Woodside
Travel
Trust

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forward letter
to DOT
under the
comment
period in
Federal Register

July 10, 1998

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The Honorable Barbara B. Kennelly
U.S. House of Representatives
Washington, DC 205 15-0701

Dear Representative Kennelly:

Woodside Travel Trust, the largest global partnership of 130 independently owned travel agencies (including Professional Travel Corporation, headquarted in Windsor, Connecticut) and Travel Strategies Inc., headquarted in Stamford, Connecticut), operating in 74 countries with a combined 1997 sales of $19.3 billion, asks you to support the United States Department of Transportation (DOT) rulemaking process and its efforts to promote a level and open playing field in the airline industry.

On April 6, 1998, DOT issued a draft "Airline Competition Policy Statement" for public comment. In issuing the draft statement, Secretary Rodney Slater stated:

> Consumers deserve a pro-competitive standard that helps ensure affordable airfares and accessible service. To provide a level playing field, we must preserve vigorous competition and prohibit unfair exclusionary practices meant solely to eliminate that competition.

These practices have been identified in a number of reports issued by GAO, DOT and others. Those who have been hit the hardest live in small and medium-sized communities throughout the country.

In February, 1998, state, local and federal officials met at the National Air Service Roundtable, held in Jackson, Mississippi, to discuss the need to finish "the unfinished business of the Airline Deregulation Act of 1978 by bringing a competitive mix of service to all communities," particularly those that lack adequate airline competition or service quality, The report issued at the end of the 1997 conference stated:

> While conferees identified marketing steps that can be taken by communities and carriers, participants agreed that, "if local efforts to enhance competition are to succeed," the federal government must address "anti-competitive practices of larger airlines."

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The proposed policy statement was issued to address instances in which a large carrier dominating a concentrated hub[1] takes a number of steps to drive a new entrant out of a market so that it will "raise its own fares" and "cut back its level of service."

As to the need for the pro-competition guidelines, Patrick Murphy, Deputy Assistant Secretary for Aviation and International Affairs at the US. Department of Transportation, stated at a hearing before the Senate Transportation Appropriations Subcommittee on March 5, 1998:

> ...we conducted an investigation based on the complaints of two small carriers. We went out and received boxes of material from the large airlines. When the large airlines gave us that material, they took the view that it would be unfair for us to come down on top of them after we read this material, because we had never set any standards. They had been competing in a certain way for decades; and <u>if we want to come down on them, we ought to set some guidelines.</u> We looked at that material. We were somewhat surprised by what we saw. The intensity of what was going on was of concern. We decided to develop these guidelines.
>
> Our role here, if any, is to protect competition, not to protect large companies. [Emphasis added.]

In commenting on the guidelines, Alfred E. Kahn stated:

> ...what seems to have occurred time and again in recent years has been: unrestricted fares are jacked up and up; that induces entry of low-cost [carriers]...who can profitably serve those customers at much lower fares; the incumbents then cut their fares deeply and sharply increase the number of low-fare seats they offer on the routes – and only on the routes – on which they have been challenged; the new entrant departs; and fares immediately go right back up, with no further challenge.
>
> The most grievous governmental failure in recent years has in my opinion been the failure to prosecute a single case against what appear to have been just such cases of flagrantly predatory competition by incumbent major airlines against new competitors.

[1] The need to address these issuer comes at a time when a Salomon Smith Barney study ("Airline Competition at the 50 Largest U.S. Airports -- Update," March 12, 1998) states: "Measures of concentration at the 50 largest airports show an unprecedented degree of concentration in the airline industry."

> The history of the airline industry over the last 20 years clearly demonstrates the great importance of entry by low-cost, uniformly (or much more uniformly than in the case of the major carriers) low-fare carriers in keeping the industry competitive – so long as they survive.
>
> **[Hearing of the Subcommittee on Transportation of the Senate Appropriations Committee, May 5, 1998]**

The end result of these anti-competitive practices is that fares are escalating and competition is decreasing, except in markets with affordable-tie carriers. DOT's "Domestic Airline Fares Consumer Report – Fourth Report, Second Quarter 1997 Passenger and Fare Information/January, 1998" best demonstrates the impact on consumers when affordable-fare carriers are driven out of markets. Table 3 in that report lists the city-pair markets' with the largest percentage fare increases – second quarter 1997 versus 1996. Of the four city-pairs with the largest percentage increases, three were markets in which an affordable-fare carrier was driven out of the market?

City-Pair	Carrier Driven Out	% Increase in Fares	Loss of # Passengers
Boston-Detroit	Spirit	128%	38,311
Chicago-Des Moines	Vanguard	127%	30,121
Dallas/Fort Worth-Wichita	Vanguard	84%	5,187

The loss of competitive affordable-fare services and resultant increase in fares have a significant impact on each of these communities. As DOT states in the report, "large changes in average fares are directly attributable to entry or exit by a low-cost carrier."

To no one's surprise, the large carriers are asking that DOT be prevented from enforcing statutory provisions (49 U.S.C. 41712)[3] which require the Secretary to address "unfair or deceptive practice or an unfair method of competition" and to take appropriate action to end any abuse. These same large carriers are asking that all responsibility on these issues be given to the Department of Justice; which is already overwhelmed with cases. Moreover, they know that such an approach can take years to conclude and involves significant costs. If that occurs, additional communities will lose service and fares will continue to escalate.[4]

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[2] Table 4 of the DOT report lists city-pair markets with the largest percentage decreases. Most of the markets listed on this chart benefited from entry by affordable fare carriers: Baltimore-Providence (Southwest); Kansas City-Minneapolis (Vanguard); and Akron/Canton-Atlanta (AirTran).

[3] Similar to FTC's authority to address unfair practices.

[4] "According to the Bureau of Labor Statistics, ticket prices soared at a 37% annual rate in the first quarter of 1998." "The Power to Raise," *Business* Week, 38-40, (May 4, 1998).

The Air Transport Association – which represents carriers with 96% of the domestic market share[5] – has asked for an extension of time on the draft guidelines, which was granted by DOT. True competition and affordable fares will result from a level playing field, not from an industry dominated by a few carriers.

Having acknowledged in its draft guidelines not only its "mandate" to prohibit unfair competition[6] but, perhaps more significantly, its "obligation" to do so, the Department of Transportation would now be hard pressed to fail to fully examine the implications of all anti-competitive actions by the major airlines. To fail to do so would clearly amount to a breach of that "obligation." The Department of Transportation must be encouraged to prevent practices taken to drive competitors out of markets.

Sincerely,

Ivan Michael Schaeffer
President and Chief Executive Officer

cc: Michael Gillis
President
Professional Travel Corporation
Windsor, CT

Patricia Charla
COO & Vice President
Travel Strategies Inc.
Stamford, CT

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[5] New entrants hold about 2% of the market share.
[6] Pursuant to 49 U.S.C. 41712.