jetBlue AIRWAYS®

March 18, 2013

The Honorable Charles E. Schumer
United States Senate
322 Hart Senate Office Building
Washington, D.C. 20510-2305

Re: Anticompetitive Impacts of the Proposed Merger between US Airways and American Airlines at Ronald Reagan Washington National Airport

Dear Senator Schumer:

On behalf of the 15,000 Crewmembers of JetBlue Airways Corporation ("JetBlue"), New York's hometown airline, and especially our more than 5,000 New York-based Crewmembers, I am writing to bring to your attention our concerns with the proposed merger between US Airways and American Airlines (the "Merger"). JetBlue believes that the Merger, absent meaningful action by the Department of Justice, will make an unbalanced competitive situation at Ronald Reagan Washington National Airport ("DCA") even worse, especially for communities in central and western New York where air service levels have decreased, fares have increased and economic decline has resulted.

DCA is a unique airport. In addition to being the centrally located airport in our nation's capital, it is slot controlled, which severely limits new entry and free competition. It is also underutilized.[1] Currently, the airport's dominant carrier, US Airways, controls 55 percent of the take-off/departure rights or "slots" at DCA, which severely limits the ability of competitive carriers to enter and expand at the airport.

US Airways' dominance at DCA was solidified by its 2011 transaction with Delta Air Lines (the "DL/US Slot Swap") in which Delta ultimately agreed to transfer to US Airways 42 slot pairs at DCA in return for 132 slot pairs at LaGuardia. The United States Department of Justice Antitrust Division (the "DOJ") found that the DL/US Slot Swap, as initially proposed, created an unacceptable concentration level at DCA[2] and commented that slot divestitures were

[1] U.S. Gov't Accountability Office, GAO-12-902, Slot-Controlled Airports: FAA's Rules Could be Improved to Enhance Competition and Use of Available Capacity 17-18 (2012) (finding that only approximately 79% of DCA slots were used per hour during peak hours and only approximately 69% were used per hour during nonpeak hours).

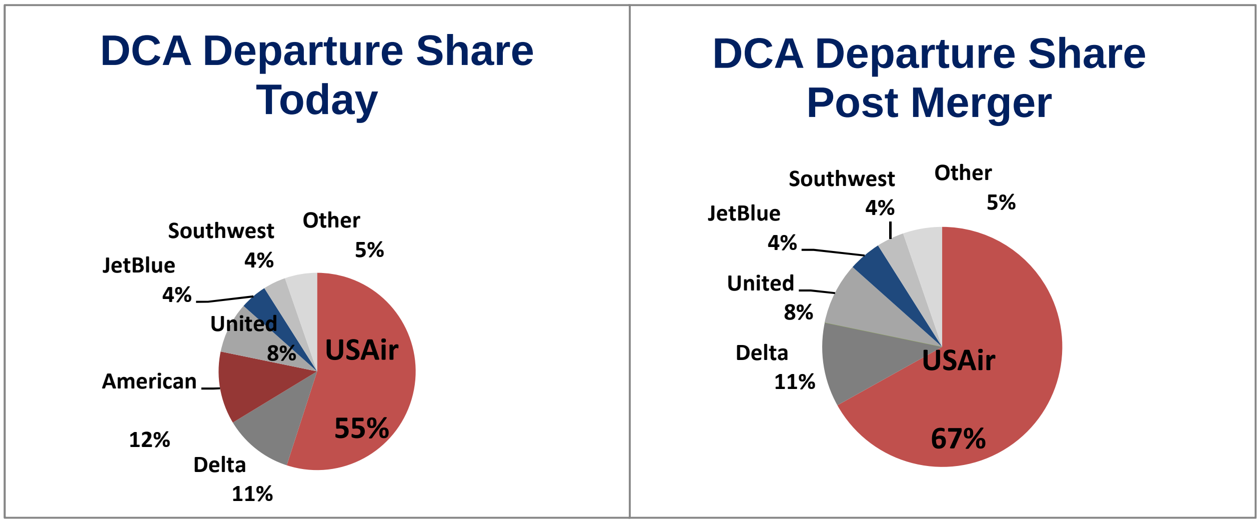
[2] The Division has recognized the "extensive body of empirical work finding that airport concentration is associated with higher fares." Comments of the United States Department of Justice, Notice of Petition for Waiver of the Terms of the Order Limiting Scheduled Operations at LaGuardia Airport and Solicitation of Comments on Grant of Petition with Conditions, Docket FAA-2010-0109 (Mar. 24, 2010) at 7 (hereinafter, the "DOJ Slot Swap Comments").

necessary in order to protect consumers.[3] The FAA, heeding the DOJ's input, did limit US Airways' growth at DCA to today's anticompetitive 55%, ordering a divestiture of 8 slot pairs as a condition of approving the DL/US Slot Swap. The Merger will increase the concentration of slot holdings at DCA to levels far in excess of the presently anticompetitive situation and make slot concentration at DCA even worse.

I. The Merger Will Increase Concentration at DCA and Harm Consumers.

The newly combined US Airways/American, left unchecked, will further consolidate its control of the airport by amassing more than two-thirds (67%) of the DCA slots.

THE MERGER WILL INCREASE CONCENTRATION AT DCA



The impact of the recent DL/US Slot Swap on competition at DCA demonstrates that the competitive situation is now and will likely only become more untenable. The DL/US Slot Swap gave rise to a number of monopoly routes for US Airways, where fares have since increased and traffic has plummeted. As depicted in Exhibit A, on the 8 new US Airways monopoly routes created by the DL/US Slot Swap, fares have increased an average of <u>15 percent</u>.

More disturbingly, the increased concentration has resulted in US Airways' increasingly inefficient use of the already congested airspace by cutting capacity. As detailed in Exhibit B, US Airways has filled the airport with small US Airways Express commuter aircraft with fewer than 76 seats, and the average number of seats per US Airways departure has *decreased* since the DL/US Slot Swap. This underutilization of slots, a scarce public resource, has led to reduced capacity and higher prices for the traveling public at DCA, as evidenced in the markets from National to upstate New York.

Regrettably, the citizens New York have been relegated to reduced levels of service to National Airport on small commuter aircraft which has resulted in significantly higher airfares.

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[3] DOJ Slot Swap Comments at 3.

Today, as shown clearly in Exhibit E, of the eight New York markets with nonstop service to National Airport, only one, LaGuardia, has mainline jet service, with the remaining seven all having service on small commuter aircraft. As would be expected by this minimal utilization of slots by dominant DCA carrier US Airways, passenger traffic between DCA and the key New York markets of Syracuse, Albany, White Plains, Buffalo, Rochester and Islip all have far fewer than 100 average daily passengers in each direction. By contrast, in an upstate market (Buffalo – Boston) served with large jets by a low fare carrier, JetBlue in this case, the average daily passengers in each direction is well over 300.

Not only does upstate suffer with less capacity brought about by smaller aircraft, but fares are higher as a result. For example, the fare premium charged from DCA to Rochester and Syracuse, versus from New York City where JetBlue competes with large jets, is 45 percent and 83 percent respectively. Further, the number of seats in the market from Buffalo, Rochester and Syracuse to DCA, from 2006 to 2012, are down 37 percent, 47 percent and 28 percent respectively. Naturally, the smaller aircraft, fewer flights and higher fares have all proven to be a recipe for less travel and economic activity for upstate New York. *See* Exhibit E.

II. The Merger Will Make DCA Even Less Competitive.

By permitting an increase in the combined airline's dominance at DCA, the Merger will cause at least two anticompetitive effects. Because the legacy incumbent carriers at DCA largely avoid competing with one another head-to-head, the Merger will result in the creation of relatively few monopoly routes. However, the Merger's actual impact on competition and the traveling public is likely to be far more significant.

First, the combined slot portfolio of US Airways and American will increase the incentive of the combined carrier to further warehouse slots, ensuring that low cost carriers such as JetBlue and others cannot grow at the airport. The commercial viability of each one of the combined airline's dozens of monopoly markets would be threatened if a low cost carrier acquired additional slots with which to compete directly against the new American.

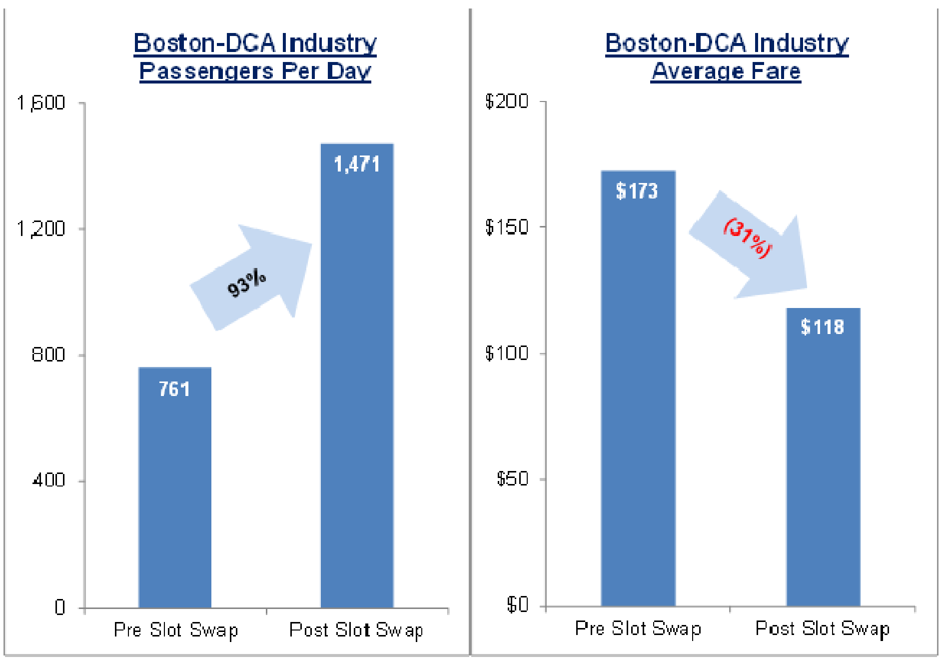
Second, the combined airline's massive slot portfolio will enable it to aggressively discipline any carrier that even attempts to challenge one of its high-margin, noncompetitive routes, thus increasing barriers to entry and reducing the ability of other airlines to challenge its market dominance by increasing competition for the benefit of the traveling public. The new American, especially with the underutilization of slots at DCA, will have the flexibility to add frequencies and capacity to combat the competitive entry of any carrier able to acquire slots and challenge the incumbent. US Airways has employed this strategy successfully in response to competitive entry by low cost carriers. In a recent example, US Airways vigorously defended its lucrative Boston-Philadelphia route. After driving out the competition, US Airways restored its anticompetitive fares. *See* Exhibit D.

The Merger, left unchecked, will give the new American the flexibility to undertake this same anticompetitive strategy at DCA. Indeed, US Airways actually *bragged* in a recent filing with the Department of Transportation that the introduction of just a single competitors frequency on its DCA-Jacksonville monopoly route will have a limited impact on the route's fare structure: "It is questionable that JetBlue could duplicate this fare reduction [that it achieved on the BOS-DCA route] for DCA-JAX by adding only one round-trip."[4] Without access to a sufficient number of slots, brought about as a condition for approving this merger, low cost carriers simply face an insurmountable barrier to competing with an incumbent as dominant as the new American at DCA.

III. Slot Divestitures to Low Cost Carriers Will Reduce the Anticompetitive Impact of the Merger.

JetBlue demonstrated its commitment to serving DCA by paying more than $40 million to acquire the eight slot pairs ordered by the FAA to be divested in connection with the DL/US Slot Swap. JetBlue's resulting service at the airport, while small, has injected greatly needed competition and has provided demonstrable consumer benefits. Indeed, JetBlue's recent experience confirms that the divestiture of DCA slots to low cost carriers such as JetBlue will help ameliorate the anticompetitive effects of the combined airline's increased DCA slot concentration. JetBlue used the slots it acquired in the divestiture to compete directly against US Airways by increasing frequencies on routes that JetBlue already served (DCA-Boston, DCA-Orlando and DCA-Fort Lauderdale) and introducing new service to Tampa. The result was a significant boon to consumers as fares decreased and traffic increased. The introduction of competitive, low-cost service on the robust Boston-Washington shuttle market has had a dramatic impact on fares and traffic, to the benefit of the travelling public, as depicted below.

JETBLUE'S BOSTON-DCA SERVICE HAS BENEFITED CONSUMERS



[4] *See* Consolidated Answer of US Airways, DOT-OST-2000-7182 (Dec. 19, 2012), at 15.

IV. JetBlue is Uniquely Committed to Competing With DCA's Dominant Carrier.

JetBlue has demonstrated a unique willingness to compete head-to-head against US Airways. Indeed, as shown in Exhibit C, JetBlue has devoted 34 of its 36 DCA slots to routes served by US Airways. Only JetBlue has proven its willingness to compete aggressively with DCA's dominant carrier and a proven history of delivering low fares to upstate New York.

These facts suggest that a significant number of slots at DCA must be divested by the new American as a condition of any merger in order to inject much needed competition, limit further concentration and benefit the travelling public, especially in upstate New York. JetBlue Airways, New York's low fare, hometown airline and the largest intrastate airline in New York, urges you to ensure that our government's antitrust regulators and aviation officials condition this merger on a divestiture of slots (by blind auction) at DCA so that opportunities for enhanced competition can flourish.

Thank you for your consideration of the views of JetBlue Airways Corporation.

Respectfully submitted,

Robert C. Land
Senior Vice President Government Affairs
and Associate General Counsel

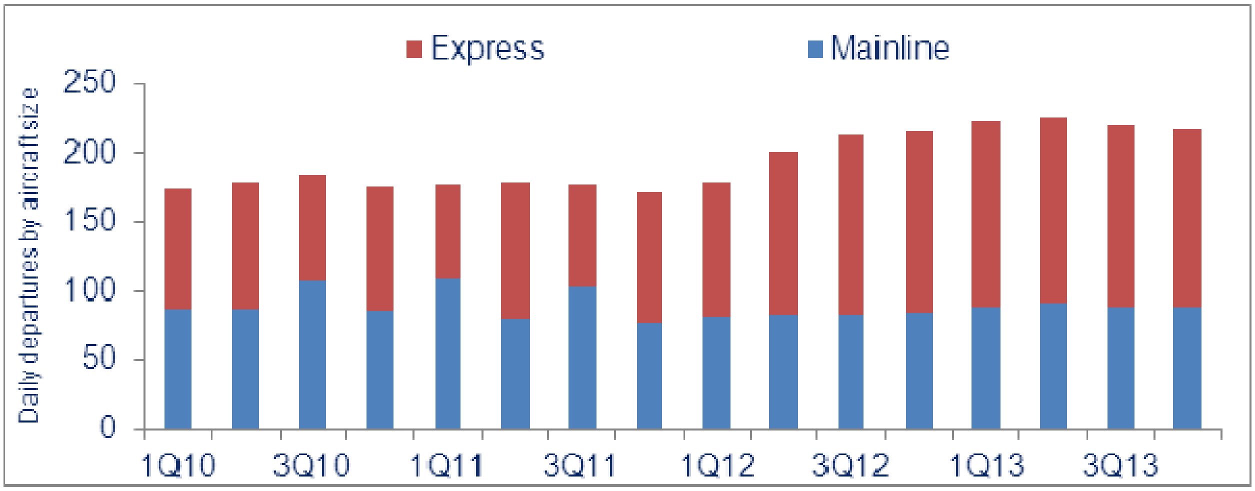
EXHIBIT A

NEW MONOPOLY ROUTES RESULT IN FARE INCREASES & CAPACITY CUTS

Remaining carrier	Market	YOY fare change	YOY capacity change
US Airways			
	DCA-PVD	32%	(34%)
	DCA-BDL	22%	(11%)
	DCA-CHS	21%	1%
	DCA-MSY	16%	(19%)
	DCA-IND	10%	(17%)
	DCA-JAX	10%	(37%)
	DCA-CMH	(5%)	(32%)
	average	**15%**	**(21%)**

EXHIBIT B

SINCE THE SLOT SWAP US AIRWAYS HAS INCREASED THE USE OF COMMUTER AIRCRAFT



US AIRWAYS HAS DECREASED AVERAGE AIRCRAFT SIZE AT DCA

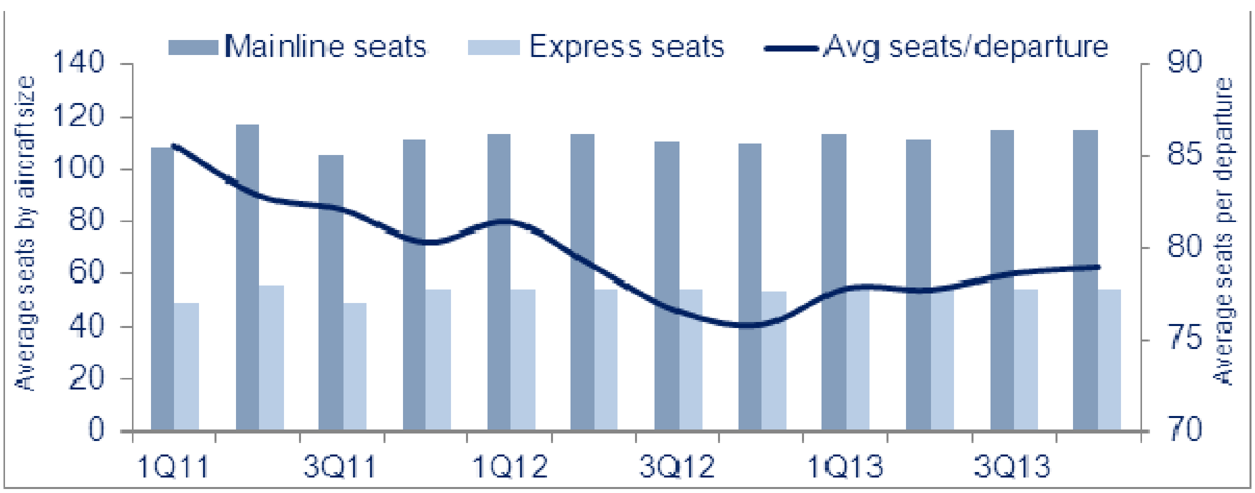


EXHIBIT C

JETBLUE USES ITS SLOT PORTFOLIO TO COMPETE AGGRESSIVELY AGAINST DCA'S DOMINANT CARRIER.

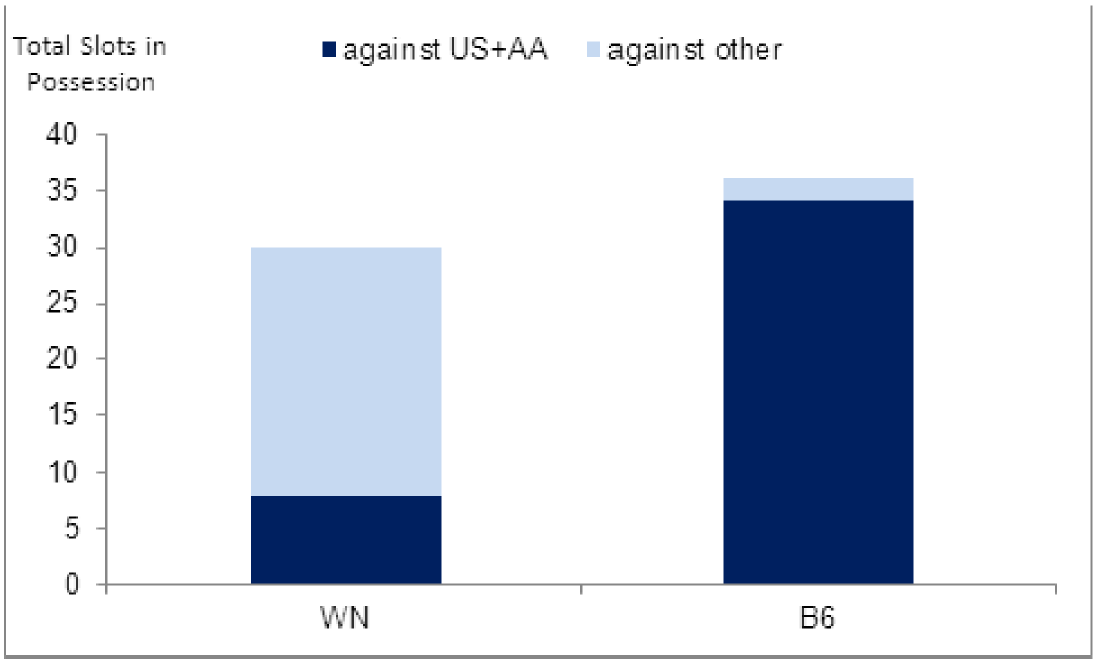


EXHIBIT D

US AIRWAYS AGGRESSIVELY DEFENDED ITS BOS-PHL MARKET ONLY TO RESTORE MONOPOLY PRICING

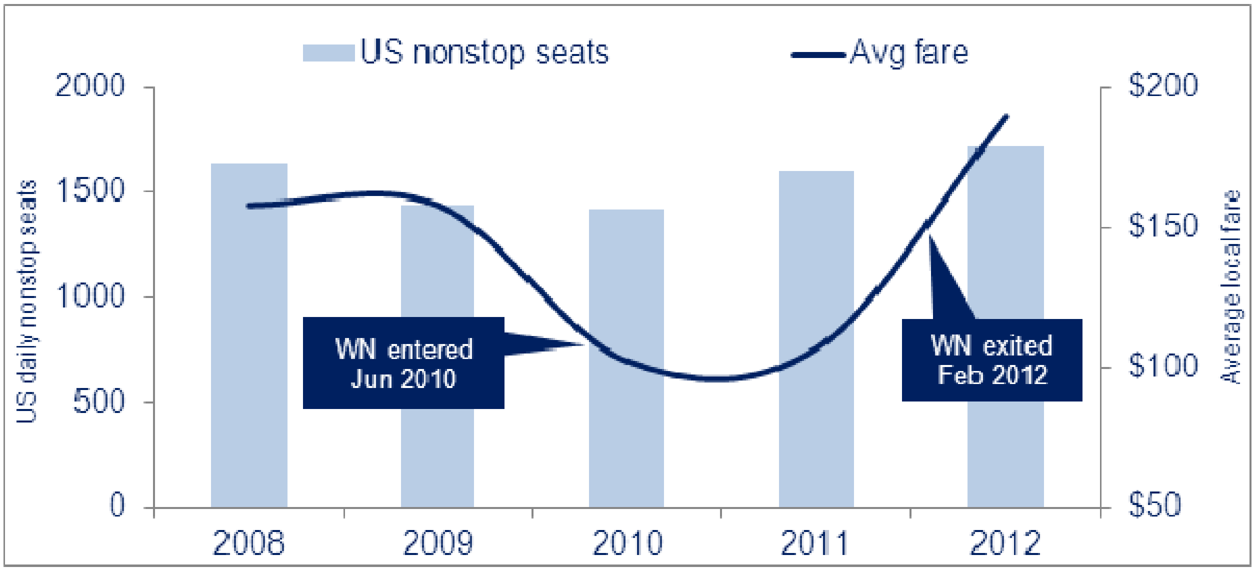
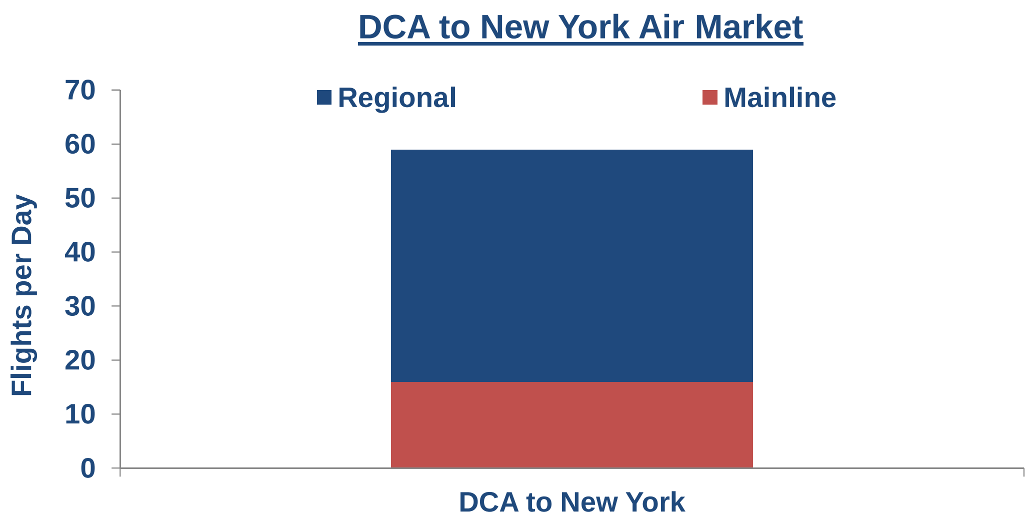


EXHIBIT E

MARKETS BETWEEN UPSTATE NEW YORK AND WASHINGTION'S NATIONAL AIRPORT ARE UNDERSERVED AND OVERPRICED

Air markets from New York to Washington National are underserved today with mainly regional jets

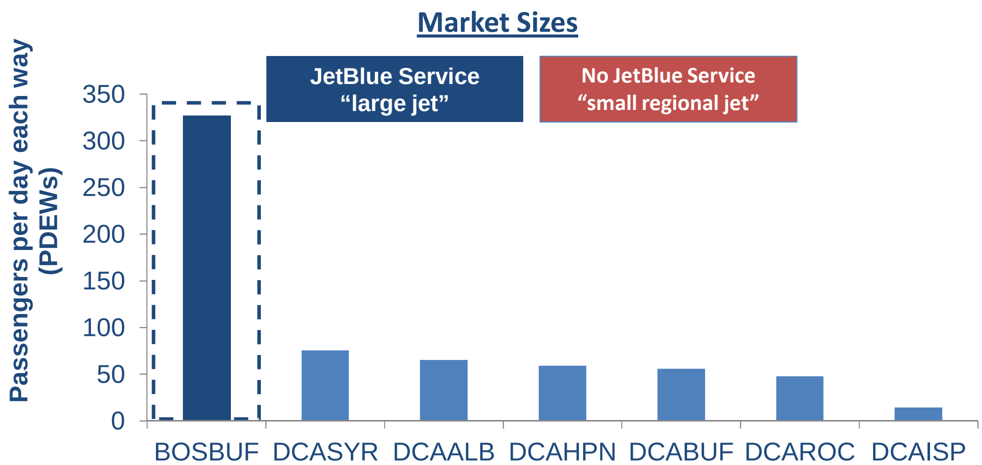


The only market operated with mainline jets between the State of New York (i.e. LGA, JFK, SYR, BUF, ROC, ISP, HPN & ALB) and Washington National (DCA) is US Airways in LGA-DCA

Note: Regional jet defined as 80 seats or less

EXHIBIT E continued

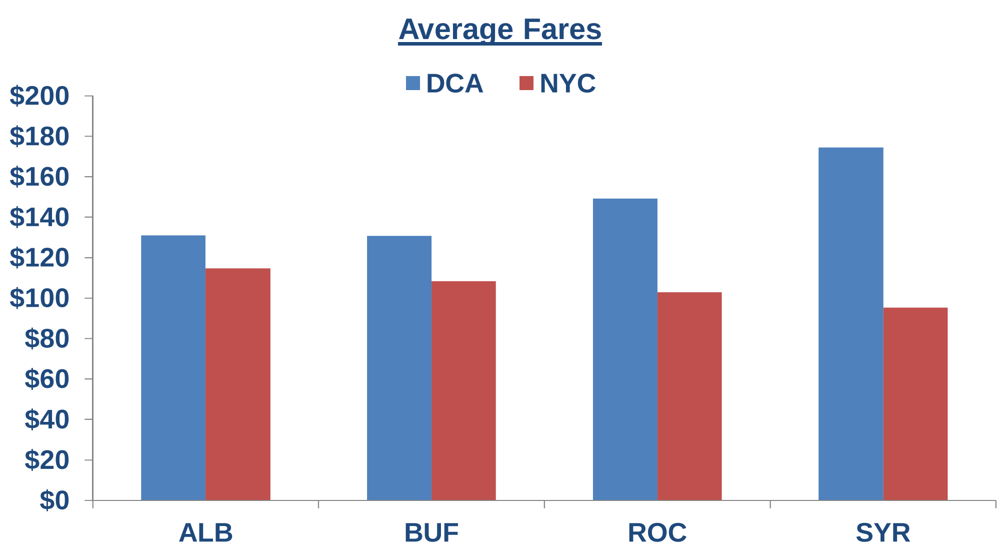
Regional jets restrict growth; consumers have benefited in similar markets with JetBlue service



	BOSBUF	DCASYR	DCAALB	DCAHPN	DCABUF	DCAROC	DCAISP
Daily Seats	500	238	229	200	238	159	150
Airlines	**JetBlue** US Air	US Air	US Air	US Air	US Air	US Air	US Air

Note: DCA-New York State airports excluding New York City

DCA to upstate New York fares are significantly higher when compared to NYC (JFK/EWR/LGA



	ALB	BUF	ROC	SYR
DCA fare premium	**14%**	**21%**	**45%**	**83%**

EXHIBIT E continued

DCA to upstate New York seats have declined significantly since 2006