GAO Highlights

Highlights of GAO-14-515, a report to congressional requesters

Why GAO Did This Study

Since 2007, there have been four major airline mergers. As a result of this consolidation, about 85 percent of passengers in the U.S. flew on four domestic airlines in 2013. Certain industry observers have raised concerns that consolidation could have adverse effects on airline competition, such as higher airfares and reduced service. Others argue that consumers stand to benefit from recent changes in the industry as profitable airlines reinvest in new planes and expand their networks.

To assist Congress in overseeing changes in the airline industry, GAO was asked to examine the state of competition in the domestic passenger airline industry. This report addresses (1) changes to the financial health of the U.S. airline industry since 2007; (2) changes to the structure of the market since 2007; (3) how consumers have been affected by these changes; and (4) views of stakeholders on the key challenges to airline competition and actions the federal government could take to address these challenges.

GAO analyzed airline financial data reported to DOT, as well as DOT passenger itinerary data from 2007 through 2012, the latest year available. GAO interviewed DOT and DOJ officials and 26 stakeholders, selected based on prior work and their expertise in the field, from organizations in sectors such as academia, airlines, consumer advocacy, and finance. Their views are not generalizable, but provide perspectives on a range of competition issues. Both DOJ and DOT provided technical comments on a draft of this report, which were incorporated as appropriate.

View GAO-14-515. For more information, contact Susan Fleming at (202) 512-2834 or flemings@gao.gov.

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AIRLINE COMPETITION

The Average Number of Competitors in Markets Serving the Majority of Passengers Has Changed Little in Recent Years, but Stakeholders Voice Concerns about Competition

What GAO Found

The U.S. passenger airline industry has returned to profitability following the recent economic recession. From 2007 through 2012, the industry generated approximately $21.7 billion in operating profits despite losing about $5.6 billion in 2008. U.S. airlines maintained approximately $13 billion in cash reserves in 2012. Growth in revenue has driven industry profits, aided by increased passenger traffic, "capacity restraint," (i.e., limiting the supply of available seats in relation to the level of demand), and revenue from ancillary fees for checking bags and other services. For example, baggage and reservation change fees collected by U.S. airlines increased from about $1.4 billion in 2007 to $6 billion in 2012. Additionally, unlike prior recoveries when airline capacity growth undermined the ability to charge profitable fares, airlines since 2009 have restrained capacity growth even though demand for air travel has risen with the economic recovery.

In recent years, the average number of competitors has not substantially changed in markets traveled by the majority of passengers, despite several major airline mergers. From 2007 through 2012, the average number of effective competitors (defined as airlines with more than a 5 percent market share) ranged from 4.3 to 4.5 in the markets with the most passengers. During this period, the average number of effective competitors in markets with the fewest passengers decreased slightly from 3.3 to 3 airlines. While these results reflect market changes that have occurred since several airlines merged, the American-US Airways merger occurred after GAO's analysis. The mergers created larger networks and new connections in some markets. Also, low-cost airlines have expanded since 2007, thereby adding new competitors into some larger markets. The structure of the market will continue to evolve as economic conditions change and the recent airline mergers are fully implemented.

In recent years, consumers have experienced higher airfares, additional fees, and fewer flights in certain markets, but also new services and expanded networks. Consumers paid about 4 percent more in real terms, on average, for air travel in 2012 than in 2007, without considering additional fees. The airline industry has reduced flights, especially to smaller airports, and consolidated service at large airports. Airlines have also invested in new aircraft and introduced new services, such as early boarding and entertainment options, in an attempt to differentiate products and increase revenue.

Most airline stakeholders cited barriers to market entry, especially restrictions on takeoff and landing slots at four U.S. airports—Washington, D.C.'s Reagan National and three New York City area airports—as a major challenge to airline competition. Barriers that make airline entry more difficult can hamper competition and enable incumbent firms to charge and maintain higher prices. In addition, access to capital and the size advantages of major airlines present a formidable challenge for any new airline. Stakeholders suggested addressing challenges to competition by increasing capacity at congested airports, enhancing fare transparency, and allowing states a greater role in consumer regulation of airlines. However, stakeholders differed regarding the role of the federal government in addressing competition challenges, in part because changes to the airline industry due to consolidation are ongoing.