Operator

Good day, and welcome to the American Airlines Group Second Quarter 2014 Earnings Call. Today's conference is being recorded. [Operator Instructions] And now I'd like to turn the conference over to your moderator, Managing Director of Investor Relations, Mr. Daniel Cravens.

Daniel Cravens

Thanks, Wendy, and welcome, everybody, to the American Airlines Second Quarter 2014 Earnings Conference Call. In the room with us today for the call is Doug Parker, our Chairman and CEO; Scott Kirby, President; Derek Kerr, our Chief Financial Officer. And also in the room for the Q&A session is Robert Isom, our Chief Operating Officer; Elise Eberwein, our EVP of People and Communications; Bev Goulet, our Chief Integration Officer; Maya Leibman, our Chief Information Officer; and Steve Johnson, our EVP of Corporate Affairs.

Like we normally do, we're going to start the call today with Doug, and he'll provide an overview of our financial results; Derek will then walk through the details in the quarter and provide some color and a guidance for the remainder of the year; Scott will then follow with commentary on the revenue environment and our operational performance; and then after we hear from those comments, we'll open the call for analysts' questions and then lastly questions from the media.

But before we begin, we must state that today's call does contain forward-looking statements, including statements concerning future events, our future revenues and cost, forecast for capacity, traffic, load factor, fleet plans and fuel prices. These statements represent our predictions and expectations as to future events, but numerous risks and uncertainties could cause actual results to differ from those projected. Information about some of these risks and uncertainties can be found in our earnings press release issued this morning and our Form 10-Q that was also issued this morning for the quarter ended June 30.

In addition, we'll be discussing certain non-GAAP financial measures on the call, such as net profit and CASM excluding unusual items. A reconciliation to those numbers to the GAAP financial measures is included in the earnings release, and that can be found on our website on aa.com under the More About American Investor Relations section. The webcast of this call will also be archived on the website and the information that we're giving you today on the call is as of today's date and we undertake no obligation to update the information subsequently.

So thanks again for joining us. And at this point, I'll turn the call over to our Chairman and CEO, Mr. Doug Parker.

William Douglas Parker

Thank you, Dan. Thanks, everyone, for being on. This is a great day for American Airlines. We announced our second quarter financial results, as Dan said. A profit of $1.5 billion, excluding special charges. That's the best financial performance for any quarter in the long and proud history of American Airlines and by a wide margin. These results are due to the great work of our 100,000-plus team members who are coming together really well and doing a great job of taking care of our customers, and I want to be sure and thank all of them and congratulate all of them for these results.

So -- and then in addition to announcing our record earnings today, we announced a capital deployment program. The program includes over $2.8 billion in debt and aircraft lease payments, a $1 billion share repurchase plan, a quarterly cash dividend to shareholders and $600 million of pension contributions in 2014 beyond the required contribution. As part of the program, our Board of Directors declared a cash dividend of $0.10 per share. This is the first cash dividend paid to American shareholders since 1980, and I think it's further evidence of a transformation underway at our airline and also within our industry.

So as I said, this is a great day for us. It's sometimes hard to remember that just less than 8 months ago, American was in bankruptcy and getting ready to emerge from bankruptcy through our merger with US Airways. Yet today, here we are reporting record profits, prepaying debt, making additional pension contributions and declaring dividends to shareholders. We are really proud of our team and what they've accomplished by working together in a very short period of time.

We're not done. There's a tremendous amount of work ahead, as we all know. And -- but what we do know is this performance is evidence that we're on the right track, and it gives us confidence as we move forward. And we are very much looking forward to continue to work together to restore American Airlines as the greatest airline in the world, and we're very happy to have -- to be on this track and to report these results.

So with that said, I'll turn it over to Derek and Scott.

Derek J. Kerr

All right. Thanks, Doug. Good afternoon, everyone. In our earnings release and the 10-Q filed earlier today, you'll find information pertaining to our second quarter results. And as we talked about last quarter, please note that the GAAP results for the second quarter shown today compare our post-merger performance to that of legacy AMR Corp. on a stand-alone basis, and this makes the year-over-year comparisons not meaningful. As such, for the second quarter 2013, we have provided our financial results on a non-GAAP combined basis, which is the sum of American Airlines' and US Airways' results for the period. We believe this is the best way to review our quarterly financial results. Unless otherwise noted, all my comments will be based on the comparison to the 2013 non-GAAP-combined results, which can be found in the press release tables under the heading American Airlines Group Non-GAAP Combined Consolidated Statement of Operations.

As Doug said, for the quarter, the company recorded a GAAP record -- record GAAP net profit of $864 million. This compares non-GAAP combined second quarter 2013 net profit of $220 million. Excluding net special charges, we reported a record net profit of $1.5 billion in the second quarter of 2014. This represents 114% improvement over the combined non-GAAP net profit, excluding special charges of $681 million for the same period in 2013. Using 734.8 million diluted shares outstanding, we reported earnings, excluding special charges, of $1.98 per diluted share for the second quarter; and our pretax margin, excluding net special charges, improved by 540 basis points year-over-year to 12.8%.

Total capacity for the second quarter of 2014 was 68.1 billion ASMs, up 3.1% for the same period in 2013. Mainline capacity for the quarter was 61 billion ASMs, up 3.5%. Regional capacity for the quarter was down 0.4% to 7.09 billion ASMs.

In the second quarter, we took delivery of 21 mainline aircraft and we retired 14 aircraft. We do plan to retire additional 54 aircraft, while taking 43 more new mainline aircraft for the remainder of 2014. On the regional side, we retired 14 aircraft and took delivery of 11. For the remainder of the year the company expects to take delivery of 20 CRJ9 aircraft at its wholly-owned subsidiary, PSA Airlines, as well as 12 Embraer 175 aircraft to be operated under a capacity purchase agreement with Republic. We also expect to retire another 24 Embraer 140 aircraft by the end of the year.

Second quarter total operating revenues were a record $11.4 billion, up 10.2% for the same period last year on a 3.1% increase in system capacity. Passenger revenues for the quarter were $9.9 billion, up 9.2% year-over-year, with yields up 6.5%. Cargo revenues were up 8.3% to $221 million due primarily to higher fuel -- freight volumes. Other operating revenues were $1.2 billion, up 20% year-over-year due to higher frequent flyer revenue, driven principally by our affinity card deal with Citibank announced in late 2013.

First, in the second quarter 2013, total PRASM was up 5.9% in the second quarter of 2014 to a record $0.1457. Total RASM in the second quarter was also a record at $0.1668, up 6.9% versus 2013, and Scott will go into more detail about the revenue performance.

The Airlines' operating expenses, excluding special items for the second quarter of 2014, were $9.7 billion, up 4.7% year-over-year. Mainline operating cost per ASM, excluding special items, was $0.1319, up 1.2% year-over-year due principally to higher salaries and benefit expense. Salaries and benefit costs were up 10.2% due primarily to the impact of merger-related labor contract cost increases.

Our average mainline fuel price, including taxes and hedges for the second quarter of 2014, was $3.02 per gallon versus $2.98 per gallon in the second quarter of 2013. During the quarter, the company monetized its remaining fuel hedges at a Brent equivalent price of $111 per barrel. This transaction resulted in cash proceeds of approximately $70 million and a net gain of approximately $49 million, which will be included in our fuel guidance over the next 4 quarters.

Excluding special items and fuel, our mainline cost per ASM was $0.0855 in the second quarter of 2014, up 2.2%. Regional operating cost per ASM, excluding special items, was $0.158, which was 5.2% higher primarily due to contractual rate increases. Excluding special items and fuel, our consolidated CASM was up 2.5% in the second quarter of 2014.

We ended the quarter with $10.3 billion in total cash and investments, of which $882 million was restricted. The company also has an undrawn revolving credit facility of $1 billion. Approximately, $791 million of the company's unrestricted cash balance was held in Venezuelan bolivars valued at the weighted average applicable change rate of VEF 6.53 to $1.

During the second quarter, the company generated $1.4 billion in cash flow from operations and made $502 million in debt and capital lease payments. In addition, we prepaid $113 million of obligations associated with certain aircraft debt and $51 million of special facility revenue bond obligations, of which approximately $29 million were -- was reflected as debt on the balance sheet. We also purchased aircraft off of lease for approximately $630 million in the second quarter.

Doug mentioned in his opening remarks, our Board of Directors has authorized the commencement of a capital deployment program. The program has 3 key components. Debt and lease payments. Since the merger closed in 2013, the company has prepaid $420 million of aircraft debt and bond obligations. In addition, the company plans to prepay $480 million of special facility revenue bond obligations by the end of 2014. It is anticipated that these payments will represent a reduction of the company's debt going forward.

The company has also used $630 million of cash to purchase aircraft that were previously leased to the company, and anticipates utilizing an additional $370 million of cash in this manner through the remainder of 2014. In addition, this morning -- or yesterday afternoon, the company called for redemption of the remaining $900 million principal amount of the 7.5% senior notes due March 15, 2016. In total, these steps represent approximately $2.8 billion of prepayments that will be completed by the end of 2014.

The company also plans to make supplemental contributions of $600 million to its defined benefit plans in 2014. These contributions would be above and beyond the $120 million required contributions for 2014.

And also the company includes -- included a share repurchase program and the initiation of a quarterly dividend. The company's Board of Directors authorized a $1 billion share repurchase program to be completed no later than December 31, 2015, and the Board also declared a dividend of $10 (sic) [$0.10] per share for shareholders of record as of August 4, 2014. The dividend will be paid on August 18, 2014, and as Doug said, this is the first cash dividend declared at American Airlines since 1980.

Since the merger closed, the company has paid $737 million to reduced its shares outstanding by approximately 25 million. This includes payments of $561 million in payroll tax withholdings, primarily from employees in lieu of issuing shares of common stock, which reduced the number of shares expected to be issued under the plan by approximately 20 million. In addition, during the second quarter, the company utilized the cash settlement feature paying $176 million to redeem the remaining $22 million principal amount of US Airways Group's 7.75% convertible notes due in May 2014, which further reduced diluted shares outstanding by approximately 4 million shares.

Now turning to guidance, and Scott will speak more about this in his remarks. We have reduced our international capacity plans for the fourth quarter of 2014. We now expect overall system capacity to be up approximately 2.5%. Mainline is expected to be up approximately 2.5% in 2014, of which international capacity is expected to be up approximately 5%, which is down 1% from our previous guidance. And domestic capacity up approximately 1% for 2013. Regional capacity in 2014 is planned to be up 1% year-over-year, and the breakdown of ASMs for the remainder of the year is as follows: 61.8 billion in the third quarter, 58.2 billion in the fourth quarter, regional capacity is 7.33 billion in the third quarter and 7.31 billion in the fourth quarter.

Our CASM guidance takes into account the effects of the merger on our cost structure, including the anticipated synergy benefits and the impact of higher labor costs that were agreed to in connection with the merger. For the full year 2014, we're now forecasting mainline CASM x special items and fuel to be up 2% to 4% versus 2013. This is driven by the cost of new labor contracts, higher depreciation due to owned aircraft and higher maintenance cost due to engine overhauls, offset by realized synergies. By quarter, the third quarter and the fourth quarter are expected to be up 1% to 3%. The fourth quarter and full year CASM guidance was adjusted, up slightly, as a direct result of the decrease in the ASMs in the fourth quarter. We still believe full year 2015 CASM will grow less than inflation and be in the plus 1 to minus 1 range. Regional CASM is forecast to be up approximately 3% to 5% in 2014.

Using the July 17 fuel curve, we are forecasting mainline fuel to be in the range of $2.98 to $3.03. Our mainline fuel forecast breaks down by quarter. In the third quarter, $2.93 to $2.98. In the fourth quarter, $2.92 to $2.97. Using the midpoints of the guidance we have provided, we expect our third quarter pretax margin to improve by approximately 350 basis points year-over-year and to range between 10.5% to 12.5%.

Looking at CapEx. We'll forecast -- we focus the remainder of the year on integrating the airline, while also making important investments in our fleet, product and operations.

We're forecasting total cash CapEx to be approximately $2.1 billion in 2014. This includes non-aircraft CapEx of $880 million and net aircraft CapEx of $1.2 billion.

So in summary, while still early in our integration, we continue to be very pleased with the record financial results produced thus far, which will allow us to return cash to our shareholders earlier than anyone anticipated. These outstanding results, of course, wouldn't be possible without the hard work and dedication of all of our team members, and I'd like to thank them for their outstanding effort. We have taken a nice step forward in achieving our goal of restoring American to the world's greatest airline, and we look forward to reporting on our progress in the future.

With that, I'll turn it over to Scott.

J. Scott Kirby

Thanks, Derek, and I'd like to start by thanking all the people of American Airlines for the great job they continue doing operationally during the second quarter in spite of the difficult weather challenges. We're still seeing large improvements in our operating statistics as we go through the difficult summer months.

On the revenue front, our second quarter PRASM was up 6%. The revenue environment remains strong throughout the quarter. We saw particular strength in our domestic network, with RASM up 8% year-over-year. Our Pacific RASM was up 11% even in the face of significant industry capacity growth. AA is benefiting from many actions that we're taking to close the gap in the Pacific that we've historically had against the much larger networks of our competitors, and as a result, we're experiencing outsized performance. Our Atlantic RASM was up 2%, a result that we felt quite good about given the significant industry capacity growth across the Atlantic and the continuing headwinds from the U.S. network switching alliances. Latin RASM was down 2% due partly to the World Cup in Brazil, which we believe reduced business demand while the World Cup was happening, and some vacation customers from Latin America substituted travel to Brazil for the World Cup instead of going to the U.S. for their normal vacations.

We're still making solid progress on our integration efforts and are pleased with the progress so far. Some of the second quarter integration highlights included that we harmonized most of our fees and our frequent flyer award structures; we launched the day-of-departure reciprocal upgrade program for AAdvantage and Dividend Miles customers; we co-located another 20 airports; we've now painted 240 aircraft in the new AA livery; we broke ground on our new operation center designed to house the world's largest airline; continued making good progress on our single-operating certificate; reached tentative agreement that have since been ratified with the IAM covering legacy U.S. mechanics, fleet service agents and mechanic training specialist.

We also feel really good about the early progress we're making on winning corporate business. While it's hard to give objective overall statistics, one of the things that we expected in the merger was large synergies in New York by combining the legacy AA presence in transcon and international markets with the US Airways shuttle and East Coast network, and we're already seeing those benefits with domestic New York PRASM up 16% in the second quarter and our Atlantic PRASM up 8% in the second quarter out of New York. Consistent with what we've said previously, all of our work we're doing leaves us even more confident that we'll be able to meet or exceed our prior synergy guidance.

Turning to the outlook going forward, we still feel quite good about the demand environment. Demand around the world remains strong with a few exceptions. The year-over-year comps are much more difficult moving into the third quarter. In last year's second quarter, consolidated AA PRASM was down 0.9% due mostly to the government sequestration last year, and it was up 3.4% in 3Q. So from that perspective, the comps get over 4 points more difficult year-over-year. Despite the challenging comps, the domestic environment remains strong and we expect domestic PRASM to be up mid-single digits.

In the Pacific, double-digit capacity growth from the industry and AA. In spite of that, we expect positive year-over-year PRASM. Industry capacity is also up significantly across the Atlantic. Demand as measured by revenue growth is strong but not strong enough to absorb close to 10% capacity growth, and so we expect a modest decline in trans-Atlantic PRASM.

In Latin America, the World Cup effects will extend into the second quarter and will have a large -- and will also have a large year-over-year impact from a reduction in services to Venezuela. Last year, as the black dollar-bolivar exchange rate began spiking in June, American Airlines revenues from Venezuela jumped significantly. In the third quarter of last year, Venezuela was only 0.5% of AA's system capacity, but would've been 2% of our total combined consolidated revenue. This year, we've canceled most of our Venezuela flying, so we'll be losing most of the 2% of revenue but only 0.5% of the ASMs, which means that our system PRASM in 3Q is negatively impacted by almost a full 1.5% just from canceling the Venezuelan services. When considering the fundamental demand environment, it's probably best to think about it excluding Venezuela. Excluding Venezuela, we expect the rest of Latin America PRASM to be flat to down, but the Latin America entity, including Venezuela, will obviously be down much more.

At a system level, we expect PRASM to be up 2% to 4% in the third quarter, excluding Venezuela, but subtracting the 1.5 point hit from Venezuela means that we expect our reported PRASM will be up 1% to 3%. While international demand is strong, as measured by growth in revenue, it hasn't been growing fast enough to keep up with double-digit capacity growth rates, so we're taking action going forward to moderate some of the international capacity growth. Across the Atlantic, we'll be reducing our capacity for the remainder of the year by approximately 3% compared to our prior plan. In Latin America, for the remainder of 2014, we're planning to reduce our capacity by approximately 5% from our previous plans.

In conclusion, we're very encouraged with the operating and integrating -- integration results at the new American Airlines, and the demand environment remains strong, with the exception of our Venezuela exposure.

Daniel Cravens

Thanks, Derek. Thanks, Scott. Operator, we are now ready for questions.

Question-and-Answer Session

Operator

[Operator Instructions] And we'll take our first question from Michael Linenberg with Deutsche Bank.

Michael Linenberg - Deutsche Bank AG, Research Division

Doug, just sort of big-picture question here. When I think about American as a stand-alone, it was seasonally more of a third quarter company. That's where we saw usually the top margins, the best profitability. US Airways was more of a second quarter company. You put the 2 together, how should we think about it? I mean, I know there are some puts and takes there. I mean, if I think back when we were going into the June quarter, you guys were guiding to, I think, a pretax margin of 10% to 12%. For the third quarter, you're guiding to a 10.5% to 12.5%, so it seems like maybe, when the dust is settled, maybe your still -- your third quarter is your better quarter than the June. Anything else going on there that may have some impact or beyond what I said?

J. Scott Kirby

Mike. I think when we combined American and US Airways, the second and third quarter are really close to the same in terms of seasonality. And actually, if you look at the midpoint of our guidance at 11.5% and if you added back the 1.5 point hit from Venezuela would have been a slightly higher margin than we had in the second quarter but in the same ballpark. So I think our seasonality, you would -- you should normally expect to be about the same in this case. We stopped service on July 1 to Venezuela, so we're taking a big hit from Venezuela in the third quarter. And that probably really explains the difference for this particular quarter.

Michael Linenberg - Deutsche Bank AG, Research Division

Perfect. And then, just my second question. You mentioned that you would be getting out some Embraer, I think, 145s -- I think it was either 145s or 140s getting out of 24 this year. And presumably, if there are 145s, I guess, they're Eagle or Envoy Airplanes, maybe there's some Republic airplanes there as well. Longer term, what -- where do things stand now with Envoy? I know there was some back-and-forth about whether or not they were trying to get to a contract. What's the status on that right now? And going forward, as airplanes come in, I -- presumably, it sounds like they're going to be flown by other partners. Just give us an update. That'd be great.

J. Scott Kirby

Yes. At the moment, there's no change to the status. Envoy is still a very large and incredibly important partner for AA, though the new large regional jets are going elsewhere, at least the ones that are being delivered in the next 12 months or so. We remain hopeful that, at some point, we'll reach a deal with our pilots that allows us to put large regional jets there, but there is no change in the near term.

Operator

And we'll take our next question from Jamie Baker with JPMorgan.

Jamie N. Baker - JP Morgan Chase & Co, Research Division

Scott, it's still difficult for me to reconcile how an airline that's starting to generate revenue synergies that you expressed confidence with outperforming industry RASM this year turns around and provides a RASM guide that's well below the competition. And I appreciate the Venezuela commentary, but presumably, you were aware of that phenomenon when you sounded such a bullish tone earlier in the year. So if you look towards the fourth quarter, is the Venezuela hit expected to be about the same, and do synergies start to recover that? Or put differently, and I'm not going to hold you to this, when, if ever, should we be expecting your RASM to recover and start the industry outperformance that the merger all along would've suggested was feasible?

J. Scott Kirby

Well, look, I think if you look excluding Venezuela at our performance as we're going forward, one, at a system level, our guidance is the same as Delta and United for RASM, and that's despite much bigger exposure to the rest of Latin America, which is going to be the worst region in the world, and despite the fact that we have higher capacity growth. I mean, further, if you look at kind of entity by entity in the second quarter and I think in the third quarter, we outperformed the industry. We underperformed across the Atlantic, which we've said all along, we expected to do that. This year, as we switched alliances, we've outperformed by a wide margin across the Pacific, and in spite of the Venezuela exposure, we've actually outperformed even 2 Latin America. So I think we already are outperforming. We'll continue to outperform. When you roll everything together at a system level, you missed some of those nuances that just is where we're flying individually and the fact that Latin America is weak is going to hurt us in the third quarter. The

Venezuela situation is going to also hurt in the fourth quarter. It's actually larger in the fourth quarter. It'll be almost a full 2 points in the fourth quarter, but then it moderates and essentially goes to 0 as we move into next year. I mean, really, on Venezuela, what happened last year is the black market bolivar rate spiked from -- to about 60 per dollar from the official exchange rate of 6.3. And what the government -- what we were allowed to do is you could buy airline tickets but they were at the official exchange rate of 6.3, so you were buying them at a 90% discount to the black market rate. And further, you're allowed to convert 3,000 -- you convert bolivars at the 6.3 rate into $3,000 of cash, and so you could buy your ticket in Venezuela and go to the U.S. and make money because of the differential in the exchange rate. And so just everyone was buying tickets, you'd wind up selling out every flight to the highest inventory class. One of the, I think, remarkable statistics is, we have 1 -- had 1 flight a day between Caracas and San Juan. We had 6 flights a day between Miami and San Juan. 30% of the revenue on the Miami-San Juan flights last year was people leaving Caracas going to and from -- just because it was -- any way you could get out of Venezuela, you could make money and actually put dollars in your pocket to leave Venezuela. So it just had an outsized effect. And I think we already are outperforming, I think we'll continue to outperform, I think that outperformance can accelerate, but we've got 1.5 point hit this quarter and a 2 point hit next quarter, but they're not merger-related.

Jamie N. Baker - JP Morgan Chase & Co, Research Division

Right. But Scott, are you assuming that there's no replacement RASM associated with whatever capacity was displaced from Brazil -- from Venezuela? Did you just hit it down or these figures net of whatever RASM you picked up putting those planes elsewhere?

J. Scott Kirby

Well, there is replacement RASM. And so that's included my numbers when I say less than 1.5%. But when you had legs that had RASM that was 4x the system average, which is what Venezuela was, RASM during that -- during the third quarter. Again it's just because you wind up selling an awful lot of tickets at the very highest fares but they were priced cheaply in bolivars. And when you did that, you wind up with RASM that was 4x the system average. And so, yes, you can replace that, but it comes in at something less than the system average, and that's how you wind up with a 1.5 point hit.

Operator

And we'll take our question from Hunter Keay with Wolfe Research.

Hunter K. Keay - Wolfe Research, LLC

I'm sorry, I may have missed this if you said this earlier, but did you say 2015 CASM x fuel be down 1 to up 1 2015?

Derek J. Kerr

2015, yes. I mean, we believe that we've had questions before of do you believe -- where do you believe it can go in 2015. And basically, with the synergies that we have and where we go, we're looking at it to be lower than inflation growth and in the flat range.

Hunter K. Keay - Wolfe Research, LLC

Okay, great. And does that imply 2% to 3% capacity growth as well, roughly?

Derek J. Kerr

We haven't given out the capacity growth for next year yet because we're still doing that for the plan, but it would be in that range, yes.

Hunter K. Keay - Wolfe Research, LLC

Okay, helpful. And I heard you guys say Maya is there. Are you guys -- is she able to chat for a minute?

Daniel Cravens

She is.

Hunter K. Keay - Wolfe Research, LLC

Okay. Maya, a lot of people don't know you. You're driving the integration from the IT side, and I know, from where we sit, it looks like you're doing a pretty good job. And I was wondering if you could sort of help us out, think about sort of some of the benchmarks that we can see externally from the investor community what you're working on now. Res system cutover is still a long way away, but what are some of the benchmarks that we should be looking for in the near term that you're working on, you and your team? And second to that as well is, what kind of sort of leeway do you have as you're integrating the systems when you find things that you think are suboptimized, what kind of leeway you have to make changes now versus just picking what's good enough for the time being and punting it until a later date?

Maya Leibman

Well, thank you for saying that I'm driving the integration. Please keep telling Doug that. I think from an external standpoint, the things that you and our customers will see in the near term probably surround the frequent flyer program. We have made a lot of small changes with respect to that. So for example -- and on the website, so things that our frequent flyers can see when they come to the website. For example, the ability to earn and burn miles regardless of which carrier they're traveling. So if you're an AAdvantage member, you can earn AAdvantage miles when you're traveling on legacy US Airways metal. In addition, a lot of things around how you use the functionality in the website. So you can -- if you come to the -- to aa.com but you have a legacy US Airways ticket, you will -- and you come to check in, you will be gracefully taken over to the legacy US Airways check-in system, you will complete your check-in and then be returned to aa.com. So there's a lot of things that we've done, absent having full integration of the systems, to make the customer experience better. And I think if you benchmark those against what United and Delta and others have done at this point in the merger, you'll find that it's comparable, or in some cases, a little bit ahead.

As we look forward, there's also a lot of things I should mention that are happening behind the scenes. For example, we're working on things that you will never see like the integration of the revenue accounting systems. And a lot of the products, both airlines brought to this merger about 700 systems, so collectively, we have about 1,400 when both of us were running pretty big enterprises on just 700 systems each. So we need to get back down to something. So there's a lot of things that are happening behind the scenes right now to get back down to that footprint.

As far as your other question, we have a lot of leeway to make decisions right now about what positions us best for the future, and we are -- we're making those decisions each day. In general, we have decided to go with the legacy American Airlines systems because that's really the path of least resistance. These systems are generally larger. They're better able to scale, we have fewer employees to train and fewer customers to train and that's the direction that we're going to take. But as everyone has said, the real heavy-lifting happens next year.

Operator

And we'll take our next question from Duane Pfennigwerth with Evercore.

Duane Pfennigwerth - Evercore Partners Inc., Research Division

You addressed my main one, which is trying to get you to talk about '15 CASM but that's already out of the box here. Just in terms of merger synergies, we'll stay on that theme if we think about fleet arbitrage mixing and matching U.S. fleet in AA network and vice versa. How far along are you in ramping those synergies, and what is the run rate today?

J. Scott Kirby

Well, we've made decent progress on it, but really, those kinds of synergies of mixing and matching the fleet. We're doing our first route swaps start on August 19. Well, actually, they've already started -- they started in July. So it's really early, and the big dollar values for those won't come for another year until we get to a single operating certificate because the biggest values are widebodies. And while we may do some of those, it's just hard to do it when they're 2 separate fleets. The customer issues and the other issues make it hard to do fully. So those are the ones that will take the longest to ramp up and really won't start in earnest until after we get to a single operating certificate.

Operator

And we'll take our next question from Helane Becker with Cowen and Company.

Helane R. Becker - Cowen and Company, LLC, Research Division

So Doug, I asked this question of one sort of smaller network carrier and one non-network carrier, and as a larger carrier, maybe you can comment on this. The TSA fee went up pretty much a lot. There's a lot of stuff going on with segment fees and so on, on -- and that fee went up July 21. Are you finding or able to pass that on to -- I mean, it's only been a couple of days, recognizing that. Are you able to pass it onto your customers? When you think going forward the impact, if any, will be?

William Douglas Parker

Look, Helane, we always talk about these fees and taxes. We're never able to pass them on. The airline works -- our airline, as all do, work really hard to generate as higher revenue as we can and maximize revenue and do anything we can to keep our cost down to produce profit. But it's not as though all of a sudden our costs go up and you see all the fares go up because that has impacts on demand. So I don't know, and Scott can probably talk a little more specifically, but I don't -- I can't imagine we would tell you, "Oh yes, we've seen increases related to changes in this tax." What I can tell you is, the shift and how it's charged now is, certainly, I think a better way to assess this fee by having it -- rather than being per enplanement, per -- it essentially just goes to each time someone goes through the -- through security as opposed to every time you go onto an airplane. So that, we think, is a better way. It certainly shifts some of that burden away from the network carriers to those -- when we have connections that are -- that just -- that don't have as many connections. But look, at the end of the day, this is -- it's an additional tax to the industry yet again. It's just one that's been, in this case, being borne more by those who don't have connections than those that do.

Operator

And we'll take our next question from Dan McKenzie with Buckingham Research.

Daniel McKenzie - The Buckingham Research Group Incorporated

A couple of questions here. With respect to the 215 -- 2015 CASM, on the down 1% to up 1%, just to clarify, was that specifically nonfuel CASM or CASM? I was kind of getting pulled in different directions. And then...

Derek J. Kerr

No, nonfuel.

Daniel McKenzie - The Buckingham Research Group Incorporated

Nonfuel. And then, I guess, I was just wondering related to that what are some of the cost categories that might be offsetting natural inflation. Or should we just be thinking of it as general efficiency more ASMs absorbing sort of your general cost structure?

Derek J. Kerr

Yes, I would say more efficiencies and synergies coming in in 2015.

Daniel McKenzie - The Buckingham Research Group Incorporated

Got it. Okay. And then just circling back on the capacity to your producing it by 3% versus the prior plan and reducing Latin American 5% versus the prior plan. When will the cuts be uploaded to the schedules data? Are they already there? And when do these cuts phase in exactly? And I guess, just lastly, tied to that, what was the plan initially? Is it really what's in the schedules today? And do we just take it off for that?

William Douglas Parker

They're not in the system yet. I'm not sure of the exact date could be in the system. They start some of them as early as the back half of August, and some of those will be a day a week kind of cancellations that we're going to put in place. We were planning across the Atlantic about 5%, I think. And this will get us down to about 2%. And to Latin America, it was about 5%, and it'll get us down to flat.

Daniel McKenzie - The Buckingham Research Group Incorporated

Got it. And then, I guess, Scott just tied to that, your partner British Airways, of course, is growing pretty aggressive. I think they're growing 9%. What kind of coordination do you have with British Airways at this point? And have they commented on their plans looking ahead to this winter?

J. Scott Kirby

They have not yet commented, but they have an earnings call next Friday, and I suspect they will comment on their capacity plans at that time. And we have, at least, in the last 6 months I think started to develop a pretty close working relationship. SkyTeam has been at this longer and has I think a more mature working relationship where they really do sit there and jointly and work on capacity and revenue management issues. And we have started with IAG. It's not just British Airways that's also Iberia and Finnair. But we have started that a little bit behind, but I think we're ramping up pretty quickly. And I think as we move into 2015, you'll see a much more consolidated view on capacity -- more clearly it's a consolidated view on capacity and we will have worked toward together jointly to develop those plans. For the cuts that we're doing in the back of the year actually worked pretty closely with IAG on those as well, but you'll see more of that in 2015 and think that is an opportunity for both of our companies.

Operator

And we'll take our next question from John Godyn with Morgan Stanley.

John D. Godyn - Morgan Stanley, Research Division

Derek, just in a context of a lot of these balance sheet-related announcements and the capital returns plan, I was hoping you might lay out, maybe, some longer-term metrics or ways of thinking about both the debt balance, the minimum cash balance, long-term thought processes around capital returns to investors, whatever you're willing to offer just as we do our longer-term modeling, this is clearly a major change and a great one for the company.

William Douglas Parker

John, this is Doug. I'll start a little and then Derek can chime in. I mean, look, our goal is to maximize return on investment capital, to maximize profitability, not to say that we don't have projections and targets that we want to go hit, but we're reluctant to go give targets because a bit of a concern is that under -- that doesn't push as hard as we should be going. And we can do even better than just hitting a target and then suggesting, once we get there, we're going to do something differently then try to produce the best results we possibly can. So what you see from us today, I think, is indicative of what you should expect to see, which is an airline that knows that we have a lot of work to do in terms of getting the integration done, understands it's going to take some capital, understands that we need if we're going to go build the greatest airline like we plan to, we need to make sure that we're taking care of our people, taking care of our customers, and also taking care of our investors. And to the extent we do that in the term and we have enough cash to do -- to take care of our customers and our employees that our job is to return it to investors both debt and shareholders. And what I expect is, you'll see us do more and more of this over time, and this isn't a one-off situation. I think this really is an indication of how transformed this business is that we're all confident enough to be doing things like this and we'll keep doing more and more than that. But our goal is to be doing better this than anybody else. And so like I say, rather than giving you set margin targets and set return on capital targets, our goal is just to go be higher than anybody else.

John D. Godyn - Morgan Stanley, Research Division

Got it. That's helpful color. And just on a separate topic, Doug and maybe Scott. There was -- when we think about the kind of synergy outlook over the next couple of years, there was this sort of initial bucket of low-hanging fruit that you identified earlier in the year, an overbooking model, re-banking of some hubs which I know are still in front of us. I was just hoping that you could update us maybe on the more near-term timeline for what's rolled on, what still has to roll on, as we're kind of bridging this gap before a lot of the really hard work on integration occurs deeper into 2015.

William Douglas Parker

Well, on the things that we talked about earlier, there are 3 big ones. One is putting more seats on the airplane. That has started, but not a lot done. The 787s haven't even started yet. Really, that's something that will be happening starting in earnest at the end of the summer and going through -- all the way through the end of 2015 actually to get the whole fleet done. Second, the thing we identified was re-banking the hubs. The first hub to be re-banked is Miami, that will go into effect August 19. So clearly, none of that's in the numbers yet. Dallas and Chicago will go into effect, we're currently targeting the end of March of next year. And then the third one is variable scheduling, which is pulling some capacity out of peaks and flying more in the peaks. That really hasn't started at all yet and will start in the fourth quarter this year, although it'll only be in its infancy. So certainly won't be fully at steady state. So those are the 3 things that we talked about and really none of those have kicked in in earnest yet, but they are coming. There are lot of smaller things that we have already done that I don't think we've talked about on earnings calls, but bag fees and other things that are already flowing through in the numbers. So there's a lot of things that are in the numbers, but the big ones that we've talked about in the earnings calls haven't started yet.

John D. Godyn - Morgan Stanley, Research Division

And it sounds like fourth quarter is a big quarter for that. And is the annual -- annualized impact still this kind of hundreds of millions of dollar kind of number that you disclosed earlier in the year? Or has it gone up for one reason or another?

William Douglas Parker

Well, everything that we -- we haven't changed the number in our official guidance, but everything we've done makes us feel increasingly confident that we'll achieve or exceed those numbers, but we haven't officially changed the guidance.

William Douglas Parker

John, it's Doug again. There's one point that you asked and I missed that come back and get to --- anyway I think it's important someone interesting, which is the leverage ratios. That's another -- that's one of these again where, certainly we want to work to given where the balance sheet now is to de-lever and you're seeing us do some of that in the announcement today. But it's also really important, I think, to understand, that in our business, if you simply just go target leverage ratios or credit ratings, you'd be making some really inefficient decisions for your company. And that's due to the fact that aircraft debt, that's which is the vast majority of all of airline debt, because of -- at least today, you can get so incredibly efficiently through WTC, certainly the A and B tranches, that because the airplanes, of course, can be moved and therefore very little to do with the underlying credit of the company and a lot to do with the fact with the asset itself. So anyway, if all you're doing is targeting the credit ratio -- debt-to-equity ratio, you'd be doing -- we -- it would encourage to do things like take cash for aircraft, which may not be in the best interest of the firm at all. Because as we de-lever that way and the credit rating goes down, nothing happens to our cost of capital. Indeed, it doesn't change a bit, and we're not providing -- and we're able to borrow at rates below our cost of capital. So anyway, another one of these things. Just another indication that I -- if it's not clear, we're not the biggest fans of setting targets for the sake of setting targets. We have -- we know what our job is, and we're going to do it and plan to do it really well. And we'll produce results, but we're not going to try and run the company for debt-to-equity ratios or anything other than just being the best we possibly can be and things like on return on capital.

John D. Godyn - Morgan Stanley, Research Division

Well, it's been working so far.

Operator

And we'll take our next question from Joe DeNardi with Stifel.

Joseph W. DeNardi - Stifel, Nicolaus & Company, Incorporated, Research Division

Derek, I'm wondering if you could just given all the debt reduction efforts here, if you could just put into context kind of with that -- without setting a target obviously, what that puts the interest expense line kind of looking like next year or if you have a longer-term thought on where you want it to be.

Derek J. Kerr

Well, I think from -- we have a guidance ready now that interest expense is going to be about $855 million for this year. So that's the guidance that's out there today. That all depends on exactly what Doug just talked about is, what are we going to do, we have a fair amount of aircraft coming in, and we have a fair amount of unencumbered aircraft today. So it depends on what financing activities we will do in the near future. So having it -- I think what you'll see is, because of us having capital commitments of over $5 billion worth of aircraft coming in for the next few years, you'll see the debt level stay pretty much the same, but you'll see a lower cost of capital as we're able to finance at better opportunity. So if I took that equation, you'd say it would be less than it was this year and driven down from an interest expense basis, but driven more down by rate than it's driven by debt reduction.

Operator

And we'll take our next question from Savi Syth with Raymond James.

Savanthi Syth - Raymond James & Associates, Inc., Research Division

Just on the Latin America, I just wanted to get a sense of where you're seeing the weakness. Is it concentrated in Brazil or any specific region outside of the reductions that are, obviously, happening in Venezuela?

William Douglas Parker

Fairly, Venezuela was the worst region. The worst part of Latin America. Then Argentina, I think, is probably second and has some macroeconomic weakness. Brazil has been weak, but I think that's largely a World Cup effect. And we've actually seen all of Latin America in a couple of weeks following the end of the World Cup actually start to bounce back. And the rest of Latin America -- the rest of South America is pretty strong. The Caribbean and Mexico are actually, on a revenue basis, quite strong, but there is huge capacity and growth in some of those markets. Markets like Cancun, Montego Bay with capacity up 25%. So RASM will be down in those markets, but revenue growth is 20%. So those markets are strong. Really, Venezuela -- Argentina is a little weak. Brazil is a little weak, but Venezuela is the real story in Latin America, overwhelms everything else.

Savanthi Syth - Raymond James & Associates, Inc., Research Division

Understood. And then just closer to your home, I know as you go to the fourth quarter it seems like that there is a lot of capacity just being added to both the [indiscernible] DC markets as well as Dallas because of the slot gains by some carriers and then DFW with Wright Amendment. What are you seeing early stages on kind of the on fares and the impact of these capacity increases?

William Douglas Parker

It's really too early for us to see any impact. We don't see anything on our numbers yet that's identifiable, but we know there will be an impact from both of those. I think the Wright Amendment impact will probably be larger than in D.C. But we aren't seeing anything yet. It's 3 months before Southwest -- before the Wright Amendment goes away, so it's just really too early in the booking curve to tell anything.

Savanthi Syth - Raymond James & Associates, Inc., Research Division

Understood. And as with -- in Dallas, are there other markets that you've added that maybe help offset the impact there or?

William Douglas Parker

Well, what I think what we're going to be impacted in some of the Dallas local markets. I think we'll still do quite well, and Dallas is a fantastic hub. We'll still do really well in the markets that we serve. We're going to have a much better pattern of service really in all of those markets for frequent customers, which they care about, we have a much better frequent flier program, which the elite and frequent traveling business customers care about and we're going to compete aggressively with Southwest, but just when you add more capacity in any market, it obviously has some impact. We have grown DFW a little, although our biggest growth is actually with lot of ASMs has been new service to Shanghai and Hong Kong, but we aren't explicitly trying to replace markets or anything. We're going to compete with the strength of our great frequent flier base and one of the best hubs in the world, great customer base, and that's what we're going to compete with.

Operator

And we'll take our next question from Thomas Kim with Goldman Sachs.

Thomas Kim - Goldman Sachs Group Inc., Research Division

What are your thoughts on forming strategic financial partnerships with other carriers, for example, in Asia, where you're building out your franchise? Obviously, you know one of your competitors has done that and seems to have been beneficial both financially and operationally in particular to Lat Am. So be curious as to how you're thinking about your Pacific strategy in terms of growing and building it to over the medium term.

William Douglas Parker

Well, we already have a great joint venture partnership with JAL, and we believe that they are a fantastic partner. To the extent of there are opportunities to add others to that, we're open to it. And we think about it and talk about it. Nothing we're going to -- no specifics that we're going to talk about on the conference call, but it's something that we want to do jointly with a good partner that we already have in Asia.

Bob McAdoo - Imperial Capital, LLC, Research Division

Okay. And then, yes, just switching topics. On the single op certificate, can you give us an update as to the timing? I know that you said it would take roughly about a year or so. Is it sort of first half next year or second half? And can you just post on in terms of how that's -- those discussions are progressing?

Robert D. Isom

This is Robert Isom, Chief Operating Officer. We're making great progress and working very cooperatively with the FAA. We have the single operating certificate process really broken down into 9 chunks. And we're kind of midway through the process right now. Based on the timing right now, we would expect sometime late second quarter or shortly thereafter to be in position to work with the FAA and getting single operating certificate.

Thomas Kim - Goldman Sachs Group Inc., Research Division

And when that happens, how long will it take for us to start seeing the operational impact with the improved synergies, we think of soft metal and staffing?

Robert D. Isom

Well, the good thing about the single operating processes is that we'll see benefits all along the way. It's not going to be like a light switch. That said though, there are a number of things that really touch back to what Maya had talked about earlier. They're really dependent on when we can get our systems aligned. And as Maya had said, getting to a single reservation system. That's something that's late next year, hopefully. And that will really facilitate a lot of getting our groups together at the airports and facilitating a lot of the other work that we can do in a more efficient manner.

Operator

And we'll take our next question from Darryl Genovesi with UBS.

Darryl Genovesi - UBS Investment Bank, Research Division

So can -- I guess, can you just help us frame the opportunities that across the Pacific? And I guess, I'll refrain from asking for a target. But you're underrepresented in the region. So just wondering if you can quantify in terms of how much you think you can profitably grow the Pacific region, as maybe as a percentage of total system capacity? And then, whether or not you think you need to buy more wide-body aircraft in order to get there?

William Douglas Parker

Well, to start, we have an awful lot of wide-body aircraft on order. And that there is growth contemplated in the wide-body order to China. So I don't think we need to buy more airplanes to Asia to do that. I think that there are profitable opportunities in Asia. We don't have a target. And aren't going to set one. Our growth will be predicated on making the existing flying we have and the new routes that we've added profitable, which will give us the confidence to continue growing and adding new routes. But we're going to be focused on making what we currently have successful, and once that's successful I think that gives you the ability to grow and so growth will be not on a target, but will be dependent on how well we do in the region.

Darryl Genovesi - UBS Investment Bank, Research Division

Okay. So no really view on how big that might be. Just maybe, I'll try another one. On your labor costs, I think you characterized this synergy here as $400 million as that steps up. But when I look at your labor cost and add $400 million to it per ASM, that's still kind of 15-ish percent below Delta and United on a per ASM basis. So I just wondering if maybe you can help us reconcile what that reported labor cost number looks like versus your peers and what sort of the biggest differences you think there are between you guys and your nearest peers.

William Douglas Parker

I think we'd have to take some time to try to reconcile that with you. I've never heard of anyone talking about labor cost per ASM. It's just -- it's not terribly -- it's not the right metric. If you have 138 seats on an A350 and pay your pilots exactly the same as someone else that flies with the 150 seats on an A350, you have 9% difference in labor cost per ASM, even though your labor cost is exactly the same. So we look at labor cost block hour by equipment type. And so I think we have to do something more detailed to reconcile with you. I think we do think our costs are a little below where others are and moving to get to the same levels as the other as we complete the integration and have profitability that's -- profitability potential that's equivalent to an airline like Delta. But I think the 15% number is wrong, and it's probably because you're looking at it on an ASM basis.

Operator

This now concludes the analysis portion of the question-and-answer session. We will now conduct the media portion of the question-and-answer session. [Operator Instructions] And we'll take our first question from Ely -- I'm sorry, David Koenig with the Associated Press.

David Koenig

I wanted to ask a Tel Aviv question. And the very simple, was there -- was this a -- the resumption of flights, was this a joint decision? Did all 3 of the U.S. carriers decide, one for all, all for one, if one of us is going to go back, we're all going to go back in there?

William Douglas Parker

Robert?

Robert D. Isom

David, no. The fact of the matter is, we've been evaluating the situation in Tel Aviv for some time. We do all the time. And of course, the precursor to resuming service was the pull down of the NOTAM by the FAA, which was done last night. We reviewed the situation and are pleased to fly our scheduled service that's going out tonight. And of course, the security and safety of our passengers and our employees are first and foremost. And we evaluate internal, external sources, as well as working with the government to make the decision to do what's right.

William Douglas Parker

And this is Doug, David. We obviously, as always Robert just; said, we make independent decisions as do they. Although it shouldn't be surprising that we all came to the same conclusion. This is a really competitive business. But we don't compete on safety. And we -- none of us would do anything that we thought was remotely had put any of our employees or customers at risk. And we've all been working with the FAA and we're working with each other and everyone has come to conclusion that is entirely safe. And if we hadn't come to that conclusion, the others wouldn't conclude it either because we don't have -- there are no degrees of this amongst the industry. We all put it as our top priority, and no one is more adamant about than anyone else. It's top of mind for everyone's business. So it doesn't surprise me at all when we came to same conclusion because the facts are the same.

David Koenig

Yes, understood about the safety. I just wondered did you all talk before you -- as you developed your decisions.

William Douglas Parker

Absolutely not. It's possible, of course, that others might have come to different conclusions with different facts, so we wouldn't have -- we would not have decided to go if we didn't think it was perfectly safe independently.

Operator

And we'll take our next question from Ely Portillo with The Charlotte Observer.

Ely Portillo

So you guys mentioned in your earnings release specifically the 4 new flights to Europe from Charlotte and the seasonal service. I was just wondering if you can give any details on how those are doing and whether you think those will make it for: a, their full length; and b, next year, given these less aggressive Atlantic -- Transatlantic expansion you're talking about.

William Douglas Parker

Well, I'm not going to give specific route commentary, but given the double-digit capacity growth across the Atlantic, it's pressured all routes, and new routes are generally the most marginal routes, so they've been under more pressure. So they've underperformed what we'd hoped they do, that doesn't mean they won't come back next year. But they've underperformed not because the routes are done poorly, but just because there's been 10% capacity growth across the Atlantic at an industry level.

Ely Portillo

Another thing that I noticed in yours and your competitors' releases was load factors continuing to increase especially domestically. Have you guys gotten any negative feedback from passengers? Do you have any concerns about that, hitting a wall going forward? Or is there still room to grow load factor?

J. Scott Kirby

Well, our goal to be run 100% load factor. But I don't know of any feedback that's anything different than normal about load factor. I think we are probably near what is a structural peak because busy flights are 100% full, but then you have flights like the shuttle markets that run at 50% load factors, and you're never get turnout the shuttle market into a 100% load factor. So you have seasonal issues, early flights, late flights. So I think we're probably near a peak. And load factors really aren't growing. In fact, I think, ours maybe even a bit down slightly in the quarter.

Ely Portillo

Yes, I think your overall was, but your domestic was up.

William Douglas Parker

I think we're near a peak on what's achievable on load factors.

Derek J. Kerr

I'll just add, Ely, I think the high load factors in themselves our feedback from customers and that means is when there's a lot of demand for the product and there are a lot of people that want to fly and we are happy to meet that need.

Operator

And we'll take our next question from Mary Grace Lucas with CNN.

Mary Grace Lucas

Back to Tel Aviv just briefly, can you guys just talk about internal discussion that you had over the flight, and how insurance plays into it, and how also you sort of factor safety in that question? What details can you give us about how you discuss a decision like this?

Robert D. Isom

Mary, it's Robert again. Again, this is not the first time that we've dealt with a situation in a region of the world or someplace that we fly. We constantly monitor any threats in the system, whether they'd be civil unrest or issues with thunderstorms, or at the end of the day, things that may be related to FAA mandates. So we are on constant alert, and we have our own internal security group that monitors all situations. We have external advisors. And then of course, we have a government relations team that stays in close contact with the State Department, with the FAA and a number of other government agencies. We collect all that information and at various levels within the company, analyze and use that information ultimately to make recommendations on what's best. Now of course, the work doesn't stop there. We're certainly mindful of our customers and our employees. But you know, we're also very concerned about our pilots and flight attendants that they fly these routes, and we consult with them and the labor unions as well to make sure that we're all coordinated when we make decisions. Exactly the process we went through this time is process we'll go through again. And we're set up to do that on a regular basis.

Mary Grace Lucas

But as speaking -- as generally speaking, more about this particular instance, can you talk about some of the internal discussion that you had? And also, can you prove that flights are safer today than they were yesterday? How can you be sure?

Robert D. Isom

Mary, again, I went through the process that we go through. And again, we get information and we have very good sources and of course the government as well. That's how we go about making our decisions. So we feel very comfortable with the information that we have right now, that we're doing the right thing and feel very confident that our employees and our customers are safe.

Mary Grace Lucas

Was there any one factor that changed from yesterday, today -- to today that had a heavy influence on this decision, other than the pull down of the NOTAM.

Robert D. Isom

Yes, the NOTAM was pulled, Mary, and that's about all that we want to talk about it.

Operator

And we'll take our next question from Mary Schlangenstein with Bloomberg News.

Mary Schlangenstein

[indiscernible] sort of carrying things a bit with the weakness in some of the international areas. I wanted to ask you, if you look out, at least into the near-term future, is there anything that you see that might threaten that domestic strength? I mean, in terms of the economy? Or fuel prices? Or anything like that? Or do you expect it to continue strong for some time?

William Douglas Parker

Well, there's nothing that we see. As far out as we can see, we expect the domestic environment to remain strong. And I would even say the international environment is strong. When you look out, you have 10% capacity growth across the Pacific. We have even higher capacity growth and we're going to have RASM up. That's huge revenue growth. It was across the Atlantic where you've got 10% capacity growth, and we're going to have RASM down slightly, but that means revenue and demand is growing close to double digits. Really, the only part of the world where there's weakness is Venezuela, at least significant weakness. And I don't see anything that's going to change it domestically. You rarely see these things coming in advance, but it feels pretty good right now.

Mary Schlangenstein

All right. And can I kind of ask, in a newsletter to employees, Doug talked about the wide bodies that will be coming in the future and that you may use them for some international growth versus replacement. And you mentioned that earlier. Do you have ideas already where you're going to place some of the planes, I mean, where you see your future longer-term growth? Will we see you go into some new countries or anything like that?

William Douglas Parker

Yes. We have a long list of potential markets that we've looked at and that we think are going to be good growth potentials, but we constantly -- and some of those are new countries and some of those are new cities and some of those are new routes to existing cities that we already serve. But we constantly adjust that based on what's happening in the demand environment, so we can't announce anything yet until we get to the point where we actually ready to load those flights. We do think that over the long-term, there are international growth opportunities. I think in the short- to medium-term, we need to have some time to let demand catch up with the capacity. Again, demand is strong, but capacity growth has been even higher. We need to let demand catch up with capacity before pursuing some of those growth opportunities, but there's a lot out there that we're going to have over the coming years.