STATEMENT
OF
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Senate Commerce, Science and Transportation Committee

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Mr. Chairman, Ranking Member Hollings and other distinguished members:

Thank you for the opportunity to again testify before this Committee. Since I was here last June, much in the industry has changed, and unfortunately for the American consumer, much has stayed the same.

This morning I will briefly discuss the changes underway in the U.S. aviation industry and some of the issues that these proposed changes raise for the American consumer and smaller carriers.

JetBlue Airways is *New York's low fare hometown airline*.

We have been flying from New York City, the nation's largest travel market, for more than a year and we have achieved many successes. From our humble start last February with two new jets flying between Buffalo, JFK and Fort Lauderdale, JetBlue now has eleven new jets serving twelve cities with 64 daily flights.

Although JetBlue is a low fare carrier with fares up to 79% lower than our competitors, we achieved our first profit after only six months of operating and reported our first profitable quarter at the end of last year. We are on track to continue this financial growth. In our first year JetBlue operated more than 10,000 flights and achieved a 99.2%

completion factor with an on-time performance of 79%, compared to an on-time average of 72% for the ten largest carriers. During this inaugural year, JetBlue carried more than 1.1 million customers and achieved a system-wide load factor of 73%. Finally, after only ten months, we had flown more than $100 million in revenue.

Our financial performance is a direct result of our dedicated crew of 1,400 and our relentless drive to keep our costs down. We achieve low costs through an industry-leading use of our aircraft, nearly 14 hours per day, and an unprecedented use of technology. JetBlue is proud to be the only carrier in America with a fully electronic FAA manual system, increasing safety and efficiency by enabling our pilots to use their standard issue laptop computer to log on and access the most up to date manuals prior to each and every flight they operate.

While our operating statistics are all far above the industry average, most important for us is the experience, the *JetBlue Experience*, we deliver to our customers. With low fares, leather seats, free in-seat satellite TV with 24 channels and our special brand of friendly service, we only had ten complaints lodged against us with the DOT in our first year of operations, translating to a rate of .66 complaints per 100,000 enplanements, putting JetBlue far ahead every major carrier save Southwest, with whom we were tied for the lead. Further, DOT reports our mishandled bag rate was nearly half that of the major carriers' average rate.

Senators, I suspect that if the six largest carriers in America each offered everyday low fares on all of their routes no matter when a passenger reserved their trip or whether they stayed over a Saturday night, offered comfortable leather seating with plenty of legroom, had very gracious and friendly staff from check-in to the in-flight portion of the trip, brought you your bags on time and operated flights regularly and always in an on-time manner, many of you and most Americans would have very little concern with the pending consolidation of the airline industry.

Unfortunately, the reality is that today's airline industry is far from this picture I have just described. Rather, today's airline industry is perceived as late, uncaring, uncomfortable and expensive. Thus, the thought of strengthening the power and market domination of carriers with this reputation is frightening for many.

I submit that the answer to many of the problems plaguing today's industry is not a re-regulation of the industry or laws governing how big an employee's smile ought to be, but rather the only thing that has ever altered industry behavior in America: the capitalistic cure known as competition.

JetBlue, and others, offer competition. We offer choices. Oftentimes, and in JetBlue's case, these competitive alternatives come with low fares and more reliable service.

Yet, if the aviation business cycle is leading us to three or four major carriers dominating the domestic airline landscape, the government should not be opposed to this consolidation per se, but rather be determined to let the marketplace work itself out through vigorous and fair competition. The role of government, however, should be to ensure that smaller carriers have the opportunity to compete on a level playing field, in particular at constrained facilities where it matters most.

Today, JetBlue stands ready to play its role as a vibrant competitor, but finds that it is being shut out of key airports and thus being denied the opportunity to compete fairly.

Several of you and your colleagues have introduced legislation addressing important issues from how passengers are treated to imposing a moratorium on mergers to insuring access to key facilities in a post-consolidation era.

JetBlue strongly supports S-414, the Aviation Competition Restoration Act, introduced by Senators Hollings and McCain. This bill, particularly Section 4, requires the Secretary to investigate the use of gates and facilities at the 35 largest airports and determine whether they are being fully utilized, whether they are available for competitors and whether they should be reassigned to non-dominant carriers in order to improve competition. Following such an investigation, the Secretary would be required to make such facilities available to an applicant airline on a fair, reasonable and nondiscriminatory basis. While other carriers have had difficulty obtaining access to numerous airports, JetBlue has been effectively locked out of two airports important to New Yorkers, both Boston's Logan and Washington's Reagan National.

Of the top 1,000 passenger markets in the United States, the Boston-New York market is the third largest and the Washington-New York market is the fifth largest. These two short-haul markets, while very large today, sustain their strength despite the high average one-way fare of more 60 cents per mile in the Washington market and nearly 80 cents per mile in the Boston market, due to the total absence of any low far service. Imagine how much commerce and leisure traffic would be stimulated with JetBlue's everyday low fares to and from New York's JFK. In fact, fifteen years ago when there was low fare competition these two markets had two million more passengers than they do now.

Today, there simply is not a level playing field and thus, clearly viable new entrant carriers like JetBlue cannot enter these critical markets. In Boston, we are told there are no gates. In Washington, we are told there are no slots.

If the Department of Justice, after its deliberations, determines the pending deals present no violations from an antitrust perspective, then it is up to the Department of Transportation to review the competitive impacts of the proposals. S-415 guarantees that the Secretary of Transportation will in fact investigate, and upon application, remedy any lessening of competition on non-discriminatory terms. JetBlue certainly expects that the bill's intent in using the term "non-discriminatory" is to make sure non-dominant carriers pay no more for facilities than the carrier that presently has them paid for such facilities.

This key provision of S-415 is precisely why it the bill is so important. It allows the marketplace to work itself out fairly, with no special treatment for the largest carriers or the smallest carriers. If a large carrier paid X amount for a gate, so too should the smallest carrier that obtains the gate under this bill. If a large carrier received a publicly owned landing or take-off slot at no cost, so too should a smaller carrier under S-415.

In this light, JetBlue has strong reservations about one key provision of the bill that reportedly will be introduced by Senators DeWine and Kohl. In their bill, carriers with more than 15% of domestic available seat miles would be prohibited from owning or operating more than 20% of the slots at LaGuardia or National Airport in any two-hour period. While this is a positive step in the right direction as it recognizes the unacceptable level of dominance at key facilities, their proposed solution to preventing such concentration appears not to be aimed at ensuring competitive access by smaller, low fare carriers but rather to ensure parity among the three major carriers not involved in the pending mergers. Their bill would redistribute the slots through a blind auction where the richest bidders would surely obtain the slots, thus maintaining the status quo of limited or no new, low fare competition. Such high bidding, as would likely continue under the DeWine-Kohl bill, has been widely used to create the present system and effectively block new entry. This, as the General Accounting Office and Department of Transportation have observed, is the key reason that the 1986 buy-sell rule has failed to achieve its goal of fostering competition by new entrants in key markets.

As we were not in existence in 1986 when slots were given to carriers at no cost, JetBlue's very existence is in part a result of the 1994 FAA Reauthorization law which created slot exemptions at all High Density Rule airports, save Washington's National. JetBlue applied for and received the right to use, or lose, up to 75 slot exemptions at JFK during that airports' five-hour slot period by the end of a three-year term. Senators, using these slots we are.

While we cannot, by law, sell, trade, lease or collateralize these public assets as other carriers can and do, JetBlue has used its slots to bring low fares to markets with either no service, high fare service or both. In just our first year, JetBlue introduced the only nonstop jet service between New York's JFK and both Rochester and Buffalo, New York, with Syracuse to begin this Spring, Burlington, Vermont, Ontario and Oakland, California and Fort Meyers, Florida. All of our slot exemptions have brought unprecedented levels of fare reductions and traffic stimulation to each market we serve.

JetBlue's slot exemptions represent an initiative taken by Congress and implemented by the Department of Transportation, which has proven that a level playing field for new competitors can have a dramatic impact. Senators, S-415 also represents a moderate and measured step to letting the marketplace pursue its natural course while ensuring that, especially in key markets, new competitors, if interested, are assured they can enter and compete.

I will conclude in the manner I did last Spring when I reminded the Committee of a prediction made by the President of United Airlines: Ron Dutta envisioned the day when only a few large carriers with finished networks would exist in the U.S. along side a dozen or so regional carriers. His prediction, in part, is proving true in a quicker manner than I suspect he even realized.

If this Congress watches as the Government approves the pending consolidation that creates these finished network carriers, and does nothing to ensure that the other regional carriers are able to compete fairly, then the worst fears about the pending deals which I alluded to earlier will certainly materialize.

Thank you for the opportunity to come before this Committee.