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October 10, 1995

By Hand Delivery

Myrna Adams
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U.S. Department of Transportation
400 Seventh Street, S.W.
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Washington, D.C. 20590

**Re: Joint Application of Delta, Swissair, Sabena and Austrian For
Approval Of And Antitrust Immunity For Alliance Agreements;
Docket OST-95-618 - 8**

Dear Ms. Adams:

By Order 95-9-27, the Department directed Delta Air Lines, Inc. ("Delta"), Swissair, Swiss Air Transport Company, Ltd. ("Swissair"), Sabena S.A., Sabena Belgian World Airlines ("Sabena") and Austrian Airlines, Österreichische Luftverkehrs AG ("Austrian") (the "Joint Applicants") to submit additional information to facilitate the Department's review of the Application "in order to consider this matter fairly and expeditiously". The Joint Applicants hereby submit their responses to the Department's Information Requests.

The Joint Applicants are concurrently filing a Joint Motion for Confidential Treatment under 14 C.F.R. § 302.39. With respect to documents and information responding to the Department's Information Item Nos. 1 and 2 (i.e., corporate documents, studies, surveys, analyses and reports), the Joint Motion requests the Department to limit access only to counsel and outside experts. Such limited access is

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required due to the highly competitively sensitive nature of the documents and information contained in these responses. With respect to information submitted in response to the Department's Information Item No. 7 (O&D data), routine Rule 39 access would apply. The Joint Motion also requests that certain of Delta's documents be withheld pending review on an in camera basis and a determination by the Department of both relevancy and confidentiality due to the serious competitive damage that disclosure -- even limited disclosure under Rule 39 -- would impose on Delta.

Copies of this letter, the Joint Applicants' public responses, and the Joint Motion for Confidential Treatment are being served by hand-delivery on all persons listed in the attached service list.

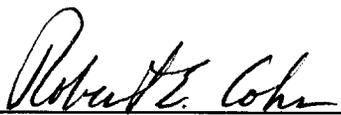
The Joint Application is complete. The Joint Applicants request that the Department immediately issue an order (1) limiting access as requested in the concurrently filed Joint Motion for Confidential Treatment and (2) establishing a procedural schedule to consider this matter "fairly and expeditiously".

Respectfully submitted,



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cc: Attached Service List

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RESPONSE TO DOT INFORMATION ITEM NO. 1

1. Provide all Austrian, Delta, Sabena and **Swissair** corporate documents (in English or with English translations) dated within the last two years that address competition in the U.S.-Austrian/Belgium/Switzerland markets.

The Joint Applicants are each separately submitting documents responding to this request. The documents contain commercially sensitive and proprietary information and are therefore being submitted pursuant to a concurrently filed Motion for Confidential Treatment under Rule 39.

Sabena's Answer to Information Request Number 1

Request: Provide all . . . Sabena . . . corporate documents (in English or with English translations) dated within the last two years that address competition in the U.S.-...Belgium... markets.

Sabena's Answer: Sabena has searched its records and finds that it has no corporate documents that respond to this request. The decision-making process within the commercial department of Sabena involves only a limited number of organizational levels, and the production of documents is a limited practice. The essential decision-making occurs verbally in weekly meetings called "Comites de direction commerciale" (development of recommendations), and the executive decisions are then taken in the Consultancy and Management Committees.

Austrian's Answer to Information Request Number 1

Provide all . . . Austrian . . . corporate documents (in English or with English translations) dated within the last two years that address competition in the U.S. - . . . Austrian . . . markets.

Austrian's Answer: Austrian is a relatively small company and consequently has a corporate culture of keeping analysis and documentation to a minimum. While the Alliance is a significant transaction for the company, their normal business practice is not to fill their files with an abundance of analytical documents. Consequently, the Austrian responses may not appear as voluminous as a response by a typical American company. The confidential documents submitted under seal are the only documents that Austrian has in its possession that respond to this request, other than the Alliance Agreements themselves, which have already been submitted.

RESPONSE TO DOT INFORMATION ITEM NO. 2

2. Provide all Austrian, Delta, Sabena and Swissair studies, surveys, analyses and reports (in English or with English translations) dated within the last two years which were prepared by or for any **officer**(s) or director(s) (or, individual(s) exercising similar functions) for the purpose of evaluating or analyzing the proposed enhanced alliance with respect to market shares, competition, competitors, markets, potential for traffic growth or expansion into geographic markets, and indicate (if not contained in the document itself) the date of preparation, the name and title of each individual who prepared each such document.

The Joint Applicants are each separately submitting documents responding to this request. The documents contain commercially sensitive and proprietary information and are therefore being submitted pursuant to a concurrently filed Motion for Confidential Treatment under Rule 39.

Sabena's Answer to Information Request Number 2

Request: Provide all . . . Sabena . . . studies, surveys, analyses and reports (in English or with English translations) dated within the last two years which were prepared by or for any officer(s) or director(s) (or individual(s) exercising similar functions), for the purpose of evaluating or analyzing the proposed enhanced alliance with respect to market shares, competition, competitors, markets, potential for traffic growth or expansion into geographic markets, and indicate (if not contained in the document itself) the date of preparation, the name and title of each individual who prepared each such document.

Sabena's Answer: Sabena has searched its records and finds that the only documents in its possession that respond to this request (other than the alliance agreements themselves, which have already been submitted in the record) are the slides that formed the basis of an oral presentation to Sabena's Management Committee by Sabena's Vice President for Aeropolitical & External Affairs, Ms. Sylviane Lust, on August 31, 1995.

Copies of the slides in French and in English translation are attached.

Sabena further notes that no discussions have taken place regarding any detail of the implementation of the alliance agreements, since no antitrust immunity currently exists therefor. Without such detailed implementation agreements, which are not currently possible, no documents containing details of the type requested could or would be generated.

Austrian's Answer to Information Request Number 2

~~Require~~ all . . . Austrian . . . studies, surveys, analyses and reports (in English or with English translations) dated within the last two years which were prepared by or for any officer(s) or director(s) (or individual(s) exercising similar functions), for the purpose of evaluating or analyzing the proposed enhanced alliance with respect to market shares, competition, competitors, markets, potential for traffic growth or expansion into geographic markets, and indicate (if not contained in the document itself) the date of preparation, the name and title of each individual who prepared each such document..

Austrian's Answer: Austrian is a relatively small company and consequently has a corporate culture of keeping analysis and documentation to a minimum. While the Alliance is a significant transaction for the company, their normal business practice is not to fill their files with an abundance of analytical documents. Consequently, the Austrian responses may not appear as voluminous as a response by a typical American company. The confidential documents submitted under seal are the only documents that Austrian has in its possession that respond to this request, other than the Alliance Agreements themselves, which have already been submitted.

RESPONSE TO DOT INFORMATION ITEM NO. 3

3. Describe separately each applicant's strategic objectives in forming the alliance agreements. _____

Response of Delta: The primary strategic objective of the Alliance Agreements is to allow the Joint Applicants to create a coordinated multi-hub network of transatlantic services with hubs in the United States and Europe. Through the coordination of multiple hubs, the Alliance carriers will be able to attain the following benefits: (1) gain entry into new markets on a cost-efficient basis; (2) generate increased traffic in existing markets by enhancing network traffic flows on both ends; (3) increase gateway-to-gateway and behind-gateway services; (4) enhance operating efficiencies and reduce costs; and (5) become stronger competitors.

In particular the strategic objectives are as follows:

Increased Gateway-to-Gateway and Behind-Gateway Online Services. The integration and coordination of the multi-hub networks of the Alliance carriers on both sides of the Atlantic will generate more traffic, which in turn will enable the Alliance carriers to expand frequencies over transatlantic segments. Furthermore, the Alliance carriers will be able to tie together Delta's extensive domestic U.S. network from interior U.S. cities with the Europe, Mideast, and Africa networks of Swissair, Sabena and Austrian to beyond-hub cities. The Alliance would have the potential to offer online service (i.e., either single plane and/or connecting service) to almost 20,000 city-pair routes between the United States and Europe. Such service increases and expanded online service options can only be accomplished on an efficient basis through

coordination and integration of schedules and route planning, combined network planning, and the establishment of a common financial objective. The coordination of services will allow the Alliance to maximize “economies of scope” and “economies of density” which will produce greater service levels in more markets at lower costs, thereby benefiting consumers. See, the Department’s Code-Share Study, Prepared in December 1994 at ES-8 and p. 7 1.

Expanded Market Access. The ability to establish joint prices will permit the Alliance carriers to gain access to each others’ behind gateway city-pairs with the potential creation of upwards of 20,000 online city-pair services. A prerequisite to the ability to expand service is the establishment of a common financial objective and the ability to jointly set prices and allocate revenues and earnings. The Joint Applicants will not undertake such joint activity without antitrust immunity. In the absence of immunity, competitors cannot prudently discuss and agree to network coordination and pricing issues and must develop prorate arrangements in the context of arms-length negotiations to divide revenues among the transatlantic and behind/beyond segments. Such a process is difficult and, in the absence of a common financial objective, effectively forecloses access to behind-U.S. and behind-European gateway cities. The GAO Study on airline alliances concluded that, “With immunity, Northwest and KLM can develop formulas to set fares in all markets and, according to Northwest and KLM representatives, quickly enact fare reductions to attract traffic.” GAO further observed that “Without immunity, airlines that are significant competitors cannot discuss pricing issues and must develop prorate agreements in ‘arms-length’ negotiations to divide revenues, a cumbersome

process when thousands of city-pairs are involved.” GAO Study at 29. The Department’s Code-Share Study observed that “the strongest type of airline alliance can be formed when two airlines are granted antitrust immunity”, with which the alliance carriers “can aggressively market service in every city-pair they serve.” Study at 9.

Coordinated Hubs and Transatlantic Segments. The Alliance carriers will be able to coordinate their respective hub networks and the transatlantic segments to achieve more efficient service and maximize service options for the traveling and shipping public. This will enable the immunized Alliance to offer a greater variety of transatlantic services. Such multi-hub coordination would be analogous to ways in which Delta currently coordinates its domestic U.S. system over its four primary U.S. hubs. For example, in the absence of immunity, the carriers independently schedule their services to maximize their own individual positions. An antitrust-immunized alliance arrangement will have a common economic objective that will allow the joint applicants to pool their resources to a greater degree than they can today to operate additional transatlantic services that would not be economically feasible in the absence of immunity. For example, Northwest and KLM have pooled their resources which has enabled them to provide new transatlantic service in such city-pairs as, e.g., Memphis-Amsterdam and Washington, D.C.-Amsterdam.

In addition, the coordinated scheduling will allow for a greater variety of behind-gateway services. The Alliance carriers would be able to schedule their flights to provide an expanded variety of service to third countries at different times of the day. For example, whereas today the three European carriers provide flights to Athens and Istanbul

that arrive within about one hour of each other, if the four carriers have the ability to coordinate their services according to a common economic objective and combine the synergies of their respective networks, the carriers could revise and add to their schedules to provide, for example, different arrivals throughout the day and similarly for different U.S. departure times to Europe. The result would be a broader array of online service options for U.S. travelers. The coordination will produce highly efficient and expanded service.

More Discount Fares and Discount Seats. Currently, each carrier offers deep discount online fares that are only available for travel on that carrier's system. A common financial objective would enable the Alliance carriers to expand the availability of such deep-discount online fares to cover the route systems of the four Alliance carriers, and enable the Alliance airlines to provide greater levels of discount seats than would otherwise be available in the absence of the immunized Alliance. Under the current arms-length code-share/blocked-space arrangements, the aircraft operator's incentive is to maximize the return on each seat operated. Consequently, if demand is high, the aircraft operator does not have the incentive to release seats to its foreign code-share competitor for resale by that carrier. The common financial "bottom line" and the coordinated pricing component of the alliance arrangements would permit the Alliance carriers to achieve efficiencies, reduce costs and pass such savings on to consumers. Consequently, consumers will benefit by lower fares made possible through efficiencies that will be realized by the coordinated pricing and financial objectives.

Enhanced Utilization Of Aircraft And Seat Inventory. The Alliance will permit the carriers to maximize utilization of their aircraft. By coordinating their fleets, the Alliance will be able to schedule the largest aircraft on routes where demand is highest and utilize smaller equipment on thinner routes. In addition, the coordinated Alliance can develop uniform and coordinated control of seat inventory to maximize management of capacity thereby increasing utilization and efficiency, and reducing costs for the benefit of the traveling public.

Reduced Sales, Marketing and Reservations Costs. The Alliance will permit the carriers to maximize economic efficiencies by coordinating sales, marketing, reservations and airport services and reducing redundant costs in those areas.

These procompetitive and proconsumer strategic objectives are achievable only with the grant of antitrust immunity. The Northwest-KIM alliance has shown that an immunized alliance can produce increased online service benefits to the traveling and shipping public and sizable efficiencies/earnings benefits to the alliance partners. The GAO Study on airline alliances observed that the substantial degree of integration between KLM and Northwest allowed the linkage between Northwest's domestic hubs and KLM's European hub, permitting an expanded network of online services between 88 U.S. cities served by Northwest, on the one hand, and 30 European/Middle Eastern cities served by KLM, on the other hand. The Northwest-KIM alliance serves over 21,000 U.S.-Europe city-pairs on an online basis. And, as the Department's Code-Share Study noted, the Northwest-KIM immunized alliance made possible a high degree of online service "effectiveness", i.e., "the ability of the partners to offer a service that is as close to

true online service as possible”. Study at ES- 13. As a consequence of these enhanced online services, transatlantic traffic connecting to Northwest’s aircraft increased by 115% from 1991 to the year ended June 1994. GAO Study at 27. Thus, as the GAO Study noted, “Northwest’s data indicate that for the year ended June 1994, over 353,000 passengers traveled on Northwest aircraft as part of the alliance, compared to 164,450 passengers traveling on connecting Northwest and KLM interline flights in 1991.” Id. The GAO Report further indicates that the alliance allowed Northwest to add to its system 30 overseas cities that it would not otherwise have served in the absence of the immunized alliance. Id. at 28. The GAO Study pointed out that the increased traffic and cost savings produced economic benefits for both airlines:

“We estimate that the alliance produced between \$125 million and \$175 million in added revenue for [Northwest] in 1994”, representing “about one-third of Northwest’s \$455 million in transatlantic passenger revenues and about 5% of its \$3 billion in total international passenger revenues in 1994.” Id.

RESPONSE TO DOT INFORMATION ITEMS NO. 3

3. Describe separately each applicant's strategic objectives in forming the alliance agreements.

Response of Swissair: **Swissair** believes that its participation in the Alliance will be central to achieving the general goals of any profit-making enterprise: increased revenues and reduced costs.

Revenue enhancement will result from increased traffic flows in the U.S.-Europe and beyond markets. While **Swissair** has developed a hub in Zurich and a spoke network reaching throughout Europe and beyond to other continents, it is, of course, neither legally possible nor economically feasible for it to establish a hub-and-spoke network in the United States by itself. Its alliance with Delta will remedy that problem and will enable it to secure the advantages of an airline having viable and sophisticated hubs on both sides of the Atlantic.

For Swissair, the transatlantic market is a key to success because it is a large and competitive market; the importance of that market is magnified in the case of **Swissair** because Switzerland, as a relatively small European country in geographic terms, offers only limited opportunities for generating traffic and revenues on domestic routes (unlike Germany, France, Spain, Italy and Scandinavia, for example). Moreover, because the Swiss population is quite modest in size, **Swissair** is more dependent on connecting (as opposed to local) traffic than most of its competitors based in neighboring countries. Transatlantic feed traffic that connects in Zurich is therefore critically important to

Swissair. In fact, because Belgium and Austria are also relatively small European nations, the same can be said for Sabena and Austrian Airlines (in which **Swissair** holds interests of 49.5% and **10%**, respectively) with regard to the importance of the transatlantic market and connecting traffic.

While the current code-sharing arrangements between **Swissair** and Delta, and similar Delta arrangements with Sabena and Austrian, have been beneficial, they have not generated the benefits that the Alliance is capable of generating. The Alliance would correct at least two major deficiencies in the current arrangements. First, the Alliance would provide the economic incentive for the European partners to direct the flow of their passengers onto the Delta domestic network, and vice versa, of course. In general terms, the Alliance would be the competitive entity in the transatlantic market, as the individual participants would no longer be antagonists in the market as they are now. The Alliance's common bottom line approach would allow it to compete effectively with other strategic alliances (between U.S. and European airlines) which (a) are (or might be) antitrust-immunized also, or (b) are large and powerful by virtue of one partner's ownership and governance rights in the other and/or the size of the European partner (and its home country), even if these alliances are not formally immunized.

Second, the Alliance would correct the current situation in which Delta's three parallel code-sharing arrangements between each of Austrian, Sabena and **Swissair** are essentially uncoordinated. Under the Alliance, however, the Alliance carriers would coordinate their networks and schedules to achieve more **efficient** and more varied

services. For instance, because each Alliance carrier's individual interests would be coincident with the common good of all, there would be no reason for each European airline to schedule its Athens flights (from Vienna, Brussels and Zurich) to arrive within the same narrow peak-hour time frame; arrivals could be spaced so as to give consumers traveling from the U.S. more choices.

As to reduction of costs, **Swissair** believes that fleet coordination among the Alliance carriers would maximize economic efficiencies with respect to aircraft utilization. Moreover, it is envisaged that Alliance cooperation would reduce sales, marketing and reservations costs. For example, under the Alliance there may be no good reason for each of the airlines to maintain separate presences in certain cities/markets. While such matters have not been specifically negotiated as yet, there will no doubt be ample opportunities to eliminate duplication and to create **efficiencies** as a result of the common goals and interests inherent in the Alliance.

Sabena's Answer to Information Request Number 3

Request: Describe separately [Sabena's] strategic objectives in forming the alliance agreements.

Sabena's Answer: The long-term strategy for survival of any international air carrier operating across the North Atlantic is to develop hub systems on both sides of the Atlantic. Delta has successfully developed an extensive multi-hub domestic U.S. network, and Sabena, Swissair and Austrian have each developed European-based hubs. However, it is economically, politically and legally impractical for any of the carriers to develop and build their own global networks that have hubs on both ends of the Atlantic.

Specifically, while Sabena has developed a hub at Brussels, it is unable to develop feed systems on the U.S. side of the Atlantic for legal (i.e., ownership and control laws) and practical economic reasons. Moreover, Sabena operates from a relatively small gateway, much smaller than the hubs of, for example, British Airways, Air France, Lufthansa, Alitalia, and even smaller than the gateways of KLM and SAS. Sabena is far less able to rely on local traffic from its home country than its larger European rivals, and therefore in order to compete more effectively against its larger European rivals it must develop alliances that will capture traffic flows behind and beyond their gateways both in Europe and the United States.

Sabena has observed that in the U.S. Delta and other U.S. airlines have demonstrated that, through the coordination of multiple hubs, many more cities can be served, more frequently, via convenient online connections, than would be the case with single hub systems and with airline systems that do not operate via hubs. For four individual carriers to achieve these expanded service benefits and efficiencies requires coordination of scheduling, capacity and pricing on their systems. However, SABENA, like other carriers, will not engage in these actions without the antitrust immunity that the U.S. aviation laws empower the Department to provide.

Thus, under the current regime, it is virtually impossible to develop the level of collaboration, coordination, and cooperation necessary to integrate the carriers' respective hubs into an effective multi-hub transatlantic operation. The comprehensive alliance agreements involve collaborative scheduling, pricing, marketing, planning, inventory control and revenue/earning sharing in order to achieve the competitive benefits of an integrated multi-hub transatlantic operation. However, without antitrust immunity for these agreements, SABENA cannot proceed to cooperate in the development of a multi-hub alliance that can effectively compete with the larger transatlantic carriers and particularly with the two major transatlantic alliances that today operate multi-hub inter-continental networks: KLM/Northwest and British Airways/US Air.

The principal objective of the alliance is to provide a framework to coordinate the route networks of the four carriers and thereby interconnect their respective hub-and-spoke systems and combine their multi-hub network traffic flows. This coordination would result in additional online services for the traveling and shipping public on a more cost efficient basis than is now possible. The multi-hub transatlantic route system of the four carriers would be operated so as to provide competitive and service benefits similar to those that Delta's multi-hub domestic route system produces today.

Thus, the alliance would bring to the marketplace substantial new service and pricing benefits, produce cost efficiencies and savings through coordination, which could be passed on to consumers in the form of lower fares and improved service. In addition, of course, Sabena, like the other carriers in the proposed alliance, would hope to benefit from the greater demand for its services that it believes would thus be generated.

RESPONSE OF AUSTRIAN AIRLINES TO DOT INFORMATION ITEM NO. 3

3. Describe separately each applicant's strategic objectives in forming the alliance agreements.

Austrian Airlines is a \$1 billion aviation company with a fleet of 52 aircraft, including those assigned to regional and commuter operations. Austrian's international operations include services within Europe, to the Middle East, Asia, Africa, and to the United States. The Austrian system has been enhanced over the past few years by strategic alliances with air carriers such as Swissair, ANA, British Midlands, and Delta. In addition, Austrian has extended the reach of its network to include Tyrolean within Austria and to such regional destinations as Ljubjana, Cracow, Bologna, Florence, Leipzig, and Dresden. Odessa has been added to the network, and Kiev service has been increased. Within the last few years, services have been increased to the U.S., Japan, China, South Africa, and the Eastern Bloc.

However, given the globalization of the airline industry, and the "niche" size and focus of Austrian, it has become clear that the airline is not likely to succeed and prosper over the long run, absent an extensive joint venture relationship with a major carrier.

Consequently, since it has relationships in Asia with ANA, and in Europe with Swissair, it is a natural extension for Austrian to have pursued a similar, but more extensive relationship with a U.S. carrier. Since Delta Air Lines already has an alliance relationship with Swissair, the Delta nexus became a natural development.

With such worldwide **mega** alliances as those being forged by British Airways, KLM, and United/Lufthansa, it has become essential for Austrian to develop the Delta connection.

Moreover, as described herein, that relationship permits Austrian to take advantage of Delta's U.S. network, and Delta to take advantage of Austrian's strength within the former Eastern Bloc States, and beyond to the Middle East. This alliance with Delta, with antitrust immunity, provides for extensive benefits to the general competitive environment, to both Delta and Austrian, and to the consumer at large. The Alliance will enhance such consumer benefits beyond the capabilities of a single gateway-to-gateway code share agreement, and thus create traffic flows that will permit enhanced levels of international services. Passengers will reap the benefits of an increasingly "seamless product" that will provide consistent and improved worldwide connection services through joint marketing and facility sharing efforts by the carriers. Austrian and its Alliance partners, through the Alliance Agreements, will be able to plan and collaborate on schedules, fares, new product development, service initiatives, automation enhancements, and numerous cost-related programs that will allow the Alliance to reduce unit costs of production, and thus fares.

Thus, the Austrian Airlines strategic objective is simply to preserve and extend its capability over the long run by becoming part of a global alliance network. This strategic interest will produce low fares, better services, and will lead to enhanced competition across the Atlantic.

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RESPONSE TO DOT INFORMATION ITEM NO. 4

4. Describe the impact that implementation of the proposed alliance agreements would have on Delta's operating revenue and operating and net profit and loss results.
-

Response of Delta: Delta anticipates that the proposed Alliance will have a positive impact on its operating revenue and operating and net profits. However, Delta cannot at this juncture provide a detailed analysis of the impact of the proposed Alliance Agreements on Delta's bottom line because the Alliance carriers have not negotiated any enhanced collaboration in the absence of antitrust immunity for the reasons contained in the Joint Application. Of course, the very purpose behind Delta's participation in the Alliance is to enable it to gain access to additional markets on a cost-efficient basis and increase traffic flows over its system, allowing it to generate additional revenues, reduce costs, and enhance overall profitability.

Delta has spent hundreds of millions of dollars to develop and sustain a North Atlantic route system. That route system, however, involves primarily point-to-point services. Delta's Frankfurt operation -- which it acquired from Pan American -- serves only eleven European cities and Delta's ability to expand Frankfurt into an effective hub is significantly constrained by regulatory barriers, restrictive bilaterals with third countries, and economic factors.

Without antitrust immunity, Delta would be unable to develop specific integration plans and therefore cannot provide a precise forecast of anticipated economic gains. However, the experience of the Northwest/KM alliance, which has been operating under a broad grant of antitrust immunity, provides a basis to indicate that an integrated alliance

will result in expanded service, increased traffic, enhanced revenues and improved profitability for the U.S. partner. Thus, the GAO Report on airline alliances discusses the “sizable benefits” enjoyed by Northwest as follows:

As a result of their strategic alliance, both Northwest’s and KLM’s riderships have increased dramatically over the last few years. Northwest’s data indicate that for the year ended June 1994, over 353,000 passengers traveled on Northwest aircraft as part of the alliance, compared to 164,450 passengers traveling on connecting Northwest and KLM interline flights in 1991. In addition to this increase of nearly 200,000 passengers on Northwest aircraft, KLM representatives estimated that about 150,000 passengers traveled on code-share flights in which only a KLM aircraft was involved during this period.

Northwest and KLM representatives emphasized that although improving economic conditions in the United States and Europe since 1991 have helped increase their riderships, the alliance has been a key factor in their traffic growth. Northwest representatives pointed out, for example, that Northwest has never served the 30 overseas cities that they now serve by code-sharing on KLM’s flights. Thus, traffic connected from these cities to Northwest’s flights between Amsterdam and the United States is primarily additional traffic caused by code-sharing, not improved economic conditions. For example, they noted that it would require an investment of several airplanes and millions of dollars for Northwest to serve Oslo, Norway, via its Minneapolis hub. However, through the alliance, Northwest has added to its system over thirty passengers per day to fly on KLM’s flights between Oslo and Amsterdam and connect to Northwest’s flights between Amsterdam and the United States.

Because the airlines (1) divide the resulting revenues on the basis of an agreed prorated formula that accounts for the miles each airline flies under the alliance and (2) both airlines fly numerous long-haul routes as part of the alliance, the increased ridership resulting from the alliance has had a

significant impact on both airlines' financial performances. Likewise, increased interline traffic from non-code-share cities and cost savings have benefited both airlines. On the basis of our discussions with Northwest representatives and the analysis of Northwest's traffic and confidential data, we estimate that the alliance produced between \$125 million and \$175 million in added revenues for the airline in 1994. These revenues represent about one-third of Northwest's \$455 million in transatlantic passengers revenues and about 5% of its \$3 billion in total international passenger revenues in 1994. These added revenues helped Northwest post a company record \$830 million operating profit in 1994 as opposed to a loss of \$60.1 million in 1991 and \$141.7 million in 1990. . . .

The alliance's success is due to the broad scope of the code-sharing network and the degree of integration the airlines have achieved.

GAO Report at 27-28. Furthermore, as the Department's Code-Share Study indicated, the Northwest-KLM alliance also produced sizable net benefits to U.S. passengers and positive benefits to U.S. carriers as a group. Code-Share Study at 105.

RESPONSE TO DOT INFORMATION ITEM NO. 5

5. Provide forecast information and data concerning any traffic diversion anticipated from U.S. biers should the application be approved.

Response of Joint Applicants: In a competitive industry, there is no distinction between traffic diversion and competition. Diversion is a competitive factor only when a competitor controls an input essential to other competitors' success. Accordingly, traffic diversion is an issue primarily in industries such as the railroad industry where, in order to obtain business from customers located on a competing railroad's line, the railroads have to cooperate with one another. If, through an acquisition, the cooperating railroad no longer has an incentive to cooperate -- because it can now serve the customer's origin and destination point -- the second railroad will be deprived of that business and, if there are enough such circumstances, it could be sapped of its competitive viability. Gas pipelines provide a similar analogy.

There is no corollary to the railroad or the gas examples in the markets that will be served by the Alliance. The *sine qua non* for this joint venture is the open skies agreements entered into with the United States by the host governments of the Alliance partners. No U.S. airline will be foreclosed from serving any of the Alliance carriers' hub gateway cities because there will be no legal impediments to their providing service. All other international cities will remain as open as they always have been. Accordingly, the formation of the Alliance will have no effect on the rights of other carriers to provide competing service.

Moreover, there is no reason to anticipate that there will be any traffic diversion caused by the formation of the Alliance. As stated in response to Interrogatories 3 and 8, the objectives of the Alliance are to reduce costs and increase service thereby enhancing competition. Historically, increased service has stimulated traffic, resulting in more available business for everyone in the market. Under such circumstances, a carrier will lose market share only if it fails to remain competitive. Traffic will move on the carriers that provide the best service value.

The Alliance partners, of course, believe they will provide the best service value on the routes they will serve. That is one of the primary rationales for the joint enterprise. Because the Alliance has not yet been formed, however, and its route structure and service plan have yet to be established, the Joint Applicants have no way of measuring or predicting how its service will affect the service provided by other U.S. flag carriers. The Alliance partners are quite confident that their traffic will increase through the Alliance but, for the reasons stated above, they do not expect that other carriers will lose traffic as a result.” Consumers will be benefited, as demonstrated in the Code-Share Study’s findings that the Northwest-KIM alliance produced positive consumer welfare benefits.

¹² Code-Share Study at 106, Table 7-5.

RESPONSE TO DOT INFORMATION ITEM NO. 6

6. Discuss whether and to what extent a grant of the application would or should affect the joint applicants' participation in IATA traffic conference coordination.

Response of Joint Applicants: The Joint Applicants do not believe that the grant of the Application would or should affect their participation in IATA, just as approval/immunity did not affect the participation of KLM and Northwest. Those two carriers continue to participate in the traffic conferences after having received antitrust immunity, and their fares have remained very competitive as demonstrated in Exhibit 12 of the Joint Application. The transatlantic market is the most competitive in the world, and IATA has not impeded price competition in U.S.-Europe service. Carriers can and do act independently with respect to the establishment of fares in the U.S.-Europe market.

IATA participation is important primarily because of its key role in the development of interline fares. Interline fares are very important in maintaining flexibility for passengers who (1) want to buy a ticket and make a reservation on airline Y for one segment while buying the whole journey on airline X, or (2) want to change reservations from airline X to airline Y. In the absence of the IATA interline system, carriers would be foreclosed from providing this consumer service.

Other than the interline issue, however, the Joint Applicants believe that the Alliance (once approved and immunized) together with other current and future alliances will render the IATA traffic conferences increasingly less relevant.

RESPONSE TO DOT INFORMATION ITEM NO. 7

7. Provide Origin & Destination (O&D) traffic for 1994 for Austrian, Sabena and Swissair's top 100 markets that involve a U.S. gateway city as a passenger origin or destination **point**.
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Response of Joint Applicants: Information responding to this request is being submitted separately by each of the European carriers, subject to a Rule 39 motion for confidentiality.

RESPONSE TO DOT INFORMATION ITEM NO. 8

8. In addition to the information requested in the immediately preceding item, provide an analysis of the effect on international and U.S. domestic competition of the proposed closer arrangements between the applicants.

Response of Joint Applicants:

A. **International Competition.** The proposed Joint Alliance will enhance international competition. The Alliance Agreements would produce procompetitive effects by allowing the carriers to develop mechanisms to enhance efficiencies, reduce costs, expand traffic and provide better service to the traveling and shipping public. See, Joint Application at 36-4 1. The Alliance Agreements would permit Delta and the three small European carriers to link their complementary hub networks and become stronger competitors in all transatlantic markets. This will enable the Alliance carriers to compete more effectively against rival global alliances which enjoy larger traffic networks from European hubs that are larger than the hubs of the three small European applicants. Moreover, Delta submits that approval of the Alliance with antitrust immunity will encourage other European countries -- including those that currently adopt restrictive aviation policies -- to liberalize their markets so that airlines from those countries would be able to enjoy comparable opportunities with other U.S. carriers to establish network building alliances similar to the one proposed in the Joint Application. As the GAO Report noted, "Antitrust immunity could be a powerful incentive for governments -- which are often seeking to benefit one national flag carrier -- to eliminate their restrictions on U.S. airlines." GAO Report at 54.

The competitive analysis contained in the Joint Application demonstrates that the Alliance Agreements would not substantially reduce or eliminate competition between the United States and Europe or on any route. The Department's traditional competitive analysis methodology is the same analysis that would be used if the carriers were proposing a merger. With respect to the U.S.-Europe market, the combination would increase Delta's market share by a very small amount -- less than 4% -- in terms of passengers or capacity (i.e., seats). The combination would produce a Herfindahl Hirshman Index (HHI) well below 1,000, demonstrating that the combination is presumptively lawful under the Merger Guidelines used by the Department of Justice and the Federal Trade Commission.

While producing substantial procompetitive benefits in the overall U.S.-Europe market, the Joint Application also demonstrates that the proposed Alliance would not substantially reduce or eliminate competition in any U.S.-foreign country or city-pair market. See detailed discussion contained in the Joint Application at 29-35. All U.S.-country and city-pair markets are already highly competitive and have available an array of convenient online services. Moreover, each affected country has adopted a fully liberalized open skies policy, which permits any other U.S. carrier to enter the market at any time to take advantage of competitive opportunities.

B. Domestic Competition. Approval of the Application will **have a positive** impact on domestic competition. The Alliance will make it possible for Delta to achieve more productive and efficient use of its resources, reduce costs, increase traffic flows, increase revenues and thereby increase overall profitability. The increased traffic flows

over domestic segments from additional international passengers will support increased services domestically, enhancing competition and consumer benefits. In addition, Delta will be able to add more international services at its gateways -- particularly Atlanta and Cincinnati. These gateway cities aggressively compete with other major U.S. cities for new business and commerce. Consequently, domestic competition among U.S. gateway cities will also be enhanced.

RESPONSE TO DOT INFORMATION ITEM NO. 9

9. Describe the extent to which airport facilities, including gates and slots, are available to other carriers who want to begin or increase service at Zurich Airport, Geneva Airport, Brussels Airport, and Vienna International Airport.
-

Response of Joint Applicants:

In General

Slots at the Brussels and Vienna airports are granted to all airline users according to procedures established under EC Council Regulation No. 95/93 "On Common Rules for the Allocation of Slots at Community Airports," which procedures are consistent with the slot allocation procedures of the International Air Transport Association ("IATA"). At Zurich and Geneva airports, slots are granted in accordance with such IATA procedures. All such procedures (EU and IATA) allow for a non-discriminatory allocation of slots to all carriers wishing to operate to these airports depending only on physical constraints and/or government regulations (e.g., night ban).

Zurich

1. **Slot availability.**

At present, for the periods between 10 and 13.30 hours, and between 17.30 and 20 hours local time, the maximum allowable number of time slots for aircraft movements at Zurich has been allocated already. (This peak-hour situation is, of course, common to a number of European airports.) However, slots for additional services are currently available before or after these time frames. Moreover, and despite the above mentioned

constraints, due to frequent changes of airline schedules, there is at times a certain degree of slot availability during the peak time **frames** referred to.

2. Allocation of gates, parking and docking positions.

Allocation is done by the Airport Authority, according to the following Terminal concept.

Terminal A: Swissair and its cooperation partner airlines Delta, Singapore, Austrian, SAS (will soon be replaced by Sabena), Crossair.

Terminal B: all other carriers.

Any new carrier having obtained **traffic** rights to operate to/from Zurich airport will be accommodated in line with the above concept.

3. Handling facilities.

For passenger, cargo and ramp handling any carrier may choose between two handling agents (Swissair and Jet Aviation) if reciprocal rights for Swiss carriers are granted in its home country.

In addition, dedicated passenger check-in facilities may be requested by any carrier and will be granted by the Airport Authority when such carrier reaches at least a share of 1.5% of the total passenger volume of Zurich airport on a year round basis.

Geneva

1. Slot availability.

Slots are available on a non-discriminatory basis throughout the day except that during the evening peak period between 17.30 and 19 hours local time the maximum allowable number of time slots for aircraft movements at Geneva has been allocated already. However, due to frequent changes of airline schedules, there is at times a certain degree of slot availability during the evening peak period referred to.

2. Allocation of gates, parking and docking positions.

Allocation is done by **Swissair** on behalf of the Airport Authority, according to established rules. At present, only eight docking positions are available and used mainly for medium size aircraft (maximum size A310/B767). More docks are planned to be built for larger aircraft.

Three more parking stands are available exclusively for large aircraft, such as B747 or MD-11. Allocation is done according to schedule requirements, on a non-discriminatory first-come-first-served basis, applicable to all user airlines.

All other parking positions are off-stand. There are, however, sufficient parking positions to accommodate all aircraft wishing to operate to/from Geneva.

Any new carrier having obtained traffic rights to operate to/from Geneva airport will be accommodated as per schedule and type of aircraft used.

3. Handling facilities.

For passenger and ramp handling any carrier may choose between two handling agents (Swissair and Jet Aviation) if reciprocal rights for Swiss carriers are granted in its home country. For cargo handling the Airport Authority has appointed **Swissair** as the only agent, due to physical and infrastructural constraints.

In addition, dedicated passenger check-in facilities may be requested by any carrier and will be granted by the Airport Authority if such carrier reaches at least a share of 3% of the total passenger volume of Geneva airport on a year round basis.

Brussels

1. Slot availability.

At present, for the periods between 8.15 and 11 hours and 17.30 and 20 hours local time, the airport is near full capacity. (This peak-hour situation is, of course, common to a number of European airports.) However, slots for additional services are **freely** available before or after those time frames or whenever airlines might change their schedules.

2. Allocation of gates, parking and docking positions.

Allocation is done on a non-discriminatory basis by the Airport Authorities, after consultation with the airport users, according to established rules, in the following areas:

Schengen zone (old terminal) -- 16 contact gates

non-Schengen (new terminal) zone -- 23 contact gates

- remote zone -- 64 parking positions.

3. Handling facilities.

There are presently two third-party handlers at the Brussels airport for passengers, cargo and ramp handling: Belgavia and Sabena. Self-handling (including passenger check-in facilities) is also permitted under certain conditions and rules fixed by the Airport Authorities.

Vienna

1. Slot availability.

The operations of scheduled and charter flights to and from the Austrian airport Vienna is subject to certain safety and environmental restrictions. Those constraints apply to all airlines operating to these airports, on a non-discriminatory basis as following:

Peak hours are published by the Austrian government per IATA period. At present, for the periods between 6.45 - 7.50, 8.25 - 10.55, 16.10 - 18.05 and 19.05 - 20.20 the maximum number of time slots for aircraft movements at Vienna has been allocated to a great extent. (This peak-hour situation is, of course, common to a number of European airports.) However, slots for additional services are currently available before or after these time frames. Moreover, and despite the above mentioned constraints, due to frequent changes of airline schedules, there are certain slots available during the peak time frames referred to.

2. Allocation of gates, parking and docking positions.

Allocation is done by Vienna Airport Authority on an equal and non discriminatory basis with the aim of best utilizing the gates, parking and docking positions available. Any presently operating or new carrier will be accommodated in line with the above concept.

3. Handling facilities.

For passengers, cargo and ramp handling any carrier may conclude an agreement with Vienna Airport Authority, whereby it may choose between two competing handling agents (Austrian Airlines and **Lauda** An), to which the Airport Authority has subcontracted its rights. The situation is in line with the respective EC regulations on ground handling.

In addition, all U.S. carriers (according the bilateral agreement U.S.-Austria) as well as some other carriers (due to existing grandfather rights) enjoy self-handling rights.

RESPONSE TO DOT INFORMATION ITEM NO. 10

10. Discuss significant service and equipment changes anticipated by the applicants and the integration of Delta's domestic route system with foreign applicants' international route systems. _____

Response of Joint Applicants: For the reasons previously indicated, in the absence of antitrust immunity, the applicants have not reached agreements regarding service and equipment changes that would result from the Alliance. Those changes would be the product of the definitive implementing agreements that will provide for the specific coordination/integration undertakings with respect to scheduling, marketing, planning, joint services and other related matters.

Nevertheless, in general, integration of the Alliance carriers' resources will allow more efficient and productive use of aircraft resources. The four carriers would have the ability to pool their aircraft and equipment resources permitting them to increase the size and mix of their respective fleets on a cost-efficient basis, enabling each to maintain the cost efficiencies each has achieved through the acquisition of its chosen fleet and the resources and facilities which support the fleet. It can be assumed that with a common bottom line objective, aircraft will be redeployed to more efficient uses. This will allow the Alliance to tailor capacity using their combined fleet to meet marketplace demand.

With respect to integration plans, with antitrust immunity the Alliance carriers would have the ability to coordinate the international gateway-to-gateway bridges with Delta's U.S. hub services, on the one hand, and with the European carriers' European hub services, on the other hand, in the same fashion that Delta currently coordinates its multi-hub domestic U.S. system. All of the hubs could be coordinated to maximize

traffic flows. The ability to coordinate the respective hub networks and the transatlantic segments of the four carriers will allow the Alliance to expand service more efficiently and maximize service options for the benefit of consumers.

Without antitrust immunity, the carriers independently schedule their services to maximize their own individual objectives. An antitrust-immunized alliance will allow for a common economic/financial objective that will enable the carriers to pool their respective resources to a greater degree than they can today in order to operate additional transatlantic services that would not be economically feasible in the absence of immunity. These additional services include not only additional gateway-to-gateway services, but a greater variety of behind-gateway services.

RESPONSE TO DOT INFORMATION ITEM NO. 11

11. Describe any effect of granting the application on Delta's Civil Reserve Air Fleet (CRAF) commitments. _____

Response of Delta: Delta does not believe that approval of and grant of antitrust immunity for the Alliance Agreements will have any impact on Delta's CRAF commitments.

RESPONSE TO DOT INFORMATION ITEM NO. 12

12. Discuss any labor issues that may result from the transaction, and whether, how and to what extent employees of the applicant airlines will be integrated. In particular, state whether the transaction or this type of transaction was the subject of recent collective bargaining between Delta and any of its unions and the nature of such discussions. Discuss whether Delta's unionized employees adversely affected by the agreements would be compensated or protected by a collective bargaining agreement and whether adversely affected non-unionized employees would be **compensated** pursuant to **separate arrangements**._____

Response of Delta: The Joint Applicants anticipate that the Alliance will permit the carriers to expand service levels by virtue of economies of scope and economies of density, thereby providing opportunities for increased employment. Because the Joint Applicants will remain separate, independent carriers with each having its own employees, there are no plans for any significant integration (*i.e.*, the consolidation of employment under a common entity with common work rules) of employees of the applicant airlines. However, Delta anticipates a high level of coordination and cooperation among the employees of the Joint Applicants. The applicant airlines have not made any determination concerning such coordination and will not reach any agreement on such matters in the absence of the grant of antitrust immunity.

This particular transaction was not the subject of recent collective bargaining. However, the subject of code-sharing has been included as one of many proposals for discussion by the Air Line Pilots Association (**ALPA**) in collective bargaining with Delta. No agreement has been reached concerning that issue. Although Delta does not anticipate that any U.S.-based unionized employees will be adversely affected, Delta's collective bargaining agreements contain provisions that govern the rights and obligations of the

parties if employees are furloughed. As noted, the subject of code-sharing generally is under discussion in the current collective bargaining negotiations between Delta and ALPA. Delta cannot predict what the outcome of such negotiations will be. Delta does not anticipate that any non-unionized U.S.-based Delta employees will be adversely affected as a result of the proposed Alliance. Delta has policies that govern the furlough of non-unionized employees. Delta has in the past offered various severance and early retirement options for its personnel where staffing overages exist, although there can be no certainty whether and under what circumstances similar options would again be offered.