VIRGIN AMERICA CEO PREDICTS BIG FARE HIKES BY US AIRLINES IN 2016

News / Airlines

Virgin America CEO David Cush predicted big fare increases by US airlines, and urged the US government to protect the “competitive structure” of the industry.

“My expectation is in 2016 and 2017, we’re going to see considerable increases in flight tickets [in the US] simply because you have the Big Four airlines [American Airlines, United Airlines, Delta Air Lines and Southwest Airlines] controlling 85% of the market,” he told the Boyd Group International Aviation Forecast Conference in Las Vegas. “When you have an oligarchy, it operates as an oligarchy, which means lowering capacity and raising prices. What we’re going to see is higher fares across the industry.”

Virgin America is coming off its best-ever quarter financially in the second quarter, and the US airline industry as a whole was highly profitable in the first half of 2015. But Cush said Virgin America and other smaller US airlines face a major competitive disadvantage going forward because the consolidated legacy US airlines are squeezing them out of domestic US regional flight networks, narrowing the number of passengers with access to the smaller airlines.

“In general, we’re favorable towards consolidation,” Cush said, but he added that the inevitable

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consolidation-driven “pricing pressure” hasn’t arrived yet. “The government allowed consolidation to occur, but it’s the government’s responsibility to make sure competition is there,” he said. “Giving low-cost carriers access to the regional feeds that the legacies have set up is critical.”

Cush said it is “impossible” for airlines like Virgin America to set up a regional domestic network to compete with the likes of American, United and Delta. Cush has sought to arrange interline agreements to allow Virgin America to place its code on legacy airlines’ hub-feeding domestic flights from smaller markets, but has been rejected. “Virgin America has no domestic interline agreements with any domestic carriers simply because they’ve refused us. We’ve asked all of them,” he said. “These guys understand their dominant position in the small markets and they’re cutting off competition.”

Asked by *ATW* what mechanism the US government should use to remedy the situation, Cush said the Department of Transportation (DOT) could force American, Delta and United to add the codes of carriers like Virgin America to their regional flights. “Part of the DOT’s mandate is to preserve competition … and that’s a place the DOT has not done its job as well as it should have,” Cush explained. “Perhaps the government needs to step in … It’s important for 90% of the consumers that are not [living near] hub airports. For the total competitive structure of the airline industry, it’s very important.”

Cush emphasized that he doesn’t want to see the government picking winners and losers, but he wants it to ensure American, United, Delta and Southwest don’t use their position to stifle competition with other airlines in the US market. “Congress doesn’t have to get involved in telling airlines where to fly,” he said. “But the simple fact of the matter is, I’m from Shreveport, Louisiana, and we used to have five airlines operating into Shreveport. Now we have three. And you can’t fly to Memphis from Shreveport anymore.”

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