HOUSE OF REPRESENTATIVES
COMMONWEALTH OF PENNSYLVANIA

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Airline Ticket Pricing

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House Transportation Committee
Subcommittee on Aviation

Room 60, East Wing
Main Capitol Building
Harrisburg, Pennsylvania

Tuesday, February 27, 2001 - 9:11 a.m.

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BEFORE:

Honorable Russ Fairchild, Majority Subcommittee Chairman on Aviation
Honorable John Pippy, Majority Secretary
Honorable Dick Hess, Majority Subcommittee Chairman on Transportation Safety
Honorable Dennis Leh, Majority Subcommittee Chairman on Highways
Honorable Ron Marsico, Majority Subcommittee Chairman on Railroads
Honorable Ellen Bard
Honorable Gene McGill
Honorable Katharine Watson
Honorable Stephen Stetler, Minority Secretary
Honorable Joseph Petrarca, Minority Subcommittee Chairman on Aviation

T2001-008

BEFORE (cont'd.):

Honorable Dante Santoni, Jr., Minority Subcommittee Chairman on Transportation Safety
Honorable Anthony Melio, Minority Subcommittee Chairman on Highways
Honorable LeAnna Washington, Minority Subcommittee Chairman on Public Transportation
Honorable David Levdansky, Minority Subcommittee Chairman on Railroads
Honorable Frank Dermody
Honorable Susan Laughlin
Honorable Joseph Markosek
Honorable Lawrence Roberts

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ALSO PRESENT:

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House Transportation Committee

Dana J. Alwine
Majority Counsel

Paul Parsells
Minority Executive Director
House Transportation Committee

C O N T E N T S

CHAIRPERSON FAIRCHILD: Good morning everyone. If everyone could find their seats, please. Just some miscellany. If anyone would like any juice or coffee, please feel free to help yourself. At this point, I would like to call the second hearing concerning rate schedules and aviation rates in Pennsylvania to order.

And we're going to start off immediately with our first testifier, who is Mr. Eric Clancy. And Eric is Executive Vice President, Delta Development Group and a member of SARAA Board, which is the Harrisburg, basically the Harrisburg vicinity Airport Authority Board. Eric, when you're ready, you may begin.

MR. CLANCY: Good morning. It is a privilege for me to be with you this morning and speak a little bit about the impact of aviation on Central Pennsylvania business. I am, as was stated, Eric Clancy. I'm Executive Vice President with the Delta Development Group. The Delta Development Group is a 24-person firm. It's now in its 14th year of existence. Our offices are in Mechanicsburg, Pennsylvania.

It is also a privilege to serve at the pleasure of Cumberland County on the Regional Airport Authority. The Regional Airport Authority, as I'm sure you know, deals with the Capital City Airport General Aviation Facility and the Harrisburg International Airport.

At Delta Development, about 60 percent of our total business is done in a triangular corridor that runs from Johnstown down to Greene County and up to Butler County and all the area in between. And our company makes between 5- and 10-person trips a week out to that area, mostly into the greater Pittsburgh area.

Just by way of example, if I needed to have two of my development team people or planning team people in Pittsburgh, say, yesterday afternoon, they could have taken a 3:51 flight out of Harrisburg. They could have been in Pittsburgh at 4:47.

They could have been downtown for a 6 o'clock evening meeting. If they were going to return this evening after a dinner meeting, for example, they could have gotten the 8:44 flight out of Pittsburgh, which arrives back in Harrisburg at 9:47. So going each way, it's nominally an hour airtime.

That would have cost each of those individuals $570.50. That would have been yesterday. That meant that our company would have been saddled with a $1,141 airfare bill for a meeting yesterday. That's a current fare. In a consulting business like ours, many of those costs are passed on to a client, as is the case in most service businesses.

But that is still a significant disadvantage for certainly the Central Pennsylvania business and certainly for using air transportation in the Commonwealth. If we could only get frequent driver miles on the Turnpike, we'd be doing very, very well. We spend a great deal of time on the Turnpike going back and forth.

Intrastate travel is always a fly or drive proposition. We never evaluate other airports for fares. It just doesn't really make sense. And we seldom fly doing business within the state at this point. In a recent interstate travel example, one of our management team had to visit a Fortune 50 Company in Connecticut.

The flight from Philadelphia to Connecticut was about $575 round trip. If he had flown from Harrisburg, the cost would have been twice that much. And that adds about 110 miles each way onto that flight. It doubles the cost of the flight.

Many companies in our area have specific rules about using -- and just by the way, that flight to Connecticut was taken on about January 28th or somewhere around there, the last week of the month. So that's current as well.

Many companies in our area have specific rules about using airports based on cost differential for flights. My brother is an engineer at one of Central Pennsylvania's largest manufacturers. He is on the road five to ten days each month across the country.

He lives less than 30 minutes from Harrisburg's airport. But the company policy is that if the fare, if the fares are $150 or more higher at Harrisburg, he must fly out of BWI, Baltimore's airport.

A client of ours from Nevada has found that flying into Baltimore, based on cost and connections, has allowed him to evaluate facilities and locations in Maryland on his way up to see us. That's a significant counterproductive activity for one of our clients coming into Pennsylvania. That does not help Pennsylvania business.

A Commonwealth official found himself in a position of comparing fares for a January 2001 trip to the West Coast. The trip included one of my project managers. Both were going to look and evaluate, to look at a system for possible use in the Commonwealth.

They looked very carefully for a competitive fare from Harrisburg. They were confronted with a $238 fare from BWI or a $1,250 fare out of Harrisburg. He selected BWI and rightfully mentioned that he could not rationalize a $1,000 premium to his agency or the taxpayer.

As our development team works on technology facilities for Central Pennsylvania, one of the prospect's first question is, How do we get our people to Charlotte, Atlanta, Austin, and Northern California? These are always compared to cost of operation in other cities for very competitive economic development prices. This has become very, very critical.

We are losing significant economic resources to Maryland each year by pushing our residents and families away from our local airport facility. The key is fares and connections to most ticket buyers. In an INC. magazine article in December of 2000 -- it's attached there -- the article is called "City Pickers: How to judge whether a city fits your business."

The author, Rosenwein, details nine issues in choosing a place to put your company. So one of the ingredients that they focus on here -- in fact, item number 4 -- is transportation. This is a very, very important link. And they write in the article, "Air service is particularly important in today's economy."

She poses two questions: How many flights go into or out of the nearest airport? Is there a hub nearby making it easy for your customers to get to you? Harrisburg International Airport is a vital link for Pennsylvania business and maybe more so for national and international business that have found favor with Pennsylvania as a place to live and work.

We must make it easy for these people to get here. As is the case in most states, regions are not evenly accommodated with air service. We have reasonable levels of service in the eastern and western parts of the state. BWI is, however, a significant competitor for the entire south central region of the state and all of the eastern region of the Commonwealth.

In Pittsburgh, competition from Cleveland is becoming a more relevant issue. Beyond the business community, the same issues impact leisure travelers; but many have more options due to 21-day fare breaks. In Central Pennsylvania, our catchment area, the area from which we would expect to collect our, the flying, the folks that fly on planes in and out of here, is about 1.6 million people.

That covers eight counties. And that's based on travel time to and from the, to and from the airport based on the road network in and around these eight counties. They are not, however, using Harrisburg International Airport. And that is a significant hardship to Pennsylvania business.

At the Airport Authority, we believe that we are losing over 50 percent of the enplanements in our catchment area, most to BWI. The key draw to BWI, the key draw of BWI to our catchment area is the fare oriented followed by connections, the connection options that they get there. The key to BWI's fare structure is the Southwest Effect on all of the carriers.

I hope that we're able to attract and retain service from existing and new carriers to serve Central Pennsylvania residents and business people. We have a great opportunity to continue economic development growth here. Transportation and access will continue to be vital.

CHAIRPERSON FAIRCHILD: Thank you. Questions from members?

REPRESENTATIVE LAUGHLIN: Yeah, I have one question. Do you book these fares way in advance or --

MR. CLANCY: In most cases, when we're booking business, business fares, we may get a 3- to 5-day lead time.

REPRESENTATIVE LAUGHLIN: So you need what, about 21 days to get a lower fare?

MR. CLANCY: The key fare breaks come at 21 days. That's right.

REPRESENTATIVE LAUGHLIN: Well, okay. Thank you.

CHAIRPERSON FAIRCHILD: Representative Melio.

REPRESENTATIVE MELIO: Yeah. You know, I hope we can help you because we have the same problem. I mean, we have meetings and hearings in Pittsburgh. And it costs more to go from Philadelphia to Pittsburgh than go to a foreign country. And it doesn't make sense.

And one time I was told, Did you ask for the government rate? Well, I asked for the government rate. They had one from Harrisburg to Pittsburgh but not Philly to Pittsburgh. And I said, Isn't this the same state? And it's, it's only a 45-minute flight.

MR. CLANCY: It is a -- well, and in the Connecticut example, adding the 110 miles from Philadelphia to Harrisburg going each way added another 500-plus dollars to the flight. So that's --

REPRESENTATIVE MELIO: It certainly seems to me that it would discourage any business from locating in Pennsylvania. We have, you know, one of the greatest airports in Philadelphia and Pittsburgh. And they can't accommodate the business community. It doesn't make sense.

MR. CLANCY: It is a significant issue. And that is a growing relevance. Yeah.

REPRESENTATIVE MELIO: Because I talked to the Mayor of Pittsburgh, and he told me that his business people are going bananas because they just can't afford it.

CHAIRPERSON FAIRCHILD: Thank you. On the cost for your flight to Pittsburgh, was that regular class?

MR. CLANCY: Yeah. All of the fares noted were economy seats, yes.

CHAIRPERSON FAIRCHILD: I see that the

Authority is estimating we're losing about 50 percent of enplanements. Just for the benefit of the members, in yesterday's hearings -- and Tony, you're exactly right -- we heard over and over again that it usually reins between 40 and 60 percent of leakage to other airports.

And I think what we saw yesterday in testimony was similar to this in that we're not only losing leakage but, sadly, we're losing that leakage out of state. And that I think sends up a very serious red flag for Pennsylvania.

In your closing paragraph, you state that you hope that we are able to attract and retain service by existing new carriers. How would you propose that the state would play a role in assisting to do that, assisting authorities to do that?

MR. CLANCY: There are a couple of significant issues there. One of the -- in terms of how airports are funded, there are some fairly significant hurdles. And I think somebody like Bill Shaffer may be able to speak to some more details here.

But there's an interesting issue when you deal with FAA funding for airport facilities. While they want you to consider economic impact of improvements to airports, FAA money is not permitted for an economic development benefit to the community. So that creates kind of a difficult balancing act.

I would say that any way that we can encourage additional carriers into our Pennsylvania airports is probably a benefit. Now, when I say that, I also realize that there are some that, some folks that are starting in business and they may not solve the broad problem.

For example, we had a shuttle service that we were trying to work between Harrisburg and Pittsburgh under a Pan Am flag. It was probably not a good fit. It was a great strategy. It was a good thought. But they just weren't ready yet to take that on.

So I think that we need to be careful about that. But I think additional carriers across the Commonwealth is likely to be a benefit.

CHAIRPERSON FAIRCHILD: Thank you. The last question I have is one relating to rates themselves. Yesterday, we had quite a, an interesting dialogue on what I will call special rates or those rates that are advertised in the media.

Oftentimes, a consumer will see a rate such as a $99 special from some airport to California. They get excited. They call the airlines or their travel agent. And they find out that no, that rate's no longer available. And part of the dialogue obviously based, is based on how many seats are actually available and do the consumers know what the parameters are.

But has your company or you personally ever tried to lock in any of those types of rates; and if you have, what kind of experience have you had?

MR. CLANCY: We have not. I will add, though, that there was an article last week, I believe it was, in the Wall Street Journal about Saber using a new model, an artificial intelligence and modeling profiling system to fill airline seats and make sure that they are balancing the discount seats with the full fare seats and not prebooking too many discount seats so that there are, there is space in the planes for the full fare seats.

And that was an article within the past 10 days in the Wall Street Journal. So this is, this is becoming a fairly significant issue. I mean, we -- our, as I pointed out, our needs, we rarely know them more than a week in advance in terms of the specific details or meeting schedules and the like. So we're next-day or 2-day buyers.

REPRESENTATIVE MELIO: Mr. Chairman.

CHAIRPERSON FAIRCHILD: Yes. A follow-up question.

REPRESENTATIVE MELIO: It probably was about ten years ago, it probably was about ten years ago; but there was an advertisement in the newspaper of a company that wanted to fly from Northeast Philadelphia to Allegheny

County Airport for $69.

And I don't know what happened that discouraged that. I don't know whether the Allegheny County officials or the Northeast Airport, something didn't work. But maybe our committee, our staff should look into encouraging other airlines to take advantage of those facilities so that we can have a good price, something that the business people can live with.

MR. CLANCY: In some areas, that's an issue of capacities or had been previously an issue of capacities at the typical airport. In other words, typically flying into Philadelphia, you wouldn't fly into Northeast. In Harrisburg, one of the -- here in our system, one of the issues for discussion was, Do you try to pull a scheduled charter or something like that and work it out of Capital City Airport?

The dilemma there is there's not a capacity problem now at HIA. So it wasn't really a, an issue that got legs, so to speak. It was -- it kind of -- we've got a place to put additional carriers at HIA. I think if there is a capacity issue at the traditional airports, then that probably opens up a lot of options in using the other facilities in the area if they're capable of handling the aircraft.

REPRESENTATIVE MELIO: Even if they can go to a place likely Allegheny Airport, the county airport rather than international airport, maybe something can be worked out.

CHAIRPERSON FAIRCHILD: Thank you very much. The next testifier will be Wendell LaPrairie. I hope I pronounced that right. And he is with the AAA Travel of Southern Pennsylvania. Wendell, when you're ready, you may begin.

MR. LaPRAIRIE: Good morning, Chairman Fairchild, Honorable members, distinguished guests. Thank you for the opportunity to speak to you today. My name is Wendell LaPrairie. I'm here today representing AAA of Southern Pennsylvania with over 217,000 members, approximately 200 employees, 9 offices covering 8 counties in the Commonwealth: York, Fulton, Franklin, Bedford, Clearfield, Cambria, Clinton, and Centre Counties, and also parts of Somerset and Cumberland Counties.

I'm delighted to be here today to address the concerns and issues regarding air flights via Harrisburg International Airport. Among several core services that we have is a travel agency with annual sales of over $18 million. Of this 18 million, 39 percent of that represents airline sales.

We have developed a strong group travel department. And generally, these groups unfortunately are departing from BWI instead of MDT due to pricing and lift availability even though logistically MDT would be more convenient. Convenient because from York, as we know, MDT is approximately 29 miles, while BWI is 65 miles.

For comparison purposes, I have enclosed as part of my testimony here today a comparison of several major cities via BWI and MDT. I might just say that from personal experience, we have our corporate office in Orlando, Florida, which I fly there quite frequently.

I cannot tell you the last time that I've been able to fly out of Harrisburg only because of the pricing. If you notice on my comparison sheet, the very first one there, Harrisburg and Orlando, as much as $800 difference between the two of them. And I'm talking basically the same, same time departure, same, same days and so forth.

Recently, three of my colleagues went with me to Orlando. And again, we had to fly out of BWI because of price difference. It would have been approximately $1,300 difference for each one of us to fly. Reasonable airfares and lift availability would enhance growth and profitability for Harrisburg Airport and provide the citizens in the southeastern region of the Commonwealth of Pennsylvania a more reasonable, convenient means of air transportation.

I thank you for this time allowing me to testify on behalf of AAA of Southern Pennsylvania about these issues. While I am Vice President of the Corporate Affairs and not directly involved with our travel agency, I have agreed to testify before you this morning.

Unfortunately, at the last minute, our Vice President of Travel was called out of town. But I'll certainly be happy to try to address any concerns and questions you might have.

CHAIRPERSON FAIRCHILD: Thank you very much. I have some, I guess I have some concerns which were heightened yesterday during the hearings and haven't really been comforted much today. And perhaps your industry could shed some light onto how discount airfares are marketed to the, to the flying public.

Could you explain that situation a little bit? Please explain from a consumer's view that I would be calling one of your travel agencies and asking for a, the lowest fare I could get for a flight from point A to point B. How would you take it from there as far as determining if there are, if these discounts are available?

And let me preface it. Say I saw it in the paper that I can fly from Pennsylvania to California for $99.

MR. LaPRAIRIE: Unfortunately, in many of those cases -- in fact, I think it would be fair to say in most of those cases, it's very limited seats availability for that special airfare. Secondly, there's some restrictions on those airfares.

It's very difficult, for example, for businesses to take such use of those airfares because many times it's a Saturday night stay, overnight stay, which many of us many times don't need to get to our destination till Monday sometimes. We leave on a Sunday.

Which if we would have to go down on a Saturday to get that discount, then of course you have extra expenses such as meals, lodging, and so forth. I think the major thing is limitation of those airfares. Many times, a customer will call us seeing those advertised specials.

They're already sold out till we, you know -- it could be the same morning, the same day. And the fares are gone.

CHAIRPERSON FAIRCHILD: Do you get information -- do you know -- when an airline offers these specials, do they state that we have 28 seats on such and such a flight available at that particular time; or would they just say available?

MR. LaPRAIRIE: We would only know availability if availability existed at the time we would call. We would have no advance notice of that.

CHAIRPERSON FAIRCHILD: How does the flying public know that this is not a come-on?

MR. LaPRAIRIE: I'm not sure they don't know that. I know as a consumer myself, I see special airfares. I personally go into our travel agency and say, Tell me about this. What is this exactly? When they go into the computer system, they're not available. They're sold.

CHAIRPERSON FAIRCHILD: Does anyone that you know of, federal government or state government or the industry itself, really monitor to determine that yes, this is a bona fide offer and there are, there were or there are 26 seats available for that $99 flight that they're advertising in --

MR. LaPRAIRIE: Unfortunately, Mr. Chairman, I can't answer that question. I don't know that.

CHAIRPERSON FAIRCHILD: You said in your last, in your recent answers that, something on the order of those rates aren't available down there or when they get there. I assume you're referring to BWI for the most part. But I guess my specific question is, Do the smaller airports, including the Wilkes-Barre/Scranton, the Harrisburg, the Williamsport, the Erie, are these specials available for those connector flights or those types of flights out of the smaller schedule airline airports?

MR. LaPRAIRIE: You're referring to the

special flights?

CHAIRPERSON FAIRCHILD: Yes. The special rates.

MR. LaPRAIRIE: The special rates? It all depends. Sometimes you will see in the, in the advertisement certain destinations. And they many times will not apply to the smaller airports. In fact, I have noticed in some ads where Harrisburg's not even included in those special rates.

CHAIRPERSON FAIRCHILD: Why do you think they -- any reason why they do that?

MR. LaPRAIRIE: I think some of it could be based on volume. I don't know that for a fact. Also competition. I think in the previous testimony, it was mentioned some additional airline carriers be added. I think competition would certainly help that situation.

CHAIRPERSON FAIRCHILD: I mean, to me it seems ironic that we're having all this leakage to out-of-state airports. And yet it seems the citizens of Pennsylvania are not being offered these discount rates. If we really wanted to be smart about the transportation system, it seems to me that those rates should be offered at the, at the airport of origination in that person's geographical distance so that someone doesn't drive an hour and a half.

Or we've heard instances of a 3-hour drive time back, you know, one way, three hours back when they return.

MR. LaPRAIRIE: I agree.

CHAIRPERSON FAIRCHILD: Questions? Representative Leh.

REPRESENTATIVE LEH: Thank you, Mr. Chairman. Just one, Wendell. And maybe you're not the person to answer this, but you're the person sitting behind the mike right now. We're talking about carriers. We're talking about market forces. And I guess my question is -- and we discussed yesterday the Southwest Effect.

How do we get Southwest into Harrisburg? That's not the real -- I'm not really asking you that. I guess my point is, is that Southwest flies out of BWI simply because people are coming there to fly out. Which came first, the chicken or the egg, really doesn't concern us right now. We've got a situation here to try to correct.

But since you have people that can't get a decent fare out of Harrisburg, they simply go to Baltimore. So if I'm Southwest, why would I want to come to Harrisburg if my market is there? How do we move that market?

MR. LaPRAIRIE: First of all, I can't answer your question directly. I can tell you that our national office where a lot of, a lot of the lobbying and legislation is going on to try to produce these things to happen, they, they make an attempt to have these things happen.

I can tell you I know from attending some of their hearings and so forth, it's not an easy process. I think obviously a lot of it has to do with volume. As you said, which came first, the chicken or the egg? They're looking at Harrisburg International Airport.

And they look at the volume going out of that airport and coming into that airport. Why would that airline want at that point to put a hub there? It's a difficult --

REPRESENTATIVE LEH: I agree. How do we provide the incentive to get Southwest there? And there's no really incentive for them to be there.

MR. LaPRAIRIE: No, there isn't.

REPRESENTATIVE LEH: As far as they're concerned, their customers are going to come to Baltimore.

MR. LaPRAIRIE: Absolutely.

REPRESENTATIVE LEH: Mr. Chairman, thank you.

CHAIRPERSON FAIRCHILD: Representative Melio.

REPRESENTATIVE MELIO: Yeah. But if the price was right, you could probably do a lot of business in the Harrisburg Airport. If they gave the right fares, if there were cheaper fares, I'm sure some airline would probably do a booming business because there's a lot of business going from this area, from Pittsburgh to Philadelphia to Harrisburg. And -- but what can we do to help you?

MR. LaPRAIRIE: Possibly what we need to do is if I would have some of our contract people at our national office which sets up the regular meetings with our vendors, the airlines, the Deltas, the Southwests and so forth, maybe that's a start somewhere as far as trying to begin lobbying to get some of these larger airports.

And I know there's a lot of logistics and things that I don't personally understand because I'm not on that level working with these particular vendors and so forth. But maybe that would be the start.

REPRESENTATIVE MELIO: I hope so. Thank you, Mr. Chairman.

CHAIRPERSON FAIRCHILD: Representative Laughlin.

REPRESENTATIVE LAUGHLIN: Do you offer or do the airlines offer discounts for senior citizens?

MR. LaPRAIRIE: In most cases, they do not. Sometimes there will be a special offer, just as there's special offers on certain destinations. But in most cases, they do not offer that. I will say this: It's amazing -- and I never realized this until I got a little bit more involved in the travel agency.

And I'm sure I'm not telling any of you folks anything that you don't know. But any flight that you're on, it would be interesting to take a survey and just to find out how many different airfares. I mean, it's incredible. I'm sure if, you know, there's six people around you, there's six different airfares.

REPRESENTATIVE LAUGHLIN: Well, I know the flight from Pittsburgh to Harrisburg and back is $570. But if you tell them that you're a senior citizen, then it's $518. So you're saving almost $50 there.

MR. LaPRAIRIE: One of the things that -- I think it was US Air. I think they will offer some type of discount. However, they don't ask you. If you ask, you know --

REPRESENTATIVE LAUGHLIN: That's right.

MR. LaPRAIRIE: That's another point.

REPRESENTATIVE ROBERTS: Thank you, Mr. Chairman. I just have one question. I understand the advance notice on, on a reservation, you know, how many people are going to be on the plane. But I really don't understand the Saturday stay. Everyone seems to have this stay on Saturday. Why is that necessary to get a reduced rate?

MR. LaPRAIRIE: Unfortunately, I can't answer that. We've been asking that in the industry for some time to the airlines. We've never really gotten a firm answer on that. It's obviously -- I mean, obviously for business travelers, it's very inconvenient, very costly, and certainly in most cases does not apply to business travel.

But we have asked that question time and time again to the airlines.

CHAIRPERSON FAIRCHILD: Thank you, Representative Roberts. Representative Melio.

REPRESENTATIVE MELIO: Yeah. I know my office tries to get airfares when we go to different places. Sometimes you call -- you get on the computer and you get a different price an hour later than you got. Or sometimes you call on the phone and you get a different price. And it doesn't make sense.

MR. LaPRAIRIE: Absolutely. And it does not make sense. But I can tell you that happens constantly. We have people that, we have customers that will tell us in advance that they might be flying to LA in three months, would we watch those airfares?

And it's incredible to go in every day just on a daily basis and see that change. And you're absolutely right. They do change from hour to hour. Someone just had -- recently, there was an experience with one of our clients. They called for rates for Bahamas. I think it was Nassau.

They were quoted the rate. They were asked if they wanted to put that on a credit card to hold it. No. They were told that the price could change. They said, No, it's no problem. We'll be there within an hour. An hour later, that price changed to $200 more per person within one hour.

CHAIRPERSON FAIRCHILD: Thank you. Thank you very much. If you could, if you would perhaps go back to your organization and see if there is additional information concerning rates. I think you know where we're coming from. And I think you can see that we all have concerns about what is going on.

But if you can forward those to this committee, I would appreciate it very much.

MR. LaPRAIRIE: I'd be happy to do that, Mr. Chairman.

CHAIRPERSON FAIRCHILD: Thank you for being here.

MR. LaPRAIRIE: Thank you.

CHAIRPERSON FAIRCHILD: The next testifiers are Paul Stifflemire, Senior Policy Fellow, Allegheny Institute for Public Policy; and C.J. Haulk, Ph.D., Managing Director, Allegheny Institute for Public Policy. Gentlemen, when you are ready, you may begin.

MR. HAULK: Good morning, Mr. Chairman,

members of the committee. It's our pleasure to meet with you today. We're going to divide our testimony up into two quick segments and then allow time for questions if you'd like.

There's a handout, just some tables and numbers, airfares that I'd like to just walk you through, if everyone has a copy of that. I think they're being delivered now. By way of --

CHAIRPERSON FAIRCHILD: Excuse me. Can everyone hear? There's kind of a background noise going on. Can everyone hear all right? Could you sit up just a little closer to the mike? Thank you.

MR. HAULK: Dana is handing out a table of airfares that I took off of Expedia over the weekend between Pennsylvania cities and some pretty important destinations. Page 2 is a comparison of Williamsport based on booking short term and a little bit longer term.

And then the back page of this 3-page handout is a table showing airfares from smaller cities around the country to major destinations. It comes as no surprise, if you look at Wilkes-Barre, the airfares are not very cheap. If you want to book on a short-term basis, you can fly to Los Angeles for $2,000; you can fly to Pittsburgh for $684; and Cincinnati for 952; Chicago for $1,000.

Now, notice that there are three major

airlines serving that airport. So there is potential for competition. But the fact is, they typically don't fly each other's route. So there's no head-to-head fare competition. The same is true in Harrisburg. You can fly direct to Chicago for 1,178 on American. And you can also fly one stop on Continental.

Likewise, out of Allentown, the fares are pretty high unless you want to go to Miami on a one stop. In no case is there a discount airline present at either of these three airports. And we'd like to talk about that later because getting the discount airlines at small airports is not something that's going to be easy to do.

If you look at Williamsport on the next page, the best I can determine, there's only one major carrier flying in and out of Williamsport. It's expensive if you book short notice. Trip to Pittsburgh is $567. Detroit, anywhere you want to go, it's pretty expensive.

However, if you booked those same fares March 16th returning March 20, which is an over-the-weekend trip, the fares, except for Pittsburgh, go way down. There are -- now, availability may be a question. But at least if you're on Expedia, you can find these cheaper fares if you're willing to book for an over-the-weekend flight on March 16th, which I guess at the time I did this was 21 days advance notice.

So it is possible to get cheap fares if you're willing to stay over a weekend. And in answer to the gentleman's question earlier why is that so, it's a simple question of elasticity of demand. Business travelers have a much lower elasticity and are willing to pay the higher fares.

Leisure travelers who can stay over a weekend can be seduced by the lower fares because it's, they have a much higher elasticity.

CHAIRPERSON FAIRCHILD: Just before you hop off the chart, I just want to clarify this. On the 21 days advance notice, that last portion of that chart, these would be locked-in fares, guaranteed that I can --

MR. HAULK: If you book them at that time. I don't know what happens if you wait. That's what was available at that moment. You have to get on and get them booked. You have to give them your credit card. And they're probably not refundable.

CHAIRPERSON FAIRCHILD: Do you know, are the airlines assuming that on that 21 days, that there are no discounts or anything else that --

MR. HAULK: That's the best fare you can find on Expedia.

CHAIRPERSON FAIRCHILD: How many, how many seats does that entail? Is that the whole airplane or --

MR. HAULK: There's no way of knowing that.

MR. STIFFLEMIRE: When those fares run out, Expedia won't show those fares. They'll show you the next best fare available.

MR. HAULK: So if you book it right then, you can get it.

CHAIRPERSON FAIRCHILD: So we're assuming that -- and we'll talk regular flying class -- we're assuming that every plane is available, or every seat is available up for that 21-day notice?

MR. HAULK: I don't know that you can assume that. It's just they're showing you the best fare available at that time if you book it right then. If you wait, you may not get it.

CHAIRPERSON FAIRCHILD: Well, that's part and parcel of the problem here is that -- and I haven't been able to get a straight answer from anybody. But are all those seats available; or do they hold some of those knowing darn well that there's going to be a lot of people that are going to, through happenstance or anything else, that are going to need to get on in a 21-day or less and then pay a lot more money?

MR. HAULK: Well, I'm sure the airline has a strategy to try to maximize their revenue on these, on these trips. And the closer you get to the date, the higher the fare's going to be because they can charge higher because people need to travel.

They're playing off the difference in the elasticity of the buyer and trying to maximize their revenue.

CHAIRPERSON FAIRCHILD: All we're trying to find out is going into this, into the pricing policy, does the consumer know that when he or she books 21 days or longer in advance that, that all those seats are available for booking? That was my question. If you don't know, that's fine.

MR. STIFFLEMIRE: Well, let me answer your question. I think if you're asking is every seat on the airplane at that price at that time, the answer is no.

CHAIRPERSON FAIRCHILD: No. I'm excluding first class, business, et cetera.

MR. STIFFLEMIRE: Even coach, all the coach seats are not available at that price. There are certain numbers that are. What the airlines have done is segmented their market. They know there is a certain segment that is going to go on the basis of price.

Other segments are going to go on the basis of other criteria. Either they have to travel over certain dates and be back or convenience or luxury or extra leg room. I saw an advertisement by American Airlines on TV.

All they were advertising was more leg room.

How many people are going to run down and book tickets on American because of more leg room? But those prices at Expedia, there's a certain number of seats that are available at that best price. Now, after that, there is a certain number of seats that are available at another price.

Once all of those best price seats are booked, those will not show up. I think I'm answering your question. There's only a few --

CHAIRPERSON FAIRCHILD: Yeah. And I know you don't know some specifics. But --

MR. HAULK: Yeah. Even Southwest, which basically books all the seats at the same price on the same legs, do have promotional fares. And if you book those early enough, you can get even steeper discounts from their regular low prices.

So even the discount airline like Southwest will have the same kind of strategy if you want to book in advance with a nonrefundable fare. I mean, that's just the way they do the business.

CHAIRPERSON FAIRCHILD: I realize that. But here's the problem: There's a lot of people that try to get that 21-day fare. And they say, Sorry. It's already booked. My question is, how many -- or if it's booked -- let's say it's booked 45 days in advance. I call my travel agent. And they tell me, Sorry, Mr. Fairchild. But that flight is booked.

My question is, How many other seats are not booked that they're holding off until the 21-day kicks in or less and the fares double or triple as we've seen in prior testimony?

MR. STIFFLEMIRE: That's an interesting question because what's implied is that they've got some seats that they're sort of holding at a price that they're not going to show to the market yet. And I don't think that that's the case. And I could be wrong.

But what I was told by a pricing expert -- and there is a fellow who is an expert on how airlines price -- is that they basically know how many seats they should be selling today on a given flight at a certain point in time.

And they watch that as they get closer to that particular date. If -- it's like retailing. If in fact the sales aren't going the way they expected, they will start adjusting prices in order to fill the plane. Then it becomes a marginal decision at some point. How many empty seats are we going to have? Is it better to give those seats away at very low prices than to let them fly empty?

So he says they're very sophisticated in terms of how they do it. And I think it's not, as we might suspect, that they've got these seats at very low fares that they're just not letting us see until a certain point in time. They can't afford to do that because they could be wrong on that bet, too.

CHAIRPERSON FAIRCHILD: Well, there's two things that are happening here. Number one, it appears in the testimony that a lot of the discounted fare rates are not available to Pennsylvania smaller airports.

MR. STIFFLEMIRE: That's correct.

CHAIRPERSON FAIRCHILD: And number two, where there is a, a, a competitive atmosphere at airports, that seems to be where the discounts are happening, which kind of makes it worse for Pennsylvania consumers because they end up driving to these to take advantage of some of these things.

The third thing is I think consumers, there has to be some way that consumers are assured that indeed when these discounts are available, that there are X amount of seats available. And I think the consumers have a right to know.

MR. HAULK: Well, I think they would get into maybe more regulation than you could really effectively write up. But I don't think, I don't think the DOT would allow deception. If you go to Expedia and it says that price is available and you book it, you have a contract.

If they break it at that point, I think then you'd have grounds for some kind of legal action. But let me, let me just go ahead and make my last point on these airfares. Pennsylvania's not alone with high airfares from its smaller cities.

I went and looked at Cedar Rapids, Iowa, likely places you'd want to go to from there and Lincoln, Nebraska. And guess what? It's the same story. If you want to get out of Cedar Rapids, Iowa to go to Chicago, it's $804 either United or American.

If you want to go to St. Louis, it's $963. And St. Louis is not that far from Cedar Rapids. Minneapolis, $659 on Northwest. Same story out of Lincoln. The only good fare there is Lincoln to St. Louis. And that was, I think, a special rate that I just happened to catch.

But if you want to go to La Guardia or San Francisco, you can get a reasonably good price to San Francisco through Denver. But if you want to go out of other small cities like Boise, Idaho or Odessa, Midland where you have -- I mean, these are not small cities; but they're not, they're not Pittsburgh's either -- you can get some reasonably good airfares when there is a discount carrier, like to Phoenix out of Boise, Los Angeles on Alaska Air.

And Southwest, of course, flies a number of flights out of Odessa, Texas. And you can get some pretty good fares if you want to go to Dallas or St. Louis. But if you want to go to Denver where there's no discount available, you pay a pretty steep price.

So my point is that these airfares between cities, small cities and major hubs typically don't matter very much what part of the country you're in. I mean, Pennsylvania's smaller cities are getting hit. Smaller cities in Iowa, Nebraska, and Kansas are getting hit. That's just the way the airline industry is set up right now.

So unless we just don't want to feel too put upon here, it's not unique to Pennsylvania. And with that, I'll let my colleague take over.

MR. STIFFLEMIRE: I'm looking at the other side of this coin. And that's the major airport situation, particularly Pittsburgh International Airport which, as has been correctly pointed out, I think, in previous testimony, has airfares that are above average almost no matter how you measure them, possibly with the exception of advanced airfares.

And what I did in this particular review is to look at next-day airfares as close as I could get to that, leaving, I guess today is the date of the departure and coming back on Thursday from various destinations. We've done this several times over the past couple of years.

As it says, we've been looking at this since roughly November of 1999 we did our first study and found that prices, as has been indicated, were about 33 percent above the average. And then the market basket that we looked at to explain this thing, we picked eight destinations that we thought were representative, looked at ten airports that we thought were roughly comparable to Pittsburgh and tried to see what the average cost or the market basket of airfares were at those airports to see how Pittsburgh compared. And Pittsburgh was more expensive.

But in November of '99, the average cost from the other airports was 3,371. At Pittsburgh, it was 5,772. So 71 percent above the average. This week the average cost is $5,350, and Pittsburgh is 6,494. So the difference from average is now reduced to 21 percent.

Costs at the other airports on average have gone up 59 percent. Costs at Pitt. have only gone up 12. And then looking at the difference between Cleveland and Pittsburgh in November of 1999, Pittsburgh, I mean Cleveland had 143 percent advantage.

This week the advantage is slightly in Pittsburgh favor. Now, there's an important note that needs to be made here; and I think it's made a little later on in the report. These fares are drawn from Expedia.com, which is the web site that my colleague talked about.

They don't include Southwest's airfares. But we've heard about the Southwest Effect. And the presumption is that when Southwest comes into an airport, it forces all competitors to lower their fares; and the airfares generally go down.

But it's a little more subtle than that. Southwest has to fly the particular route that you're looking at. If it doesn't, there's really no incentive for the major airlines to compete. What we found is that the major airlines, and as this report points out, you can have all five or six major airlines at your airport.

You may not get low prices because they don't tend to compete with each other. The way to get lower airfares is to have a discount coming. And that's what's been happening at Pittsburgh International Airport. That's what we were here to report on today, or I was.

Basically, the advent of AirTran at Pitt. and a couple of other discounters and the fact that Pitt. has gone from 8 airlines serving it back in November of 1999 to roughly 14 today -- maybe only 13 because I heard yesterday that Pan Am may not be there any longer, but they are still at the web site -- is those additional discount airlines that have had a salutary effect on pricing at Pittsburgh

International Airport.

And it's interesting. We've been talking about some other airports. I'm just going to kind of skip ahead to the page -- and eliminate all the rapacity there -- that basically shows those airports ranked in order of costliness with Cleveland at the top, interestingly.

Minneapolis should be added. There's an error there in oversight. And I will send corrected copies of this report. Minneapolis would go between Newark and Baltimore and would be the third least expensive airport in this week's snapshot survey.

And again, keep in mind that these are actual real-time prices for flights that could have been booked last week to depart today, return on Thursday. Minneapolis has fares that are best fares that are represented by only 25 percent of the major airlines.

So the point we're trying to make is that competition exists realistically only when you have a real competitor in there, and we're talking about price competition. And that's a discount airline. And then there is even disparity among the discounters.

For example, AirTran, an airline called ATA, and Southwest are the most dramatic discounters. And they have the most dramatic effect on prices at the major airport that they enter. An airline like America West has -- it was mentioned yesterday -- become a major airline.

And they are no longer competing solely on the basis of price. So they don't have the significant effect. And I guess the point I'm trying to make, as you read through this study and take a look at these prices -- and I'm sure there will be questions -- is that it's a very complex formula.

There is no simple silver bullet to get low prices at any airport. It depends on who you attract, how many routes they're able to fly, how much they care to compete with major airlines. We talked to Southwest Airlines, for example.

And we asked them the $64 question. Why aren't you at Pittsburgh? And I'll give you the answer they gave us. They said that they have better opportunities right now than Pittsburgh to move into other markets where they can become profitable much more rapidly.

So they're avoiding Pittsburgh temporarily. They're waiting for the situation to change there. They know that there is a significant monopolist in Pittsburgh, which is US Airways. And they are not saying that US Airways is not pricing rationally because they are.

But what they're saying is they have an

entrenched infrastructure there. Travel agents, corporations, the community is conditioned to fly US Airways. They take the path of least resistance. They call their travel agents and say, Give me the best available fare. And the travel agent says, Okay. That's on US Airways, whatever.

They don't do the work that other consumers who are more price-oriented do, go to the Internet, go to Southwest's web site, which is the only place you can get a Southwest price. You have to go right to Southwest. They don't use travel agents. They don't use the Saber. They don't use the other things. You go to them.

Therefore, Pittsburgh's prices are still higher. But you'll note that Philadelphia's prices in this particular study are very competitive even without Southwest. And that's because they have several discount airlines in there competing very aggressively on the routes, most of the routes that we're looking at.

So as I would point out, it's complex. Is there a simple solution? Sure. Get Southwest to fly to your airport. But that's easier said than done, very difficult to attract them to small markets. As has been pointed out yesterday, they're in Baltimore.

It's a major airport. I think there are well over 25 million passengers flying in and out of there annually. That's where they want to be. That's a significant market. They can compete there. Plus there are significant historical causes of the situation we see now.

Pennsylvania is dominated by US Airways for historical reasons. Allegheny Airlines in combination with Piedmont, you know, to be honest, you guys helped that situation along. I mean, they were our airline. We did everything we could to help them get entrenched. And why give that up?

Baltimore had the good fortune to have another operator there that Southwest inherited, and that's why they're there. It was an airport that most major airlines really weren't interested in at the time. So it was available. The economy there is quite substantial, and that drives that to a great degree.

I'll stop there in the interest of time. And we can open it up to questions for either myself or my colleague.

REPRESENTATIVE MELIO: Mr. Chairman.

CHAIRPERSON FAIRCHILD: Representative Melio.

REPRESENTATIVE MELIO: Is ATA AirTran?

MR. STIFFLEMIRE: No. That is American TransAir. And there's a code key --

REPRESENTATIVE MELIO: And AirTran is

different?

MR. STIFFLEMIRE: AirTran you'll see is a different discount airline.

MR. HAULK: Yeah. The point I would make about AirTran is when they came into Pittsburgh and offered nonstop service to at Atlanta, the fares on Delta and US Air moved quickly to match. Same way from Atlanta to Dallas. American and Delta are both fare competing now.

So AirTran for Pittsburgh is doing the job. We hope they'll be offering more flights to more places in the absence of getting either ATA in a significant way or Southwest. I might say that in thinking about this issue, based on yesterday's testimony, what can Pennsylvania do to get cheaper airfares?

It occurs to me that because most of the flights from the feeder airports, Wilkes-Barre, Williamsport, Du Bois, and so on, are going either to Pittsburgh or Philadelphia and connect a plane to somewhere else, the cheaper you can push the fares down in Philadelphia and Pittsburgh, the better off the whole system's going to be.

So we need a substantial amount of low fare competition in both those airports. And I think that will redound to the benefit of the entire state.

CHAIRPERSON FAIRCHILD: That seems to be a question that which comes first, the chicken or the egg? You know, you can lower airfares at the majors. But unless -- if you're going to charge 5- or $600 for someone in Central Pennsylvania to get to either Pittsburgh or Philadelphia, they're shot in the foot before they get there.

They can drive to Baltimore, you know. They can drive three hours to Baltimore and fly for the cost of the flight from Central Pennsylvania to Pittsburgh or --

MR. HAULK: The only difference is if you have a lot of low flight, or low cost seats going out of Philadelphia or Harrisburg -- that would be great to have them out of Harrisburg -- but Philadelphia, people can opt to drive, say, from Johnstown to Pittsburgh to catch the plane.

And eventually, the airline will either give up the service or they'll have to offer lower fares to get people to fly that leg. So I think the --

CHAIRPERSON FAIRCHILD: Well, if there's competition. But I think we've heard over and over again yesterday and today that with the leakage that's taking place, there's a, there's a serious lack of competition in Pennsylvania. I mean, how many people from Baltimore drive to Pittsburgh or Philadelphia to fly?

MR. HAULK: I'd say very few.

CHAIRPERSON FAIRCHILD: I would say very few, too. And I think that points out the problem at hand. It's going, the leakage is going the other way.

MR. HAULK: Well, I don't think there's anything in the short term that we can do really about that. Going back to Representative Leh's point, those passengers, many of them, if they didn't have the discount service out of Baltimore, may not fly anywhere at all.

I mean, so they're essentially creating a market there because they can attract people down to fly that route. It's not necessarily leakage because it's people that wouldn't be flying anyway. But to go to your point, what I'm saying is we do need more competition on low fares.

But I think it's more realistic to expect it's going to happen at the large major hubs than it is at Wilkes-Barre or Williamsport or State College because there's just not enough service or not enough demand going out of those small airports flying to a lot of different destinations that you could afford to have air service from, say, Wilkes-Barre to Schenectady, New York.

There's not enough people going there. They got to go somewhere and connect a plane that's going to be relatively full. So you can't solve the problem of all the small airports all at the same time with discount carriers.

I think it would help to have major discount competition as we're seeing happen at Philadelphia and Pittsburgh first and then maybe coming to Harrisburg later on. Would you agree with that, Paul?

CHAIRPERSON FAIRCHILD: Thank you. I'm just going to make a comment. I think it would be interesting to see these charts with Southwest rates thrown in. But be that as it may, my last question has to do with the proposed merger.

You heard me ask US Airways officials yesterday. Given the, given the potential of the merger, what would be your opinion as to what the consumer will pay as far as the rates in the future, realizing that they have offered to basically hold what they call the standard rates for a two-year period?

But after that two-year period, what's your vision of what rates will do for the flying public in Pennsylvania?

MR. HAULK: Well, I think out of the major airports that the new merged airline would serve, they would be at least as, no higher than they are today and probably lower because this trend toward more intense competition from discount carriers is happening -- I mean, this is something that the public hasn't even caught up with.

It's been such a recent phenomenon, say, the last three to five years. And I think that is going to continue because it's obvious that carriers can fly major hub to major hub and other destinations at much lower fares and still make profit.

So I don't see the, the large airlines, except where they have a total monopoly on the route, being able to raise fares in the future. So whether United and US Airways are merged or not, I think the trend toward airfares to major destinations are going to continue to trend down in inflation-adjusted terms and with the impact of fuel costs taken out.

MR. STIFFLEMIRE: Let me just add a comment, too. I think one has to understand the real motivation for, at least a couple of the motivations for the merger between United and US Airways, which was ostensibly precipitated by UAL Corporation.

People have asked the question, you know, Why would United want to buy US Airways if US Airways is operating as horribly as we've indicated, we heard indicated yesterday it is? I mean, it's the highest cost major airline going.

We seen what happened to TWA. And as has been pointed out by a number of individuals who testified before Congress and elsewhere, US Airways has significant problems. It basically is the synergy that would exist when these two airlines are combined. Given their two networks, they would form a truly national network comparable to Southwest.

The biggest problems that United has are tactical problems. The delays and horror stories you've heard last year are due to concentrations at just a couple of major hubs where basically every passenger that flies United Airlines gets impacted one way or another.

If there are delays at Chicago, that backs up throughout the entire system. Once they acquire access to Pittsburgh, we believe that they will shift a substantial amount of their traffic through the capacity of Pittsburgh, which enables them to smooth out their systematic operations.

The benefit for the combined airline is that it gets to increase its economies of scale and drive its cost per passenger seat mile down. They're doing it to compete with the AirTrans and the Southwests, who are much more efficient than they are.

The only way they can become as efficient is either to shrink, jettison the parts that are not efficient and cost effective and concentrate on those that are or actually become larger, more efficient and be able to fly you at a lower cost per mile. And that really is their strategy.

So my opinion is that the effect of these mergers on prices is a downward effect. Basically, they operate quite rationally. They know that if they continue to charge high prices at those airports where they have to compete with Southwest and AirTran, they're going to lose market share.

Then they either shrink or become competitive, which they attempt to become competitive on their part.

MR. HAULK: Let me just follow up with one thought. If we looked at -- and I'm developing a whole series of major hub to major hub flights. If you look at places like LAX and O'Hare and La Guardia and Miami, the bigger airports, you have almost all of the airlines operating between, out of those airports.

But they very rarely have more than two flying back to any given destination. So if you go on United or American between Denver and Chicago, for example, they're likely to charge you exactly the same fare right down to the penny. They're just simply not price competitive if it's the big airlines.

So this notion that somehow if we have fewer big airlines we're going to have less competition in price flies in the face of reality. You don't have it now.

CHAIRPERSON FAIRCHILD: Representative Pippy.

REPRESENTATIVE PIPPY: Thank you, Mr. Chairman. Two very quick questions. One, last year, the, Chairman Fairchild took the committee to Pittsburgh to talk about the US/United merger. Part of the discussion centered around the fact that we have a significant, a large number of small airports in Pennsylvania, more so than other states.

What are your thoughts on that? Is one reason we have trouble making competitive fares out of the small airports because, at this time, that we developed more small airports per capita than really what other states have? And the second question will be on the merger itself.

But have you looked at -- some had talked about consolidating some of these airports. I know that's not very popular. But does that put an undue influence on the price that we talked about trying to get demand?

MR. HAULK: Let me take a crack at it. Paul can follow up. If you look at Pennsylvania and the number of airports served by major air carriers, I doubt if there are very many states that have more of these airports. And as the gentleman from US Air said yesterday, you have a density issue.

How many people are flying out on any given day, and how much service can you expect for that airport to be able to support? We haven't given any thought to consolidation. I did give some thought this morning walking over here as to what the impact, say, Southwest in Harrisburg would be.

And it may not be all that good for Wilkes-Barre and State College and other airports because if Southwest is flying out of Harrisburg, people will drive to Harrisburg instead of BWI. So we have to be careful what we wish for here in terms of serving the best interests of all Pennsylvania's regional airports.

So that whatever the solution that you work on, you have to be careful that you don't rob Peter to pay Paul. Or you have to make a conscious decision that maybe the best interest of all flyers and all business travelers in the community, that you have to make some decisions about whether we'll subsidize or not subsidize all the airports.

We'll pick winners and losers. I'm not advocating that position. I'm just saying at some point, you may have to come to that realization.

MR. STIFFLEMIRE: I agree wholeheartedly with my colleague. I think that we do have an abundance of air service at Pennsylvania small airports, which is probably unique. I don't know how unique it is because we, frankly, have not studied that in terms of how many other states have as many small airports served by, let's face it, US Airways or something similar to that.

I guess the ultimate question is -- and I'll just make this point: I think that the airline industry is in a tremendous water shed right now. I think that it is an industry that has reached the point that has been paralleled by several other industries where consolidation is probably inevitable.

It's not something that, you know, the airlines just decided yesterday they want to do. I think they realize they have to do it. But the issue is, How is deregulation going to play out? I mean, we have not had total absolute deregulation in the airline industry by any stretch.

The question is, How is the airline industry going to evolve? Who's going to guide that evolution? Are we going to let the market guide the evolution and let the actual economic agents in the industry make decisions that they think are in their best interest and, let's face it, in their customers' best interest?

Or are we going to ask the government, whether it's the legislature or the State of Pennsylvania or the federal government, to step in and adjust reality to a future that would be more to our liking? There's uncertainty with both approaches.

I guess if we look back in history, we can find horror stories taking either approach. I think -- and I'll be honest with you -- my advocacy point would be to let the industry and the people who really understand our own airlines run airlines.

REPRESENTATIVE PIPPY: Thank you. I want to make a point that I'm not saying we should consolidate any --

MR. HAULK: Nor am I.

REPRESENTATIVE PIPPY: I'm just saying that that has been thrown out that we've heard that, and the only way we can stop that is to get more competition. The second point is with the merger. And I'm not -- I may have missed this.

But you mentioned the fact that many airlines such as an AirTran -- Mr. Healy maybe can talk on this point even more -- may want the merger to go through because when it goes through, there are going to have to be requirements to open up certain markets that right now are not opened up. And if you said that, I apologize.

MR. HAULK: We didn't.

REPRESENTATIVE PIPPY: But our understanding in reading the papers, especially in Pittsburgh and Philadelphia, is that if this merger does go through, the only way it would be allowed to go through is if United/US

Airways is going to consolidate some of their gates, thus opening up more gates in Philly and Pittsburgh for these low or discount airlines to provide more competition.

MR. HAULK: Well, we've thought about that and actually talked to key individuals about that. We have given an estimate that at least 5 gates will become totally freed up at Pittsburgh in addition to the 10 that are already available. So you'll have, in effect, 15 gates.

Pittsburgh Airport, as you well know, Representative Pippy, was built to handle 50 million passengers a year without a lot of upgrades. It's now running around 20. Pittsburgh is in a unique position that it can greatly expand activity either with discounters or with majors or whatever and still be able to accommodate it fairly easily.

On the other end of the stake -- and we've heard yesterday that the horror story's the other way. Your gates are all used. The runways are basically tied up. I don't know how you deal with a situation like that unless you can build another airport somewhere in the proximity to handle some of the overcapacity utilization there.

But Pittsburgh is in a very good position. I think some of the other things that are coming along in the, in the merger like the divestiture of the shuttle, the selling off of three of the commuter airlines, these are things the Justice Department can insist on that are going to make this much more palatable to the rest of the industry and should help it go through.

REPRESENTATIVE PIPPY: Thank you. Thank you, Mr. Chairman.

CHAIRPERSON FAIRCHILD: Thank you. Representative Melio.

REPRESENTATIVE MELIO: Yeah. I just want to share with you that my wife and I are going to Ft. Lauderdale during the spring break. And we got on a computer. And we found out that from Philadelphia to Ft. Lauderdale, it was over $2000. So we checked out Newark, and it was $300 less.

And we thought we wouldn't even be able to go on this trip. And AirTran came through with less than $300. I mean, from 2000 to $300 --

MR. HAULK: That's, that's the -- see, I think what we're talking about here -- and Paul talked about a water shed. But I think what we're seeing is a capitalism. When you think about the last five or six years in the airline industry, five years ago we weren't talking about half the market from Harrisburg area driving to Baltimore to catch a plane.

But because of this discount effect, we are, we are now worried about that. And this is something that has sort of caught us by surprise I think. And it's, it's not an easy one to grapple with because -- to create a demonstration effect, if I'm in Wilkes-Barre and I can't get a good flight or a good rate but people in Baltimore can, it looks like the world is somehow treating me unfairly, when in point of fact, it's just that the industry is taking advantage of a marketing opportunity because there is enough service there that they can offer the discount flight out of Baltimore and they can't out of Wilkes-Barre.

I mean, that's an unfortunate reality that, you know, five or six years ago I don't think we were even contemplating.

CHAIRPERSON FAIRCHILD: I would -- also, don't you think that when airport authorities negotiate with airlines, that they should perhaps be at the table as far as being able to negotiate that certain discounts are available to people that would fly in and out of their airport?

Or don't you think that's in the realm of what airport authorities and airport owners should or should not do?

MR. STIFFLEMIRE: Well, let me address both issues and just go back a little bit here, and I'll get to that. And then, Jake, I know you have some comments on this question, too. You know, it does seem nutty that a major airline's going to charge you $2000 to fly to Ft. Lauderdale and AirTran's going to charge you $300.

And they're, you know, to a certain extent, it does defy reason at its face. But keep in mind that the new airlines have designed airlines the way they should be designed. The old airlines are still suffering to a great extent to the legacy of deregulation.

And a lot of strategies that made perfect sense for those airlines back, you know, 10 or 15 years ago are still with them, the way they felt with unions, the way they basically consolidated all of the maintenance and other operations into one big conglomerate operation, whereas the discounters are operating just as efficiently as they possibly can.

They know what business they're in. The business they're in is they're not flying restaurants through the air. It's not a hotel. It's basic transportation. They want to get you from here to there. And that's what you want now. You know, the American Airlines ad that I mentioned with the leg room means to me that they still haven't quite gotten it, you know.

They just don't understand what the issue is from the flying public. So until those airlines, those old airlines can basically streamline and get right sized and really become efficient, they are going to be at a tremendous disadvantage.

And keep in mind that probably the next issue that's going to be coming before you is going to be some screams from members -- and I won't single out any groups -- of these old line airlines who are saying, Jeez, you know, we're getting hammered by these discounters here. We need some help.

And I'm just pointing out that the further you go into, you know, this, this change in the airline industry, the more interest groups are going to come before you and say we need help. Right now it's airports who are losing customers.

And to get back to the second question, What should airport authorities, what powers do they have? Again, there are unintended consequences. When you start asking for quid pro quos from airlines who are coming into your market, some of them will say, Sure, we'll do that.

We are having a problem now because we did just that from one airline in particular. We're living with the consequences of that. If we go down the path again and say we know what's best for our constituents, we know what airlines should be at this airport because we know what's good for them, what's the problem going to be ten years down the road?

I'm just warning that, as Jake said before, you have to be careful what you wish for sometimes. And my position always is let the chips kind of fall where they may. That's kind of a draconian approach, but that's what I think is best.

MR. HAULK: And just let me add one thing.

CHAIRPERSON FAIRCHILD: Well, okay. We're --

MR. HAULK: I know we're running out of -- let me just say that in a de novo situation, given all that we know now, I think airport authorities ought to be, maintain as much flexibility in their scheduling and their leasing of gates, et cetera, as they can.

It's just that every time you build a new airport, it's hard for them to want to be flexible when they need to line up a carrier who will guarantee flights in there. So it's always easier after the fact to say I wish we had done this when in point of fact, when you built the airport, you only had one carrier interested. You say, Okay. We'll line you up with a 30-year lease.

CHAIRPERSON FAIRCHILD: Representative Leh.

REPRESENTATIVE LEH: Yes. Thank you, Mr. Chairman. Very briefly. Do you find similar leakage from Wilkes-Barre to Newark because it's not really that far away? It's just east off Route 80.

MR. STIFFLEMIRE: I think the fellow said yesterday that they were, that that was one of the --

MR. HAULK: It's the second most heavily used alternative.

REPRESENTATIVE LEH: I knew Newark was. I just wasn't sure whether the leakage was from Philadelphia or was from --

MR. HAULK: And Newark is not all that cheap an airport to fly out of generally except with -- if you're flying Continental, which is where the, is the hub air carrier, to Houston or back to Cleveland or out to O'Hare, you don't get any good fares on those runs either.

REPRESENTATIVE LEH: Okay. Thank you, Mr. Chairman.

CHAIRPERSON FAIRCHILD: Thank you. I'm not going to defend American Airline. But I think it's one of the most successful programs and promotional programs. And anybody that's flown that, that is, it's very nice.

REPRESENTATIVE McGILL: I like the foot room.

CHAIRPERSON FAIRCHILD: Thank you very much for being here.

MR. HAULK: Thank you. Appreciate it.

MR. STIFFLEMIRE: Thanks.

CHAIRPERSON FAIRCHILD: We're going to take a couple minute break here. Feel free to get some coffee, juice and water. And our next testifier will be Kevin Healy, who's Vice President, Planning and Sales of AirTran Airways. Many of you have heard AirTran mentioned in yesterday and today's hearing. I think if you can, stick around. Thank you.

(A brief recess was taken.)

CHAIRPERSON FAIRCHILD: Okay. The next testifier is Kevin Healy, Vice President, Planning, AirTran Airways, Incorporated. Kevin, when you are ready, you may begin.

MR. HEALY: Thank you. I appreciate the invitation to be here today. Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to address you today on airline fares and competition. The airline industry is in the midst of consolidation, the result of which will greatly affect the State of Pennsylvania and the country as a whole.

I should point out that we are currently the 13th largest airline in the United States. With the current rate of consolidation, we will soon be 10th and not too far off from 6th. The issue there is that we're only 6 tenths of one percent of industry capacity.

There are fewer airlines today than at any point since deregulation. I think that underlines the critical issues facing the departments. The manner in which this consolidation is handled, both by the Department of Justice and the Department of Transportation, will have a significant impact on competition going forward.

And competition or the lack of competition is the primary determinant of airfare affordability. Airline fares are generally based on three factors: The cost of providing service, the size and type of the markets served, and competition.

With regard to costs, there can be dramatic differences in the cost of flight operations, a difference that is most pronounced in shorter distance markets. The AirTran Airways business model is designed to maximize efficiencies in operations through more favorable labor contracts; reduced aircraft ownership costs; and the introduction of brand new, more fuel efficient Boeing 717 aircraft.

Our focus is on keeping costs low without compromising safety. Our business model also includes a unique product offering. While we have low fares that never require round-trip purchase or a Saturday night stay, we also offer amenities such as advance seat assignments, a frequent traveler program, and business class service.

This focus on costs on product quality allows us to profitably offer low fare service in both large business markets such as New York and Philadelphia as well as to small and midsize communities throughout the Eastern United States.

The second factor that is often cited in determining airline pricing is the size of the markets served. This is the tricky one. The argument states that small, mostly business markets can't sustain vigorous competition or low fares.

This argument is used to justify high business fares and a relative lack of low leisure fares. The tricky part is that if fares were lower, passenger demand would likely be higher. But the risks of diluting high fare revenue will offset the possible rewards of attempting to stimulate demand with lower fares.

These small market arguments have been used in a number of communities to justify not only higher fares but also a reduction in service from jets to regional jets or turbo props. The reality in many cases is simply the fares are too high and suppress demand.

AirTran Airways has initiated service to many communities that were labeled too small and had reduced air service levels. In markets like Akron-Canton, Bloomington, Moline and Flint, AirTran Airways reduced average fares by 40 to 52 percent. And passengers demand increased by 281 percent to 1,461 percent, which brings us to the third element in the formula, competition.

The consumer benefits of low fare competition have been well-documented by the Department of Transportation and the US Government Accounting Office. In 1996, then Secretary of Transportation Pena estimated the savings resulting from low fare competition at more than 6.3 billion for 1995 alone. That number has certainly grown in the ensuing years.

The GAO study on airline deregulation updated last March, in March of '99 indicated overall airfares have declined by nearly 21 percent since 1990, largely as a result of new low fare competition. Both the GAO study and the DOT's recently revised white paper on airline competition note that airfares in the markets with low fare competition actually decreased by more than 36 percent.

In fact, in Atlanta, airfares declined by 38.7 percent between 1990 and 1998. Based on 1999 DOT statistics, AirTran Airways saved consumers flying to and from Atlanta nearly $700 million. The impact on AirTran Airways competition at Philadelphia saved consumers more than $75 million in 1999 based on these same statistics.

Last December, AirTran initiated service between Pittsburgh and our Atlanta hub, as well as Chicago and New York La Guardia Airports. Airfares in those three markets were reduced by up to 74 percent upon our entry. Competition by low fare carriers like AirTran is the only reason that fares are reduced. But there are barriers to entry in nearly every market.

In total, AirTran Airways offers 34 flights a day to and from Pennsylvania. We would like to expand service in the state but face significant barriers to entry. There are no gates available at Philadelphia, though we have been working closely with the airport to acquire operating facilities.

That's a process that began when Fred Testa became Airport Director in Philadelphia. While there are gates in Pittsburgh, there is limited access in key markets such as Boston, Newark, and Washington. These markets are critical for building the network that would support our competition there in Pittsburgh.

Overall, AirTran operates 314 daily flights, mostly between our hub in Atlanta and cities throughout the Eastern US. We operate a fleet of 57 aircraft including the newest, quietest and most environmentally friendly aircraft flying today, the brand new Boeing 717.

We were the launch carrier for the 717 and will take delivery of one new aircraft per month for the next three years. We have a successful business model and are poised to grow by about 20 percent per year. We have often stated our desire to build a focus city in the northeast or midwest.

The only limitation is our ability to gain access to key airports in order to build a successful network and achieve the critical mass necessary to be competitive in today's marketplace. We believe the current mergers offer the opportunity to address and restore competition in the industry.

The consolidation of the industry is inevitable but should be conditioned on asset divestitures that will enable new entrant low fare carriers to increase competition. If the consolidation occurs without accommodation for low fare competition, the concentration of the major carriers will foreclose new entry throughout the northeast.

United, American and Delta alone, even without further consolidation, will control more than two-thirds of flights within the Eastern US. United will operate 79 percent of flights to and from Pennsylvania and virtually all of the flights within the state. This sort of market dominance will surely reduce opportunities for low fare competition and will effectively sustain the monopoly level fares in the state.

Last week, AirTran Airways filed an enforcement action with the US Department of Transportation seeking to prevent the monopolization of northeast business markets, specifically the agreements between United and

American to carve up key markets, with the remedy being a withdrawal of slots at Washington Reagan National Airport and a proceeding to redistribute those slots to new entrant and limited incumbent carriers.

This complaint is consistent with the authority outlined by former Secretary of Transportation Rodney Slater in a report on competition, transportation policy, and legal issues he released last month before leaving office.

At that time, Secretary Slater abandoned a two-year effort to establish competition guidelines stating they would not be effective and instead confirmed the Secretary has the statutory authority to act against anti-competitive actions and prevent unreasonable concentration that would be harmful to consumers.

The Senate Judiciary Committee recently wrote Secretary Minetta to confirm the DOT's authority and to encourage the Secretary to review the impacts these mergers would have on low fare competition. Clearly, service by low fare carriers like AirTran Airways is the only effective means to lower airfares and create beneficial competition.

Your hearing is timely. The DOJ and DOT must act now to restore competitive balance in the airline industry. I urge all concerned parties within the state to contact the DOJ and DOT to express your concerns over diminishing competition and to demand fair and equal access to the public assets such as slots and airport facilities that are necessary to create effective competition.

Thank you again for the opportunity to address these important issues. I've also handed out some information that just gives you background on AirTran Airways.

CHAIRPERSON FAIRCHILD: Thank you. As I understand your problem in Pennsylvania as it now stands with two major airports, Pitt. and Philadelphia, even though in Philadelphia slots are very hard to get, et cetera, in Pittsburgh there's a lot of slots available.

But that's not -- the real problem for you, as I understand it, is not those slots. It's getting into the network. You can have all the slots in the world. But unless the slots open up in the other major cities, you got no place to go. Is that --

MR. HEALY: Yes.

CHAIRPERSON FAIRCHILD: -- what you're saying?

MR. HEALY: We are successful as -- I mean, there's a handful of low fare carriers that are successful. And they all have sort of a unique, have had a unique occurrence that allowed them to get to the size that they are today and sustain competition.

Southwest was protected by the right amendment for about 25 years and built a network that is as large as it is today; although, it is only about 6 1/2 percent at capacity. Frontier inherited a network in Denver from a failing Continental and was more efficient in operating that profitably.

We actually -- our network is based out of the Eastern Airlines bankruptcy. We were able to get 18 gates in Atlanta that we have since built into 22 gates and have grown to the size we are today. Our business model works in that sort of network.

Our ability to serve the large cities and small cities, our ability to serve the large cities, rather, makes it possible to bring service to smaller and midsize communities. That is as true wherever we build a focus city in the northeast, whether it's Philadelphia or Pittsburgh or someplace else.

It is critically important to have access to the large markets. We were able to get four round trips out of La Guardia through Air 21 legislation. And we chose to fly those to Pittsburgh. We cannot get anymore flights into La Guardia today really at any cost.

As a low fare carrier, we can't buy slots from another carrier. They go for several million dollars. We also chose at that point to initiate service to Atlanta, which would then connect throughout the southeast, and also used our last resources at Midway to fly Pittsburgh-Midway.

It gives us a foundation from which to grow if we can gain access to build a network.

CHAIRPERSON FAIRCHILD: How do you market your rates? How does the public know that AirTran has these rates? Is it through the conventional means of travel agents, advertising? You've heard the concerns expressed by myself and others this morning concerning the consumers' knowledge or right to knowledge of the programs. Would you please comment on that?

MR. HEALY: Sure. We do sell through travel agents. We sell about 40 percent of our tickets through travel agencies. We generally use print and radio media to advertise in markets. And many markets that we serve, we work in conjunction with the airport authorities to promote air travel from their airports.

One of our most effective means of distribution is the Internet. We have a mailing list of about 850,000 people. We also have an award winning web site that is extremely successful. We sell about 33 percent of our tickets on our Internet site and I believe for several reasons:

One, the system works very well; and two, our fare structure is intentionally not convoluted. We do not require Saturday night stay. We don't have time specific or day or week specific pricing. We try to keep the rules to a minimum so that people have a high competence level.

When they make a reservation with us, they are getting the best available flight, or fare rather. And, you know, that has proven to be very successful for us.

CHAIRPERSON FAIRCHILD: Thank you. Representative Leh.

REPRESENTATIVE LEH: Yes. Thank you very much. Just a quick one. Your 717s, how many seats are on those?

MR. HEALY: We have them configured at 117 seats. It's 12 business class and 105 coach.

REPRESENTATIVE LEH: Okay. Thank you.

CHAIRPERSON FAIRCHILD: Representative Melio.

REPRESENTATIVE MELIO: Yeah. I just want you to know that when I got booked on AirTran, I called the airport to find out what kind of a company you were. And they said, well, you were there for a couple of years. They said, Why don't you call AirTran?

I said, Well, I'm going to call AirTran and find out what kind of company they are? They're going to tell me they're a good company. But I did talk to one of the salesmen. And he told me, you know, what kind of service you have. And I told him where I was going.

He gave me a number in La Guardia to contact for any kind of information I might need. And I thought it was really nice. Is there a problem with something like the Allegheny National Airport, the Allegheny Airport in Philly or Pittsburgh and the Northeast in Philly? Would you be able to work something out with them?

MR. HEALY: I imagine you could get access to that airport. I don't think it would be successful for any carrier to try and reinvent an airport. It is exceptionally expensive to change consumer behavior and particularly in a city like Philadelphia where the advertising costs are extremely high anyway for us to try and operate out of two airports.

What we would -- we are working with the airport and will continue to do so to try and get our own facilities. We currently don't have a gate to ourselves. We are forced to sublet a gate from United Airlines at, which makes our cost of operation there exceptionally high.

We do believe, though, that there is opportunity going forward that would enable us to expand Philadelphia service, or we hope anyway to expand our services at Philadelphia.

REPRESENTATIVE MELIO: I can only tell you if it wasn't for AirTran, I might not be able to go on my trip.

MR. HEALY: Well, I'm glad we can help.

CHAIRPERSON FAIRCHILD: And we hope you behave yourself over spring break.

REPRESENTATIVE MELIO: It will never happen.

CHAIRPERSON FAIRCHILD: Representative McGill.

REPRESENTATIVE McGILL: Thank you very much. Yeah. Could you elaborate a little bit more? You're obviously in Philadelphia. And you don't, you don't have your own gate there. Could you tell us a little bit more of the problems that you run into?

And I guess the second part of that question would be, Did you have concerns when you looked at Philadelphia as to the potential size of the market versus how you keep an aircraft on schedule trying to get in and out of that airport?

MR. HEALY: Okay. Let me first talk about gaining access. I've been with AirTran Airways for two years. And we've been focused in this, that time in first stabilizing our balance sheets, getting our finances in order, setting our operations straight.

And we have now reported eight consecutive profitable quarters and are ready for our growth phase or actually already begun it. Gaining access at Philadelphia has been extremely difficult. Not only is it more expensive but when you're handled by another carrier who is also a competitor in many ways, the service that you get isn't what we want to put forward to the public.

And that is a chief concern as well, not just the cost. There are gates at Philadelphia that are underutilized by other carriers but are on long-term leases that were set many years ago that won't expire probably for another five or six years.

You know, as new gates are being built, we are working with the airport and trying to increase competition there. And I think that that will improve our, our operation from a customer service perspective and in many ways on an on-time arrival perspective.

As it stands today, generally speaking, if we could simply push from the gate, go to the end of the runway and fly to our next airport without any traffic, we could probably shave the time of flying by 20 percent or more.

I know in Philadelphia, we probably take the actual flight time and add about 30 minutes to the schedule so that we can publish a schedule that's as realistic as we possibly can and what we believe, based on our experience, time of day and other factors, that will reflect what we actually end up flying. But the congestion is clearly an issue.

REPRESENTATIVE McGILL: Do you think the, do you think that the merger between UAL and US Airways is going to open up some gates down there for you? Is that an area that you're hoping for?

MR. HEALY: Hoping, yes. Do I think it's going to happen? I've been given no indication that it will. Initially, United and US Airways went to the Justice Department. And the only divestiture that they presented to the Justice to remedy competition was a fairly transparent corporation of DC Air, which is the company that is, you know, supposedly run by a former US Airways, or current US Airways board member.

But would be -- all their services would be subleased from United Airlines. And that proved to be too transparent even, you know, at the initial look. When the carriers came back, the divestitures that they proposed was 20 percent breakup of US Airways, including gates at Philadelphia, La Guardia, Boston and DCA, to American Airlines.

And then DC Air would then become a subsidiary of American Airlines as well. There's aspects in that agreement that are trouble, including an agreement between American and United to set pricing on the shuttle and other agreements to cochair markets like Philadelphia to Denver.

It is difficult to believe that these carriers would sit down and form this sort of agreement with the intention to compete vigorously on price. I am concerned that this divestiture would go through. We meet with the Department of Justice and Transportation whenever we can.

But at this point, there has not been any, any divestiture that's going to create real price competition or anything that's any way beneficial to consumers.

REPRESENTATIVE McGILL: Would you -- would your company consider moving to a place like Allentown/Bethlehem/Easton International to look for gates and the potential of running the market out of there rather than out of Philadelphia market?

MR. HEALY: We've considered that. When I joined the company, our services were in Philadelphia already. The potential additional gates in Philadelphia is a better opportunity, I believe. Again, it's very, very expensive to try and change behavior.

Southwest -- to answer to a certain extent a question that was asked earlier, would Southwest serve Harrisburg, I think if you asked Southwest and they were completely honest, they would tell you they already are. Their market planning model looks at a very large catchment area.

Their advertising is designed to create as much drive demand as possible. We do that in some markets as well. It's more effective to go to a larger population in many cases than it would be to fly to a secondary airport.

Southwest's advertising budget is -- I don't remember the exact multiple over ours, but it's huge. They advertise on a national basis. We advertise locally. We can't afford the amount of money that they can spend in a market to create new demand and change people's behavior to fly to secondary airports.

We are trying to position ourselves so that we have a very strong network in Atlanta and the southeast that serves a lot of north/south routings. When you look at the mid-Atlantic and even a market like Harrisburg, if we had a focus city north, north or towards the midwest, that gives us the ability to come into the city now and offer services not only to Atlanta and the southeast but also north through a focus city up into the northeast and midwest more effectively, one, to compete with the incumbent carriers.

I mean, we have a lot of things to overcome when we come in. We fully expect the carriers will match us. And our planning and our modeling of market demand assumes the carriers will match. We even run assumptions that those carriers are likely to add capacity in order to try and prevent our success.

We have to overcome frequent traveler

programs. We have to overcome travel agency incentives and overrides. We have to overcome corporate pricing deals and other programs. Overcoming the franchise loyalty is one of the biggest issues. The more service that we can provide and the more places and destinations that we can offer --

CHAIRPERSON FAIRCHILD: Well, how do you -- I have a question. How do you -- how can you justify that when we have -- everyone that's testified here has testified to the fact that we have probably a 40 to 60 percent leakage rate.

Just like Representative Melio, who I'm sure has a history of flying out of Philadelphia, he will, I mean, he will change if he has to to save $1,500. And every constituent of mine would love to fly out of our regional airport, Williamsport.

But for various reasons, the competition's not there. And what we're seeing is this is out-of-state leakage. And I would say that it seems to me that if somebody comes into Pennsylvania and offers a very competitive price, that you're not going to see that, well, I'm going to continue to fly out of Philadelphia if they can drive a half an hour, fly out of a Pennsylvania Airport and save that type of money.

I think the, some people are missing the boat. We have basically 50 percent of the flying public leaving the state to catch an airline somewhere.

MR. HEALY: I'm actually well aware of the leakage from Harrisburg. I've looked at it really from both sides of the table as, looking at it from a major airline determining how to price the Harrisburg market relative to Baltimore and Philadelphia but also looking at it from a low cost airline perspective of can we succeed there more so than we could flying to, you know, for that matter, to Baltimore.

We talked to about 100 airports last year and, you know, in various degrees of discussions, including Harrisburg. And we evaluate the opportunities that give us the most profit potential that fit with our long-term growth strategy. And timing is one of the critical things.

Even in Harrisburg, it's expensive to change behavior. There is more flights in Baltimore than we could offer in Harrisburg. So people sometimes will also drive because the level of frequency is higher. Entering into a market -- one thing that low fare carriers, some low fare carriers are those that have failed. And I think at last count, there have been 140 bankruptcies since deregulation.

Being dependent entirely on the leisure market is not a successful formula. You will not be able to succeed over the long term. You will not be well-positioned for any kind of economic downturn. And the seasonality of it makes it difficult to maintain service on a year-round basis.

We have focused both on adding enough frequency that is going to meet the demands of the business market but also having a price structure that will stimulate demand and be attractive to leisure travelers as well as business travelers.

I do believe that there is potential in this market and other cities within the state. But I also -- our model is to build a network that we can plug into and go to as many destinations in the Eastern US as possible at this point.

CHAIRPERSON FAIRCHILD: Representative Melio.

REPRESENTATIVE MELIO: Kevin, in -- you must have statistics telling you how many people go from Philadelphia to Pittsburgh. And because of the fact that it is expensive, would you be able to know if you had a better fare, that more people would do that traveling?

MR. HEALY: Yes. The advantage of once being a regulated industry, there is a tremendous amount of information that we can use for planning purposes so that we can look at the history of what airlines have served markets, what fares have been charged, and what happened to demand in that corresponding period.

I know that several carriers have attempted to compete between Pittsburgh and Philadelphia with US Airways. And when the fares were lower, the size of the market grew dramatically. And actually, it was probably capped out in that there wasn't enough capacity there to handle all of the demand.

So we have a very good sense of how big that market could be if, if the fare structures changed. You know, when we entered the Pittsburgh to Chicago market, the walk-up fare to O'Hare was $263. Our lowest walk-up fare is $119. If you buy it three days in advance, our fare is $94. Our lowest fare in that market is 59.

We would expect generally 200 to 400 percent stimulation in a market like Pittsburgh, Philadelphia if the pricing were more competitive.

REPRESENTATIVE MELIO: Thank you.

CHAIRPERSON FAIRCHILD: Thank you. Representative Bard.

REPRESENTATIVE BARD: Thank you, Mr. Chairman. I've had occasion over the past years to watch two airports, Sarasota in Florida and Manchester in New Hampshire. And I like to travel to both areas by air frequently. But because of the history of the fare structures, this has been kind of difficult.

But now, we've had testimony that Manchester has succeeded dramatically in reducing its fare structure.

How has Sarasota been different? And which one might apply to Harrisburg as we try to look forward?

MR. HEALY: With Fred Testa sitting behind me, I should probably say it was all the efforts of the airport director at the time. It certainly was Fred's efforts in attracting Southwest to the market. It is somewhat different in that it is a secondary market to Boston.

And Southwest Airlines, as I mentioned earlier, has the highest advertising budget as a percentage of revenues of any carrier in the industry. They spend a tremendous amount of time, effort, and money creating demand, both originating demand who would otherwise drive to Boston and people flying to Boston using Manchester as an alternative.

Sarasota doesn't have the same sort of population base. They've offered some fairly significant incentives to try and help the demand. But generally, it is a harder effort there because it's more of a destination market than an origin market so that you have to then go out and advertise to a much broader base to get people to fly to Sarasota as opposed to Tampa.

REPRESENTATIVE BARD: So you're attributing the success in Manchester to merely the salesmanship of Mr. Testa, I guess?

MR. HEALY: Yes.

REPRESENTATIVE BARD: Now, in terms of Harrisburg's situation, which would you say is more applicable? Are they more at the Sarasota end of the spectrum or more of the Manchester end of the spectrum, or is there really not any similarity?

MR. HEALY: I would say it's closer to Manchester. But it's a larger city in and of itself. The population is greater. The biggest issue really would be changing consumer behavior to get people to fly out of the local airport. The key there, too, with the community is that the community support new entrant airlines.

One thing that has generally occurred, even in Pitt. and Philadelphia, that when a new entrant came in, it stimulated a tremendous amount of demand on US Airways. And eventually, the low fare carrier fails and leaves the market; and fares go right back up again.

So that is a pattern of competition that has been repeated over and over again.

CHAIRPERSON FAIRCHILD: Thank you. Representative McGill.

REPRESENTATIVE McGILL: Again, thank you, Mr. Chairman. Just a quick follow-up. I'm going to follow on what Representative Melio said. Say you were to get more gates in Philadelphia, which is the direction that you say that you're looking to go.

If you get more gates, there's no guarantee that part of your plan will be to go to Pittsburgh. You could pick another city and utilize that gate out of Philadelphia to create more business for you in and out of Philadelphia in a market that you've already said you have tremendous information from, from being a regulated industry in the past that you might want to go to.

So I guess my point is, we tend to be homers here that we think everybody wants to fly around Pennsylvania and we can relieve some of our problems within the state. And, you know, we really didn't look beyond getting people out of Philadelphia and into Pittsburgh or out of Philadelphia and into Harrisburg or Harrisburg, and using the network of airports that we have.

So am I correct in that there is no guarantee that just because you get one more gate, you're going to think that one of the best places to fly to would be Pittsburgh?

MR. HEALY: No, there is no guarantee. I don't want to sit here and make some sort of guarantee or advanced announcement. I would say, though, that we look at the economics of the marketplace and we look for markets where we can stimulate the most demand where there is very high fares and relatively limited service.

If you look at Philadelphia or Pittsburgh, use

Pittsburgh as an example. We now serve three of the top five destinations from Pittsburgh. Philadelphia falls into the top five. If you look at Philadelphia and say what are the number one traffic destinations of the largest markets today, I don't remember the exact order; but again, Pittsburgh falls into the top five and has very, very high fares relative to distance.

Our business model works in relevant short haul markets with reasonable density and very high fares. So I'm not making any guarantees. But if I had another gate in Philadelphia, that would certainly be one of the first things that we would have to look at, if I had a gate in Philadelphia.

CHAIRPERSON FAIRCHILD: Thank you.

REPRESENTATIVE WATSON: Yes. If you would go back to something that you mentioned earlier. And you talked about in Philadelphia there seemed to have been a history where indeed someone offering low fares comes in but for whatever reason, people still stay with the higher, the way I'm paraphrasing it, higher priced airlines and ultimately they fail.

And coming from Bucks County, I'm familiar with, and living in that area all my life, I'm familiar and could name you several airlines that went out there. Is that due to -- you mentioned earlier in other testimony about Southwest Airlines and an inordinate amount of money they spend on advertising.

Do you then see that the problem for coming into the Philadelphia market is related to advertising? I guess I have trouble understanding, if I am a consumer using Philadelphia, why I would not switch. As long as your safety record was fine and I flew inside the plane, I don't understand why I wouldn't switch and why you wouldn't be successful offering lower fares.

MR. HEALY: Mainly because we won't -- we'll be offering lower fares than are in the market today, but we will be matched by the incumbent carriers. We expect them to match whatever pricing that we put into the marketplace. They also then will generally do frequent traveler incentives or bonuses for flying that carrier and those routes. They may add flights.

We have 57 aircraft. The new United will have over 1,000. They'll be able to deploy additional capacity using a number of gates that they have versus our relatively limited number. We have to overcome travel agency incentives.

Some travel agencies will be paid overrides and additional commissions specifically designed in the routes that we serve to keep the traffic on the incumbent carrier. Many corporate programs are leveraged against airlines that say if you fly the new entrant, then we're going to take away your corporate deal and you won't get any discounts to California or Europe.

We understand all of these hurdles that you have to pass, and we have been very successful in doing that. And part of the success is carefully selecting the markets and offering a product that's competitive. Carriers in the past that have failed either did not, generally have a bad plan and a combination of other things.

The incumbent carrier -- it's very easy to pick off an airline that doesn't have a network. When we entered Philadelphia, Atlanta -- or when we compete between Philadelphia and Atlanta, we can carry passengers between those two city pairs. But when our plane lands in Atlanta, we can also connect to 20 other destinations so that we offer low fares to Dallas and Houston and New Orleans and throughout Florida.

We saw so much demand between Philadelphia and Atlanta and Florida that we actually used our limited resources and added nonstop service between Philadelphia and Orlando, Ft. Lauderdale, and Tampa. So we have the ability to draw on the 140 departures a day at Atlanta.

Building a similar network is what we are attempting to do to give us the network strength to compete with network carriers. The reason that the largest airline in the world wants to purchase the 6th largest airline in the world is to become an even larger carrier.

The bigger they are, the harder they are to compete with, the more muscle that they have and the more influence they can have in the marketplace, particularly in pricing. And if you look at the American/United agreement, they are actually divvying up the Eastern United States.

The two largest carriers in the world sat down across the table from each other and agreed, among other things, to transfer gates at New York where gates and slots are extremely scarce, transfer gates at Boston and enter into cochairing agreements, actually transferring gates at Philadelphia, Atlanta, and others.

The net effect of the agreements, once they went through all of them, including sharing shuttle flights between New York and Washington and New York and Boston where they have also apparently agreed to fix prices -- which last time I checked was still illegal -- and also fix capacity of the market, is that they are now almost exactly the same size as each other going forward.

They've also added into their agreement some requirements that if either of them chooses, or bans either of them from leasing line maintenance and other maintenance facilities to any other airline for ten years. There's no reason to have something like that in the marketing agreement other than to make sure that nobody else can grow either.

So there's many things like that that are troubling right now as far as the airline consolidation. We believe that with the opportunity, we have, we have proven, in one of the most intensely competitive markets in the country, that we can succeed and we can have tremendous impact.

I think Delta Airlines is actually a better airline because they compete with us. They are more efficient than most other major airlines. They have a lower cost than most major airlines because they recognized five or six years ago -- or in Delta's case, four years ago -- that they really needed to improve their efficiencies and become smart.

Both of us have reported record profits as a result. So, you know, the argument that you can't have a low fare carrier and a hub flies out the window when you look at the busiest airport in the world as a hub for both a traditional major airline and a low fare carrier.

We believe that formula can be repeated if, if the opportunities are there. And the mergers are the best opportunity right now to create that. Our filing with DOT will also, we hope, result in divestitures that increase our ability to compete.

If, for example, we could offer, say, 60 flights a day at Reagan National, that would give us the ability to grow simultaneous networks. That is an anchor route. If you've ever flown between Pittsburgh and DCA, I think it's $1.70 a month or something now. It's absurd.

But that would be one more spoke in the network in Pittsburgh that would allow us to continue to grow. If we flew then from DCA to Hartford, it makes it easier then to say, Okay. Now I can fly not only from Hartford to Washington National, I can head to our network in Atlanta and I can add it to a network in Pittsburgh and/or Philadelphia. And that gives you the strength.

Now my overhead constant Hartforders spread on three or four different destinations, and my efficiencies go way up. And that's the sort of opportunity that's there, and that's the sort of opportunity that the merger partners recognize and want to prevent.

Not that we are specifically against the merger. We just think it needs to be handled very carefully.

CHAIRPERSON FAIRCHILD: Thank you, Representative Watson. And thank you, Kevin, for your testimony.

MR. HEALY: Thank you.

CHAIRPERSON FAIRCHILD: And please keep Pennsylvania in mind as you --

MR. HEALY: I always do.

CHAIRPERSON FAIRCHILD: -- strive to expand. The next testifier is Thomas Hart, Executive Director of the Williamsport Municipal Airport Authority. Tom, when you are ready, you may begin. I'm sorry. We're getting towards the end here. There are some other activities going on, especially in the appropriations room this morning.

MR. HART: Well, good morning, Mr. Chairman. Thank you for allowing me to come here and discuss with you our concerns over the airfares. First, allow me to explain our situation at Williamsport. US Airways Express currently serves us with direct service to two major international hubs, Pittsburgh and Philadelphia.

Contracted carriers provide these services for US Airways. Our staff maintains an active vigil on airfares. It is necessary for us to monitor fares on a regular basis to remain competitive with surrounding airports that have multiple airlines serving their market.

We have found that Williamsport is excluded from many US Airways special or promotional airfare sales due to the lack of competition at our airport. This has caused many residents from our service area to drive to other airports and in many cases to airports in other states to take advantage of less expensive pricing.

Unfortunately, when Pennsylvania residents originate their airfare, or air travel outside the Commonwealth, it is a loss of revenue to Pennsylvania and its 16 primary airports. Business travelers are a major concern of ours because they are important to the economic viability of our region.

One of our primary interests is that competitive airfares will be available for business travelers utilizing the Williamsport Regional Airport. It is not only price but also the conditions of the airfare that require our constant attention.

For example, as of last Thursday, a businessman could receive a 7-day advance airfare to San Francisco from a surrounding airport for $398, whereas the Williamsport Regional Airport was not offered that fare. The 7-day advance airfare from Williamsport was $1,958, a difference of $1,560 on the same airline.

It is these imbalances that we find disturbing. We have since had that particular situation corrected by US Airways. We make every attempt to negotiate with US Airways to make corrections. However, it is virtually impossible for us to monitor all fares or be made aware of all inconsistencies by outside organizations such as travel agencies and corporate travel departments.

An additional concern is the round-trip pricing from Williamsport to Pittsburgh and Williamsport to Philadelphia. From the information provided, you will note one of the sources of complaints from our area of business travelers. That is the high price of a round-trip ticket between Williamsport and Pittsburgh.

And if I could just stop reading for a second and have you go to the very next page, I'm going to point out some of the pricing. You'll notice a number of prices on that page. These are Williamsport to Pittsburgh fares. For example, the highlighted number is a 21-day in advance Saturday night stay fare for $419 from Williamsport to Pittsburgh round trip.

If one of our area businessmen gets called out of town and needs to walk up and get a ticket to Pittsburgh, if you go to the bottom of that column, round trip, it's $892 round trip from Williamsport to Pittsburgh. We just feel that the business people in our area aren't getting a fair deal from US Airways in regards to any type of business rate. Without a business rate, the fares that they are receiving put a definite financial strain on local businesses.

Having started my career in aviation as a station agent and then as a station manager with the airlines, I understand and appreciate the many variables that affect a profitable airline schedule. All we ask is fare structures to and from the Williamsport Regional Airport for both business and leisure travelers be reasonable and competitive with surrounding airports.

Again, I'd like to take the opportunity to thank you for allowing me to discuss airfare situations at our airport. And if there's any questions, I'd be happy to answer them at this time.

CHAIRPERSON FAIRCHILD: Thank you, Tom. Again, it seems we're hearing the message over and over again that people are just leaving their geographical area and migrating someplace else to buy fares. You bring up an interesting point that myself and others have kind of hammered on during these past two days of the hearing.

And that is these special promotional airfare sales. I notice that you say they don't offer them at smaller airports or at your airport sometimes. And we've heard that also testified to. When you confront them, why do they say they don't offer them or --

MR. HART: The very first time that we actually got into really comparing airfares with surrounding airports and the first time we found a discrepancy, in speaking with the pricing department, they told me because, you're not included on these promotional fares because you have no competition.

They don't have to do it. Unfortunately, you know, they have a captive audience in the Williamsport region. And they feel that if our passengers from our area leak to another airport, chances are 80 percent of the time, they're recapturing those passengers anyway outside.

Our major competitor, believe it or not, is Harrisburg. I know Harrisburg feels, you know -- and it's true. Baltimore is their major competitor. But everyone -- most of the leakage out of our airport goes to Harrisburg. And about 80 percent of the time, those people are getting on US Airways anyway.

So it basically boils down to that we lack competition. If it wasn't for the people I have in marketing constantly contacting our travel agencies and corporate travel departments and having them make us aware of inconsistencies, you know, we wouldn't catch a lot of these.

But as I said in the testimony, it's impossible for us to figure them all out. We in fact even hired a company that provides us with a weekly chart showing our top ten destinations and comparing them to Wilkes-Barre and Harrisburg.

And anything that we find that is really out of line, then we call US Air. And on behalf of US Air, I mean, 80 percent of the time, they usually get those prices back in line for us. But we can't catch them all. It's impossible.

CHAIRPERSON FAIRCHILD: I think it's just -- I think it's significant that here's an airport that can't really catch them all or control it. And my point yesterday to US Air and others were that if the professionals can't do it that manage airports, sales, the travel agents, how in the world do we expect the consumer to understand this rate schedule, advance rates, discounts, et cetera?

It seems to me that the, that somehow we have to do a lot more work on making sure that, number one, the consumer is informed fairly; and number two, that these programs are extended to our airports in Pennsylvania. I'm not sure -- I know you lose a lot of leakage to, south of us to Harrisburg.

But I think we lose an awful lot of leakage to Baltimore, Newark, and those airports from Central Pennsylvania.

MR. HART: Baltimore would probably be the second major one and because of the, obviously, the competition that they have with Southwest and other airlines. There are some very attractive prices out of

Baltimore. We would love to have them in Williamsport.

CHAIRPERSON FAIRCHILD: So would every airport. And I also think -- Representative Hess brought it up during the last break. I think one arena we really haven't looked at here is the amount of tax money that is lost by this leakage in the form of sales tax, et cetera, on tickets.

I think it may be -- and I'm going to ask our consultant to follow up on it. But I think it would be a significant amount of money that could be going back into either aviation-related accounts or a general fund to be dedicated to education.

But, you know, when we hear over and over and over again that 40 to 60 percent of our flying consumers are going outside the state to purchase their tickets, that's a hell of a figure.

MR. HART: May I just further comment on that?

CHAIRPERSON FAIRCHILD: Sure.

MR. HART: And you're well aware of this, Mr. Chairman. But the other part of losing the revenue also involves the AIP funding that we get from the federal government. For example, that is based on enplanements, the number of people that board at a particular airport. There is a scale to that.

But when we're losing, for example, hundreds of thousands of passengers to a different state, that's money from the federal government that is not coming into Pennsylvania but going into that other state. And, you know, that may not directly affect Williamsport per se except towards the end of the financial year of the federal government.

What happens is those funds that are not used are then put back into a discretionary pot. And then, you know, airports the size of Williamsport have an opportunity to get additional funding at the end of the year to complete important projects to keep the airport viable.

CHAIRPERSON FAIRCHILD: Good point. Tom, thank you very much for being here. Oh, excuse me. Representative McGill.

REPRESENTATIVE McGILL: Thank you very much. I would hope that we can look into one of the things that you said. For the life of me -- if it is US Airways, it is the major carrier out of, out of Williamsport.

MR. HART: It's our only carrier.

REPRESENTATIVE McGILL: And they are, they are allowing rates to be changed and not incorporate you, when clearly if the cost that they put up on the board yesterday of the, of the dollars per passenger mile that have to be generated to keep a plane in the air, if 30 or 40 percent of your people are going to move to another airport until you get the prices corrected, I can't understand why they wouldn't, wouldn't automatically offer that to you.

And I think that maybe that's an area that we should look into to find out when it is offered to the consumers of Pennsylvania at a given rate, why do we then discriminate if it is a carrier who is a common carrier with a route and a time table that's set up for that.

It just, you know, makes you wonder how they, how they go about that other than what you said, there is no competition. So why bother? But if they offer it to A, they should offer it to B if we're in the same state and we have the, and they do have a direct flight that they follow.

The other side of it is we can change the whole industry if we outlaw walk-up fares, or Saturday night stays. I mean, Saturday night stays are what separate the businesses from the people who are going on vacation. And they know that, and they know where they have us. And they're very pleased to keep us in that position.

I don't believe we will ever change that unless there is legislation that, federal legislation that prohibits anyone from charging Saturday night stay. I don't ever think that that will happen. I think that the airlines would lobby tremendously to stop that from happening because it is a tremendous source of revenue.

It's one seat worth $400 more coming out of your airport just because someone's stuck. So that side of it I don't believe will ever help the business. The business class is going to carry these airlines forever, and maybe rightfully so. They are a business.

Other businesses are utilizing them, and we should leave that alone. But the first part where -- it's, in effect, not price fixing. I mean, it's offered and then it's not offered. You can have it, but -- I think that's an area that at least we can look into and maybe come back and find out why the, why the airline does not give you the heads-up every time they have a special offer and offer it to you as part of someone that's on their system.

So hopefully maybe we can get an answer for you on that side of it, see, see what they have to say.

MR. HART: We would appreciate that. Just one comment to tag on to you. A lot of industries -- I know the aviation industry has -- I go to a handful of conferences a year. And where they used to be held, a conference, Tuesday through a Friday are now beginning on Sundays because of people having to do that, you know, getting the cheaper airfares with the Saturday night stay.

And I'm finding a lot of conferences are beginning on Sundays now and giving their people the opportunity to come in a day early and then begin the conference on a Sunday morning. So unfortunately, we're adjusting. The airlines aren't adjusting.

REPRESENTATIVE McGILL: Well, that's -- when I was a lot younger, I had a series of trips that I had to take to the same destination. And being business class and in a small business, it was costing us a fortune. So I bought two tickets.

And just -- and I'm told now that you're not allowed to do that. Or I told them, You know what, you figure out a way to stop me from doing it. I'm allowed to buy tickets. And I would use the first half of the one ticket the first time.

I was only allowed so many, so many dollars to come back and see my wife. So in order to do that, you have to be a little bit creative. So I was buying two round-trip tickets 14 days in advance and flip-flopping them at the end of -- so I was always -- you just had a stack of tickets that you never knew when you were coming or going with that.

MR. HART: Well, let me just tell you one story. When I was with the airline starting out my aviation career, I was in Williamsport with US Airways. And they had a round-trip ticket from Williamsport to Harrisburg at about $80 for round trip. A round trip from

Williamsport to Philadelphia at the time was about 120 to $140.

But to get to Harrisburg, you had to go through Philadelphia. So what we started doing as agents was selling people round trips to Harrisburg for much cheaper than the Philadelphia. They would get off at Philadelphia and never get on the Harrisburg flight, do their business and come back.

Of course, back then -- I'm going back a few years -- it wasn't as computerized as it is now. Now you couldn't get away with that but --

MR. TESTA: They wouldn't let you get back on the plane now.

MR. HART: Right. Exactly.

CHAIRPERSON FAIRCHILD: Thank you, Tom.

MR. HART: Thank you very much.

CHAIRPERSON FAIRCHILD: Okay. For the -- I know we're running a little late here. And Fred is just going to give us about a 4-minute wrap-up.

MR. TESTA: From the hearings yesterday and today and just for the record, we found several things: Number one is the fact that Pennsylvania is a high priced airfare state. There's no -- no matter what was testified to here before by the dominant airline, it is a dominated state overwhelming by a single airline.

Even though that single airline has a huge economic impact on the state and employs a lot of people, it is still making up the differences, as I showed you in the beginning. On those markets that has matched fares out of Providence, Manchester, Baltimore, it is actually losing money but making it up in other places where they can charge higher fares.

Getting low cost airlines can be done. As Representative Bard so aptly put it -- and I was thankful that she actually remembered -- it can be done, even in small markets. But it all depends on the amount of marketing you do and how you present your airports.

I just wanted to -- you heard from the Erie people yesterday. They spent $863 a piece to get here yesterday round trip from Erie, flew in through Pittsburgh. $863 from Erie to get to Harrisburg. My own experience, I have to be in San Francisco next week on a Thursday, actually Thursday afternoon, Friday.

And last Thursday, I got on my Internet into US Airways' site. And by manipulating the site and manipulating the times, I was able to get a $367 round trip as long as I left on Thursday morning but I came back Sunday night at 10:00 p.m. and slept on the plane, didn't get back into Philly till 6:00 a.m. next morning.

I called my contact in San Francisco. I said, I got the airfare. I'll confirm it tomorrow and get it and then I'll be in San Francisco because I had to coordinate with him to be there. Well, the next morning, we go coordinate it. I got on -- this is 12 hours later. I missed the 14-day cutoff because now it was 13 days. And the fare for the same flight, midnight flight was now $2,270.

Now, if I went without the Saturday night stay, it was $3,100. And that's economy class, by the way. It's not first class. So I missed it by 12 hours. And that's my own personal -- and I can't go to San Francisco because I can't afford 3,000 to go round trip for what I'm going for.

You heard US Air yesterday talk about it. But what they forgot to mention yesterday, especially when they're talking about how competitive they are, no one mentioned MetroJet. MetroJet is their low cost carrier, which they operate at about 7 or 8 cents a mile; and they match all the low fare carriers.

They don't fly in the state of Pennsylvania. They fly everywhere else. They don't fly in the state of Pennsylvania. They don't fly to Harrisburg, Pennsylvania, Pittsburgh, Williamsport, anyplace. They fly to Manchester. They fly to Providence. They fly Upstate New York. They fly to Florida.

They fly everywhere else, Baltimore. They don't fly to Pennsylvania. They can produce a product that flies you inexpensively. They just won't introduce it into Pennsylvania. If I were a businessman in front of you today and I came before you, you're an economic development committee, and I said to you I'm looking at Pennsylvania to bring in an industry that employs directly 35- to 36,000 people with an actual payroll of $1.3 billion, that because of its ancillary buying and purchasing within the state actually has about 290,000 employees dependent on it and that payroll would be about $5 1/2 billion with an economic impact of 12 billion, what would the state do?

Would it give me incentive money, train my workers, provide all sorts of marketing opportunities, provide a fund of money? You know, to be honest, let's face it, when Kvaerner was going to go into Philadelphia, what did you guys do?

You put a $400 million package for 800 jobs. Of course, they had nowhere near 800 jobs. But you put together a package that produced a lot of money for an industry that produced 800 jobs in the state of Pennsylvania. And yet the numbers I just gave you are what aviation produces, the aviation industry only at the commercial 16 airports.

I'm not talking about general aviation here.

These are numbers put out by the Department of Transportation by a couple people I see sitting in the audience right here who put these statistics together. So my recommendations to you -- and you caught me by surprise yesterday by asking me that -- my recommendations are FAA, bless their hearts, and the Department of Transportation provide money to the airports based upon their enplanements.

Let's not forget PFCs. As your enplanements drop, your income from the passenger facility charges also drop. But they provide money to the airports, but that money's for capital investment. I cannot use, as airport director, any of that money for the soft costs, marketing, economic development.

You heard a little bit from Barry yesterday about that. So going back to my example on what would you do for a business coming in with 36,000 employees, that if for some reason all these airports lost this aviation business -- by the way, I'm not -- this is total dollars -- I have three, four suggestions.

Number one is the soft money grants. If this -- I've never been known for subtlety. If this body can suggest coming up with incentive programs for 800 jobs at Kvaerner and other industry in Pennsylvania who have done economic incentives, tax abatements and so forth, it certainly can come up with a program of several million dollars -- I'm not talking about $400 million -- that airports could draw from with a marketing plan because it's very, very high.

I'm not talking about Philadelphia, Pittsburgh here. They have enough money. They can go on massive. When I was in Philadelphia alone, I put together a marketing program that was several million dollars; and it didn't dent that budget at all.

The budget was $200 million. So several million dollars means almost nothing. But for the smaller airports, from the Harrisburgs on down, the Allentowns and Wilkes-Barres and everybody else, that money is important.

Guaranteed income. Now, you heard me say before subsidies are not allowed. They're not allowed by airports. However, state governments can guarantee a certain level of income to an AirTran to try a smaller airport and say, Look, we guarantee you won't lose money for a year, two years, whatever the case may be, as long as the contractual basis, you are able to back that up.

The state can't do that. In fact, there are several municipalities in the west -- Colorado ski areas for one -- that even the local business group gets together, raises funds and subsidizes American Airlines. American loses money going in and out of these markets just so they'll have jet service to these marketplaces so the ski business can survive. Number 3 --

CHAIRPERSON FAIRCHILD: Are these to airports or airlines?

MR. TESTA: Oh, yeah, airports.

CHAIRPERSON FAIRCHILD: Not airlines?

MR. TESTA: What? Oh, no. The subsidies are to airlines. States can do it; localities can do it; business groups can do it. And there's been several -- in fact, even when -- well, the gambling industry in Las Vegas subsidizes its own airline, National Airlines, which is another discount carrier that runs very low fares.

I think it's 129 to Las Vegas out of Philadelphia. For another $20 bill, you can go to San Diego, LA, and San Francisco. But you got to spend one night in Las Vegas, which means you may lose more money than you've got anyway. But that's the way they do that.

There's another one. Truth in advertising, number of seats at a fare. I agree with the -- how do they cut up an airplane? Well, I'm going to tell you how they cut up an aircraft. On a 146-seat aircraft, there are probably 24 first-class seats -- yeah, I'm sorry -- 12 or 16 first-class seats. So let's say 12.

And that means 122 economy class. Out of that 122 economy class, the yield model they use will leave 10 for a fare sale, 20 for that 21-day advance, 30 for the 14-day advance, and then the 7-day advance and so forth. But they don't offer all three cases anywhere.

My own -- I don't have a 7-day break in Philadelphia. There's a 14-day break in Philadelphia but no 7-day break. Yet in other markets, there is a 7-day break. Now, as the time comes, that model showing that they haven't sold many seats, they will start offering those lower fares and opening and closing the market.

So yes, they do have a specific set number of seats in the beginning that they have set aside for each class of fare. You can't find out and I can't find out because that's not information that they will give us. I've gotten into their system when I was director of Manchester because I had -- and Kevin, forgive me because Kevin was with US Air at the time.

But I used to get into their system all the time with the help of a station manager and actually look up their yield. We used to call inventory control. And Kevin knows. I used to yell at them to open up some more seats because I've got people out here.

You can't have five low fare seats. Sometimes inventory control worked with us and did open up some seats because I had some very irate people. But that's a very, very tough nut to crack. It's not easy.

And the last one, intrastate offerings. And those fares between airports in the state are a little bit different in federal controls than the interstate offerings. I don't think that this legislature can do anything with fares because that's pretty well protected in all the aviation acts.

But you can, by the bully pulpit, create enough problems for a local airline that given a concerted voice in Pennsylvania -- and the Aviation Council of Pennsylvania does have that voice I think -- with the help of Philadelphia and Pittsburgh, can make some improvements I think in getting at least some of those lower bargain fares to a Williamsport. And that's all I have.

CHAIRPERSON FAIRCHILD: Thank you very much. And I would like to thank those that not only testified but those that attended. I can assure you we will be following up and doing some more studies on these issues. And everyone, have a great day. Thank you very much.

(Whereupon, at 11:43 a.m., the hearing adjourned.)

I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me during the hearing of the within cause and that this is a true and correct transcript of the same.

JENNIFER P. McGRATH
Registered Professional Reporter

My Commission Expires:
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