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BUSINESS

## Airline Merger Sets Up Land Grab at Major Airports

*Discounters Eye Footholds at Reagan and LaGuardia; Cutbacks Likely at Smaller Cities*

By JACK NICAS

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The government's antitrust settlement with AMR Corp. and US Airways Group Inc. sets up what may be the last big land grab at major airports for some time, as the planned merger cements a new structure for the industry after a decade of bankruptcies and consolidation.

Discounters Southwest Airlines Co., JetBlue Airways Corp. and Spirit Airlines Inc. have said they are considering bids for bundles of slots that the new American Airlines will divest at Reagan National Airport and LaGuardia Airport—an opportunity for footholds at crowded airports that likely won't come around again soon. Those new entrants are expected to increase competition on well-traveled routes from Washington and New York to destinations like Chicago, Dallas and Florida.

The new competition will be counterbalanced by the new American's likely service cuts to smaller airports, necessitated by the divestments.



Following the merger, the new American, United, Delta and Southwest will control most U.S. airline seats  
*Albuquerque Journal/Zuma Press*

Cities heavily served by American and US Airways today from Washington and New York, such as Raleigh, N.C., Nashville, Tenn., and Louisville, Ky., could see cutbacks.

Meanwhile, cities with just a handful of flights a month to Washington and New York might lose that nonstop service altogether, such as Indianapolis, Burlington, Vt., and Kansas City, Mo., according to a Wall Street Journal analysis.

American and US Airways said they have made no decisions on cuts because they can't compare data on routes until their merger closes.

After seven major airline bankruptcies, six major mergers and numerous airline failures since 2000, the airline industry is financially healthier, enabling carriers to invest in their product and provide more stable service.

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But the new reality also means a few airlines now hold more power over how Americans traverse the country, giving them more leverage to cut flights, raise prices and bully smaller rivals out of markets.

After the merger's expected close next month, just four carriers—the new American, United Continental Holdings Inc., Delta Air Lines Inc., and Southwest—will control more than 82% of domestic airline seats.

That concentration "is what we need to come to embrace as the new normal," said airline researcher Bill Swelbar of the Massachusetts Institute of Technology. Two studies this year by Mr. Swelbar found that from 2007 through 2012, U.S. airlines cut 26% of their scheduled flights to the nation's 35 midsize airports, while increasing the average inflation-adjusted fares there by 12%.

## Audio

Jack Nicas has more on The Wall Street Journal This Morning.

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As a result of their [settlement with the Justice Department](#), American and US Airways must eliminate about 15% of their combined flights from Reagan and 7% from LaGuardia.

of those regional-jet flights from Reagan, and 17% of those from LaGuardia—most of which serve smaller East Coast and Midwestern cities—according to a Journal analysis of the carriers' schedules.

"We likely are in the crosshairs," said Harvey Schmitt, the chamber of commerce president in Raleigh, N.C., which has about 20 daily American and US Airways flights to LaGuardia and Reagan. Though Mr. Schmitt said he understands the carriers must find efficiencies in their merger, "we're expecting the loss of some flights."

Cities with fewer flights to Washington and New York, such as Chattanooga, Tenn., Augusta, Ga., and Portland, Maine, risk losing their nonstop service completely.

David Cush, chief executive of Virgin America Inc., said his six-year-old airline has had to claw its way into important airports because consolidation has made market access difficult. Now, a new competitive issue is emerging.

"The merged carriers have so much market power, so many aircraft at their disposal and so much financial muscle that they're able to come in and put undue competitive pressure on the smaller carriers," he said.

Near-term, the results can sometimes benefit fliers. For instance, after Virgin America introduced three daily flights in April from San Francisco and Los Angeles to United's hub in Newark, N.J., United responded by boosting its daily flights on the routes to 14 from nine.

But long-term, Mr. Cush said, further concentration of the industry means that Virgin America may be the last new entrant to the U.S. market for the foreseeable future. "We're fortunate in that we've made it into the gate before the gate slammed shut," he said.

Attention now turns to the government-controlled divestment of 44 roundtrip daily flights at Reagan, which must be divided between at least two carriers, and 12 round trips at LaGuardia, which can be sold to just one. The Justice Department has said it will soon choose a list of low-cost carriers as qualified bidders for the slots. JetBlue, Southwest, Spirit, Virgin America and several smaller carriers are expected to bid aggressively for the sought-after space.

With little room for further consolidation or major network changes, the auction is seen as a final opportunity for significant access to the airports. Mr. Cush, who said he was still studying a potential bid, acknowledged that "if we're planning on going into Reagan or LaGuardia, now is the time to make a move."

Mr. Swelbar of MIT said JetBlue, Southwest and Spirit have an upper hand because of strong balance sheets.

But these carriers are unlikely to fill any of the new American's cuts to small cities. Larger carriers like American fly smaller regional jets to smaller cities. But the discounters don't fly regional jets, meaning they must serve markets large enough to fill their bigger planes, Mr. Swelbar said.

Instead, they will likely fly to vacation destinations in Florida and larger cities like Chicago, Boston, Atlanta and Dallas, he said. For fliers, that means "if I fly from New York to Chicago, I benefit," Mr. Swelbar said. "But I'm certainly not going to benefit from New York to Knoxville."

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