
25 poised for tremendous growth in this region.

1 What is absolutely crucial to that growth is
2 the strength and viability of our airport and our air
3 service.

4 Any decrease in frequency or availability of
5 direct domestic or international flights will certainly
6 negatively impact the success of the new convention
7 center, new stadiums, and our ability to attract
8 sought-after conventions, again on a national or
9 international level.

10 Frequency, accessibility, and competitive
11 pricing are the factors in the domestic market,
12 particularly in the convention and meetings industry;
13 and direct, non-stop service is critical to the
14 international market. Without direct flight service,
15 international tour operators have no incentive to
16 develop itineraries or packages that could include the
17 Pittsburgh region.

18 Additionally, the availability and flexibility
19 of frequent flyer programs is, as we all know, a decid-
20 ing factor for both, the leisure and business traveler.

21 In short, a new venture that grows and
22 enhances the frequency and range of cities served by
23 direct flights, provides competitive prices to the
24 consumer, grows our status and capabilities as an
25 international hub will be good for the travel and

1 tourism industry.

2 That said, assurances need to be made on all
3 fronts to protect the 11,700 individuals currently
4 employed by US Airways and the economic development
5 plans for Allegheny County. Anything less will be
6 detrimental to the economic health of the region, and
7 subsequently the ability of the region to attract
8 business and leisure visitors. Thank you.

9 AVIATION CHAIRMAN FAIRCHILD: Thank you.
10 Before we -- the final testifier on the panel, Tony,
11 I'm going to ask you if it would be all right if we
12 could enter your testimony officially into the record.
13 A lot of it, we have rehashed a lot of this but I
14 would sincerely like to give you a minute or two to
15 kind of sum up.

16 MR. FRATTO: That's one of the advantages of
17 going third on the panel, following somebody like
18 Cliff Shannon who eloquently touches all the bases.

19 I do represent the Pittsburgh Regional
20 Alliance. It's a marketing and business attraction
21 group in the region. I also represent the Greater
22 Pittsburgh Chamber of Commerce, the Allegheny
23 Conference on Community Development which is the chief
24 corporate civic group in the Pittsburgh region, the
25 Pittsburgh Technology Council and a number of other

1 groups in the region.

2 There are basically four points that have
3 been touched on that we care deeply about. First is
4 the increase in destinations. The increased number of
5 one stop and nonstop domestic and international
6 flights coming out of this airport are vital for many
7 of the members. The hub status which was discussed
8 earlier is vital because along with the hub comes
9 jobs. We are closely monitoring the progress on the
10 maintenance facility and other related jobs in the
11 region, the maintenance facility preeminent among
12 them.

13 And finally, as Cliff mentioned, there is
14 tremendous concern over competitive pricing coming
15 out of this airport on flights. While we understand
16 that we are going to be a premium on flights coming
17 out of this airport to maintain hub status, to maintain
18 the flights that are generating here, the price
19 increases are really dramatic and really have a
20 severe impact on the bottom line for a lot of companies
21 in this region. I gave similar testimony a month or
22 so ago to the U. S. Senate Committee that was held
23 here in town discussing the merger and since then have
24 received a lot of anecdotal stories from a lot of
25 companies. I'll relate one from a local company that

1 was considering moving their sales force into
2 Pittsburgh and in the process of analyzing the costs
3 and benefits of doing that determined that it not
4 only would not be a good business decision to move
5 that sales force into Pittsburgh, but it was probably
6 the best decision. It would save more money by
7 moving their entire operation out of Pittsburgh to
8 another area. Now, I don't have information about
9 what destinations they serve and so forth, but those
10 calculations are done by businesses everyday.

11 Again, I represent business groups in this
12 region. It puts me in a rather curious position to be
13 able to tell a private company not to charge what the
14 market will bear but the unique relationship with
15 public entities in this airport, all of the investment
16 in this airport, it's a different kind of business.
17 We really want to try to work to try to bring some
18 competitive pricing into this airport.

19 I say that knowing that we have a unique
20 relationship with US Airways. We consider US Airways
21 a strong business partner in this region. We are
22 proud to have them here. We think of US Airways as a
23 Pittsburgh company. We know that they are headquarter-
24 ed in Virginia but we think of US Airways as a
25 Pittsburgh company because of the number of jobs and

1 the community partnerships that they have been able
2 to develop and the service they provide to our region.
3 We hope we have the same relationship with UAL should
4 a merger go through.

5 So, we have a strong interest in the financial
6 and business success in this airline but there are a
7 lot of companies who depend on air travel here. So,
8 thank you. I'll be happy to respond to any questions
9 you might have.

10 REPRESENTATIVE PIPPY: Mr. Chairman, I just
11 want to thank all of the members for their testimony.
12 Tony said it well. Cliff, any time you speak, there
13 is not much to be said after that. We are fortunate
14 to listen to all three of you.

15 (The following was submitted for inclusion
16 in the record:)

17 Statement
18 Of
19 Tony Fratto
20 Vice President, Government Affairs
21 Pittsburgh Regional Alliance
22 On
23 Wednesday, September 13, 2000
24 Before the
25 Committee on the Judiciary
Transportation Aviation Subcommittee
Pennsylvania House of Representatives
At
Pittsburgh International Airport

1 Good morning Mr. Chairman, Representative
2 Fairchild, and members of the Committee.
3 My name is Tony Fratto and I am the Vice-
4 President of Government Affairs for the
5 Pittsburgh Regional Alliance.

6 Thank you for giving me this opportunity today
7 to address concerns related to the proposed
8 merger of US Airways and United Airlines.

9 I also would like to thank you for your
10 sincere and persistent attention to economic
11 development issues affecting this region.

12 Your responsiveness to our concerns has been
13 consistent and greatly appreciated. This
14 hearing today is evidence of your commitment.

15 As you know, I represent the Pittsburgh
16 Regional Alliance -- a business attraction
17 and marketing group in this region, the Greater
18 Pittsburgh Chamber of Commerce -- our chief
19 business advocacy group; the Pittsburgh
20 Technology Council -- the largest regional
21 technology trade group in the nation; and
22 the Allegheny Conference on Community Develop-
23 ment -- the leading corporate civic group
24 in our region. By extension I also represent
25 other pro-business, economic development

1 groups in southwestern Pennsylvania.

2 In fact, as a shared employee of these groups,
3 I am in a unique position to outline the
4 concerns of the business community and the
5 greater economic development community in
6 our region.

7 The health of Pittsburgh International Airport
8 is vital to the business and economic develop-
9 ment interests of southwestern Pennsylvania.

10 The airport provides important links for our
11 business community and jobs for thousands of
12 families. For hundreds of thousands of air
13 passengers every year, the airport provides
14 the first -- and often the only -- window into
15 this wonderful region of ours. Clearly, for
16 the business and economic development communities
17 of southwestern Pennsylvania, the airport is a
18 preeminent asset that should be both protected
19 and allowed to flourish.

20 The business community in southwestern
21 Pennsylvania, while generally supportive of
22 the proposed merger between United Airlines
23 and US Airways, nonetheless has some concerns.
24 Allow me to outline their four major points
25 of interest:

- 1 1. Increased Destinations: The prospect of
2 increasing the number of direct and one-stop
3 flights to domestic and international
4 destinations from Pittsburgh International
5 Airport presents a significant opportunity
6 for our region. Even in the "New Economy"
7 there is no substitute for efficient person
8 to person contact in the business world.
9 Our business community places great value on
10 the ability to fly to key destinations.
11 Our recent prolonged, but successful, fight
12 to reinstate a direct Pittsburgh to London
13 route is an excellent example of the impor-
14 tance we place on flight access. The
15 proposed merger is expected to result in sig-
16 nificant new flight opportunities --
17 including destinations of high interest to
18 the high tech community like San Jose, CA;
19 Portland, OR; and Asia. We strongly
20 support increased destinations and encourage
21 our political leaders not to ignore the
22 tangible benefits of these assets.
- 23 2. "Hub" Status. The maintenance and expansion
24 of "hub" status for Pittsburgh International
25 Airport is essential to our economic

1 development efforts. While there are
2 costs as well as benefits associated with
3 hub airports, we all agree that the
4 benefits outweigh the costs and stand
5 strongly in support of retaining this
6 status for Pittsburgh. United Airlines
7 has publicly stated that they intend to
8 expand and grow Pittsburgh International
9 as a hub airport. We are hopeful that United
10 is sincere. Increased flights and the
11 preservation of jobs across the board are
12 directly tied to our status as a hub airport.
13 The costs associated with hub status have
14 mainly to do with pricing, and I will
15 address that issue later.

16 3. Maintenance Facility/Jobs. Each of our
17 groups strongly encourages United Airlines
18 to build a maintenance facility to accommo-
19 date the new Airbus jets at Pittsburgh
20 International Airport. Without question, no
21 other issue has been addressed with more
22 concern or less information. Our local,
23 state and federal political leaders, as
24 well as labor and community leaders have
25 all joined in unanimity in attempts to get

1 this deal done. United Airlines has
2 announced a commitment to build a maintenance
3 facility at Pittsburgh International Airport
4 should the merger succeed. We understand
5 that discussions continue to move forward
6 in trying to work out the details of this
7 plan and we expect a positive conclusion.
8 Our political leadership including Senators
9 Specter and Santorum, our congressional
10 delegation, Governor Ridge and Chief Executive
11 Roddey, have all voiced our strong support
12 for a positive decision on this issue. We
13 stand with them. Speaking personally, as a
14 resident of western Allegheny County all my
15 life, I know what the economic impact of
16 losing these maintenance jobs -- and other
17 airport-related jobs -- will mean to the
18 viability of our communities. We must all
19 be supremely diligent and persistent in
20 affecting a positive outcome on this decision.

21 4. Competitive Pricing. I earlier mentioned
22 pricing as a cost which mitigates the
23 benefits of being a hub airport. Within
24 the Pittsburgh business community no issue
25 is certain to elicit more testimonials of

1 outrage than the cost of flying from
2 Pittsburgh International Airport. We
3 recognize that we can expect to pay higher
4 ticket prices in order to maintain flight
5 access -- and the business community is
6 willing to pay a premium for that benefit.
7 But travel costs from the airport severely
8 affect the bottom lines of many Pittsburgh
9 area businesses and they're not happy about.
10 As an advocate for business I am put in the
11 curious position of objecting to a private
12 company's right to charge what the market
13 will bear. But clearly some effort must
14 be made to reduce the size of the premium
15 local flyers are forced to carry.

16 Finally, any assessment of this merger must include
17 an analysis of US Airways' future prospects
18 as a healthy and successful enterprise in
19 the absence of joining with United Airlines.
20 It has been no secret that US Airways has
21 struggled to be consistently profitable due
22 to a wide range of factors -- not the least
23 of which is the high operating costs of
24 Pittsburgh International Airport. An objective
25 conclusion could be reached that US Airways'

1 ability to compete on its own in the current
2 airline industry is precarious. If this airline
3 were to collapse, the negative economic impact
4 to the region would be catastrophic.

5 Speculation as to the benefits or detriments
6 associated with the proposed merger might
7 require a necessary leap of faith when
8 viewed in this light.

9 Business and economic development groups in
10 southwestern Pennsylvania cooperate to an
11 extensive degree -- especially when issues of
12 such overarching importance as this proposed
13 merger arise. I can assure you that we will
14 continue to fight to see that the region's
15 interests are advanced.

16 Chairman Geist, thank you again for holding
17 this important hearing and for giving me
18 the opportunity to address these issues. At
19 this time, I am available to respond to any
20 questions you may have.

21 AVIATION CHAIRMAN FAIRCHILD: Thank you,
22 gentlemen.

23 REPRESENTATIVE PETRONE: Thank you, Mr.
24 Chairman. I appreciate your testimony and your concern
25 for our region. As Mr. Imperata knows, we have been

1 involved for at least two decades in trying to get
2 this new airport and it certainly is a class airport.
3 We are certainly interested in keeping it humming as
4 the center of our engineer. We do hope that Mr. Nagin
5 keeps his commitment for the maintenance facility.
6 I think that's critical for us as well as the other
7 commitments with the merger. I think that is very
8 very important. We are going to be watching that
9 closely. Thank you.

10 AVIATION CHAIRMAN FAIRCHILD: Thank you,
11 Representative Petrone. Thank you, again. Excuse
12 me, Representative Washington.

13 REPRESENTATIVE WASHINGTON: Thank you, Mr.
14 Chairman. I just wanted to make the remark that
15 though I am not on the Transportation Committee,
16 however, today has certainly been an educational
17 factor for me as it relates to the merger. Thank you
18 very much.

19 AVIATION CHAIRMAN FAIRCHILD: Our last
20 testifier is Earl Hord, who is Director of the
21 Allegheny County Department of Economic Development.
22 Mr. Hord, we would have had you in the last group but
23 we only had three chairs.

24 MR. HORD: That's okay. We saved the best
25 for last.

1 AVIATION CHAIRMAN FAIRCHILD: Yes, we did.
2 You may proceed.

3 MR. HORD: In deference to the time, I'm not
4 going to read the full text. I would like to high-
5 light some of the items I have contained in my
6 testimony.

7 First, I'd like to thank you, Chairman
8 Geist and Chairman Fairchild and members of the House
9 Transportation and Aviation Committees for coming to
10 Pittsburgh to allow us to give testimony on something
11 that is of major importance to this region; we think,
12 to all of Southwestern Pennsylvania and to the
13 eastern part of the United States. For nearly the
14 past century in Pittsburgh, and I'm not going to go
15 into the history of the demise of the steel industry.
16 You are all aware. We hit the bottom. As a matter of
17 fact, local unemployment in the early 70's and late
18 80's reached unprecedented heights as the region
19 suffered the largest job loss per capita in the nation's
20 history.

21 We have overcome that. We have overcome it
22 by focusing on education, research and development.
23 As a matter of fact, today more than 120,000 people
24 are employed in the technology field. That is close to
25 12 percent of our total employment and 18 percent of

1 our income. We have made the change. We have made
2 the turn.

3 Pittsburgh International Airport has been an
4 important part of that whole process and the decisions
5 facing us today are of major importance. United
6 Airlines and US Airways are strong corporate structures.
7 Each of them bringing a level of strength and a needed
8 capacity for this region in order for it to continue
9 to develop. Whether the merger occurs or does not
10 occur, transportation in and out of this region is of
11 major importance and whatever we do, we must maintain
12 that facility, that capacity, to service the transpor-
13 tation needs or our region will suffer something even
14 more devastating than that which we suffered during
15 the demise of the steel industry.

16 We have been working to develop the land
17 around Greater Pittsburgh Airport. The airport has
18 approximately 10,000 acres. It provides a unique
19 opportunity, unlike any other airport in this nation,
20 to develop it and develop lands on the airport where
21 we can provide synergy between transportation and the
22 needs for transportation, feed the airlines and have
23 the airlines feed the kind of companies that we can
24 try and hope to develop in this region.

25 Plans are being finalized for an air cargo,

1 and air cargo of major importance for any airport and
2 for any region. I was Chairman -- I'm sorry, I was
3 the Commissioner for Aviation for the City of Chicago
4 in my prior life. We built air cargo facilities
5 thinking we were responding to more than what would
6 possibly be demanded in the future. Before we had
7 the building completed, we were way under. What that
8 says to me is that in addition to transportation of
9 people, transportation of cargo is central. Companies
10 tend to want to locate in the areas where they can
11 get their products and services out to the marketplace
12 rapidly. Time is important.

13 So, you can easily understand that Pittsburgh
14 International Airport is important to our region. In
15 fact, it's important to the entire northeastern
16 United States. First, I think we ought to be concern-
17 ed about the 11,700 employees. We don't want to go
18 back and repeat the losses we experienced during the
19 dark days of the 70's and 80's. So, it's imperative
20 that we require that there is a firm hard commitment
21 that those jobs be retained, preferably, they be
22 retained here in this region and at this airport.

23 Before Allegheny County throws its complete
24 support behind the merger, it's imperative that we
25 receive certain assurances. I will go down through

1 what those are. First, of major concern, is the
2 11,700 jobs. We need to have assurances and they need
3 to be firm and hard and unequivocal that those jobs
4 will remain in the Pittsburgh area.

5 Secondly, the taxpayers of Allegheny County
6 provided the financial vehicle through the issuance
7 of bonds for the construction of the \$8 million airport
8 terminal. We obviously will have to have a commit-
9 ment from United Airlines that those bonds and those
10 commitments will be honored.

11 Third, the Midfield Terminal opened in 1992
12 with the expectation that it was going to be a hub.
13 Millions of dollars were poured into this, state and
14 federal funds as well as local funds. It's imperative
15 again that this remain the hub. I think in my
16 experience in working with the airline industry that
17 the location of the Greater Pittsburgh International
18 Airport, that its location and its capacity will allow
19 it to accept whatever demands United may place on it
20 to be a central hub and we can expand the utilization
21 of the airport and make it more efficient.

22 By year's end, US Airways and United Airlines
23 would have an extensive fleet of Airbus aircraft with
24 numerous new aircraft on order. Both airlines have
25 admitted to the need for a new hangar facility to

1 perform maintenance and safety checks on these
2 aircraft. A skilled workforce is available, including
3 more than 2,000 machinists, which is available right
4 here and right now in Pittsburgh. We have the land
5 capacity and we can raise the capital to expand the
6 maintenance facility. We would urge that this be a
7 firm hard commitment and requirement.

8 United Airlines has already addressed several
9 of these issues. They have confirmed that it intends
10 to assume US Airways' existing lease and guaranteed
11 payment of all future debt obligations. They have
12 also indicated its intention to maintain Pittsburgh
13 as a hub status, at least at its current level. It
14 even appears that the airline may expand service from
15 Pittsburgh by adding additional domestic and inter-
16 national routes. That is another issue. We want
17 Pittsburgh to remain a hub, not just for domestic
18 flights. International flights are of major impor-
19 tance. They bring commerce and opportunity.

20 The really good news is that earlier this
21 summer United Airlines announced it will proceed with
22 a \$160,000 million expansion of the maintenance
23 facilities by creating a new hangar and supplying some
24 redevelopment at some of the others. However, the
25 plans do not include a new training facility. Earlier

1 there was testimony about the commitment to a
2 training facility here and there was talk about pilot
3 training. What we do here is not just train pilots.
4 We train entire crews as a unit which is a much more,
5 we think, important reason for the training. The
6 facilities are here. The capacity is here. Getting
7 the employees in and out is available to United
8 Airlines. We would urge that they give very serious
9 consideration and indeed be one of the requirements
10 that these training facilities be maintained and
11 expanded to accommodate their expansion.

12 United committed to no furloughs of US Airways
13 employees for two years after the merger. The airline
14 has removed the two-year time limit and has indicated
15 it will furlough no US Airways employees ever. How-
16 ever, United has remained remained silent on the 600
17 training jobs, the 200 dispatchers and the 500 related
18 support personnel employed in this region. We would
19 love to have them required that the assurance for
20 these jobs remain.

21 Mr. Chairman and Committee members, I ask
22 your assistance to strongly convey to your colleagues
23 in Harrisburg the importance for the needs for these
24 guarantees and assurances to preserve the economic
25 future of the region that is rich in resources. I

1 thank you for the opportunity to speak today on behalf
2 of the citizens of Allegheny County and I'll answer
3 any questions that you may have.

4 AVIATION CHAIRMAN FAIRCHILD: Thank you, Mr.
5 Hord. Mr. Maher?

6 MR. MAHER: Thank you, Dr. Hord. You have --

7 MR. HORD: Thanks for the promotion.

8 REPRESENTATIVE MAHER: I'm sorry, Director
9 Hord.

10 MR. HORD: Okay.

11 REPRESENTATIVE MAHER: You certainly bring a
12 wonderful perspective having had the opportunity to
13 observe aviation activities both from the Pittsburgh
14 perspective and the Chicago perspective and in this
15 case it's got to be a probably unique ability to do
16 that except for perhaps Mr. Wolfe who moved from
17 company to company.

18 In any case, I think you were certainly very
19 clear about the guarantees, the commitments, that you
20 believe are desirable. Will you be comfortable with
21 guarantees that are not enforceable?

22 MR. HORD: I have the greatest respect for
23 United Airlines. Ironically, Mr. Wolfe was Chairman
24 of United Airlines while I was Commissioner of Aviation
25 in Chicago. When I came to Pittsburgh, I failed to

1 mention that I served on the Airport Authority Board.
2 When I came here, Mr. Wolfe is once again Chairman
3 of one of the primary airlines. Realities of life are
4 that the commitments that are made and the requirement
5 to adhere to those commitments are influenced by
6 economic conditions and justifiably so. So, if the
7 most important guarantees are not in writing, then I
8 would be very nervous. There are some assurances
9 that, I think, that need to be made that will give
10 the opportunity to compete effectively. You see the
11 need for additional facilities is something that we
12 can actually forecast clearly where ~~there~~ are going to
13 be needs. We feel as though we are in competition
14 with other airports. Listen to the questions. This
15 isn't a question of whether the facilities will be
16 built. The issue is where. That's the assurance we
17 are looking for.

18 REPRESENTATIVE MAHER: Thank you.

19 REPRESENTATIVE PETRONE: Thank you, Mr.
20 Chairman. Director Hord, I caught your reference and
21 concerns about assurances for maintaining and
22 guaranteeing jobs and we are concerned about the
23 maintenance facility because that is the thrust of
24 what we have been about for the last several years.

25 I also want us involved in this process while

1 we are trying to help it. Keep in mind some statements
2 from some of the prior presenters that historically
3 consumers have not benefitted from airline mergers.
4 That's what it says. You, of course, have experience.
5 I just want us all to keep in mind the fact that we
6 used to have companies around here called Westinghouse
7 and J&L Steel Corporation that were dominant in their
8 field. They were healthy financially, some of them
9 the rocks of Gibraltar in this area and we hope that
10 US Air does not go that route. Thank you.

11 MR. HORD: I join you with that whole plan.
12 I think though it's important to recognize one thing.
13 Pittsburgh International Airport is a very efficiently
14 run facility. Its costs are competitive in operations
15 and are dropping. Its location is crucial. We have
16 exceptionally good weather. Its capacity, 65 percent
17 of our capacity is currently being used, and we have
18 capacity for additional runways. There is no reason
19 why we shouldn't look toward United Airlines to look
20 at Pittsburgh favorably. It's my intention to look
21 very carefully and hard with them to get them to
22 understand the value for expanding here.

23 AVIATION CHAIRMAN FAIRCHILD: Representative
24 Pippy?

25 REPRESENTATIVE PIPPY: Mr. Hord, I want to

1 congratulate you on your appointment and we look
2 forward to working with you. I'd also like to say
3 to the Subcommittee Chairman, Chairman Fairchild, and
4 Representative Geist. I sent them a letter asking for
5 this hearing and I do appreciate not only their
6 response but if you look at this committee, it's a
7 bipartisan effort and it demonstrates that the players
8 involved do so in a fair and equitable manner when
9 there is a disagreement and they are frank and up
10 front. Mr. Hord, congratulations again. We look
11 forward to working with you. Mr. Chairman, thank you
12 for having this meeting.

13 AVIATION CHAIRMAN FAIRCHILD: Thank you.

14 (The following was submitted for inclusion
15 in the record.)

16 Testimony

17 Earl F. Hord, Director

18 Allegheny County Department of Economic Development

19 before the

20 Pennsylvania House Transportation Subcommittee

21 on

22 Aviation

23 September 13, 2000

24 Good morning, Chairman Geist, Chairman

25 Fairchild and members of the House Transportation

1 Aviation Subcommittee, my name is Earl
2 Hord and I am Director of Economic
3 Development for Allegheny County and a
4 member of the Allegheny County Airport
5 Authority Board. On behalf of Chief Executive
6 Jim Roddey and all the citizens of Allegheny
7 County, I would like to thank the Committee
8 for this opportunity to present the County's
9 views on the \$11.6 billion proposal by United
10 Airlines to acquire US Airways.

11 For nearly the past century, Pittsburgh
12 and the entire Southwestern Pennsylvania region
13 have played an integral role in the industrial-
14 ization of the employees of this nation,
15 predominantly through the hard work and
16 determination of the many manufacturing
17 companies that once called Pittsburgh home.
18 Heavy industry provided opportunity for good-
19 paying jobs and economic prosperity for many
20 that worked in the local mills. However,
21 in the early late 70s and early 80s that
22 all began to change as the bottom dropped
23 out of the steel industry. Local employment
24 reached unprecedented heights as the region
25 suffered the largest job loss per capita in

1 the nation's history.

2 Fortunately, we have recovered from
3 that major downturn by diligently focusing
4 our efforts in new age manufacturing,
5 education, research and development, and high
6 technology. Those efforts have been paying
7 off. More than 120,000 people are now
8 employed in the technology field, comprising
9 nearly 12 percent of our workforce and 18
10 percent of the local payroll. Our colleges
11 and universities are world-renowned and we
12 stand among the top ten centers in medical
13 research.

14 Today, Pittsburgh is the corporate head-
15 quarters of nine Fortune 500 companies
16 including USX, Alcoa and H.J. Heinz. Several
17 multinational companies like Sony, Bayer,
18 and Nova Chemicals also maintain a large local
19 presence in the region. Technology and
20 innovation developed on the campuses of
21 Carnegie Mellon University and the University
22 of Pittsburgh have spawned an entire generation
23 of new firms, such as the Marconi Corp.,
24 Freemarkets and Medrad, that are revolutionizing
25 the use of new age technology and the Internet.

1 Pittsburgh International Airport has and
2 will continue to play a vital role in
3 the decisions of companies to locate and
4 grow in our region. Our modern airport
5 terminal is the gateway to the world not just
6 for Pittsburgh, but southwestern Pennsylvania,
7 northern West Virginia and eastern Ohio as
8 well. It is an integral part of the economic
9 fabric of our community, creating more than
10 18,000 direct airport-related jobs and account-
11 ing for more than \$3.5 billion a year in
12 economic impact.

13 Our innovative airside/landside terminals,
14 people movers and air mail have set modern
15 standards for efficiency. This important
16 model has not gone unnoticed. Since its
17 construction in 1992, Pittsburgh International
18 Airport has received accolades from several
19 national media publications and just last
20 year the readers of an international travel
21 magazine voted it the best airport in North
22 America and the third best in the world.

23 The airport has set the foundation for
24 a multitude of development projects that
25 will help stake Pittsburgh's claim as a

1 major force in the 21st Century. This
2 summer we opened a Hyatt-Regency airport
3 hotel and conference center located at the
4 end of the airside moving walkway. Visitors
5 can now travel to Pittsburgh and conduct
6 business in world-class facilities without
7 ever having to deal with the elements of
8 weather. Earlier this summer we also opened
9 the first of five buildings in our Airside
10 Business Park. They offer companies a total
11 of 400,000 square feet flex-office space and
12 quick access in and out of the airport
13 through corporate, private or commercial
14 aviation means.

15 Plans are also being finalized for a new
16 Air Cargo and Business Aviation Facility.
17 We will double our current air cargo capacity.
18 A new Army Reserve headquarters is currently
19 under construction that will eventually house
20 the command and control activities for a
21 five-state area under the 99th Regional
22 Support Command.

23 Additional negotiations are underway to
24 construct 450,000 square feet of modern office
25 space called the Ewing Technology Center off

1 the Ewing Road Interchange. More than 2.5
2 million square feet of hotel, office and
3 commercial development is also being planned
4 off the McClaren Run Interchange.

5 Allegheny County is currently negotiating
6 with Brant Motorsports of Morgantown, West
7 Virginia, to construct the first fully-enclosed,
8 full-sized indoor auto racing facility and
9 multi-purpose entertainment center in the
10 world. This 2.2 million-square-foot state-
11 of-the-art racetrack will rely on the airport
12 to transport auto racing fans and conventioners
13 to Pittsburgh on a year-round basis.

14 With more than 10,000 acres, Pittsburgh
15 International has virtually unlimited growth
16 potential. This includes both aviation-related
17 expansion and commercial development opportu-
18 nities. Where other major metropolitan airports
19 find themselves landlocked, the sky is
20 literally the limit for Pittsburgh International.

21 Located roughly midway between New York
22 and Chicago, Pittsburgh lies within one hour
23 flying time of nearly 50 percent of the
24 populations of both the United States and
25 Canada, and 53 percent of the buying income of

1 the United States.

2 You can easily understand Pittsburgh
3 International Airport's importance to our
4 region and the entire NorthEast. The United
5 Airlines proposal to acquire US Airways
6 brings several important issues to the fore-
7 front. First of all, we are concerned about
8 the continued employment of the approximately
9 11,700 current employees of US Airways in
10 southwestern Pennsylvania. And second, we
11 are equally concerned about the status of
12 Pittsburgh International Airport as a
13 major national hub.

14 Before Allegheny County throws its complete
15 support behind the merger of United Airlines
16 and US Airways, it is imperative that a number
17 of assurances affecting our region are con-
18 tained in any Conditions of Approval, which
19 the Department of Justice and Department of
20 Transportation would make, if they should
21 decide to grant approval for this merger. I
22 request this Committee urge the Department of
23 Justice to ensure the following items are
24 addressed in their Order:

25 1.) Our region can ill afford to repeat

1 the hardship endured in the 70's and 80's.
2 One of our foremost concerns is for the
3 approximately 11,700 individuals currently
4 employed by US Airways at Pittsburgh Inter-
5 national Airport. We need an absolute
6 commitment contained in the Conditions of
7 Approval of this merger that these jobs
8 will be maintained in our region beyond
9 United's initial two-year pledge.

10 2.) The taxpayers of Allegheny County
11 provided the financial vehicle through bonds
12 to fund the construction of the \$800-million
13 Midfield Terminal Complex at Pittsburgh
14 International Airport. US Airways is the
15 principal guarantor of those bonds. US
16 Airways presently uses nearly 90 percent of
17 the midfield terminal and pays the majority
18 of the outstanding debt, which totals over
19 \$700 million. We need written assurances
20 that United Airlines will assume US Airways
21 existing lease and guarantee payment of all
22 future obligations of US Airways.

23 3.) The new airport terminal (Midfield
24 Terminal) opened in 1992 with significant
25 state and federal support and with the

1 expectation that it would be a major hub.
2 US Airways currently operates approximately
3 515 flights a day to 110 non-stop destinations
4 throughout the US and Europe from this
5 airport. United Airlines must commit to
6 maintain at least the existing level of service,
7 and that commitment should be included in the
8 Conditions of Approval of the merger. On a
9 long-term basis, Pittsburgh must remain a
10 significant US domestic hub.

11 4.) By year's end, US Airways and United
12 Airlines will have an extensive fleet of
13 Airbus aircraft with numerous new aircraft on
14 order. Both airlines have admitted to the
15 need for a new maintenance facility to perform
16 maintenance and safety checks on these aircraft.
17 A skilled workforce, including more than 2,000
18 machinists, is available right now in south-
19 western Pennsylvania to perform these tasks,
20 and the needed facilities have already been
21 designed for construction at Pittsburgh
22 International Airport. We ask your help in
23 urging United Airlines to follow through with
24 plans to construct this facility, and commit
25 to do so within two years of approval of the

1 merger.

2 United has already addressed several of
3 these issues. The airlines has confirmed it
4 intends to assume US Airways' existing lease
5 and guarantee payment of all future debt
6 obligations. United has also indicated its
7 intention to maintain Pittsburgh's hub status
8 at least at its current level. It even appears
9 the airline may expand service from Pittsburgh
10 by adding additional domestic and international
11 routes.

12 And the really good news is: earlier
13 this summer, United Airlines announced it
14 will proceed with a \$160 million plan to
15 expand maintenance operations and overhaul
16 existing facilities in Pittsburgh subject to
17 approval of the merger. However, the plans
18 did not include a new training facility as
19 contemplated by US Airways. The future
20 employment and training of airline employees
21 in this region is the major sticking point.

22 United originally committed to no furloughs
23 of US Airways' employees ever. However,
24 United has remained silent on question of
25 whether 600 training jobs, 200 dispatchers

1 and 500 related support personnel will remain
2 employed in this region. We must have
3 assurances these jobs will remain in
4 Pittsburgh.

5 Mr. Chairman and Committee members, I ask
6 your assistance to strongly convey to your
7 colleagues in Harrisburg, the importance of
8 the need for these guarantees to preserve
9 the economic future of a region rich in
10 resources. Pittsburgh is truly poised for
11 takeoff.

12 Thank you for allowing me to speak today
13 on behalf of the many citizens of Allegheny
14 County and the workers who will be greatly
15 affected by the outcome of these proceedings.

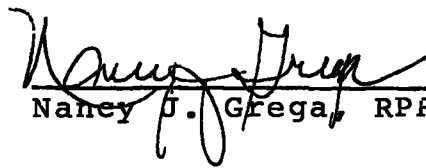
16 AVIATION CHAIRMAN FAIRCHILD: I would like
17 to sincerely thank all of the testifiers for being
18 here. You gave us a very professional presentation.
19 Good luck in finding your car out at the parking lot.
20 The hearing is adjourned.

21 (The hearing terminated at 12:35 p.m.)

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I hereby certify that the proceedings and evidence taken by me in the above-entitled matter are fully and accurately indicated in my notes and that this is a true and correct transcript of same.


Nancy J. Grega, RPR/mma