

**United States Senate Committee on Homeland Security and Governmental Affairs**  
**Permanent Subcommittee on Investigations**  
**Testimony of Stephen Johnson**  
**Vice Chair and Chief Strategy Officer, American Airlines**

*December 4, 2024*

Chairman Blumenthal, Ranking Member Johnson, Members of the Subcommittee: thank you for the opportunity to testify today. My name is Stephen Johnson, and I am Vice Chair and Chief Strategy Officer at American Airlines (“American”) and have been in and around the airline industry since the late 1980s. I joined US Airways in 2009, before its 2013 merger with American, and spent 13 years as an executive vice president overseeing the companies’ corporate, legal, government affairs and real estate functions. In 2022 my work shifted to American’s strategy and advising the CEO, our leadership team and our Board of Directors. In May of 2023 I became Vice Chair and in May of this year I added responsibility for our Commercial functions. I am pleased to be here today at the request of the Subcommittee, and I will do my best to answer your questions to the best of my knowledge.

American Airlines was founded 99 years ago, and we have a deep-rooted history leading the industry through innovation and firsts, including popularizing one of the first computerized reservation systems in the mid-1960s and launching the first loyalty program of any major carrier. Additionally, we are the first airline to implement a Safety Management System, an organization-wide program for identifying and managing risk, which the Federal Aviation Administration has since incorporated into regulations for all carriers.

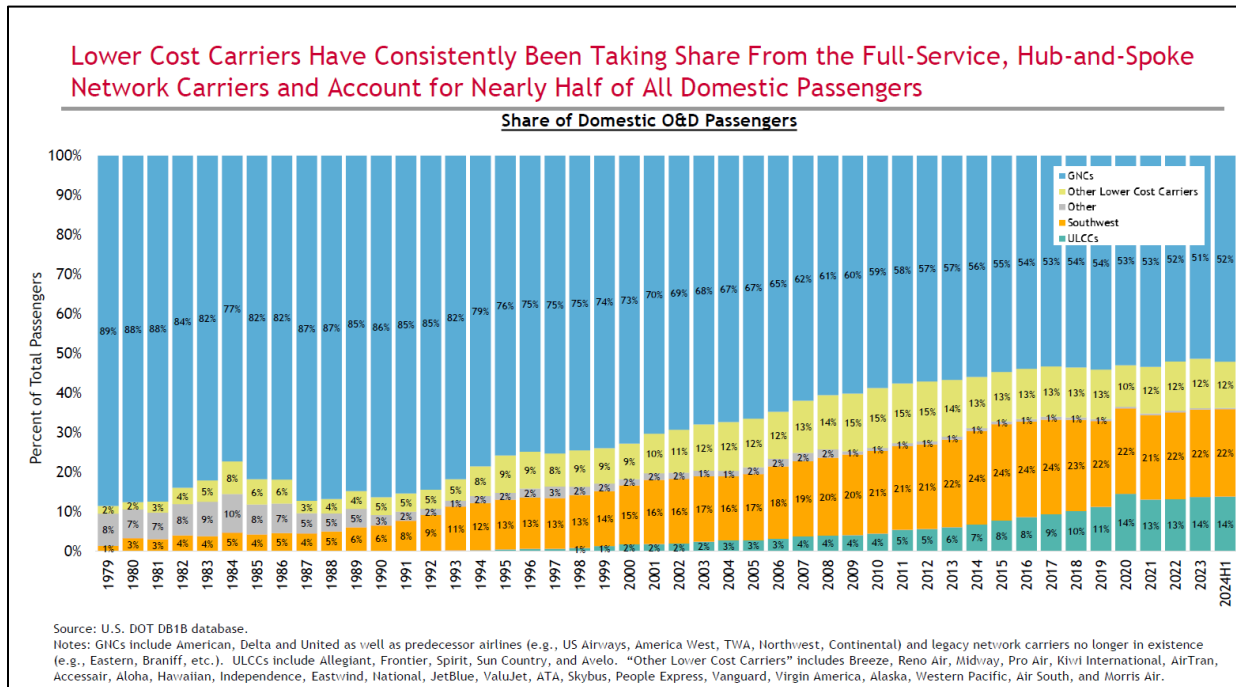
Our industry plays an important role in the nation’s economy and its infrastructure. We bring loved ones together, facilitate tourism, and are a key part of how the broader business community operates every day. American Airlines flies to more destinations than any other airline, operating 965 mainline aircraft and 556 regional aircraft with the support of our wholly-owned subsidiaries and contracted regional partners. Our fleet carries passengers and cargo through our hubs and gateways in Charlotte, Chicago, Dallas Fort Worth, London Heathrow, Los Angeles, Miami, New York, Philadelphia, Phoenix, and Washington D.C. In all, we fly to more than 350 airports in more than 60 countries across five continents including service to Canada, Mexico, the Caribbean, Central and South America, Europe, Qatar, China, Japan, Korea, India, Australia and New Zealand. And, in collaboration with our joint business and **oneworld** partners, we can fly our customers to virtually any destination on the planet. Nearly 211 million passengers booked travel with us last year – that’s more than 578,000 per day. We have more than 134,000 team members who take continued pride in providing the flying public with top-quality, best-in-class options and travel products, at a variety of different price points to fulfill their traveling needs.

We aim to deliver exceptional service at every stage of a passenger’s journey, from booking their flight to arriving at their destination, and we invest heavily in our customer experience. Our website and app, which the majority of our customers use to book their flights, are clear and easily navigable. Both include straightforward information on products, fares and fees and offer resources to any customers that have questions. That is by design. Our business benefits when our customers feel valued, informed, and supported. We want to build lasting relationships with those

who fly American, and we work toward that every day. Our ultimate goal is to serve our customers well, so they come back again and again, and we compete aggressively for their business and loyalty.

## Our Business Model

The airline industry has changed significantly in recent years. One principal change has been the rapid growth of carriers that have significantly lower costs than the so-called “legacy carriers.”

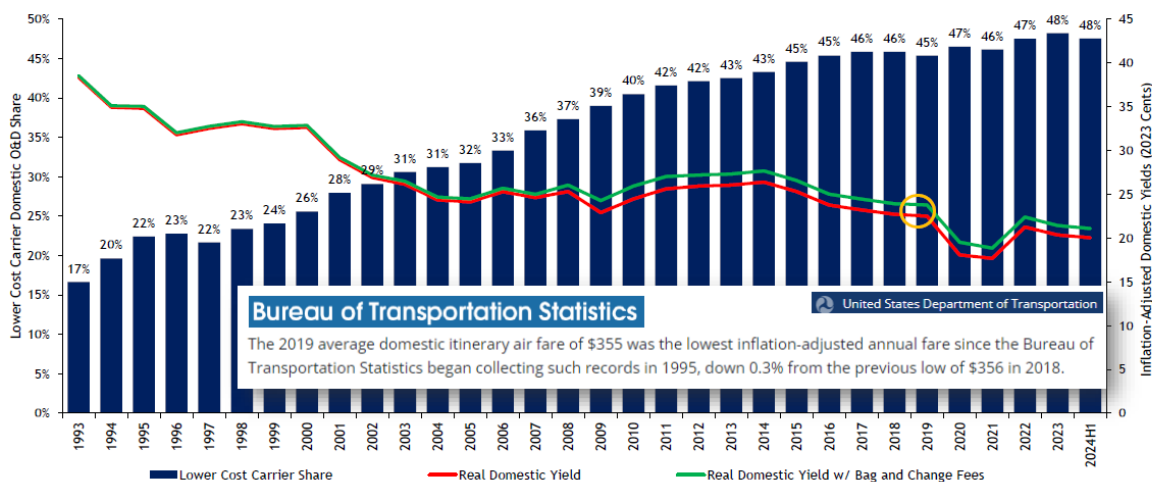


The fact that these carriers had such significant cost advantages meant that they could – and did – offer very low fares. Legacy carriers, including American, responded to these ultra-low-cost-carriers (“ULCCs”) by designing a product structure that enabled us (a) to compete with the ULCCs; (b) to offer very low fares for customers to whom that was important; and (c) to empower our customers to have control over their travel and ensure they didn’t have to pay for services they didn’t care to use.

Intense competition has driven down the cost of flying for passengers. According to the Department of Transportation, “[t]he 2019 average domestic itinerary air fare . . . was the lowest inflation-adjusted annual fare since the Bureau of Transportation Statistics began collecting such records . . .” That was the last full year before the pandemic. Since then, overall airfares have gone down, both in inflation-adjusted terms and nominally. This value proposition to consumers is something we are particularly proud of at a time when many Americans are experiencing higher prices on most goods and services.

## Average Domestic Airfares Reached Their All-Time Low In 2019, and Have Remained Below Those Levels Since Then

Inflation-Adjusted Domestic Prices Per Mile vs. Lower Cost Carrier Domestic O&D Share, 1993-2024H1



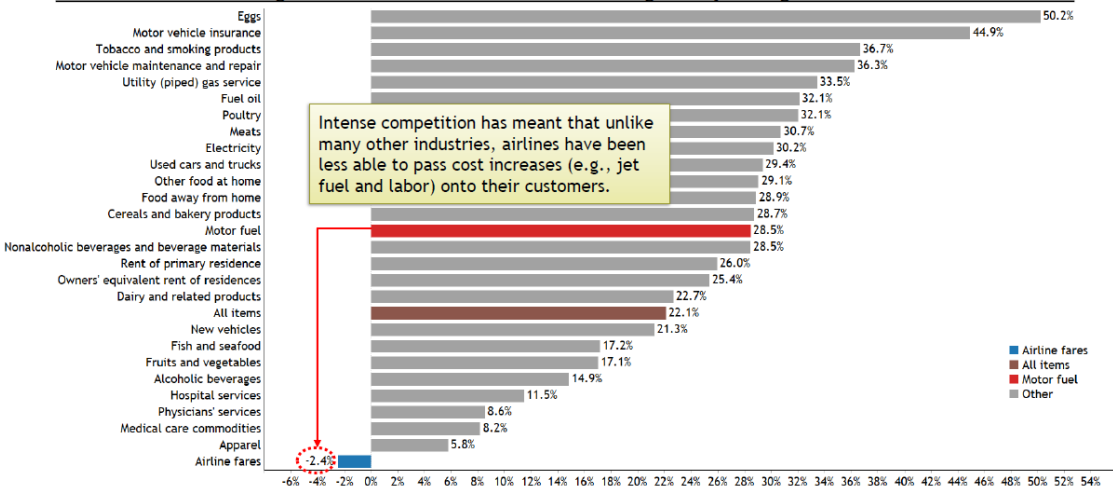
**Bureau of Transportation Statistics**  
 The 2019 average domestic itinerary air fare of \$355 was the lowest inflation-adjusted annual fare since the Bureau of Transportation Statistics began collecting such records in 1995, down 0.3% from the previous low of \$356 in 2018.

Sources: U.S. DOT DB1B database; U.S. DOT Form 41 schedule P-1.2; U.S. BLS CPI all urban consumers; <https://www.bts.gov/newsroom/annual-and-fourth-quarter-2019-air-fare-data>.  
 Notes: Real yield in 2023 cents. Bag fees and change fees are from U.S. DOT Form 41 schedule P-1.2, Passenger Baggage Fees and Reservation Cancellation Fees. Excludes O&D fares less than \$6.00 for yield calculation. Lower Cost Carriers include: Accessair, Air South, AirTran, Alaska Airlines, Allegiant, Aloha Airlines, ATA Airlines, Avelo, Breeze Airways, Eastwind Airlines, Frontier, Hawaiian, Independence Air, JetBlue, Kiwi, Midway Airlines, Morris Air, National Airlines, Pro Air, Reno Air, Skybus, Southwest, Spirit, Sun Country, Valujet, Vanguard, Virgin America, Western Pacific Airlines

In fact, airline fares are the only major CPI category that have gone down (-2.4%), in the last 12 months ending October 2024 compared to the full year 2019.

## Unlike Most Other Goods and Services, For The Year Ending October 2024, Overall Airfares Have Gone Down Since 2019 in Nominal Terms, Giving Consumers' Wallets A Rare Respite From Rampant Inflation

Last Twelve Months Through October 2024 Versus Full Year 2019 Change in Major Categories of the Consumer Price Index



Intense competition has meant that unlike many other industries, airlines have been less able to pass cost increases (e.g., jet fuel and labor) onto their customers.

Source: U.S. BLS.  
 Notes: CPI data is not seasonally adjusted. Graph shows percent change in Full Year Ending October 2024 versus 2019. Categories shown are the major categories from "Table 1. Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by expenditure category" (with Eggs, Meats, Poultry, and Fish broken out) and represent 74% of the CPI in 2023.

The fact that consumers' cost to fly is at or near all-time inflation adjusted lows is especially noteworthy when you consider the fact that operating an airline remains a very cost-intensive business, and that industry costs have increased very significantly over that period.

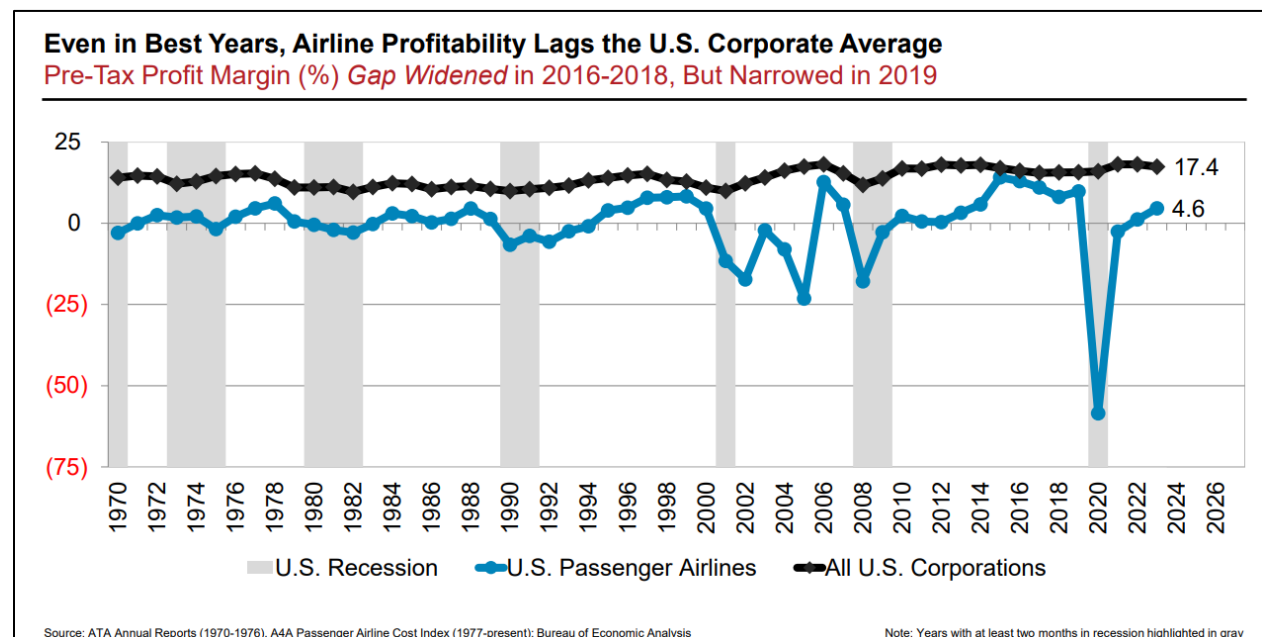
The cost of fuel is up more than 40 percent since 2019. To help address this, we are focused on buying newer, more fuel-efficient aircraft, which we have done more than any other airline. But buying aircraft is expensive, too. Since 2013, we have invested approximately \$30 billion to acquire new aircraft, in addition to another nearly \$2 billion in enhancing our existing fleet.

We've also made significant investments in wages and benefits for our team members, who we believe are the best in the business. All our frontline team members – more than 115,000 employees – are represented by labor unions; in fact, the unionization rate in our workforce is more than fourteen times higher than the U.S. private sector average. In the past 15 months, we have completed new collective bargaining agreements with pilots, flight attendants, agents, and fleet service workers/mechanics. In total, these deals add over \$16 billion in value to our team members through the terms of those contracts, resulting in a 34% increase in their salaries and benefits. Overall, our current salaries, wages, and benefits expense is up more than 90% compared to 2014, far outpacing the national averages for U.S. workers.

Additionally, we invest billions of dollars in building and renovating the airports in which we operate, either directly with American capital or through increased rent and landing fees. For example, we recently finished several expansion and enhancement projects at New York's John F. Kennedy airport totaling over \$400 million, and we are also undertaking a multi-year \$380+ million renovation program at our Tulsa maintenance base. And since 2016, we have spent almost \$300 million building and renovating lounges.

In addition, we are supporting even bigger capital investments through higher rent and landing fees, including approximately \$3 billion each at Charlotte; Washington, D.C.; Philadelphia; and Phoenix; \$4 billion at New York's LaGuardia airport; \$7 billion+ at Miami; \$8 billion+ at Dallas-Fort Worth; \$10 billion at Chicago's O'Hare airport; and \$30 billion at LAX.

With high operating costs, and passenger prices at or near all-time inflation-adjusted lows, it's no surprise that airlines operate on very narrow margins.



The intense competition in the industry required us to design our product offerings very deliberately. We needed a system that offered a menu of products and fares to customers to design their travel experience, including the lowest possible fares to compete for the most cost-conscious traveler.

### **We Designed Our Product Offering to Maximize Choices**

We strive to provide affordable airfare that can get people where they need to go as safely, comfortably and efficiently as possible. We are pleased to be able to offer a service that has gotten more affordable over time in a way that has democratized air travel.

We take an approach that is customer-friendly, transparent, and totally voluntary with respect to fees that we charge for unbundled products and services. Not every passenger wants the same thing, and we have designed a product offering and pricing system that reflects that and offers our customers choices to customize their travel experience and decide what is valuable to them, what they need and want, and what they don't. All our fares and fees are clearly disclosed, and we work with any customer who may have questions to ensure that they understand any fees that they may be charged.

We have taken a thoughtful approach to bag fees. More than half of our passengers, for example, choose not to check a bag and avoid bag fees altogether. For those that do elect to check bags, the fees we charge are in line with the market and, in certain instances, are lower than some peers. The costs we incur from carrying bags far exceed the fees that we charge. Since 2018, there has been only one increase in the price of a bag fee, by five dollars, which is consistent with the rate of inflation. And last year, nearly 40 percent of our passengers were entitled to a free first checked bag because of AAdvantage rewards, military status or other benefit.

Our seat selection products are all voluntary. For customers who value sitting in more in-demand locations, we do offer the opportunity to pay for more desirable seats. Like with bags, many of our customers are entitled to select a Preferred seat free of charge. And, importantly, no one is required to pay to select a seat. Customers that don't see value in paying for a Preferred seat can reserve a standard seat – or the airline will assign a seat – free of charge.

A number of years ago, we added a type of fare called “Basic Economy,” a product designed to appeal to the most budget-conscious customers, specifically to compete against carriers with much lower cost structures than ours, including two carriers that are here today. Our Basic Economy product does include fewer services than our other fare products. But, again, this is by design – it enables us to offer the lowest possible fare and, thus, the lowest cost of air transportation to our most price-sensitive customers. Basic Economy allows our customers greater freedom to pay for only the services they deem necessary instead of paying for all the other benefits that our other fare products include.

There are other services that the Subcommittee inquired about for which American Airlines does not charge. For instance, we do not charge fees for carrying on a small bag or a personal item or for changing a reservation originating in the U.S. more than 24 hours in advance of a flight. And we do not incentivize American team members in connection with fees for unbundled services we do charge.

And also, of course, we do not charge families to sit together. In fact, the Department of Transportation has recognized that American was the first U.S. airline to commit to the family seating guarantee in our customer service plan, and we remain one of only four airlines that does so.

### **Our Commitment to Fee Transparency**

We understand that customers are presented with a lot of information when they shop for flights. That is the reality of selling to and offering a variety of products and fares to hundreds of millions of customers per year with different budgets and travel wants and needs. To address that reality, we aim to offer upfront, easy-to-understand information about the fare and about all ancillary products that we offer early and often during the booking process.

When a customer visits our website or uses our app to book a flight, immediately after searching for their desired route, they see a grid of fare options that includes information on what is included in each fare. Fares that may require a fee to select a seat, for example, are clearly denoted with a symbol indicating that a seat in a different fare class or with extra legroom will need to be purchased for a fee. Similar information is included for potential bag and other fees.

Customers also have the opportunity to select a different class of fare, pay for a particular seat, or opt for other services that may require a fee prior to booking their ticket. Furthermore, customers can cancel and get a refund within 24 hours from the time they first buy their ticket so long as they transacted on aa.com or through American Airlines Reservations at least two days prior to departure.

The airline industry is a customer service business and, as noted, we are committed to providing an outstanding customer experience along the entire journey, including when our customers are planning a trip and purchasing a ticket. We know that it is important to ensure that our customers understand what it is they are purchasing, and we strive for robust clarity, transparency, and consistency in how we convey the details of the products we offer and the fares and fees we charge. That is a critical component of how we build trust and keep passengers coming back to American.

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Thank you, again, for the opportunity to testify today, in the midst of this holiday season. We are proud of the service we provided over Thanksgiving, and we look forward to providing our customers with the same level of excellence over the winter holidays and into the new year.

I welcome any questions you may have.