United States General Accounting Office

GAO

Testimony

Before the Committee on Commerce, Science, and Transportation
U.S. Senate

For Release on Delivery
Expected at 9:30 a.m. EST
Wednesday, October 2, 2002

COMMERCIAL AVIATION

Financial Condition and Industry Responses Affect Competition

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GAO-03-171T

Mr. Chairman and Members of the Committee:

Thank you for inviting us to testify today on the economic state of the airline industry. Just over a year ago, we testified before this Committee on guidelines for providing financial assistance to the industry.[1] The Congress has long recognized that the continuation of a strong, vibrant, and competitive commercial airline industry is in the national interest. A financially strong air transport system is critical not only for the basic movement of people and goods, but also because of the broader effects this sector exerts throughout the economy. In response to the industry's financial crisis generated by the events of last September, the Congress passed the Air Transportation Safety and System Stabilization Act.[2] Thus, it is fitting that we now return to this Committee to review the state of the industry's financial health and competitiveness.

Over the past several years, we have issued a number of reports that focus on changes within the airline industry. They include analyses of the potential impacts on consumers of airline mergers and alliances, carriers' use of regional jets, and changes in service to the nation's smaller communities.[3] Our statement today builds on that body of work and provides a current overview of (1) the financial condition of major U.S. commercial passenger airlines; (2) steps taken by airlines to improve their financial condition; and (3) some public policy issues related to current conditions and changes in the aviation industry's competitive landscape.

In summary:

- Many, but not all, major U.S. passenger airlines are experiencing their second consecutive year of record financial losses. In 2001, the U.S. commercial passenger airline industry reported losses in excess of $6 billion. For 2002, some Wall Street analysts recently projected that U.S. airline industry losses will approach $7 billion, and noted that the prospects for recovery during 2003 are diminishing. Such projections could worsen dramatically in the event of additional armed conflict, if travel demand drops and fuel prices rise. Several carriers have entered

[1]*Commercial Aviation: A Framework for Considering Federal Financial Assistance* (GAO-01-1163T), September 20, 2001.

[2]P.L. 107-42.

[3]See list of related GAO products attached to this statement.

Chapter 11 bankruptcy proceedings. Yet Southwest Airlines, JetBlue, and AirTran continue to generate positive net income. These low-fare carriers have fundamentally different business structures than most major U.S. airlines, including different route structures and lower operating costs. However, federal security requirements have altered the cost of doing business for all carriers.

- Carriers have taken many actions to lower their costs and restructure their operations. Since September 2001, carriers have furloughed an estimated 100,000 staff, renegotiated labor contracts, and streamlined their fleets by retiring older, costlier aircraft. Carriers have reduced capacity by operating fewer flights or smaller aircraft, such as substituting "regional jets" for large "mainline" jet aircraft. In some cases, carriers eliminated all service to communities. For example, since September 2001, carriers have notified the Department of Transportation (DOT) that they intend to discontinue service to 30 small communities. At least two carriers are modifying their hub operations to use resources more efficiently by spreading flights out more evenly throughout the day. Finally, to increase revenues, some carriers have proposed creating marketing alliances under which the carriers would operate as code-sharing partners.[4] United Airlines and US Airways announced plans to form such an alliance on July 24, 2002, as did Continental Airlines, Delta Air Lines, and Northwest Airlines one month later.

- As the aviation industry continues its attempts to recover, the Congress will be confronted with a need for increased oversight of a number of public policy issues. First, airlines' reactions to financial pressures will affect the domestic industry's competitive landscape. Some changes, such as extending airline networks to new markets through code sharing alliances, may increase competition and benefit consumers. Others, such as carriers' discontinuing service to smaller communities, may decrease competition and reduce consumers' options, particularly over the long term. Second, airlines' reductions in service will likely place additional pressure on federal programs supporting air service to small communities, where travel options are already limited. Finally, while domestic travel has been the focus of our concern today, there are numerous international developments—especially regarding the European Union (EU)—that may affect established international "open skies" agreements between the

[4] In general, "code sharing" refers to the practice of airlines applying their names—and selling tickets via reservation systems—to flights operated by other carriers.

United States and EU member states. Various studies have illustrated the benefits to both consumers and carriers that flow from liberalizing aviation trade through such agreements. As international alliances are key components of major domestic airlines' networks, international aviation issues will affect the overall condition of the industry.

Background

The Airline Deregulation Act of 1978 has led to lower fares and better service for most air travelers, largely because of increased competition. The experiences of millions of Americans underscore the benefits that have flowed to most consumers from the deregulation of the airline industry, benefits that include dramatic reductions in fares and expansion of service. These benefits are largely attributable to increased competition, which has been spurred by the entry of new airlines into the industry and established airlines into new markets. At the same time, however, airline deregulation has not benefited everyone; some communities have suffered from relatively high airfares and a loss of service.

The airline industry is a complex one that has experienced years of sizable profits and great losses. The industry's difficulties since September 11, 2001, do not represent the first time that airlines have faced a significant financial downturn. In the early 1990s, a combination of factors (e.g., high jet fuel prices due to Iraq's invasion of Kuwait and the global recession) placed the industry in turmoil. Between 1990 and 1992, U.S. airlines reported losses of about $10 billion. All major U.S. airlines[5] except Southwest reported losses during those years. In addition, several airlines—most notably Braniff, Eastern, and Pan Am—went out of business, and Trans World Airlines, Northwest Airlines, and Continental Airlines entered bankruptcy proceedings. By the start of 1993, the industry had turned the corner and entered a period during which nearly all major U.S. airlines were profitable. The industry rebounded without massive federal financial assistance.

The events of September 11th accelerated and aggravated negative financial trends that had begun earlier in 2001. Congress responded quickly to address potential instability in the airline industry by enacting the Air Transportation Safety and System Stabilization Act. Among other

[5]For the purpose of this report, major airlines include Alaska Airlines, America West Airlines, American Airlines, American Trans Air, Continental Airlines, Delta Air Lines, Northwest Airlines, Southwest Airlines, United Airlines, and US Airways.

things, that act authorized payments of $5 billion in direct compensation (grants) to reimburse air carriers for losses sustained as a direct result of government actions beginning on September 11, 2001, and for incremental losses incurred between September 11 and December 31, 2001 as a direct result of the terrorist attacks. The act provided $10 billion in loan guarantees to provide airlines with emergency access to capital and established the Air Transportation Stabilization Board (the Board) to administer the loan program.[6] The Board is tasked not only with providing financial assistance to airlines but also with protecting the interests of the federal government and American taxpayer. The act requires the Board to ensure that airlines are compensating the government for the financial risk in assuming guarantees. This requirement defines the loan guarantee as a mechanism for supporting airlines with reasonable assurances of financial recovery. In addition to the grants and loan guarantees, the federal government has also established other ways to ease the airlines' financial condition.[7]

Many Carriers Face Deep Financial Losses

Many major U.S. passenger airlines are experiencing their second consecutive year of record financial losses. In 2001, the industry reported a net loss of over $6 billion, even after having received $4.6 billion from

[6]The Air Transportation Stabilization Board is composed of the Chairman of the Federal Reserve, the Secretary of Transportation, the Secretary of Treasury, and the Comptroller General. The Comptroller General is a non-voting member.

[7]The Air Transportation Safety and System Stabilization Act (Title III) authorized the Secretary of the Treasury to change the due date for any tax payment due between September 10 and November 15 to some time after November 15 (with January 15, 2002 as the maximum extension). The act specifies taxes that may be postponed to include excise and payroll taxes. Under Title II, (Aviation Insurance), the act also authorized DOT to reimburse qualifying air carriers for insurance increases experienced after the events of September 11th for up to 180 days. Funding constraints effectively limited the program to reimbursing carriers their excess war risk insurance premiums for only 30 days.

the federal government in response to September 11th.[8] For 2002, some Wall Street analysts have projected that U.S. airline industry losses will total about $7 billion, but this projection may worsen in the event of additional armed conflict, particularly if this results in decreasing travel demand and rising fuel prices. According to industry data, airlines' revenues have declined 24 percent since 2000, while costs have remained relatively constant. US Airways and Vanguard Airlines filed for Chapter 11 bankruptcy during this summer. United Airlines officials stated that they are preparing for a potential Chapter 11 bankruptcy filing this fall. Furthermore, some Wall Street analysts predict that it will likely take until 2005 for the industry to return to profitability. Attachment I summarizes the financial condition of major network and low-fare carriers.[9]

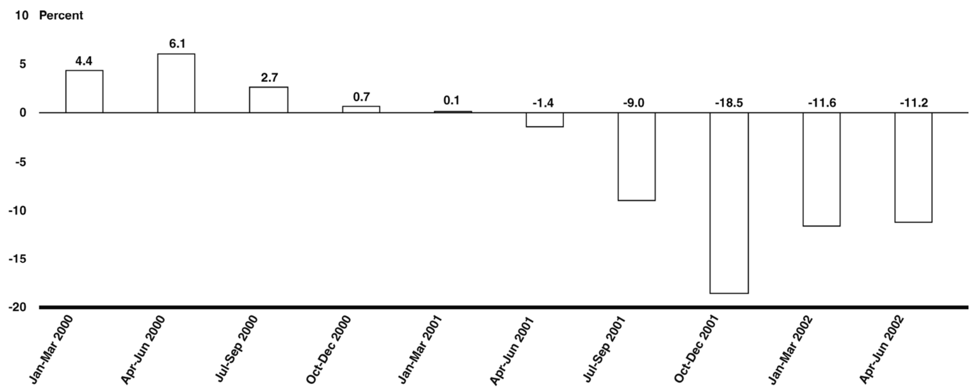
Major airline carriers' revenues have fallen because of a combination of a decline in passenger enplanements[10] and a significant decrease in average fares. As figure 1 shows, major carriers' enplanements increased for every quarter of 2000 compared to the same quarter of the previous year, but flattened in the first quarter of 2001 and then dropped, with the steepest drop occurring in the quarter following September 11, 2001.

[8]The federal government has provided significant amounts of financial assistance under the Stabilization Act. First, according to data from DOT, as of September 18, 2002, 396 passenger and cargo carriers had received payments totaling $4.6 billion. Second, 16 carriers submitted applications for loan guarantees. The Board approved a loan of $429 million to America West Airlines, and conditionally approved the applications of US Airways, Inc. for a federal guarantee of $900 million and American Trans Air for a federal guarantee of $148.5 million. The Board has denied the applications of four airlines. Third, various airlines have taken advantage of the tax deferment. For example, Southwest stated that it deferred approximately $186 million in tax payments until January 2002. Finally, the Federal Aviation Administration provided reimbursements to air carriers for up to 30 days of increased war risk insurance expense. To date, 188 air carriers have received $56.9 million in reimbursements. We are completing reviews of the $5 billion financial assistance program and the War Risk Insurance Reimbursement program to ensure that payments made were in compliance with the act.

[9]Network carries are defined as carriers using a hub and spoke system. Under this system, airlines bring passengers from a large number of "spoke" cities to one central location (the hub) and redistribute these passengers to connecting flights headed to passengers' final destinations. We adopted DOT's definition of low-fare carriers, which includes AirTran, American Trans Air, Frontier, JetBlue, Southwest, Spirit, and Vanguard.

[10]"Enplanements" represents the total number of passengers boarding an aircraft. Thus, for example, a passenger that must make a single connection between his or her origin and destination counts as two enplaned passengers because he or she boarded two separate flights.

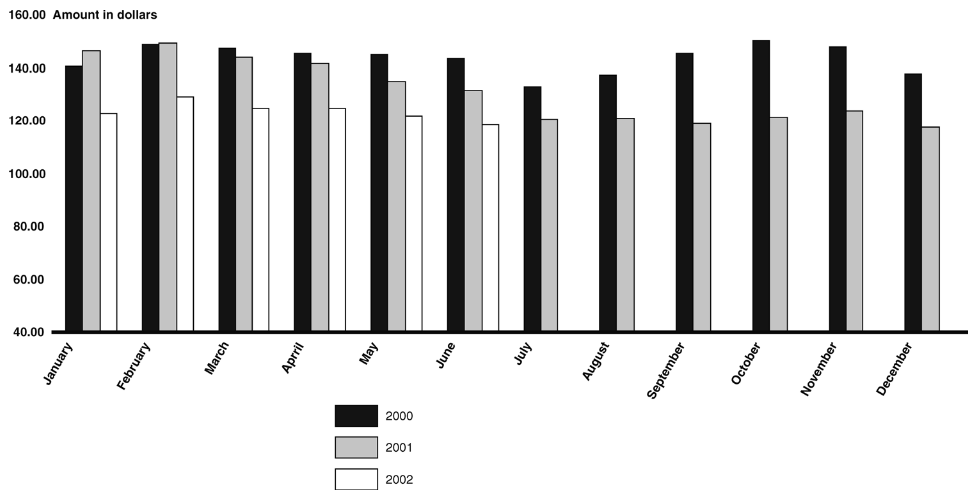
Figure 1: Major Airlines' Passenger Enplanements (quarterly) - Percentage Change from Prior Year



Source: GAO analysis of data from the Air Transport Association.

Over the same period, major airlines have also received lower average fares. Data from the Air Transport Association indicate that the average fare for a 1,000-mile trip dropped from $145 in June 2000 to $118 in June 2002, a decrease of about 19 percent (see fig. 2). Average fares started dropping noticeably in mid-2001 and have not risen significantly since. Industry data suggest that the decline is due to the changing mix of business and leisure passenger traffic, and particularly to the drop in high-fare business passengers.

Figure 2: Average Domestic Airfares for Major Network Carriers, January 2000 Through June 2002



Note: Data are in nominal dollars for 1,000-mile trips on U.S. major airlines (excluding Southwest).

Source: GAO presentation of data from the Air Transport Association.

Through June 2002, all major network carriers generated negative net income, while low-fare carriers Southwest Airlines, JetBlue, and AirTran returned positive net income. Like the major carriers, these low-fare carriers' passenger enplanements dropped in the months immediately following September 2001. Attachment II summarizes passenger enplanements for individual major and low-fare carriers for 2000, 2001, and the first 5 months of 2002.

Why have some low-fare carriers been able to earn positive net income in current market conditions, while network carriers have not? The answer seems to rest at least in part with their fundamentally different business models. Low-fare carriers and major network carriers generally have different route and cost structures. In general, low-fare carriers fly "point-to-point" to and from airports in or near major metropolitan areas, such as Los Angeles, Chicago, and Baltimore-Washington. In comparison, major network carriers use the "hub and spoke" model, which allows them to serve a large number of destinations, including not just large cities, but small communities and international destinations as well. American Airlines, for example, can carry a passenger from Dubuque, Iowa, through Chicago, to Paris, France.

Low-fare carriers have also been able to keep costs lower than those of major airline carriers. For example, 2002 data reported by the carriers to

DOT indicate that Southwest's costs per available seat mile (a common measure of industry unit costs) for one type of Boeing 737 is 3.79 cents. For the same aircraft type, United Airlines reported a cost of 8.39 cents—more than twice the cost at Southwest.

All airlines are now entering an environment in which some of the costs of doing business have increased. The federal Transportation Security Administration has taken over responsibility for many security functions for which airlines previously had been responsible. The Air Transport Association (ATA) estimated that the airline industry spent about $1 billion for security in 2000.[11] Despite the shift in functional responsibilities, airlines have stated that they continue to bear the costs of other new federal security requirements. In August 2002, Delta Air Lines estimated the cost of new federal security requirements that it must bear to be about $205 million for 2002. This includes the cost of reinforcing cockpit doors, lost revenues from postal and cargo restrictions, and lost revenues from carrying federal air marshals.

Airlines Have Taken Numerous Actions to Address Changing Market Conditions

To address mounting financial losses and changing market conditions, carriers have begun taking a multitude of actions to cut costs and boost revenues. First, many carriers have trimmed costs through staff furloughs. According to the Congressional Research Service, carriers have reduced their workforces by at least 100,000 employees since last September. Further, some carriers, including United Airlines and US Airways, have taken steps to renegotiate contracts in order to decrease labor and other costs. A US Airways official stated that its renegotiated labor agreements would save an estimated $840 million annually.

Carriers have also grounded unneeded aircraft and accelerated the retirement of older aircraft to streamline fleets and improve the efficiency of maintenance, crew training, and scheduling. Carriers accelerated the retirement of both turboprops and a variety of larger aircraft, including

[11] The amount that the industry paid for security in 2000 is in question. ATA's $1 billion estimate, made in August 2001, included $462 million annually for direct costs, $50 million for security technology and training costs, and $110 for acquisition of security equipment. Since then, ATA certified that the industry incurred only about $300 million in security-related costs. The amount is important, because the airlines are required to remit an amount equal to the security costs incurred by the airlines in calendar year 2000 to the U.S. government, which assumed certain civil aviation security functions through the Transportation Security Administration. DOT's Inspector General is examining the discrepancy between the $1 billion and the $300 million estimates.

Boeing 737s and 727s. For example, United and US Airways retired the Boeing 737s used by United's Shuttle service and US Airways' MetroJet system, and the carriers discontinued those divisions' operations. Industry data indicate that the airlines have parked over 1,400 aircraft in storage, with more than 600 having been parked since September 2001.

Although carriers had begun reducing capacity earlier in 2001, those reductions accelerated after the terrorist attacks. Between August 2001 and August 2002, major carriers reduced capacity by 10 percent. Carriers can decrease capacity by reducing the number of flights or by using smaller aircraft, such as replacing mainline service with regional jets, which are often operated by the network carrier's regional affiliate and normally have lower operating costs. For example, American Airlines serves the markets between Boston, New York (LaGuardia), and Washington, D.C. (Reagan National) only with regional jet service provided by its affiliate, American Eagle. Another way carriers have reduced capacity is to discontinue service to some markets, primarily those less profitable, often smaller communities. Our previous work showed that the number of small communities that were served by only one airline increased from 83 in October 2000 to 95 by October 2001. Between September 2001 and August 2002, carriers had notified DOT[12] that they intend to discontinue service to 30 additional communities, at least 15 of which were served by only one carrier and are now receiving federally-subsidized service under the Essential Air Service (EAS) program.[13]

Some carriers are modifying their "hub and spoke" systems. American is spreading flights out more evenly throughout the day instead operating many flights during peak periods. American began this effort in Chicago and has announced that it would expand its "de-peaking" efforts to its largest hub at Dallas/Fort Worth beginning November 2002. American officials stated that these changes would increase the productivity of labor and improve the efficiency of gate and aircraft use. Delta officials said they are also taking steps to spread flights more evenly throughout the day.

[12] Under 49 USC 41734, carriers must file a notice with DOT of their intent to suspend service, and DOT is compelled by statute to require those carriers to continue serving those communities for a 90-day period.

[13] The EAS program, established as part of the Airline Deregulation Act of 1978, guaranteed that communities served by air carriers before deregulation would continue to receive a certain level of scheduled air service, with special provisions for Alaskan communities. As of July 1, 2002, the EAS program provided subsidies to air carriers to serve 114 communities.

Beyond the steps individual carriers are taking to restructure and cut costs, some carriers are proposing to join forces through marketing and codesharing alliances in order to increase revenues. Under these proposed alliances, carriers would sell seats on each other's flights, and passengers would accrue frequent flyer miles. Company officials stated that the carriers would remain independent competitors with separate schedules, pricing, and sales functions. On July 24, 2002, United and US Airways announced a proposed codesharing alliance to broaden the scope of their networks and potentially stimulate demand for travel. United and US Airways estimated that the alliance would provide more than $200 million in annual revenue for each carrier. One month later, Northwest announced that it had signed a similar agreement with Continental and Delta. According to Northwest, this agreement builds on the alliance between Northwest and Continental that had been in existence since January 1999. These alliances would expand both their domestic and international networks. The Department of Transportation is currently reviewing these proposals.[14]

Critical Public Policy Issues Are Associated With the Industry's Changing Competitive Landscape

Because a financially healthy and competitive aviation industry is in the national interest, and because carriers' and the federal government's efforts to address the current situation may affect consumers both positively and negatively, Congress will be confronted with several major public policy issues. These policy issues underscore the difficulties this industry will encounter as it adapts to a new market environment. We are highlighting three of these issues: the effect of airlines' current financial situation, including new business costs, on industry health and competition; the impact of reductions in service on federal programs designed to protect service to small communities, and international developments that may further affect the domestic industry.

- **How will the carriers' reactions to current financial pressures affect the industry's competitive landscape?** There is a new aviation business reality that has increased the airlines' financial pressures and which ultimately will be felt by U.S. consumers. Increased federal security requirements, which are part of this new reality, are adding to the cost of

[14]DOT is authorized under 49 U.S.C. 41712 to block the airlines from implementing their agreements, if it determines that the agreements' implementation would be an unfair or deceptive practice or unfair method of competition. Such a determination is analogous to the review of major mergers and acquisitions conducted by the Justice Department and the Federal Trade Commission under the Hart-Scott-Rodino Act, 15 U.S.C. 18a.

competing in the industry. The cost of these policies will most likely be borne both by industry, through higher operational costs, and the consumer, through higher fares. In the current pricing environment, carriers may not be able to pass on these costs to consumers, and thus may be bearing their full impact during the short run. On the other hand, these same security requirements may be helping the airlines maintain some of its passenger revenue; some portion of the airlines' current passengers may be flying only as a result of knowing that these heightened security requirements are in place. Thus, the question arises about the net impact of the new market environment and new security requirements on the carriers and their passengers while the industry restructures.
While understandable from the perspective of an individual airline's bottom line, the restructuring activities of individual carriers will significantly change the competitive landscape. When carriers decrease available capacity in a market by reducing the number of flights, decreasing the size of aircraft used to meet reduced demand, or dropping markets altogether, the net result is that consumers have fewer options. In doing so, airlines reduce the amount of competition in those markets. As has been shown repeatedly, less competition generally leads to higher fares in the long run.

A related issue concerns the industry's consolidation, whether through marketing alliances among or mergers between carriers. Because of the potential that consolidation presents for competition, federal oversight has been critical. As we have noted before, while alliances may offer potential consumer benefits associated with expanded route networks, more frequency options, improved connections, and frequent flyer benefits, consolidation within the industry raises a number of critical public policy issues.[15] These include increasing potential barriers to market entry, the loss of competition in key markets, and a greater risk of travel disruptions as a result of labor disputes.[16] Since these alliances and mergers have a direct impact on the level of competition within the airline industry and would therefore influence the affordability of air travel to many consumers, these issues are still relevant.

[15] *Airline Competition: Issues Raised by Consolidation Proposals* (GAO-01-402T), February 7, 2001.

[16] GAO has recently initiated an analysis of issues relating to airline industry labor-management relations conducted under the Railway Labor Act.

- **How will the federal government's support of small community air service be affected?** The Congress has long recognized that many small communities have difficulty attracting and maintaining scheduled air service. Now, as airlines continue to reduce capacity, small communities will potentially see even further reductions in service. This will increase the pressure on the federal government to preserve and enhance air service to these communities. There are two main programs that provide federal assistance to small communities: the Essential Air Service (EAS) program, which provides subsidies to commercial air carriers to serve the nation's smallest communities, and the Small Community Air Service Development Pilot Program, which provides grants to small communities to enhance their air service.[17]

  As we reported in August, the number of communities that qualify for EAS-subsidized service has grown over the last year, and there are clear indications that that number will continue to grow. Federal awards under the program have increased from just over $40 million in 1999 to an estimated $97 million in fiscal year 2002.[18] As carriers continue to drop service in some markets, more communities will become eligible for subsidized EAS service.

  In 2002, nearly 180 communities requested over $142.5 million in grants under the Small Community Air Service Development Pilot Program. DOT awarded the total $20 million available to 40 communities in 38 states to assist them in developing or enhancing their air service. The grants will be used for a variety of programs, including financial incentives to carriers to encourage either new or expanded air service, marketing campaigns to educate travelers about local air service, and support of alternative transportation. We are currently studying efforts to enhance air service in small communities, and expect to report on these programs early next year.

- **How will future international developments affect established agreements between the US and EU member states?** There are a

[17]Congress created the Small Community Air Service Development Pilot Program under the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181). That act authorized $75 million over 3 years. DOT made no awards under the act in fiscal year 2001, because the Congress did not appropriate any funds for the first year of the program but $20 million was appropriated for fiscal year 2002.

[18]Figures in constant 2002 dollars.

number of international issues that will influence the domestic aviation industry's attempts to recover from financial losses. The European Court of Justice is expected to reach a decision in the near future on the authority of individual European Union nations to negotiate bilateral agreements. This could raise uncertainties over the status of "open skies" agreements[19] that the United States has signed with individual European Union nations. This is especially critical with regard to negotiating an open skies agreement with the United Kingdom, our largest aviation trading partner overseas. Because almost all of the major US carriers partner with European airlines in worldwide alliances, this decision could potentially impact the status of antitrust immunity for these alliances, which could in turn affect alliances established with airlines serving the Pacific Rim or Latin America. These alliances are key components of several major airlines' networks and as such significantly affect their overall financial status. Various studies have illustrated the benefits to both consumers and carriers that flow from liberalizing aviation trade through "open skies" agreements between the United States and other countries.

This concludes my statement. I would be pleased to answer any questions you or other members of the Committee might have.

Contact and Acknowledgement

For further information on this testimony, please contract JayEtta Hecker at (202) 512-2834. Individuals making key contributions to this testimony included Triana Bash, Carmen Donohue, Janet Frisch, Patty Hsieh, Steve Martin, Tim Schindler, Sharon Silas, Pamela Vines, and Alwynne Wilbur.

[19]"Open skies" agreements are bilateral air service agreements that remove the vast majority of restrictions on how the airlines of the two countries signing the agreement may operate between, behind, and beyond gateways in their respective territories. DOT has successfully negotiated open skies agreements with 56 governments, including many in Europe.

Appendix I: Summary of Network and Low-fare Airlines' Financial Condition, 2000 – June 2002

Network carriers	Net income (loss) 2000	Net income (loss) 2001	Net income (loss) 2002:2Q
Alaska	($70,300,000)	($39,500,000)	($4,500,000)[a]
America West	$7,679,000	($147,871,000)	($366,759,000)[b]
American	$813,000,000	($1,762,000,000)	($1,070,000,000)[c]
Continental	$342,000,000	($95,000,000)	($305,000,000)
Delta	$897,000,000	($1,027,000,000)	($583,000,000)
Northwest	$256,000,000	($423,000,000)	($264,000,000)
United	$50,000,000	($2,145,000,000)	($850,000,000)[d]
US Airways	($269,000,000)	($2,117,000,000)	($517,000,000)[e]
Total	**$2,026,379,000**	**($7,756,371,000)**	**($3,960,259,000)**
Low-fare carriers	**Net income (loss) 2000**	**Net income (loss) 2001**	**Net income (loss) 2002:2Q**
AirTran	$47,436,000	($2,757,000)	$2,027,000[f]
American Trans Air	($15,699,000)	($81,885,000)	($53,518,000)[g]
Frontier(8)	$54,868,000	$16,550,000	($2,935,572)
JetBlue	-	-	$27,590,000[h]
Southwest	$603,093,000	$511,147,000	$123,683,000
Vanguard	($26,031,626)	($30,914,459)	($7,963,262)[i]
Total	**$663,666,374**	**$412,140,541**	**$88,883,166**

Source: Airline annual reports and SEC filings.

Notes: Unless otherwise stated, 2002:Q2 data is for six (6) months ended 6/30/02. Spirit Airline's data is unavailable as it is a privately held concern.

[a]Three (3) months ended 6/30/02. Alaska Air Group, Inc.

[b]America West Holdings Corp.

[c]AMR Corporation.

[d]UAL Corporation.

[e]US Airways Group.

[f]AirTran Holdings, Inc.

[g]ATA Holdings, Inc. and subsidiaries. Formerly Amtran, Inc.

[h]Data reflects Frontier FY 2001 ended 3/31/01; FY 2002 ended 3/31/02; FY 2003:1Q three (3) months ended 6/30/02.

[i]JetBlue Airways Corporation went public on 4/11/2002.

[j]Three (3) months ended 3/31/02. Filed Chapter 11 on 7/30/02.

Appendix II: Summary of Network and Low-fare Carrier Enplanements, 2000-2002 (January to May)

Network carriers	2000	2001	Percentage change (2000-2001)	2002 (Jan to May)	2001 (Jan to May)	Percentage change (Jan to May 2001-2002)
Alaska	12,841,367	13,241,705	3.1%	5,067,518	5,570,751	-9.0%
America West	19,989,290	19,432,305	-2.8%	7,506,559	8,484,761	-11.5%
American	69,431,436	62,661,131	-9.8%	31,772,755	27,156,822	17.0%
Continental	37,118,040	35,085,749	-5.5%	13,445,688	15,311,743	-12.2%
Delta	100,389,816	88,928,779	-11.4%	34,372,033	38,791,329	-11.4%
Northwest	49,464,897	45,570,838	-7.9%	17,328,913	19,515,133	-11.2%
United	73,757,167	65,259,307	-11.5%	22,852,094	28,424,896	-19.6%
US Airways	58,035,050	53,806,153	-7.3%	19,428,304	24,287,301	-20.0%
Low-fare carriers	**2000**	**2001**	**Percentage change (2000-2001)**	**2002 (Jan to May)**	**2001 (Jan to May)**	**Percentage change (Jan to May 2001-2002)**
AirTran	8,014,274	8,306,772	3.6%	3,868,744	3,661,883	5.6%
American Trans Air	6,183,661	6,856,076	10.9%	3,056,609	2,938,045	4.0%
Frontier	3,065,564	2,907,611	-5.2%	1,468,583	1,329,633	10.5%
JetBlue	1,147,761	3,118,096	171.7%	2,055,962	1,131,841	81.6%
Southwest	82,170,284	82,234,829	0.1%	32,570,332	34,679,716	-6.1%
Spirit	2,817,734	3,290,277	16.8%	1,443,537	1,537,719	-6.1%
Vanguard	1,880,257	1,421,062	-24.4%	664,479	587,492	13.1%

Source: GAO analysis of data from BACK Aviation Solutions.

Related GAO Products

Options to Enhance the Long-term Viability of the Essential Air Service Program. GAO-02-997R. Washington, D.C.: August 30, 2002.

Commercial Aviation: Air Service Trends At Small Communities Since October 2000. GAO-02-432. Washington, D.C.: March 29, 2002.

Proposed Alliance Between American Airlines and British Airways Raises Competition Concerns and Public Interest Issues. GAO-02-293R. Washington, D.C.: December 21, 2001

"State of the U.S. Commercial Airlines Industry and Possible Issues for Congressional Consideration", Speech by Comptroller General of the United States David Walker. The International Aviation Club of Washington: November 28, 2001.

Financial Management: Assessment of the Airline Industry's Estimated Losses Arising From the Events of September 11. GAO-02-133R. Washington, D.C.: October 5, 2001.

Commercial Aviation: A Framework for Considering Federal Financial Assistance. GAO-01-1163T. Washington, D.C.: September 20, 2001.

Aviation Competition: Restricting Airline Ticketing Rules Unlikely to Help Consumers. GAO-01-831. Washington, D.C.: July 31, 2001.

Aviation Competition: Challenges in Enhancing Competition in Dominated Markets. GAO-01-518T. Washington, D.C.: March 13, 2001.

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