

## **TESTIMONY OF HERBERT D. KELLEHER**

# **EXECUTIVE CHAIRMAN, SOUTHWEST AIRLINES**

**IN SUPPORT OF S.1424** 

**NOVEMBER 10, 2005** 

#### **BEFORE**

The Senate Commerce, Science & Transportation Committee
Subcommittee on Aviation

THE WRIGHT AMENDMENT

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#### THE WRIGHT AMENDMENT

#### The History of the Wright Amendment

The history of the Wright Amendment is the history of Southwest Airlines. It is also a history of anti-competitive legal harassment by an airport and the airlines that serve it.

Southwest was incorporated on March 15, 1967. On November 27, 1967, Southwest filed an application with the Texas Aeronautics Commission (TAC) to operate as a Texas intrastate carrier. Southwest elected to operate as an intrastate carrier because the U.S. Civil Aeronautics Board (CAB) of that day did not welcome new competition in the airline industry. The CAB mandated fare levels and did not permit price competition. Prior to the Airline Deregulation Act in 1978, there was no competition on the basis of price in the U.S. A consequence of that federal policy was that there were no new entrants—if a new airline could not compete against giant entrenched competitors on price, it was impossible to establish a toehold in a market.

Southwest did not fly for 51 months. Once the TAC unanimously approved Southwest's intrastate application on February 20, 1968, three airlines (Braniff, Trans Texas, and Continental), seeking to preserve their monopoly routes, filed a lawsuit and obtained a restraining order against the TAC, prohibiting it from issuing the necessary certificate under state law. That litigation lasted until May 13, 1970, when a unanimous Texas Supreme Court

ordered that Southwest could take to the skies. Seeking every chance to bleed Southwest to death by litigation (Southwest having no revenues at the time), the airlines took their pleas to the United States Supreme Court, which denied the appeal on December 7, 1970. Southwest Airlines thus became perhaps the only company in America that went all the way to the U.S. Supreme Court to obtain a business license over the opposition of its competitors.

Southwest began preparations for the start of service in earnest, with a planned startup of June 18, 1971. Our airline adversaries were undeterred. They filed complaints with the CAB and just days before service was to begin, they sneaked back into a state court and obtained another injunction stopping Southwest's flights. In an extraordinary session convened on June 17, 1971, the Texas Supreme Court <u>again</u> gave Southwest clearance for takeoff. Service began the very next day with three airplanes flying to three cities.

The now proven model of point-to-point, frequent, low-fare service to close-in convenient airports was born. By then, the litigation (as was intended) had depleted all of Southwest's financial capital, but not its will to survive.

Southwest announced that it would not move to the new DFW Airport when it would open in 1974. Southwest was not a party to the local agreement to build DFW. Other airlines serving the North Texas market voluntarily signed contracts to fly exclusively from the new airport. Southwest did not. Love Field was better suited to Southwest's Customer needs than DFW. Moving to DFW would have destroyed Southwest. Southwest again was dragged involuntarily into court—federal court this time—by DFW and the Cities of Dallas and Fort Worth. The purpose of that litigation was to crush Southwest by evicting it from Love Field in Dallas, a foundation of Southwest's low cost, low fare niche. In a definitive opinion, the federal district court held that the local agreements to build DFW did not and legally could not prevent Southwest Airlines from serving Love Field. City of Dallas v. Southwest Airlines Co., 371 F. Supp. 1015 (N.D. Tex. 1973). The DFW Parties were not prepared to accept defeat and appealed. On May 31, 1974, the Fifth Circuit affirmed the lower court's decision, upholding Southwest's unfettered right to serve Love Field. City of Dallas v. Southwest Airlines Co., 494 F.2d 773 (5<sup>th</sup> Cir. 1974). Still refusing to concede, the DFW parties petitioned the Fifth Circuit for rehearing. They lost that one on June 24, 1974. They appealed further to the U.S. Supreme Court. They lost again. 419 U.S. 1079 (1974). They petitioned the Supreme Court for rehearing. Again, that was a loser. 420 U.S. 913 (1975).

In a pique of discontent, the DFW Parties then prevailed upon the Dallas City Council, after a massive lobbying effort, to pass an ordinance making it a <u>crime</u> for Southwest to use Love Field. The federal judiciary made short work out of that one, enjoining Dallas from enforcing the ordinance.

Desperately searching for a court that would side with them, the DFW Parties, including American and the other airlines serving DFW, started litigation anew in a state court (having gone scoreless in the federal system), seeking to relitigate their bogus claims all over again. A federal court found that this attempt to relitigate questions already decided was, in effect, an abuse of process and took the dramatic action of enjoining the state court—or any other court—from proceeding further. Southwest Airlines Co. v. Texas International Airlines, Inc., 396 F. Supp. 678 (N.D. Tex. 1975). The DFW Parties, per usual, appealed to the Fifth Circuit. The Fifth Circuit, in an opinion remarkable for its clarity and conclusiveness, brought an end to the DFW Parties legal harassment of Southwest by declaring that the courts were now off limits to anyone seeking to evict Southwest Airlines from Love Field. Southwest Airlines Co. v. Texas International Airlines, Inc., 546 F.2d 84 (5<sup>th</sup> Cir. 1977). The DFW Parties petitioned for rehearing. They lost. They appealed to the U.S. Supreme Court. They lost that, too. 434 U.S. 832 (1977).

#### The Significance of the Airline Deregulation Act

Then something dramatic happened outside a courtroom. The U.S. Congress deregulated the airline industry in 1978. The Congress, observing the gigantic growth in passenger traffic in California and Texas, where intrastate price competition was allowed, took the government out of the business of choosing which airports airlines would serve and at what price.

To drive the point home that free markets, not governments, were to determine where and how and at what price airlines would provide domestic air service, the Congress expressly prohibited state and local governments from regulating the "rates, routes, and services" of commercial airlines. Section 105 of the Deregulation Act.

With respect to Southwest Airlines, the court-mandated stoppage of the concerted and coordinated legal campaign by the DFW Parties in 1977, coupled with the passage of the Deregulation Act in 1978, meant two very important things: 1) the courts said that no one

(not even mighty DFW and its large airlines) could kick Southwest out of Love Field; and 2) the Congress said that Southwest could fly anywhere in the U.S. from Love Field.

The DFW Parties did not just go away mad. They decided to get even. When Southwest announced its intention to fly between Dallas and New Orleans pursuant to its rights under the Deregulation Act, the DFW Parties, including American Airlines, went to Washington to try to coerce the CAB into denying Southwest the right to fly in interstate commerce out of Love Field. Again, they relied on the local agreement that produced DFW Airport. Maintaining their perfect record, the DFW Parties lost before a CAB Administrative Law Judge, who ruled against DFW and American on every single point in an exhaustive analysis on June 28, 1979. CAB Docket 34582. That decision was upheld in its entirety by the full CAB on September 28, 1979.

During this eleven-year period of nonstop litigation, some other interesting things occurred. Most noteworthy was the indictment of two airline competitors by a federal criminal grand jury for their role in the conspiracy to bankrupt Southwest. They both plead *nolo contendre*.

## **Unending Judicial Defeats Lead to a Political Powerplay**

After losing every round, before every agency and every court that could listen to their anti-competitive and anti-consumer arguments, Southwest's sworn enemies, led by DFW Airport and the airlines that dominated it, decided upon a new ploy. If Southwest could not be run out of business legally, they would just have to change the law. They sneaked back into Washington and obtained the support of House Majority Leader Jim Wright from Ft. Worth. If Leader Wright had not been from Fort Worth, or being from Fort Worth, had not been the House Leader, the Wright Amendment would never have come to pass. Leader Wright attached an amendment to an unrelated bill, without notice, without hearings, and without opportunity for public comment or informed debate. (The DFW Parties finally discovered a way to win.) That amendment would have banned any airline from engaging in interstate air commerce from Love Field. Wisely, the U.S. Senate refused to go along. That obstructed passage of the bill to which Leader Wright had attached his language. Pressure built for passage of the larger bill, which dealt with international aviation. Ultimately Leader Wright himself made changes that the Senate accepted. That became the law we are here to

discuss today, the federal law that limits service from Love Field to Texas and a few nearby states. The admitted legislative purpose was to protect DFW Airport and the airlines serving it from competition. Everyone ignored the ironic conflict between the Wright Amendment on one hand, and years of consistent court or agency decisions and the Airline Deregulation Act (passed just one year earlier), on the other hand. Thus, Love Field became, and remains, the only airport in America route-restricted by an Act of Congress for the sole purpose of protecting competitors (one airport and several airlines) from the rigors of the marketplace.

#### The Wright Amendment Was Designed to Punish Southwest

Defenders of the Wright Amendment claim that it was a "compromise" that even "benefited" Southwest. The "benefit" to Southwest is that, although the Amendment was intended to punish Southwest and cause it severe economic injury, Southwest's Employees managed to make the carrier a success despite it—much to the DFW Parties' chagrin. The proof of the DFW Parties anti-competitive intent may be found not only in the well-known geographical restrictions which limit where a plane can be flown, but in the more obscure "marketing and through ticketing" restrictions that are less well-understood. These restrictions are a blatant restraint on commercial free speech and force Southwest, unintentionally, to deceive and confuse passengers. They are without precedent in commercial aviation, including during the regulated era. Under the Wright Amendment, Southwest cannot "offer or provide any through service . . ." and cannot "offer for sale transportation to or from . . . any point which is outside" the so-called Wright Amendment states. This means that even if a Customer is willing to make a stop within the permitted states and continue his or her journey on the same plane, or even a different plane, Southwest may not offer or market such service. An example: Southwest flies from Dallas to Little Rock and from Little Rock to Baltimore-Washington International (BWI). But Southwest cannot sell a single through ticket to a Customer going from Dallas to BWI, who is willing to make a connection to another plane in Little Rock. Another example: Southwest has a plane that goes from Dallas to Albuquerque where it sits for 25 minutes before continuing on to Las Vegas. But Southwest cannot sell a ticket to someone going from Dallas to Las Vegas with a stop in Albuquerque. That someone has to get off the airplane in Albuquerque.

In contrast, Members of Congress are familiar with the perimeter rule that limits the distance of nonstop flights from Reagan National. But, a Member may purchase a ticket to destinations beyond the nonstop perimeter and take a one-stop flight on the same airplane to these destinations. Interestingly, the perimeter rule at Reagan National originally was much more restricted. It was expanded as the result of aggressive lobbying by DFW and American Airlines (with an assist from Leader Wright) to permit American to fly to DFW from Reagan National. The DFW Parties views on airport restrictions are quite selective.

The marketing and through ticketing restrictions are, in and of themselves, an unreasonable restraint of trade and were totally unnecessary to protect DFW in its alleged "infancy." They were put in not just to protect DFW or the DFW air carriers, but to make it economically impossible for Southwest to survive at Love Field. The fact that Southwest Airlines managed to survive in spite of the restrictions does not validate them. Southwest fought against the Wright Amendment in all its forms, including the final version. No "compromise" would have ever been accepted voluntarily which included such goofy and onerous burdens on flight operations and Customer Service. The Wright Amendment came to pass because the DFW Parties and Leader Jim Wright had the power to pass it and Southwest was powerless to stop it.

#### **Effects of the Wright Amendment**

The Wright Amendment, by design, restricts competition. This restraint of trade has the unavoidable consequence of higher airfares and its corollary, reduced demand (fewer passengers). The Wright Amendment consumer penalty has been quantified. In a study commissioned by Southwest and conducted by the Campbell-Hill Aviation Group, the benefits of repealing the Wright Amendment include:

- 3.7 million more passengers would travel, increasing passengers at <u>both</u> Love Field and DFW.
- Consumers would save nearly \$700 million annually compared to the higher airfares extracted from consumers by American Airlines at DFW as a result of its market power and the absence of competition.
- The total negative economic impact of the Wright Amendment on the entire United States exceeds \$4 billion each and every year.

These numbers were entirely corroborated by a study commissioned by DFW International Airport. Initially, that part of the DFW study was suppressed by DFW. Only after a newspaper made a freedom of information demand did the truth surface.

#### **People Understand and Hate the Wright Amendment**

As a result of the seismic shift in travel habits brought about by deregulation, today's consumers have an expectation of air service options at affordable prices. Before deregulation, only the wealthy flew on commercial airlines. Today, air travel is accessible to virtually all Americans. Like their fellow citizens across the country, Texans have become savvy air travel consumers. They hate the Wright Amendment. One reason is that because of the Wright Amendment, American Airlines has 49 nonstop total monopoly markets from DFW on which American carries 6.5 million annual passengers. American's average fares, according to the Campbell-Hill study, are sharply higher in those markets than in competitive markets. For example, based on 2004 full year data, American's average (not its highest) roundtrip fare between DFW and Omaha (a distance of 583 miles) was \$464. American's average fare between DFW and Albuquerque (a distance of 569 miles) was just \$220, or less than half of its average fare to Omaha. Why? The answer is plain and simple. Southwest can and does fly between Dallas Love Field and Albuquerque, New Mexico. Southwest cannot fly from Dallas Love Field to Omaha. Similar examples abound.

A just released scientific poll done by Public Opinion Strategies of Arlington, Virginia, found that North Texans favored repeal of the Wright Amendment by the astounding margin of 82% to 13%. When asked whether they supported the closure of Love Field, as DFW and American seek, North Texans were even more opinionated, opposing such a move by a margin of 84% to 10%, with 70% STRONGLY opposing the closure of Love Field. Southwest had nothing to do with that poll.

The poll numbers are lopsided because the facts are lopsided. Consumers are sensitive to the fact that they pay more and have fewer options for air travel due to the Wright Amendment. They don't like it. They also know that DFW is the only protected airport in the country and that they can fly from any other airport assured that the fares are competitive. Consumers rightfully resent being held hostage by protectionist rules that benefit a special interest but are not in the public interest.

Few people outside Texas or Washington, D.C. know what the Wright Amendment is. As they learn, resentment toward it grows. Attached is Exhibit "A," which is a list of the newspapers and other community organizations supporting repeal of the Wright Amendment.

#### Why Change the Wright Amendment Now?

Southwest seeks to repeal the 26-year old law. Circumstances have changed dramatically since 1979.

- D/FW is the second biggest airport in the world in terms of land area and the third busiest in terms of flight operations. It is no longer an infant in need of pampering.
- Love Field cannot be a significant threat to D/FW. A Love Field Master Plan was
  established in 2001, and approved by the FAA, which caps flights through limiting the
  airport to 32 gates—one-fifth the size of DFW.
- Consumers across America are upset by the high cost of travel to and from the Dallas-Ft.
   Worth region and recognize that competition will cause prices to drop.
- Passenger traffic at Love Field, limited by the Wright Amendment to short flights, declined
  after 9/11 by approximately 24%, as the automobile reemerged as a serious competitor to
  the airplane. Accordingly, flights have been curtailed. Southwest has only 110 daily
  departures from Love Field, down from a pre-9/11 peak of 145—likewise a 24% reduction.

#### Why not serve D/FW?

After much thought, Southwest has decided service at D/FW is way too risky.

- Operating at DFW would split our service between two airports in the same market and break up our low cost efficient business model.
- The out-of-pocket cost per passenger of serving DFW is substantially higher than the cost of serving Love Field.
- The indirect cost of serving DFW, a complex facility designed for hub operations, would be enormous. Operational inefficiencies would preclude a low cost operation, even if airport rates and charges were reasonable. As attractive as DFW may be for a large international hub operation, DFW, with its very long taxiing times, simply does not work for

a low cost point-to-point carrier like Southwest. (Apparently, based on its singular lack of success in filling gates left vacant by Delta, DFW does not work for <u>any</u> airline—low cost, point-to-point, or otherwise—because of its crushing dominance by American Airlines, which now has 84% of the market.)

- Love Field has idle capacity and the ability to generate a better return on investment than DFW for Southwest.
- Southwest has avoided forbidding fortress hubs like D/FW, preferring smaller, less congested airports when available. This strategy has helped make Southwest America's only consistently profitable and totally job secure airline.
- Southwest Airlines has been headquartered in Dallas for 34 years, employing more than 5,500 Dallasites, and has become the city's fifth largest taxpayer. Moving to DFW would take Southwest out of Dallas, both as a corporate citizen and as a taxpayer, causing serious economic harm to our hometown.

#### Conclusion

Southwest has not asked for bankruptcy protection, relief from pension obligations, subsidies, or federal loan guarantees. We have not asked our Employees for wage cuts or slashed their benefits. We have never had an involuntary furlough. We have shared profits with our Employees for 32 consecutive years. We have proven time and again that if competition flourishes, prices decline while consumers and communities profit. Southwest is a creature of the free market and of deregulation—the national policy with respect to commercial aviation. All we ask now is for the U.S. Congress to restore to Southwest and its Customers what it gave the rest of the flying public in 1978—a competitive free airline market—but which it improvidently allowed to be taken away in 1979. The DFW Parties, insisting on special protection for themselves, lost again and again during more than a decade of litigation harassment. But, they succeeded in getting a legislative reversal of that unbroken string of judicial and administrative defeats through the exercise of raw political power. That exercise of power produces an annual economic penalty on this nation of over \$4 billion and wrongly punishes Southwest Airlines for being the success that deregulation envisioned.

Wright is Wrong. It is time to repeal it. If not now, when?

#### **EXHIBIT A**

# SUPPORT FOR REPEAL OF THE WRIGHT AMENDMENT

#### **NEWSPAPER EDITORIALS:**

- ALBUQUERQUE JOURNAL (NEW MEXICO)
- AMARILLO GLOBE-NEWS (TEXAS)
- THE ARIZONA DAILY STAR (TUCSON)
- THE COLONY COURIER-LEADER (TEXAS)
- THE DAILY CAMPUS (SOUTHERN METHODIST UNIVERSITY-DALLAS)
- DALLAS BUSINESS JOURNAL
- THE DALLAS MORNING NEWS
- D MAGAZINE (DALLAS, TEXAS)
- EAST VALLEY (PHOENIX) TRIBUNE
- THE HOUSTON CHRONICLE (TEXAS)
- INSIDE TUCSON BUSINESS (ARIZONA)
- LAS VEGAS SUN
- LOS ANGELES TIMES
- MIDLAND REPORTER-TELEGRAPH (TEXAS)
- OMAHA WORLD-HERALD (NEBRASKA)

- ORLANDO SENTINEL (FLORIDA)
- PITTSBURGH POST-GAZETTE
- ST. LOUIS POST-DISPATCH
- ST. PETERSBURG TIMES (FLORIDA)
- SAN ANTONIO EXPRESS-NEWS (TEXAS)
- SANTA MARIA TIMES (SANTA BARBARA COUNTY CALIFORNIA)
- TAMPA TRIBUNE
- TEXAS MONTHLY
- THE UNION-LEADER (MANCHESTER, NH)
- VALLEY MORNING STAR (HARLINGEN, TEXAS)
- WALL STREET JOURNAL
- WASHINGTON POST (GEORGE WILL)

## **COMMUNITY RESOLUTIONS/BUSINESS ORGANIZATION SUPPORT:**

- ALVARADO, TEXAS CHAMBER OF COMMERCE
- AIR TRAVELERS ASSOCIATION
- AL BIERNAT'S RESTAURANT (DALLAS, TEXAS)
- AMARILLO, TEXAS CHAMBER OF COMMERCE
- AMERICAN HOTEL AND LODGING ASSOCIATION
- AMERICAN SOCIETY OF TRAVEL AGENTS
- ANY EVENT INCORPORATED (CORPORATE MEETING/EVENT COMPANY- AUSTIN, TEXAS)

- BAY AREA HOUSTON ECONOMIC PARTNERSHIP (TEXAS)
- BEST PARK (LOVE FIELD PARKING GARAGE DALLAS, TEXAS)
- BUGATTI RISTORANTE (DALLAS, TEXAS)
- CALIFORNIA HOTEL AND LODGING ASSOCIATION
- CENTRAL CITY ASSOCIATION OF LOS ANGELES
- CITY OF MANCHESTER, NEW HAMPSHIRE
- DALLAS NORTHEAST CHAMBER (TEXAS)
- DEER PARK CHAMBER OF COMMERCE (HOUSTON, TEXAS)
- DESOTO, TEXAS CHAMBER OF COMMERCE
- DUNSTON'S STEAK HOUSE (DALLAS, TEXAS)
- EDINBURG ROADRUNNERS (PROFESSIONAL BASEBALL TEAM)
- EL PASO TX DIABLOS (PROFESSIONAL BASEBALL TEAM)
- EXPOTEX, LLC (EVENT MANAGEMENT PLANNING AUSTIN, TEXAS)
- FLYING SAUCER RESTAURANT (DALLAS, TEXAS)
- FOX SPORTS NET
- FREEDOMWORKS (CITIZENS FOR A SOUND ECONOMY)
- GALVESTON, TEXAS CHAMBER OF COMMERCE
- GAYLORD HOTELS
- GOVERNOR OF TENNESSEE THE HONORABLE PHIL BREDESEN
- GREATER DALLAS PLANNING COUNCIL
- GREATER LOS ANGELES AFRICAN AMERICAN CHAMBER OF COMMERCE
- GREATER SAN ANTONIO CHAMBER OF COMMERCE (TEXAS)
- HARLINGEN, TEXAS AREA CHAMBER OF COMMERCE

- HARLINGEN CITY COMMISSION (TEXAS)
- HARLINGEN HISPANIC CHAMBER OF COMMERCE (TEXAS)
- HARLINGEN, TEXAS AIRPORT BOARD
- HEART OF LOS ANGELES YOUTH (INNER CITY YOUTH ORGANIZATION)
- HISPANIC CONTRACTORS ASSOCIATION DE TEJAS
- HOPKINS COUNTY (TEXAS)
- HOUSTON INTOWN CHAMBER OF COMMERCE (TEXAS)
- HOUSTON ROCKETS (NBA TEAM)
- LANCASTER CHAMBER OF COMMERCE (TEXAS)
- LEE COUNTY PORT AUTHORITY (FLORIDA)
- LOVE FIELD ANTIQUE MALL (DALLAS, TEXAS)
- LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION
- MEXICAN-AMERICAN OPPORTUNITY FOUNDATION
- MIDLAND ROCK HOUNDS (PROFESSIONAL BASEBALL)
- NASHVILLE CONVENTION AND VISITORS BUREAU
- NATIONAL HISPANIC MEDIA COALITION
- NATIONAL TAXPAYERS UNION
- NEVADA STATE LEGISLATURE
- NORTH DALLAS CHAMBER OF COMMERCE
- NOSOTROS (LATINO ACTOR ORGANIZATION HOLLYWOOD, CA)
- PALM BEACH INTERNATIONAL AIRPORT
- PHILADELPHIA AVIATION DIRECTOR, CHARLES ISDELL
- PITTSBURGH INTERNATIONAL AIRPORT BOARD

- RALEIGH-DURHAM INTERNATIONAL AIRPORT (NORTH CAROLINA)
- ROCKWALL CHAMBER (TEXAS)
- RONALD MCDONALD HOUSE CHARITIES OF LUBBOCK, TEXAS
- RONALD MCDONALD HOUSE CHARITIES OF THE RIO GRANDE VALLEY, TEXAS
- ROYSE CITY, TEXAS CHAMBER OF COMMERCE
- ROUND ROCK EXPRESS (PROFESSIONAL BASEBALL)
- SALT LAKE CITY CHAMBER OF COMMERCE RESOLUTION (UTAH)
- SAN ANTONIO CONVENTION AND VISITORS COMMISSION (TEXAS)
- SAN ANTONIO HISPANIC CHAMBER OF COMMERCE (TEXAS)
- SAN ANTONIO HOTEL AND LODGING ASSOCIATION (TEXAS)
- SAN ANTONIO SPURS (NBA)
- SAN DIEGO COUNTY HISPANIC CHAMBER OF COMMERCE
- SAN FRANCISCO HISPANIC CHAMBER OF COMMERCE
- SOUTH FLORIDA HISPANIC CHAMBER OF COMMERCE
- SOUTH PADRE ISLAND CHAMBER OF COMMERCE (TEXAS)
- TAMPA INTERNATIONAL AIRPORT
- TEXAS PUBLIC POLICY FOUNDATION
- U.S. HISPANIC CONTRACTORS ASSOCIATION
- UTAH AIR TRAVEL COMMISSION
- VALLEY INDUSTRY AND COMMERCE ASSOCIATION (LOS ANGELES)
- WESTCHESTER/LAX- MARINA DEL REY CHAMBER OF COMMERCE (LOS ANGELES)
- WILMER, TEXAS CHAMBER OF COMMERCE